

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

Annual report and Financial statements
For the year ended 31 December 2023

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Directors' Report

Directors' Report

Company profile

F.I.S. Fabbrica Italiana Sintetici S.p.A. ("F.I.S." or "Company") 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, F.I.S. 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 Generics market, for which it develops and sells active ingredients such as tranquilisers, anxiolytics, antibacterial, anticonvulsants, anti-inflammatories, diuretics, analgesics, and cardiovascular drugs;
- the Veterinary market, be that for Generic or Custom products.

With the support of roughly 250 research and development ("R&D") experts, F.I.S. also provides a series of integrated services that range from the optimisation of the synthesis process to large-scale commercial production.

F.I.S. 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 Food and Drug Administration (FDA) 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; and
- the Lonigo (Veneto) facility, which was contributed to the Company through its acquisition of the Zach System business unit, which produces active ingredients; like the other two facilities, the Italian Ministry for Health and the FDA certify it.

During 2023, the Company was involved in a complex process of M&A, which ended on December 12, 2023, with the closing taking place between the previous shareholder Nine Trees Group S.p.A. and Bain Capital Private Equity. From December 12, 2023, therefore, F.I.S. is a portfolio Company of Bain Capital Private Equity with the Ferrari family retaining a minority stake.

Directors' Report

Company Bodies

Board of Directors	
Chairman*	Michele GAVINO
Counsellor	Manuel BARRECA
Counsellor	Maria CALZOLARI

* co-optation of Daniele Piergentili as new CEO on April 15, 2024

Board of Statutory Auditors	
Chairman	Luca VALDAMERI
Standing Statutory Auditor	Luca NICODEMI
Standing Statutory Auditor	Marco MICHIELON

Supervisory Body	
Chairman	Fabio SERGI
External member	Alberto COTTA RAMUSINO
Internal member	Stefano FULGI

Independent Auditors	PricewaterhouseCoopers S.p.A.
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Directors' Report

Background

Developments in both the general situation and the Company's reference market were positive during this year, despite the persistence of external mega-factors such as the conflict in Ukraine, the energy crisis, which was only partially resolved, and the recent crisis of the Suez Canal, which did not allow a complete reduction in the cost inflation suffered in previous years.

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, albeit in conditions of objective logistical difficulties raised by critical supply chain issues, due to the present geopolitical and economic environment.

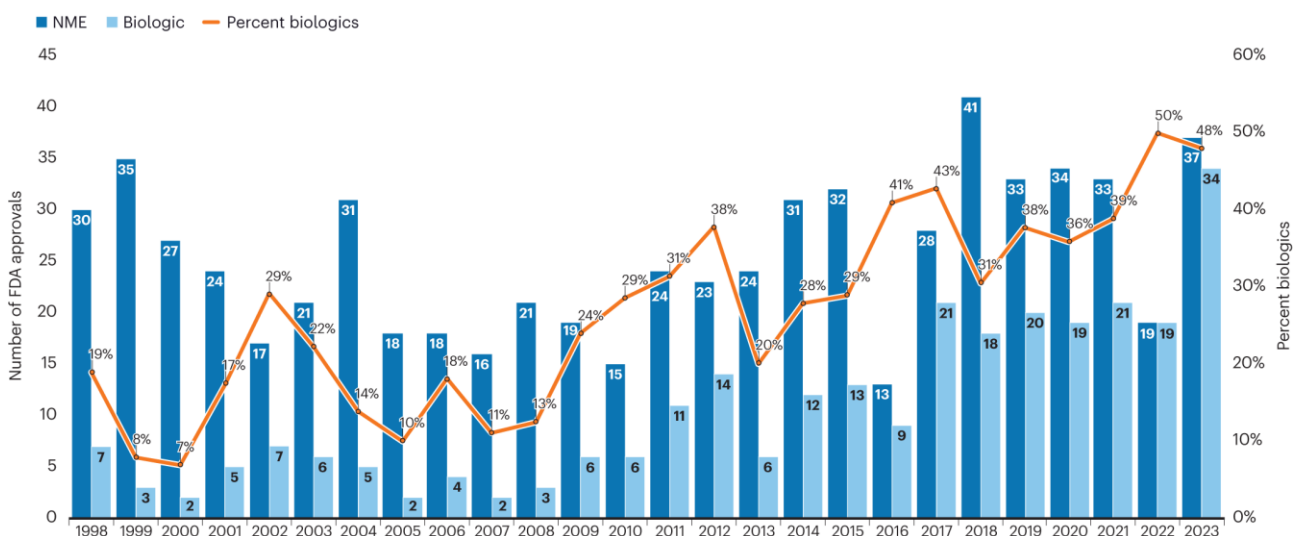
Considering this situation, F.I.S. and its personnel undertook remarkable, constant production work developing the first productions of 7 new Custom products and introducing 10 new projects and 10 re-supplies of projects already in progress, which are critical for the Company's future growth. The generics sector also held up in terms of volumes, recording value growth that is mostly guided by the inflationary trends of raw materials and energy passed on downstream, at least partially, to prices.

An acceleration of the reshoring phenomenon has been observed, particularly from the US market, in response to the American government's requirement for "supply chain resiliency" initiatives that can help reduce the dependence of pharmaceutical production on India and China. In this regard, several new project opportunities were proposed to F.I.S. during the year.

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 [NRRP]) which the Company is naturally watching with interest.

On the **Custom products** front, there was an all-time high in the registration of new drugs in the American market, which is traditionally a driver for innovation, after the decline observed in 2022.

In 2023, the FDA approved 55 New Chemical Entities (NCEs), of which 34 Small Molecules and 21 Biological, compared to 37 in 2022, 50 in 2021, 53 in 2020 and 48 in 2019. Small Molecules, accounting for 62% of the total, continue to be the most significant area, even though Biologics have been growing on an ongoing basis since 2019 (source: fda.gov). F.I.S. is the supplier in four of these new projects and is holding negotiations for another one.



Directors' Report

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. Also in 2023, about half of these seem to come from "non-Big Pharma" companies.

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 Contract Development and Manufacturing Organisation (CDMO) like F.I.S., as long as it has a suitable industrial structure, the skillset, and capacity. In contrast, there have been some recent acquisitions of fill & finish capabilities by large groups to address specific supply chain deficiencies in the metabolic/cardiovascular area and for the new diabetes and obesity medicines.

The recent trend of increased specialisation and strategic focusing by pharmaceutical companies bucking the trend in previous decades continued, 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 (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.

With exports to more than 60 countries, the Company's strategy remains focused on growth, always with an eye on profitability levels, including by adjusting the business model where necessary. In particular, F.I.S. 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, as being recorded in the livestock sector in emerging countries. In addition, there are reports of a process of supply chain restructuring to ensure suitable quality and continuity guarantees, and increasingly strict regulatory and quality requirements.

Certain risk factors prevail in this market. Between them there are the fragility of drug supply chain, which is dependent on certain East Asia 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 rapid 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.

Directors' Report

Performance

During 2023, the Company underwent a competitive M&A process, resulting in the sale of all its shares by Nine Trees Group S.p.A., the previous shareholder of F.I.S., owned by the Ferrari family, to Bain Capital Private Equity. The transaction closed on December 12, 2023.

The Ferrari family reinvested a portion of the proceeds derived from the sale in a minority shareholding of the new holding company of F.I.S..

Just prior to the closing date, Rating Agencies confirmed F.I.S.'s rating, with one agency even improving the outlook, demonstrating an overall positive assessment of the transaction.

Regarding the Company's financial structure at the closing, it still maintains the existing instrument (a sustainability-linked senior secured bond of €350 million), meeting the requirements for the instrument's portability. This instrument retains its original features as defined at the time of issuance on February 10, 2022, including a maturity of 5.5 years, a coupon rate of 5.625%, and a non-callable period of two years. Simultaneously with the closing, a leading financial institution conducted a private tap of €50 million with the same maturity as the original bond. Additionally, an upsize of the Revolving Credit Facility (RCF) from €50 million to €80 million was finalized at the balance sheet reporting date, with the entire facility remaining unused.

From a governance perspective, concurrent with the change in ownership, the corporate bodies were renewed, with the establishment of a new Board of Directors composed entirely of internal members (Michele Gavino - President and CEO, Manuel Barreca - CFO and Investor Relations, and Maria Calzolari - Legal Counsel), as well as a new supervisory body (Board of Statutory Auditors). The Supervisory Body was also renewed, as its mandate had ended, with continuity maintained through the internal member (Stefano Fulgi - Head of Internal Audit). Effective April 15, 2024, Daniele Piergentili has joined as new Chief Executive Officer. Michele Gavino will continue to support FIS and will join the Board of Directors as Vice Chairman of Molecule (BC) HoldCo S.p.A..

From a macroeconomic point of view, 2023 witnessed a gradual stabilization of utility procurement costs, including electricity and natural gas, although they have not yet returned to pre-conflict levels between Russia and Ukraine. It should be highlighted, however, that there has never been a lack of continuity in the supply of these utilities.

The Company has maintained an elevated level of monitoring of future costs of utilities, and when necessary, has carried out pricing fixing to ensure certainty of procurement costs, especially in a market phase that is still highly volatile.

Even the costs of other production factors experienced a year of substantial stability, however disrupted by the geopolitical situation that emerged in the Red Sea region towards the end of the year. This situation did not have any economic-financial impacts in 2023. It is noteworthy that F.I.S.'s prompt response prevented delivery delays that could have negatively impacted the production process in 2024. However, the careful management of this issue will lead to an increase in logistical costs (due to a mix of air and sea shipments and increased container costs), as well as an impact on working capital (estimated at approximately four weeks of increased raw material inventory, due to longer logistical lead times resulting from different shipping routes), and outgoing cash flows due to advanced procurement of the mentioned raw materials.

In 2023 F.I.S. also advanced and reinforced its de-risking process, aimed at expanding the number of products and therapeutic classes for F.I.S. to develop its business. In particular, the past year witnessed the acquisition of several important projects that will support the Company's growth in future years.

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 8% on the previous year, highlighting F.I.S.'s well-known ability to grow when faced with adversity.

Directors' Report

In support of its development plan, the Company continued with the planned investment program, focusing on expanding production capacity, as well as on efficiency and sustainability initiatives, completing significant projects throughout 2023, as more extensively described in the dedicated paragraphs.

At the same time, the Company focused on improving the profitability of its core business, which in 2023 saw the beginning of an anticipated trend of steady growth expected to continue in subsequent financial years.

The Company hired 104 people during the year (equal to an approximate 5.2% 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.

Throughout 2023, the use of remote working continued, which however was accompanied and supplemented by a more comprehensive and advanced corporate welfare package that emphasises the leading role of human resources as the Company's human capital, a pillar for the sustainable growth of F.I.S..

Furthermore, a second wave of the Talent Program was initiated in partnership with *Fondazione CUOA - Centro Universitario di Organizzazione Aziendale*. This project, which has a time horizon of 12 months, represents the consolidation of an activity that aims to support the talents identified by the various Company departments with a dedicated and accelerated training process.

Finally, it should be noted that on December 29, 2023, Invitalia approved a plan presented by F.I.S. during its own Board of Directors meeting, regarding investments eligible for support under the NRRP.

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Marketing & Sales

The global Active Pharmaceutical Ingredients (API) Contract Development & Manufacturing business showed an increase that exceeds forecasts, from \$85 billion in 2022 to roughly \$108 billion in 2023, confirming it as a profitable, stable business that is still in bloom. The growth forecast is estimated with a CAGR of 9% over the next five years.

The Company has confirmed a new and robust growth of **Custom business** by 16% compared to 2022, despite the aforementioned unfavourable context of cost inflation. 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, F.I.S. 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 2023, enabling it to acquire new projects in commercial and clinical stages, and establish two new strategic alliances, which will fuel growth in the coming years.

F.I.S. 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 (de-risking). 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 2023, 10 new projects were acquired from companies with different profiles, ranging from large pharmaceutical multinational corporations to small start-ups from European and American regions, confirming de-risking activities described above.

It is anticipated that these projects will contribute with pilot-scale and/or commercial production activities to the growth of the product portfolio in the years 2024-2028.

The pipeline of new products is mainly represented by cardiovascular/metabolic active ingredients, oncology products, and those related to the care of the nervous system, for which F.I.S. holds a market-leading position. It is noteworthy to emphasize F.I.S.'s presence in key areas of growth and innovation such as diabetes and obesity.

Generic products continue to grow both in volume and value, although at single-digit rates, due to the patent expirations of originator drugs and increased consumption in least developed countries. The rate of introduction of new generics to the market remains high and is led by Indian companies (on the production side).

On the markets, it can be asserted that the bulk of volumes is absorbed by moderately developed or developing countries, while most of the value remains concentrated in high-income countries: the US, EU, Japan, South Korea, and Taiwan. Also, in the Generic sector as well as in the rest of the pharmaceutical business, there is an increasingly clear trend among high-income countries to preserve the supply chain by limiting the supply of raw materials from China in favour of India.

Another similar trend is reshoring, which sees manufacturing companies in more developed countries inclined to bring a portion of the supply chain back home due to concerns about the security of the supply chain, as well as for sustainability goals. The strategic model of F.I.S.'s Generic business, in place for a couple of years now, aims to be relevant in specialist, strategic, and high-value-added markets, often in the US, sometimes sacrificing volumes of products heavily under pressure due to the competitiveness of Asian companies, mostly Indian. This strategy ensures

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that the profitability of Generics significantly contributes to the Income Statement while simultaneously freeing up production capacity for more lucrative projects.

For the future, F.I.S. will need to work on renewing its product portfolio, aiming to launch new API Gx in line with the aforementioned objectives: medium/low volumes, high specialization, and added value.

The **Animal Health** market continues to register a positive growth trend, driven by various factors, including the strong growth of the companion sector in more developed and mature countries, as well as the growth of the livestock sector in emerging countries. Animal Health is expected to contribute 4.5% to F.I.S.'s total business in 2023 and 2024, up from virtually zero around 5 years ago. It is primarily a Custom business, where the generic part accounts for only 20%. The limitations of F.I.S.'s growth in this category remain tied to production capacity, which often needs to be implemented in dedicated facilities rather than in multi-purpose facilities typical of the Custom Human business.

The increasing regulatory pressure, attention to product safety and a growing focus on the sustainability of production, and the proper use of products for animal use create a particularly favourable environment for a CDMO like F.I.S.. F.I.S. can offer an integrated solution and distinctive, cutting-edge R&D expertise while fully adhering to Good Manufacturing Practice (GMP) from the preliminary stages of API development to scale-up and commercialization.

Leveraged by its well-established customer relations, dedicated Animal Healthcare production and business structure and technical and commercial know-how of the sector, F.I.S. has, in turn, shown a significant and distinctive growth rate over the past two years; more importantly, it has forecast 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 firms in the industry.

Directors' Report

Production

During 2023, the production targets planned within the budget were all substantially achieved, and operational performance remained generally consistent throughout the year.

Production activities were carried out at full capacity and, unlike in 2022, even January and February recorded particularly intense rhythms.

The employment rates of the plants were high, as were labour saturation rates, which, as planned, also involved the relocation of production staff, such as in the case of those transferred from the Lonigo site to the Termoli site, resulting in new hires to cover the relocated personnel.

The absenteeism rate in the production departments decreased compared to 2022 in all three sites, standing just below 4% in Lonigo, around 5% in Termoli, and 6% in Montecchio. In Montecchio, the parameter is still 1-2 points higher than in pre-pandemic years.

Regarding service indices, the Planning Adherence (PA) values in the three sites were all positive and improved compared to the previous year.

As for the On Time In Full (OTIF) values, the range is between 90% and 100% in all three sites, with a positive peak in Lonigo where the data, although sometimes lower than that recorded in 2022, remained consistently at 97% throughout the year.

Directors' Report

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 F.I.S.'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, F.I.S. has invested in developing this unit and it now has around 250 researchers, grouped into numerous teams that work on diverse projects at distinct 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 industrialize its new complex R&D projects.

The structure has been heavily engaged throughout 2023. The revenue from Custom project services closed above the set target (+12.5%) due to meticulous management of billings related to extra activities (change orders) and increased profitability in the sales phase of services from new projects introduced in 2023. The result of R&D services turnover is constantly monitored in the Sales and Operations Planning (S&OP) cycle, through a tracking and reporting system interfaced with the management system, capturing costs and revenues from active projects.

In 2023, investments in Process Modelling-Crystallization and Flow Chemistry were completed. The latter technological application, specific for the development of processes in continuous flow, is attracting increasing interest from some of the Company's major clients. In response to this emerging and growing trend, interventions for the enhancement of Flow Chemistry were approved in June 2022. These interventions referred to an up-front investment involving the design and commissioning of ready-to-use flow reactors to be installed in the production lines of potential new projects that require the use of these technologies. Along with this investment, the expansion of R&D laboratory areas in Montecchio Maggiore was approved, with delivery completed by the end of 2023, to allow for further growth of the R&D team dedicated to Flow Chemistry and the expansion of the Process Modelling-Crystallization area. Additionally, the acquisition of a Crystallization Engineer, which took place at the beginning of 2023, and the acquisition of dedicated equipment for the study and development of crystallization processes and the isolation of intermediates and final APIs were approved. This area is critical in the industrialization phase of new productions.

The New Product Analytical Unit (NPAU) in Montecchio Maggiore and Lonigo was involved in overseeing multiple production campaigns.

On the sustainability front, since 2022, R&D has introduced the calculation of parameters **RPG** (Relative Process Greenness) and **PMI** (Process Mass Intensity) to assess the ability to develop more sustainable processes. The R&D objective for 2023 was to reduce PMI by 20% (compared to a 15% reduction in 2022) in at least 40% (compared to 30% in 2022) of the entire new active project portfolio. The result achieved was 90% of the set target, with an average reduction between 15 and 20% of PMI in 40% of the projects.

In 2022, F.I.S.'s R&D department prepared a structured questionnaire to formally request evaluations from clients regarding the performance of R&D teams on projects managed and concluded during the year.

The result in 2023 was positive, with the overall average index reaching 4.0 points (above expectations and improved compared to 2022 - 3.8) on a scale of 1-5.

In 2023, additional collaborations with national and international academic institutions were initiated. In addition to the two existing collaborations with the University of Bologna - Faculty of Industrial Chemistry - Prof. Luca Bernardi, for consultancy in Organic Chemistry, and the University of Venice - Faculty of Chemistry – Ph.D. in Advanced Training for the development of sustainable cross-coupling synthetic methodologies using water as a solvent, two more collaborations were activated. The first collaboration is with the University of Padua - Faculty of Chemical Engineering, with co-financing from NRRP/F.I.S. for a Ph.D. program involving the development of Statistical Analysis and Process Modelling methodologies and their applications in the industrialization of new production processes. The second collaboration is with the University of Trieste - Faculty of Chemical Engineering, with co-financing from NRRP/F.I.S. for

Directors' Report

two Ph.D. programs in analytical chemistry involving the development of methodologies for quantitative analysis using Raman Spectroscopy and gold nanoparticles to determine APIs in wastewater and on the surfaces of industrial reactors (cleaning). The last collaboration established in 2023 refers to the winning of a Horizon project (NextBase) financed by the European Community in which F.I.S. participates in a Research Consortium with four European Universities (Milan, Graz, Caen, Rostock) and a second industrial partner. The research program, carried out by six Ph.D. students, one for each partner, aims at developing sustainable synthesis methodologies in organic chemistry to replace the use of precious metals (Platinum, Palladium, Rhodium) with common and inexpensive metals (Iron, Copper, Nickel) in chemical reactions using metallic catalysts.

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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 optimization 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. They also coordinate activities related to the initial commercial campaign of new products, aiming to transfer their knowledge and experiences gained during the project development to what will become large-scale production.

Since June 2023, the Project Management team has been complemented by the addition of the proposal drivers' group. This team consists of three individuals responsible for generating quotations for new projects. This decision enables a continuous flow of information from the inception of a project, in response to a request for proposal, until its completion with the first commercial production.

In this new organizational configuration, the proposal drivers' group effectively and quickly supports project managers in defining and quoting change orders. Changes to contracts are often necessary due to the alterations that projects undergo during development and industrial scale-up phases.

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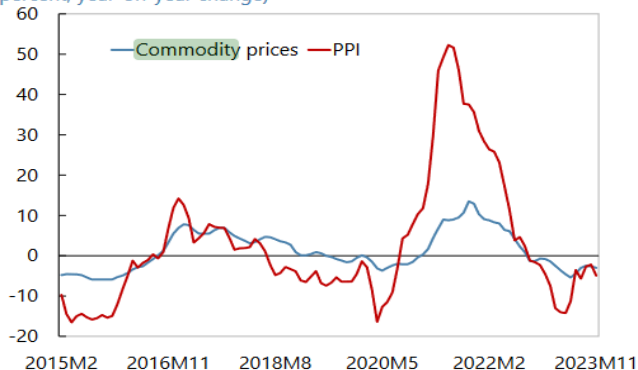
Supply Chain and Logistics

In the raw materials markets, with particular reference to the Chinese market, there has been an excess of supply that drove a minimal deflationary trend, estimated at around 3%. In addition to this phenomenon, the excess capacity of producers provided negotiating leverage towards a further general reduction in purchase prices.

In addition, the emerging and consolidating recourse to the Indian market made it possible to undertake a process of supply diversification, previously highly concentrated on the Chinese market, thus allowing an initial phase of spending balancing and greater negotiating leverage.

Producer Price Index

(In percent, year-on-year change)



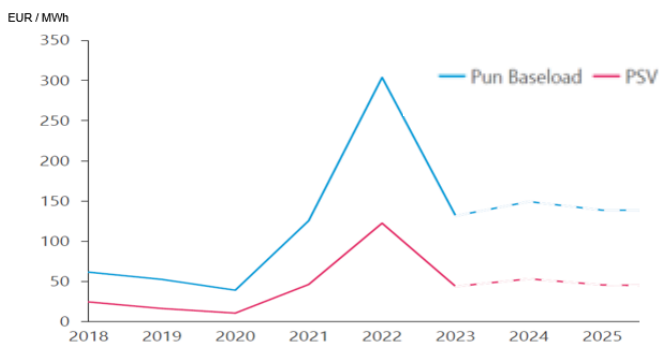
Solvent and commodity price trends showed a decrease during 2023, mainly due to the gradual reduction/removal of energy surcharges applied to purchase prices, as a result of the improvement in energy prices caused by:

- a decrease in European demand of about -10%;
- contribution of renewable energies and recovery of nuclear power in France; and
- a good supply/demand ratio.

The embargo on imports of Russian crude oil and derivatives into Europe imposed on December 15, 2022, a feedstock for many commodities and solvents, initially had a strong negative impact, but the sharp drop in demand pushed many prices into a downward trend.

Updated till January 2024, click on the right button to see data from 2007

	Summary	MoM	YoY
Global Index	177.8	1.5%	-3.1%
NE Asia Index	176.3	3.7%	-0.9%
NW Europe Index	243.7	-5.8%	-12.3%
US Gulf Index	197.7	2.5%	-0.3%

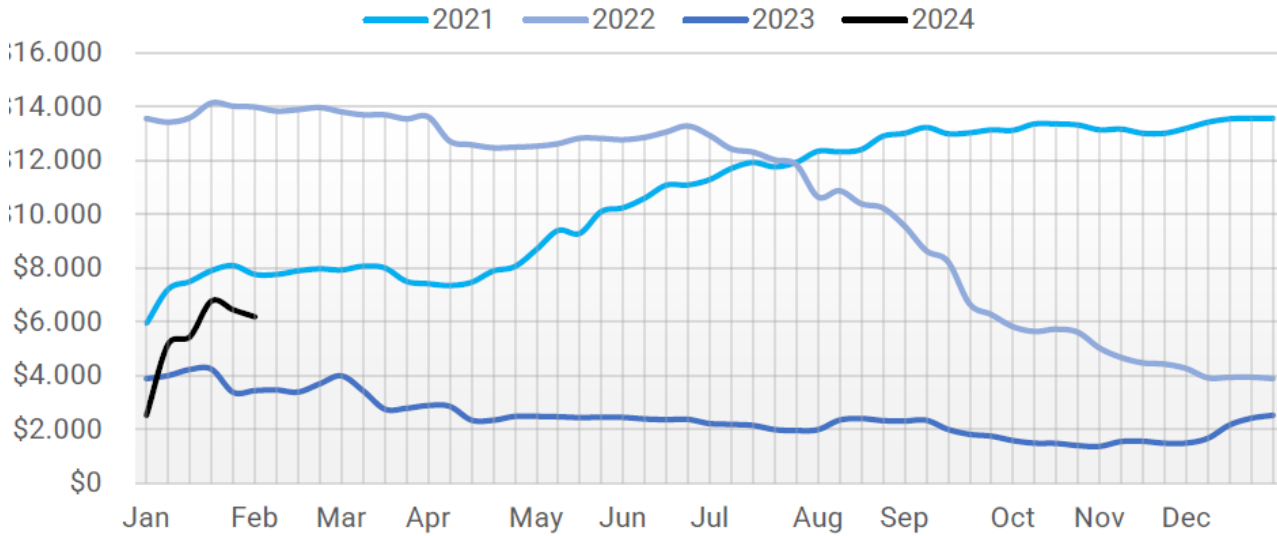


The ICIS petrochemical index tracks the movement of prices for the 12 major petrochemicals and polymers: ethylene, propylene, butadiene, benzene, toluene, paraxylene (PX), polyethylene (PE), polypropylene (PP), styrene, polystyrene (PS), methanol and polyvinyl chloride (PVC) with the regional indexes weighted by capacity.

2023 was a stabilisation year, whereas 2022 went from a first half-year of strong instability, due to the shortage of equipment/blank sailings, and a second half-year characterised by a rapid decrease in sea freight rates. 2023 experienced a phase of stability thanks to the increase in (sea) cargo capacity and the absence of disruptions (port closures, terminus congestion, etc.).

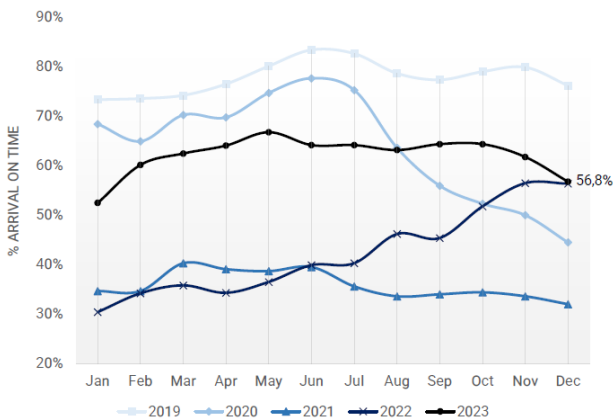
Directors' Report

China/East Asia to Mediterranean

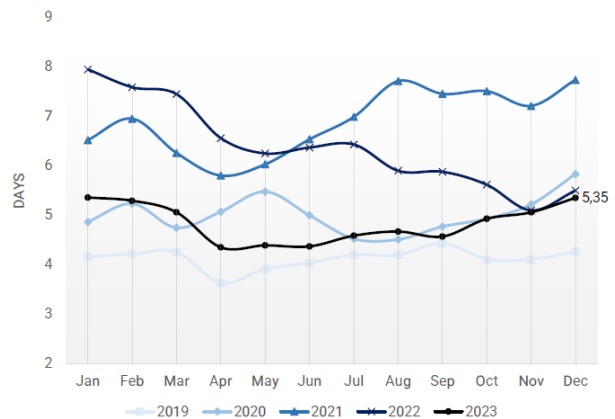


In support of the above, the Company experienced a good level of performance from the main carriers, reporting an average punctuality of 60%. This is further explained by the average delays days of ships, which averaged between 4 and 5 days, a situation comparable to 2019 (pre-pandemic).

Average Carriers Reliability (Arrival on time within one business day)

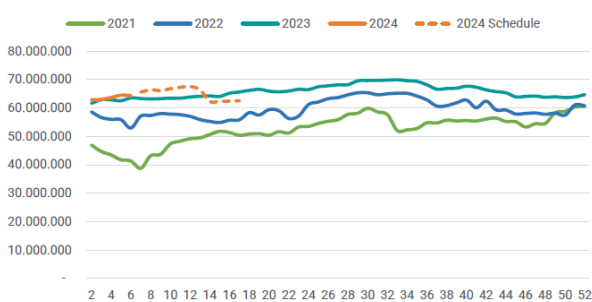


Global Average Delays for Late Vessel Arrivals (days)

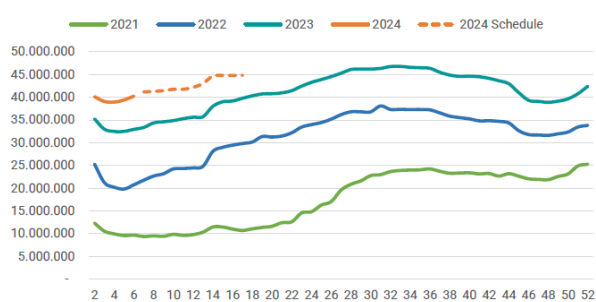


Air shipments, thanks to a gradual increase in the available hold, also saw a trend similar to the pre-pandemic period.

Domestic Seats

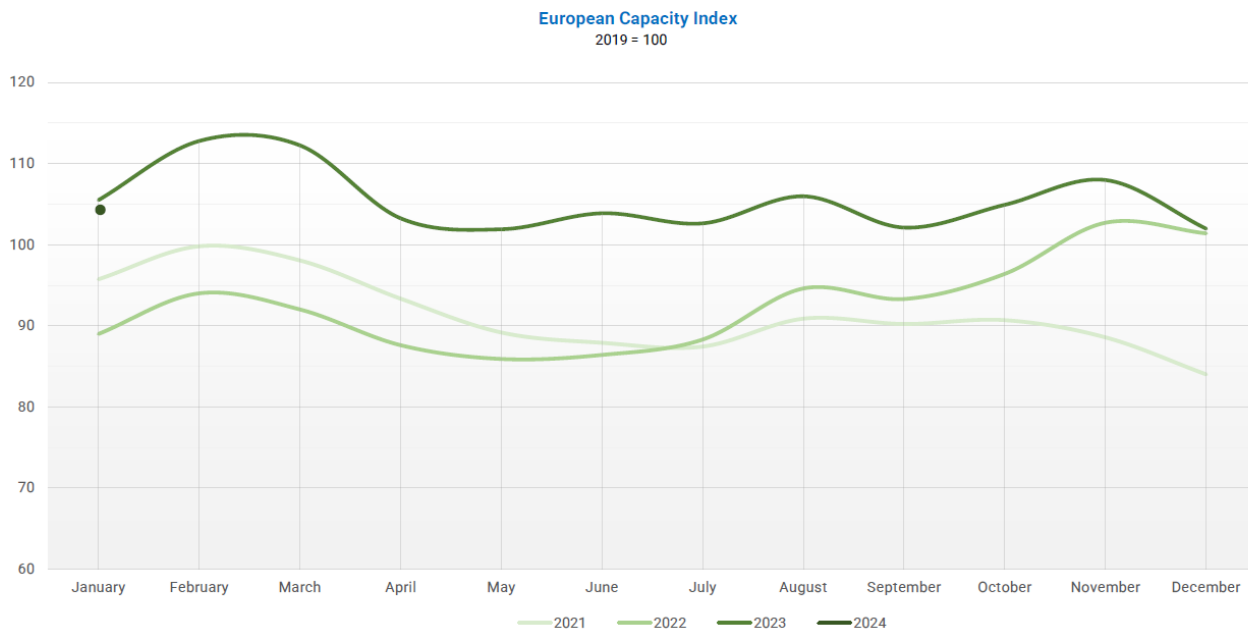


International Seats



Finally, road transport, which also improved significantly compared to previous years, saw a higher capacity than in 2019: the effect was mainly due to a still lower demand than in the pre-pandemic period.

Directors' Report



If until December 2023, despite the issues in Ukraine and Russia and the escalation of the conflict between Israel and Palestine, no direct and substantial impacts on supply chains were registered, unfortunately since mid-December, with the first Houthi attacks in the Red Sea, the situation has changed dramatically.

Since then, shipping companies have decided to circumnavigate Africa, with important effects on all goods transiting the East Asia/Mediterranean route, as well as a material impact on the Company's working capital and cash flow. The main effects, which will impact 2024, are the following:

- Particularly unstable transit time, with an estimated delay of about 3 weeks compared to the normal route through the Suez Canal (total transit time 8 weeks from Shanghai, an increase of about 60%);
- Increased variability of transit time; and
- Increased shipping tariffs.

From a management point of view, in order to ensure continuity of the supply chain, the Company anticipated some shipments by air, and is now adjusting its planning by anticipating shipments from China, in order to have raw materials on time to meet the delivery schedules agreed with customers.

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

During 2023, a total of 60 inspection activities were completed, including entity inspections and customer audits for all three sites (35 at the Montecchio Maggiore plant, 15 at the Lonigo plant, and 7 at the Termoli plant).

Specifically, as far as Regulators are concerned:

- in June, the Veterinary Health Ministry (Ministero della Salute Veterinario) carried out a periodic inspection at the Lonigo site for the renewal of the Manufacturing Authorisation and GMP Certificate, which was then obtained in September;
- at the beginning of July, the Certiquality's surveillance audit took place in Montecchio Maggiore and Termoli plants with regard to the three systems (ISO 9001, ISO 14001 and ISO 45001);
- in July (10-14) and August (31 July - 4 August) AIFA (the Italian Medicines Agency) inspection took place for the production of Active Substances at the Montecchio Maggiore plant, aimed at a general review for renewal of the Manufacturing Authorisation and GMP Certificate. This inspection was conducted again in two separate weeks due

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to the considerable number of active substances, both new and already present in the decree, and the complexity of the site. The process is still to be completed following the submission of the CAPA Plan with actions in response to the observations found;

- at the beginning of September, AIFA inspection for the production of Medicinal Products took place at Montecchio Maggiore plant, aimed at a general review for renewal of the Manufacturing Authorisation and GMP Certificate, which was then obtained in December, following the closure of all actions defined in the CAPA Plan; and
- at the end of September, AIFA inspection for the production of Active Substances was held at the Termoli 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 (received a request for further information).

The testing and release of commercial lots in the three sites recorded a fairly constant trend, with a slight increase compared to 2022 (+1%). Despite a slight growth in releases in Lonigo (+6.6%), a number similar to 2022 is found for Termoli and Montecchio. The testing and release trend was variable across the three sites at separate times of the year and resulted in a constant need to balance analytical staff between sites to cope with the varying activity load at separate times of the year. However, there is the constant intervention of indirect operators to support the direct ones, to balance the peaks of activity.

Raw materials testing in Montecchio improved in 2023 by achieving a 20% decrease in transit time; this is due to the staff addition and better planning of the arrival of raw materials compared to 2022.

There remains a continuing emergency situation in the raw materials market and therefore the number of changes managed remains high (over 300), in line with last year. The number of supplier audits increased in 2023 by approximately 50% (61 in 2023 vs 41 in 2022). Considering the outcome of these audits, to prevent quality and compliance risk situations, the need to increase monitoring of the compliance status of suppliers through on-site audits is confirmed.

With regard to the main qualitative KPI:

- trends and data on the percentage of rejected batches in both categories (from serious deviations and from Out of Specifications (OOS) are confirmed as good for all three production sites;
- trends in customer complaints are confirmed in the targets, and in particular in Lonigo no complaints were received in 2023;
- audit nonconformity trends for all three plants are confirmed in the targets;
- the average batch release time (time between Quality Control approval and batch release for Certificates of Analysis issuance and packaging for shipment) was particularly good. On the contrary, the percentage of lots released beyond two days worsened for Termoli (13.8% in 2023 vs 7.9% in 2022) while it significantly improved for Montecchio Maggiore and Lonigo (4.7% in 2023 vs 39.7% in 2022 for Montecchio Maggiore, 4.1% in 2023 vs 18.3% in 2022 for Lonigo); and
- special attention is paid, in all three sites, to the improvement of those KPIs that are most affected by the number of resources, lack of timely monitoring and cooperation between functions, such as diversions and CAPAs closed on time. These activities were affected by absences due to parental leave, retirements, resignations, and insufficient staff to handle the numerous investigations, as well as considerable efforts during inspections by regulators, which focused on preparing documentation and defending observations.

In general, there is an increasing number of activities that must be performed, resulting from the increase in the number of alternative suppliers, the complexity of deviations to be managed, and the increase in the number of inspections by Regulators. The Company is therefore focusing on process improvements and, if necessary, evaluating possible staff reinforcements, necessary to manage this increasing complexity.

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Regulatory activities confirmed the trend started in previous years. Also in 2023, activities focused on the following themes:

- patent registration activities for products, both Generic and Custom, in emerging countries such as China, Brazil and Korea. The elevated level of commitment required of the RA function for this activity was confirmed, particularly due to the complex regulations enforced in these countries and the degree of detail required for the registration documents;
- maintenance and updating of various registration documents following implementation of process and analytical changes;
- filings with national authorities for essential changes to equipment/production lines. In particular, in support of facilities intended for the production of Veterinary active substances;
- support for new Custom projects from an early stage, collaborating with customers in the definition of regulatory strategies through direct participation in the various project teams;
- improving the support for customers' technical and regulatory requirements in cooperation with other corporate functions;
- definition of activities to support the improvement of the RA function's operations, with the creation of specific databases, some shared with other corporate functions;
- increased number of assessments of possible nitrosamine derivatives, potential genotoxic pollutants and other derived substances in accordance with recently introduced regulatory requirements; and
- review and preparation of quality agreements with customers for both Custom and Generic products (growing activity compared to previous years).

As for the sterile department, during 2023, minimum compliance activities with the requirements of the newly issued Annex 1 were completed, and in December 2023, decommissioning activities were started. Notification to the appropriate regulatory body (AIFA API) was made by a letter signed by the Qualified Person at the inspection site in July and August 2023. The notification of decommissioning application will be officially sent to the agency in the first quarter of 2024.

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Safety, Health and Environment

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

The following tables summarise changes in key injury rates:

Montecchio Maggiore plant	2023	2022	2021	2020
Injuries (no.)	11	8	13	9
Injury rate	6.0	4.5	6.5	4.8
Severity rate	0.10	0.04	0.23	0.16

Termoli plant	2023	2022	2021	2020
Injuries (no.)	8	7	6	6
Injury rate	15.3	12.3	12.4	9.8
Severity rate	0.43	0.51	0.26	0.21

Lonigo plant	2023	2022	2021	2020
Injuries (no.)	2	2	3	2
Injury rate	3.8	3.8	5.7	3.8
Severity rate	0.13	0.10	0.07	0.16

For internal purposes, incidents with sick leave of more than three days are considered to be injuries.

In regard to F.I.S.'s accident rates as of the end of December 2023, both progressive and cumulative show records slightly worse than those recorded in 2022, both with regard to the frequency rate (7.45 vs 5.9) and the severity rate (0.17 vs 0.14). These numerical figures indicate a higher incidence of accidents, but with limited severity.

Company's performance is obviously derived from the performance of individual production sites, where only for the Termoli site there has been an improvement in the severity rate (from 0.51 to 0.43), although it still remains above national benchmarks.

In summary, the Company registered 21 accidents in 2023 (17 in 2022):

- 11 in Montecchio (8 in 2022);
- 8 in Termoli (7 in 2022); and
- 2 in Lonigo (2 in 2022);

Compared to the close of 2022, the frequency index (FI) in 2023 recorded:

- At the Termoli facility, a slightly upward trend, from 12.34 to 15.33, as the number of accident events increased;
- at the Montecchio facility, a slight increase, from 4.46 to 5.99, bringing it to the same value as the national benchmark figure for the sector; and
- at the Lonigo facility, an almost unchanged value compared to the end of 2022, 3.77 vs 3.84, and still at levels comparable to the Responsible Care program, and well below the national industry average.

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Regarding the severity index (SI), the increase is justified by the occurrence of 5 injuries (2 in Termoli, 2 in Montecchio Maggiore and 1 in Lonigo) not related to risks typical of our sector (being bruises or sprains) and without an initial prognosis of more than 40 days, but with an overall duration of more than 40 days. However, these injuries have all come to an end.

Specifically, in relation to the SI, through the different plants, it is possible to observe:

- overall, a decrease in the SI at the Termoli plant, from 0.51 to 0.43, largely driven by the lower severity of injuries occurring at the site;
- an increase in the Montecchio plant, from 0.10 to 0.14, due to an increase in absence days, settling at a value below the Responsible Care program benchmark figure; and
- an increase in the Lonigo plant, from 0.10 to 0.13, due to an increase in days of absence, but still standing at a value below the Responsible Care program benchmark figure.

The nature of injuries focuses on four main categories:

- chemical agents: 6 injuries (27.3%), 7 in 2022 (43.6%);
- falling, tripping, slipping, hitting: 6 injuries (27.3%), 1 in 2022 (6.3%);
- cutting, wounds, crushing, contusions with objects: 5 injuries (22.7%), 4 in 2022 (25%); and
- load handling: 3 injuries (13.6%), 2 in 2022 (12.5%).

It should be noted that the incidence of chemical-related injuries decreased in 2023 compared to 2022, both due to the training efforts applied and also due to the new procedure of immediate Diphoterine® utilization in the department in case of contact with chemical agents.

Regarding to the accidents that occurred, it was decided to implement the following mitigation actions:

- introduction of days aimed at increasing HSE awareness among the corporate population: establishment of a "Safety Day";
- adoption of new equipment designed to reduce the risk to the operator (e.g., quick release coupling for hazardous liquid transport equipment);
- continuous informative campaigns on public screens; and
- organisation of off-site events focusing on safety (e.g., previous theatre performance "OCJO!").

In addition to the actions described above, the activity of engaging with the RLS is continued in every accident that occurs, by investigating the root causes and behaviours that led to the accident.

The fortnightly meeting with the RLSs also allows the Company to assess injuries and actions taken in a collaborative and constructive approach, as well as to analyze and handle any safety reports that come in from the workers themselves.

In compliance with ruling legislation, the activity of **Risk Assessments** updating (General and Specific) continued in 2023. In relation to harmonization among the 3 sites, it was decided to implement a management software for all HSE activities, first by harmonizing the applied assessment methodologies and later by implementing some potentials of the system, such as data sharing, possibility of creating dashboards for managers, digitalisation of some services that were managed manually, and integration with management systems.

With regard to managing "**Risks of Significant Accidents**" (as per Legislative Decree no. 105/2015 "Seveso" Decree), F.I.S. 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.

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Regarding the Integrated Environmental Authorisations (IEA) the three sites moved as follows:

Montecchio Maggiore: On April 12, 2023 an IEA renewal request was sent for the incinerator, asking for permission to burn liquid waste from Lonigo site. On this occasion, a single integrated IEA will be issued for activities 4.1 and 5.2.

Currently, authorities are reviewing the records both because F.I.S. had asked to give priority to the Lonigo IEA, as well as because the Environment sector in the province is currently short-staffed. This led F.I.S. to send a request to the province for a non-substantial amendment to the IEA to obtain authorization for the start-up of the Zero Liquid Discharge plant ("ongoing activity").

Lonigo: On December 15, 2021, the Province of Vicenza issued Integrated Environmental Authorisation No. 15/2021 to the plant by resolution No. 1733/2021. Application for Reassessment of the IEA for the new liquid waste incineration furnace submitted on August 7, 2023 via certified electronic mail to the Province of Vicenza and competent bodies.

On 15 December 2023, with protocol no. GE 2023/0054608, the Province of Vicenza acknowledged F.I.S.'s submission, agreeing with the classification of "non-substantial modification" for the notified modifications (including the construction of the new incinerator). Regarding the alignment of the characteristics of the liquid waste entering the incinerator (CER 070701* and CER 070704*) with waste produced in Montecchio and Termoli, the Province has reserved the right to further examine the issue during a technical meeting with Arpav.

Termoli: In relation to Verification of Submissibility to EIA for "General modifications in plant areas" sent to the Molise Region in December 2022, following several integrations requested and sent to ARPA (*Agenzia Regionale per la Protezione dell'Ambiente*), Molise Region - upon ARPA's opinion - ruled on November 15, 2023 determining to "submit, to the Environmental Impact Assessment procedure, the intervention presented by F.I.S."

Supported by external consultants, the site is currently drafting the required documentation to be submitted for the EIA application.

Linked to all the above issues, like every year, surveillance/renewal activities continued for the certification of the **Environmental and Safety Management Systems (EMS and SGS)**, according to recognized standards (ISO 14001 Environment and ISO 45001 Health and Safety). In 2023, the systems were integrated with the Quality system (ISO 9001) and the integrated surveillance conducted from July 3 to 7, 2023. The Surveillance concluded with 8 recommendations and no "Non-conformities".

Finally, there are no outstanding disputes with Regulators in the area of Safety and Health.

Facilities and projects

Based on the injury rates and in relation to the values at the end of 2022, the frequency rate registered slight increases at the sites of Montecchio and Termoli, while it was stable in Lonigo; the severity rate, on the other hand, was found to be slightly improving in Termoli, while it remained at moderate values in Montecchio and in Lonigo despite registering a slight worsening.

In terms of production rates, operations at the three sites were very intensive and ultimately rather regular throughout the year. A more consolidated management of production planning and procurement programs made it possible in 2023 to express operating and service indices that were positive and, in many cases, improved over the previous year.

In Montecchio, production rates were high throughout the year, and the introduction of new processes for development, regulatory validation and pilot and industrial scale manufacturing campaigns was particularly intensive.

In Lonigo it was also a year of intensive operations, with significant production output, high labour absorption and positive service KPIs. Industrial-scale production of Veterinary products and validation of new human products also started in the new 3C unit.

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In Termoli, production activity was at an elevated level with the widely expected high volume production for the site continuing into 2024. This involved the entry of a considerable number of new employees. As a result, utilization rates were high, while service rates improved significantly compared to the previous year.

Total expenditure for the three plants was lower than budgeted due to the purchase price of utilities being significantly lower than budgeted. Excluding this price effect, the final value was fully in line with the budget and amounted to €113.5 million.

Executive capacity in the engineering field also grew in 2023, managing to execute investments of just over €68 million, in substantial alignment with the annual target of €70 million.

Below are some of the investment initiatives completed at the three sites:

Montecchio Maggiore:

- Spray Drying line doubling: installation and qualification of a second piece of equipment in the industrial line of the Spray Drying department;
- Zero Liquid Discharge: The plant's wastewater treatment plant allows for internal reuse of wastewater and zero discharge to the municipal sewer system; and
- Nitrofurantoin line revamping: installation of two new pieces of equipment made of special materials in order to ensure greater compliance of this important production.

Lonigo:

- tri-generator and new incinerator furnace: installation of two key plant utilities to achieve significant efficiencies also in terms of sustainability through the implementation of Best Available Technologies (BAT);
- overhead piping for high load lines: first part of activities to improve waste management in production areas; and
- completion of 3C department and preliminary activities for the construction of 3D department: continuation of activities for installation of new equipment in 3C department and preparation of the area for a new production department.

Termoli:

- equipment to increase production: installation of a new conical dryer and exhaust systems to increase production of an important product for the site;
- new drying system: installation and start-up of a new type of API drying equipment, the paddle dryer, in Division A; and
- implementation of new plant utilities and services: upgrade of Department A utilities and new plant reception desk.

With respect to the Industrial Development Contract Proposal (Proposta di Contratto di Sviluppo Industriale) within the framework of the NRRP submitted in July 2022, it is worth mentioning the official acknowledgement at the end of January 2024 in which Invitalia, on December 29, 2023, approved the Development Contract Proposal submitted by F.I.S and, as a result, approved, with conditional effectiveness, the granting of rebates.

In the field of technological innovation, work continued on the projects started or planned in the previous years, such as that of Enterprise Recipe Management (ERM), aimed at introducing a tool for rationalizing and standardizing the writing of Master Batch Records (MBRs), the process of setting up the MES (Manufacturing Execution System) project, where the Users Request Specifications and panel of possible suppliers were defined, the extension of Tracking Packages on Board Machine (TPBM) to the Montecchio and Lonigo sites, and above all, the first implementation phases of the pilot of the Historian project, aimed at archiving, contextualizing, processing and real-time monitoring of production data, improving data analysis capabilities to support business decisions and quality aspects.

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Montecchio:

In 2023, the site produced about 1,058 tons of "finished products" and about 2,431 tons of "intermediates," pouring a total of 7,460 batches, some of which were used at the Termoli site.

As widely expected, the production of sterile products in the specific division will be discontinued as of October 2023, and therefore evaluations are being finalised for meaningful plant conversions to increase multipurpose capacity.

In 2023, with the trend already increasing, a high rate of new processes has been introduced, and orders has been received from new leading international customers.

Labour absorption was very high, averaging 90.7%, capitalizing on the final closure of the effects of the pandemic and an effective start to the year.

The other benchmark KPIs performed well in line or improved on the previous year. In fact, Planning Adherence was 78% (average), while OTIF at 91% (average) with 786 orders out of 864 on time and in full.

As for the average absenteeism rate in production departments, the average value was 5.5% (2.8% in laboratories), above the pre-pandemic values of 4%, but still decreasing.

AIFA carried out two inspections during the year:

- AIFA-API in two stages (July and August), resulting in a considerable number of deviations, which led to a substantial remediation plan that is committing the site in a major way and will engage it for at least the entire first half of 2024; and
- AIFA-MED (September), with a rather positive outcome.

In 2023, 47,453 tonnes of special waste (90% liquid and 10% solid) were produced, substantially in line with 2022, and a total of 25,879 tonnes were internally incinerated in Montecchio (+2.8% compared to 2022), of which approximately 98% was produced at Montecchio and the rest at Termoli.

It should be noted that from 2023, the Montecchio site also send waste for internal incineration to the Lonigo site, with a view to synergy between the plants. The ecological costs of the site were in line with budget values but increased compared to 2022 (+4.6%).

Total site expenses were slightly above the 2022 figures and below the budget values. A reduction in the utilities-related contribution should be noted here, mainly due to the sharp decrease in prices compared to the 2022 peaks. Site maintenance costs were slightly below budget values but increased compared to 2022 (+8.5%).

The capacity to execute investments on the site proved to be particularly effective, resulting in a total of €23.9 million (excluding in-house labour), a significant increase over 2022 (€12.6 million), in line with the budget. Among them, worthy of attention is the major effort in the construction of the new Zero Liquid Discharge plant to refine the quality and consequent internal reuse of industrial wastewater, with the expected strong reduction in water consumption, an objective present in the sustainability framework linked to the bond issued in 2022 by the Company. On the production side, we must notice the major revamping and upgrade of production facilities at department G for a widely used generic API. Both of the above-mentioned investments are included in the framework presented (and approved) for the NRRP.

It is worth mentioning the important upgrades of the installations and the continuous dialogue with the Public Administration and Regulators both in the "fire protection" and "environmental protection" fields, and also the application for renewal of the IEA submitted in April 2023.

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Lonigo:

The production of the budgeted quantities was achieved efficiently, despite critical issues related to the management of the new personnel hired to cope with the increase in production in the 3C department. The plant produced 900 tonnes of finished products and 1,637 tonnes of WIP, some of which was transferred to the Montecchio plant.

Labour absorption was high (85%), especially considering the high turnover of personnel, with 65 incoming and 25 transfers to Termoli; the number of machine hours worked in 2023 was 605,000, an increase of 22% compared to the 2022 figure.

2023 was a good year in terms of the value of service KPIs such as OTIF (97%) and PA (87%). The quality KPIs (complaints and rejections) were particularly good for complaints (0 confirmed complaints), while rejections worsened (1.48% compared to 0.78% in 2022), with a high contribution from new products.

During 2023, 16,080 tonnes of waste (produced at the site but also from the other F.I.S. sites) were incinerated, an increase of 2.6% compared to 2022; despite this, the amount of methane used decreased by 8.4% due to the positive contribution of a greater availability of solvents for incineration.

Facility costs were lower than budgeted and slightly lower than in 2022, mainly due to a sharp reduction in utility costs (electricity and methane gas), while external waste management costs increased, mainly due to the increased volumes of new syntheses. Service and packaging costs also increased in line with the higher number of orders processed and inflationary increases in material costs.

In the area of new products, the start of industrial-scale production of Veterinary products and the start of validation activities for new human products are noteworthy. In 2023, facility preparation and process definition activities will be continued for the synthesis of a major customer project, which will be validated in 2024.

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

- the completion of the new waste-to-energy plant with state-of-the-art technology (i.e., bi-fuel burners, etc.);
- the completion and commissioning of a tri-generation plant, such as the one already in operation at Montecchio;
- the continuation of the set-up of the Department 3C "west" area, which made a further 8 new reactors available at the end of the year; and
- the continuation of the revamping project of Department 3A (renamed 3D), with the complete dismantling of the internal structures and roof.

Finally, the following are worth mentioning:

- the periodic inspection carried out by the Ministry of Veterinary Health in June 2023, which had a positive outcome with the renewal of authorisation and GMP certificate dated September 2023; and
- the frequent meetings with Public Bodies to obtain the necessary authorizations to start up the new oven and tri-generation plant.

Termoli:

The plant was also able to meet both budgeted quantities as well as significantly increased demand (30 tonnes against 17.4 tonnes budgeted) for one of the site's key products. A total of 675 tonnes of finished product was sold.

Labour absorption was 90.2% on an annual basis (compared to 84.7% in 2022), while machinery absorption was 82.2%, slightly higher than the target of 80%.

As far as the main KPIs are concerned, the PA recorded a clear improvement (80% compared to 68% in 2022), which was also the result of the timely analyses performed and corrective actions implemented. OTIF recorded 92% compared

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to 91% last year. It should be noted that out of 19 orders not in OTIF, no less than 12 are of the same product that had particular process problems, which are gradually being resolved.

Facility expenses were below budget, but the price effect of utilities contributed to this result, which more than offset the increase in expenses related to the increased demand for product during the year.

As a result of the investments completed in 2022, seven Non-Aggravation of Risk NARs were submitted to the Regional Technical Committee pursuant to Legislative Decree no. 105/2015. Among the main ones are the forepart of the automated warehouse, two new productions. Also worth mentioning is the installation of several new pieces of equipment, including a conical dryer in department B and a new refrigeration compressor in department A.

On September 12, 2023, the inspection pursuant to Article 27 of Legislative Decree No. 105/2015 (SGS) ended, the outcome was that no substantial or structural aspects were found and the Safety Management System of the site was assessed as solid and in compliance with Legislative Decree 105/15. Recommendations and prescriptions were made that can be resolved with procedural revisions, such as the revision of the Internal Emergency Plan (IEP).

Finally, it should be noted that on the 12th and 14th of December there was the annual inspection visit on the part of ARPA, whose final report stated the following findings: "As a result of the control activities carried out, from what was ascertained during the inspection and from the examination of the documentation acquired, for the aspects examined, no non-compliance with the prescriptions set forth in the AIA provisions nor with the specific sector regulations was found. Furthermore, no situations emerged in respect of which the operator is required to take preventive and/or corrective action. On the basis of the above-mentioned circumstances, no further investigations are planned."

An EIA file is being prepared, as requested by the region, for some changes at the site.

Finally, an inspection by AIFA was held between the 18th and 22nd of September, where 3 major and 9 minor deviations were found, all to be resolved through an appropriate action plan.

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Industrial relations

The year 2023 was characterised by a systematization of the labour relations plan.

In March 2023, the renewal of the second-level employment contract has been signed between the Company and union representatives, valid for the three-year period 2023 - 2025. On the occasion of this contract renewal, the main terms of the previous contract were maintained, and the calculation of the participation bonus was also redefined. The latter was modified with respect to the definition of the parameters and conditions for its recognition.

The economic-financial and production components were retained, while the quality and compliance components were replaced by a parameter linked to yields and "right first time". During 2023, employees were provided with the possibility of converting part of their accrued bonus into vouchers and services offered by the Welfare4you platform.

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Human Resources

In 2023, the people review process was further implemented: the detailed analysis of performance evaluations went hand in hand with the examination of the proposals inherent in the meritocratic plan. The aim was to ensure consistency with a salary structure that considers relevant labour market data and internal structure. The new people analytics tool enabled a concrete visualization of resource allocation, facilitating constructive dialogue between business units and human resources department to uphold principles of diversity, equity, and inclusion.

The second edition of the Talent Programme was launched, an executive path dedicated to high-potential resources that represent an asset to the Company's know-how; the Talent Programme is a true internal business school that provides participants with a solid knowledge base in the field of general management. This project provides participants with some important tools to help them understand the organizational variables of a changing business environment.

Remote working continues to be defined and regulated through individual contracts, in a structured and differentiated way for employees, according to a specific functional and operational logic. This represents an additional element of attractiveness for employees who, having a wide geographic range, are better able to reconcile work, travel and private life, for a better work-life-balance.

Headcount and personnel expenses

The headcount was 2,067 HC (2,056 FTE) at the end of FY23, higher compared to the previous year, which had 1,988 HC (1,978 FTE). The final figure is in line with forecast one: we must note the increased placement of temporary workers, from 88 to 142, 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 COVID-19 emergency situation, absence due to illness decreased and returned to an overall average of 4%, in line with similar pre-pandemic levels.

The increase in production demand, which was not foreseen in the planning at the beginning of the year, combined with the operational effort required by the acquisition process of the Company, contributed to the failure to meet the budgeted target for the disposal of annual leave, equivalent to approximately 10% of the previous year's residual.

With regard to the impact of overtime on personnel costs, there are no particular periods to report: it has always been well below the target of 1% of working hours.

Absenteeism



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The chart above compares the trend in absenteeism in 2023 with the two previous years: the lines and peaks coincide with the pandemic and epidemic waves, and it is easy to see the return to an absenteeism rate stabilised throughout the year around 4%, the "normal" limit set by the target in our dedicated KPIs.

Employee turnover

With regard to the analysis of staff turnover, it is worth mentioning the negative turnover rate of 4.84% for 2023, which reveals a significant decrease compared to the figure for 2022 (6.39%, still lower than the average territorial and sector reference rates) and constant compared to 2021 (4.81%, a figure impacted by the limitations resulting from the uncertainty caused by the pandemic situation).

The negative turnover in 2023 was more than offset by the positive turnover, which stood at 6.16%. This was also possible thanks to the talent acquisition process: in the area of personnel recruitment and selection, we continued with the line set out in previous years, using a set of tests to improve the talent screening and assessment phase. 2023 was a year of development for the strategy linked to talent attraction and talent retention, by means of a set of appropriately calibrated and refined tools (Talent Programme, strengthening relations with Universities and Schools, strengthening of the Welfare platform, Open days and Recruiting days). 2023 was also the year in which the Talent Policy was drawn up, a procedure aimed at defining and structuring the processes that regulate personnel selection according to principles of effectiveness, efficiency and competence. The activity of drafting the policy is part of the HR process review project. With this document, the Company has committed to guarantee an adequate level of transparency in relation to the personnel selection process implemented and pursued in order to guarantee correct process compliance.

Training

2023 began, as usual, with the implementation of training and instructional actions related to the collection of training requirements initiated at the end of 2022, which were necessary to maintain core competencies and to prepare personnel skills for the implementation of the business plan.

During the year, the usual induction sessions were held, with the aim of optimising the enrolment timetable, managing the safety training required by the legislation in force and developing self-training content for the remaining topics. In continuity with 2022, peer-to-peer induction sessions were maintained for newly recruited senior and executive staff to improve their understanding of functions, processes and contribute to an initial knowledge of the work group. Naturally, technical training for staff was available, such as updates and specific training, including for laboratory staff, language training and targeted courses.

In addition to the technical training, a number of individual coaching sessions were activated with the aim of to support personal skills, develop virtuous and adaptive behaviours, and provide tools for realising people potential.

Following the impressive training update activity in 2022 after the modification of the DVRs of the three sites and the amendments to Legislative Decree 81/08, in 2023 the Health, Safety and Environment training activity was more dedicated to renewals of licences and qualifications (e.g., forklifts, first aid). Training also continued on new licences with a view to extending available personnel to ensure greater flexibility and operational continuity. On the regulatory side, the issue mentioned in Legislative Decree 231/01 was also developed concerning the correct behaviour to adopt for an integrated administrative responsibility management system.

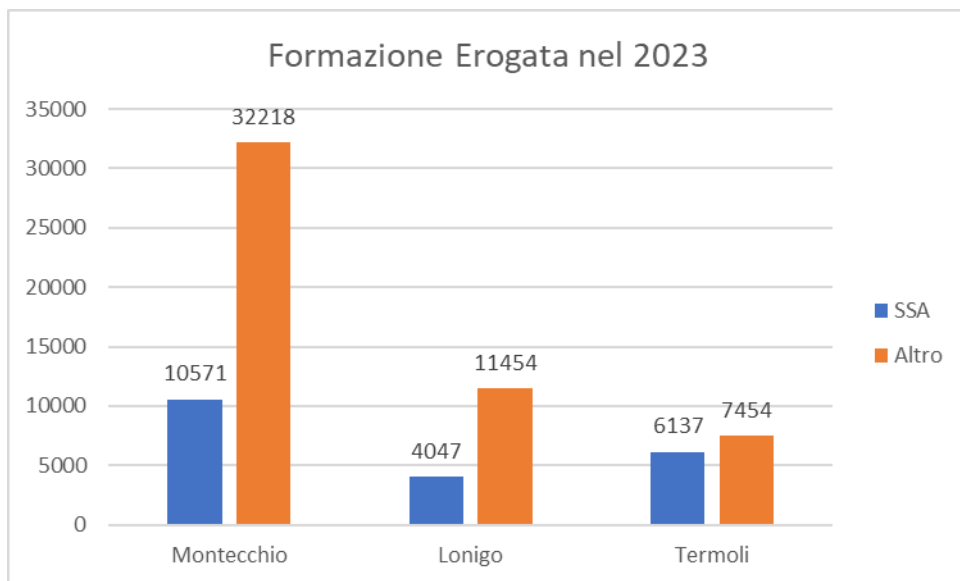
Special attention should be paid to the Managerial Training Course. This is a training course that is still in progress and has involved the middle management for a total of about 130 people who are responsible for a group and therefore deal with People Management on a daily basis. Specifically, the course, which is divided into three phases (testing, classroom training and coaching), is giving everyone the opportunity to acquire greater awareness of their skills, latest content, and food for thought to find the most effective and efficient way of managing activities and people.

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With a view to Continuous Improvement, 20 Green Belt certification courses in Lean Six Sigma were launched, lasting 12 months in various Company functions, aimed at strengthening the tools for collecting, analysing and developing data for the improvement of business processes capable of bringing about solid and continuous improvement.

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 proactive resource management, as well as a moment of self-awareness and personal growth. Following this activity, coherent development plans were defined for the resources identified to support what emerged from the individual analysis.

2023, as usual, was oriented towards the continuous support of personnel skills and know-how, in order to maintain a constant updating of the necessary skills for a Company with a high technological and innovative content such as F.I.S.. Training on Health, Safety and Environment topics, as well as Quality, is always present and has been rolling throughout the year (i.e., ASR, Legislative Decree 105/15, GMP). The second annual training pillar was represented by updates and new authorisations relating to the specific use of instruments and the obtaining of specific authorisation licences. In line with business directions and Company developments, there were also numerous development courses for hard skills in the chemical-technical field (e.g., Analytical Quality by Design, Secrets of Batch Scale-up), Supply Chain personnel certifications (Certification Supply Chain Professional), Legal (DPO certification UNI ISO 11697) and Industrial Operations (Sustainability Transition Management). Individual master's courses were also activated, with a view to enhancing skills and future career development. Training hours provided in the three plants totalled 71,881, equivalent to 6 days of annual training per capita, with an 8% increase in provision compared to 2022.



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Information Technology

During 2023, the IT department continued its plan to implement new corporate projects with a focus on streamlining processes, maximising the related support systems, and introducing new digital solutions. Management ensured consistency with the corporate and IT strategy, with the clear aim of simplifying and rationalising the application and infrastructure landscape.

Following previous year, IT department pursued various initiatives to ensure Business Continuity and the security of corporate information.

Cybersecurity

The Company's focus on cyber security has gradually intensified, in response to the increasing complexity and frequency with which cyber-attacks are conducted against companies of national and international strategic importance, and to the evolving regulatory framework.

The sophistication of cyber threats, made possible by the increasingly aggressive operations of organized international groups, makes it necessary to constantly adapt corporate defences and processes to safeguard IT assets, as a further element of protection of industrial know-how and market competitiveness in which the Company operates.

A mature approach to the cyber security discipline is also crucial to support the strategic development of the Company, as it is characterised by increasing technological complexity.

F.I.S. has taken steps to mitigate these risks, drawing on best practice in governance systems and continuously monitoring the management of infrastructure and applications.

For these reasons, the development of F.I.S. cybersecurity in 2023 has been further emphasised by:

- the achievement of UNI EN ISO 27001 certification;
- a pervasive technology updating program;
- the strengthening of cyber defence on IT and OT infrastructures;
- the enhancement of vulnerability and penetration testing;
- performing assessments for corporate sites to assess the robustness, reliability and resilience of the physical architecture of the OT system;
- the reinforcement of a Distributed Control System (DCS) committee and automation to monitor emerging risks and to ensure actions and continuous interventions necessary to reduce risks due to technological obsolescence;
- increasing the frequency of system updates to reduce exposure to vulnerabilities;
- improving the resilience of laboratory systems;
- conducting annual Disaster Recovery Tests, both IT and OT.

Internal Control System (ICS) & Internal Audit

Risk Management

F.I.S. 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

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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, F.I.S. 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; and
- Business Continuity (BC).

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.

F.I.S. 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 organizational 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 their correct allocation in terms of time;
- ensure reliable IT systems and adequate reporting procedures to the various levels of management in charge of governance and control; and
- 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 organizational structure provides an unequivocal and formal outline of responsibilities, specifically regarding the control and fixing of irregularities.

From an operating standpoint, F.I.S. 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;

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- 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; and
- 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.

To this end, F.I.S. has created a lean control structure. In addition to its sophisticated line control system, which involves all business unit managers and all staff, it has established a risk management structure, comprising the Internal Audit unit and the Supervisory Board, together with the Board of Directors, which provides overall risk advice, 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 potential risks in relation to the stated strategic objectives is carried out periodically, in line with the time horizon of the Company's strategic plan, or whenever internal or external environmental factors make it necessary.

F.I.S.'s risk catalogue (Risk Model) underwent a complete revision during 2022 and 2023 to integrate sustainability, business and compliance aspects.

In this respect, the F.I.S. risk model includes 45 risks, divided into 6 macro-categories, 10 of which have an Environmental, Social and Governance (ESG) value, which have been identified and assessed in terms of probability and impact by F.I.S. middle and top management.

Indeed, it should be noted that during 2023, F.I.S. conducted an annual review of the Enterprise Risk Mapping process, delving into the business context in which the organization 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 customized on F.I.S., 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 responsible for managing specific risks, which is left to management, but is responsible for implementing an integrated risk management process and providing high-level support 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 the 2023 annual review, interviews were conducted with the heads of all the of all major Company functions, as well as with the Company in charge of the statutory audit and the members of the Supervisory Board, in order to identify, map and prioritise the risks to which the organisation is exposed.

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The interviewees were then involved in the back-office for the final validation of the work done and the formalised risk sheets.

The evidence gathered during the interview was used to formalize the risk sheets, in which all essential information was reported, including the control actions in place (safeguards), with an assessment of their level of protection, and those planned/planned (mitigation actions).

The identified risks, subdivided into top risks (high severity) and non-top risks, were finally depicted using Heat Map and further representations according to risk profile, 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; and
- ESG impact scale defined on the basis of F.I.S. 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 F.I.S.'s overall exposure, so as to identify priorities for action for risk response strategies.

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 defined 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; and
- 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).

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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; and
- 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, authorization 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 works and whether it is adequate to ensure effective and efficient business processes, to safeguard the value of activities and protect against losses, to ensure reliable and complete accounting and management reporting, and to guarantee compliance of business activities with the policies established by the Company's governing bodies and with internal and external regulations.

The unit also provides advisory services to other business units and participates in projects to add value and improve the 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, the unit is still under development and enhancement. It has been structured using a lean approach to ensure effective and efficient oversight of such an evolving area. The unit works through staff and/or external consultants with appropriate knowledge and expertise and ensures that its activities are conducted in accordance with recognized best practices and standards for the professional practice of internal auditing.

The control model was designed to match F.I.S.' organizational structure. In order to provide risk-based audit activities, the Internal Audit Department completed an integrated mapping of business risks in 2023. The results will then be used to develop a specific audit plan to be carried out in 2024 for areas of higher 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 2024, 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 - Agreed Upon Procedures (AUP) were also carried out for specific Company areas during 2023. The results (remarks) have been made available and the related corrective actions are in the process of being adopted.

In this regard, in 2023 the function conducted audit on the procurement area, on the treasury and cash management process, on the sales Custom and sales generics & vet area, as well as AUP carried out on ad hoc processes, at the specific request of the Company. The relevant findings (references) have been formalized in audit reports, shared with the Company's management and Regulators, and the related corrective actions are being adopted.

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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 context, and with a view to improving the effectiveness and efficiency of the management of the audit process and the follow-up of corrective actions, the Company has, after careful and thorough analysis, selected an audit program, documentation and follow-up management tool developed by a leading player in the industry.

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 noteworthy events are also promptly reported to the Audit & Controls Committee.

The unit also holds periodic meetings and uses a similar approach with the Supervisory Board 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, F.I.S.'s 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 F.I.S. customers, or inspections by ruling authorities, to certify their compliance with product quality regulations.

The production facilities operate in compliance with 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.

During 2023, 62 inspections or audits were conducted, of which:

- 57 Company customers on site;
- 1 paper-based audit;
- 1 ISO inspection; and
- 3 authority inspections;

at the production facilities regarding quality and safety of the product.

Specifically, these include:

- 58 customer audits, of which:
 - 36 at Montecchio Maggiore facility;
 - 15 at Lonigo facility;
 - 7 at Termoli facility; and
 - 1 *paper-based* check regarding the Montecchio Maggiore facility;
- 1 certification ISO 9001 inspection carried out at 3 facilities;
- 3 carried out by ruling authorities (AIFA), of which:
 - 2 at Montecchio Maggiore facility; and
 - 1 at Termoli facility;

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- 21 *self-inspections* as GMP plan, of which:
 - 10 at the Montecchio Maggiore facility;
 - 8 at the Lonigo facility;
 - 2 at the Termoli facility; and
 - 1 audit at the Termoli facility (an internal audit from site QA and corporate QA).

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 ISO14001 (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 ISO14001 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, F.I.S. 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 ISO45001 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 F.I.S. monitors the supply chain is through its audit plans for suppliers.

As well as being assessed for approval during the vetting phase, suppliers are also subject to regular quality checks on all deliveries to keep a constant eye on quality levels and compliance with pre-agreed specifications.

Under the current vetting procedures, all suppliers undergo periodic checks, especially suppliers of active ingredients and packaging materials. Sixty-one audits were carried out at suppliers in 2023.

Legality, integrity and prevention of corruption

F.I.S. 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.

F.I.S. 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;
- interest conflict policy (COI) e Board's Counsellor position;
- staff training and awareness; and
- M.A.R. – Market Abuse Regulation.

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

The Company has adopted its own organizational, 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 July

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23, 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 organizational, 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; and
- procedure for information flows and reports to the supervisory body (with related annex).

The Head of Internal Audit is currently reconfirmed as a member of the F.I.S. Supervisory Body, having been appointed by decision of the Board of Directors on December 21, 2023.

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

- Avv. Fabio Sergi, external member and president;
- Ing. Alberto Cotta Ramusino, external member; and
- Dott. Stefano Fulgi, internal member.

Members will hold office for 2024, ending on December 31, 2024.

The following are appointed until December 31, 2023:

- Avv. Martina Caron, external member and president;
- Dott. Giulio Perdoncin, external member; and
- Dott. Stefano Fulgi, internal member.

Representation Letter

As from the FY 2022, F.I.S. has introduced a new attestation process involving the CEO, Prevention and Protection Service Managers, and the top 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.

Starting from 2023, the subscription of the document has been extended to all the management staff of the Company, to the RSPP, and to all the management and non-managing staff of the foreign affiliates and Representative Offices.

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.

Directors' Report

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 November 30, 2017).

During 2023, according to the introduction of the reporting software and the related procedure, as well as the diffusion and information to Company staff, the Supervisory body has received two reports concerning Whistleblowing, in addition to the two reports of 2022. In this regard, all reports received have been analyzed, assessed, investigated, and discussed in the relevant Reporting Committee and the respective analysis results recorded and shared with the competent functions following the existing procedures.

Policy on gifts, hospitality and entertainment

F.I.S. has adopted a policy on gifts, hospitality, and entertainment. F.I.S. 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 F.I.S. operates. However, regardless of local laws and customs, certain gifts, hospitality, and entertainment may be construed as actions put in place or accepted by F.I.S. 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 F.I.S., such that the individuals involved, and the Company could be criminally prosecuted.

F.I.S. 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 F.I.S.. F.I.S.'s policy on gifts, hospitality and entertainment sets out the basic principles that F.I.S. 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.

Interest conflict policy (COI) & Board's Counsellor position

During 2023 F.I.S. adopted the new policy on conflict of interest and the Board's Counsellor position.

Indeed, it is F.I.S.'s policy that all employees avoid any situation of conflict, real or apparent, between personal interests and those of the Company. A conflict of interest occurs when personal, social, financial or political interests take precedence over the interests of the Company.

Employees may engage in lawful financial, commercial, charitable, and other activities outside their position at F.I.S., but any real, potential, or perceived conflict of interest arising from such activities must be immediately reported to management and periodically updated. In addition, although the Company encourages employees to participate in charitable activities concerning potential appointment to Board or legal positions represented in charitable, educational, non-profit, and non-commercial organizations (example sports clubs, charitable organizations), prior approval from management is required to ensure that the acceptance of such roles does not give rise to possible conflicts with the current job in F.I.S..

By reporting these situations in a timely manner, F.I.S. aims to ensure that any potential conflict can be transparently identified and effectively managed, identifying the best operational solution to ensure transparency and proper business conduct in the performance of its activities.

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Staff training and awareness

Throughout the year, the Company conducted a training course on compliance with Italian Law no. 231 for all its employees, using 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. In this regard, information sessions were completed in the classroom with senior staff, with staff most exposed to interaction with public officials - identified on the basis of an internal assessment - as well as with staff who reported situations of potential conflict of interest.

M.A.R. – Market Abuse Regulation

Procedures related to market abuse regulations aim to protect the transparency and integrity of financial markets.

On February 10, 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 rationalize 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 (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 [M.A.R.]).

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, F.I.S. 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.

Furthermore, during 2023 the Company adopted all the appropriate measures to ensure compliance with the obligations laid down in the Legislation and approved by F.I.S. Board of Directors on November 8, 2022, with reference to:

- the obligation to publicly disclose inside (price sensitive);
- the obligation to establish and maintain lists of persons with access to such inside information of the Company ("Insider Register");
- appointment of the Provider ComputerShare as the entity in charge of maintaining and updating the Company's Insider Register;
- appointment of the Investor Relator;

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- meetings' minutes of the Appointed Functions for any decisions to delay the disclosure of inside information; and
- public disclosure of inside information through the established channels.

Business Continuity (BC)

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 F.I.S..

The possibility of business disruption events occurring, the current complexity of the business requiring appropriate technological and operational support and, not least, the aspects related to the events of recent years, have all contributed significantly to the process of reviewing and adapting existing Business Continuity measures.

Indeed, F.I.S.'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 provide organisational safeguards, human resources, communication facilities and technological infrastructures to minimize the damage resulting from possible disruptive events, while ensuring the resumption of processes within the specified timeframe and coordinating activities until full functionality is restored.

With the support of Internal Audit, F.I.S. 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, comprising senior management and chaired by the CEO. It meets regularly when the Business Continuity Plan (BCP) is activated to discuss in detail events and/or occurrences that may have an impact on Business Continuity and to determine the appropriate actions to be taken.

In 2023, new BCM procedures, BCP Activation and a first tranche of Departmental BCP Operating Procedures were drafted and approved, with the latter in the case of critical processes identified during the Business Impact Analysis (BIA) and Risk Assessment (RA) drafting activities.

In addition, a training plan has been initiated for the personnel involved, who have been specifically identified according to their role in the event of activation of the Business Continuity Plan and have been categorized and assigned specific actions to mitigate the possible risks involved, to be implemented in order to improve the resilience of the Company.

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 particular, sustainability-related communication is key to create culture and awareness both within and outside the Company, and to constitute a stimulus for discussion and engagement with its stakeholders.

F.I.S. 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.

Directors' Report

F.I.S. has therefore adopted a new Social Media Policy, whose main objective is to protect all interlocutors and stakeholders understanding that there is no public and private distinction when using the web.

Investor Relations

As a result of Bonds Issuance and in compliance with market best practice, 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 and 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 F.I.S. 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 accordance with international best practice and are subject to ongoing scrutiny during inspections by commercial partners, authorities or certification bodies.

In this regard, F.I.S. 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 F.I.S. 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; and
- supports other units in revising contractual clauses and provides ongoing assistance in managing contracts in the event of penalties, termination, etc.

Financial management

The Company's financial structure has been enhanced upon the closing of the deal with Bain Capital Private Equity. Indeed, while maintaining the previous long-term financial instrument (€350,000,000 5.625% Sustainability-Linked Senior Secured Notes due 2027), by complying with its portability parameters, the Company also provided for:

- an increase in the long-term financing structure, by means of Private Tap on the existing bond, with the same maturity characteristics; this instrument has been subscribed for a value of €50 million by a leading international financial institution; and

Directors' Report

- an increase in RCF of €30 million; the committed line is now equal to €80 million, which are entirely at disposal at the reporting date.

The Company has also embarked on a process of economic and financial terms optimization on liquidity stocks, as well as a process of outlining short-term liquidity allocations in order to maximize their return.

During the year, the Company used a reverse factoring instrument to improve its working capital management. And, similar to the previous year, the Company also used factoring instruments on selected trade receivables.

There were no changes in the adopted strategy for hedging foreign exchange risk, which is oriented towards prudence and is executed, as required by Company policy, through the combination of multiple transactions underwritten in different periods of the year and not from a single transaction. This approach ensured that the Company was hedged properly and once again performed above market average.

In terms of process improvements, the Company has implemented a 13-week rolling short-term financial planning, aimed at more timely cash flow forecasting and more efficient management of available liquidity.

Economic and Financial Performance for the Year

Economic and Financial Performance for the Year

Reclassified Profit and Loss Statement - €'000	2023	2022
Production revenues	744,002	681,540
Cost of Sales*	(591,022)	(547,409)
Gross profit	152,980	134,131
Marketing and selling expenses*	(9,687)	(9,516)
Administration expenses*	(33,171)	(24,921)
Research and development expenses*	(2,878)	(1,746)
Other operating income	1,472	1,548
EBITDA [Pre non-underlying charges]	108,717	99,496
Non-underlying charges	(44,322)	(5,506)
EBITDA [Post non-underlying charges]	64,394	93,990
Depreciation and amortisation	(60,931)	(63,260)
EBIT [operating profit]	3,464	30,730
Net financial charges	(33,074)	(32,668)
Fair value gains on revaluation of derivatives	213	900
Other gains and losses	(357)	1,392
Pre-tax profit	(29,754)	355
Income taxes	12,591	7,721
PROFIT FOR THE YEAR	(17,163)	8,076

* amounts net of depreciation and amortisation

Overall revenues performance significantly improved year on year, with a 9% increase (equal to about €62,5 million). This positive trend has been driven both by product sales (+10%, or + €64,1 million) as well as by research and development services (+23%, or + €3,6 million). The mentioned 10% growth for product sales recorded in 2023 topped the 20% growth and the 14% growth experienced in 2022 and in 2021 respectively. This extremely positive performance is the result of the continuous development of the top line, thanks to the management of the existing product portfolio and the commercial development of new molecules. Custom (+12%) and Animal Health (+180%) are the drivers of the growth, while generics, despite a not material decrease in sales (-2%) pursued a key portfolio optimization goal, with a strong profitability improvement.

Research and development services, aimed at both the optimisation of synthesis processes and large-scale commercial production, increased from previous year as well, with an absolute value of about €19,3 million as of 31 December 2023. As of the date of preparation of these financial statements, the pipeline shows a significant number of projects, which were acquired in the second half of the financial year.

The trend in production costs shows an increase of approximately €43,6 million, less than proportional compared to production revenues growth. In fact, during 2023, production cost factors, and mostly energy and natural gas,

Economic and Financial Performance for the Year

experienced a deflationary trend; this, coupled with a dedicated effort on efficiency and products mix improvement, has led to an increased gross profit (+1% year on year).

Reported EBITDA and EBIT have been impacted by significant non-underlying charges, as broadly disclosed in the Notes to the Financial Statements. Adjusted EBITDA, net of the afore mentioned one-off charges, equals to €108,7 million, witnessing the growing trend of the business performances started back since the COVID-19 pandemic.

Net financial charges include a full year of interests on borrowings represents interest on financial liabilities held at amortised cost, as well as factoring related charges.

In terms of taxation, the Company capitalised the provisions of the law in terms of super- and hyper-amortisation for Industry 4.0 projects.

Reclassified Balance Sheet - €'000	2023	2022
Net working capital	201,237	285,374
Tangible fixed assets	336,553	327,806
Intangible fixed assets	31,297	30,139
ROU assets	4,833	5,107
Financial fixed assets	4,136	3,924
Other non-current assets	52,153	9,595
Provisions and other non-current payables	(6,581)	(5,259)
Net invested capital	623,629	656,686
Net short-term financial position (debt)	(100,248)	16,395
Net medium to long-term financial position	393,979	344,479
Convertible bonds	51,594	51,213
Net equity	278,304	244,599
Sources of funds	623,629	656,686

Net Invested Capital shows a decrease over the previous year, the main driver of which is the decrease in Net Working Capital by about €84 million. This is mostly linked to a significant raw materials prepayment given by a top tier customer and received in December 2023. On the opposite hand, Other non-current assets highlight an about €42.5 million increase, due to the accounting of a Deferred Tax Assets consequent to the Transaction occurred in late 2023 and related to a Tax Credit linked to the domestic tax consolidation scheme between the Company and the former Italian prior Parent Company, Tax Credit which is accounted back within the Company books.

Net short-term financial position has been positively impacted at year end by a positive cash and cash equivalents (€119 million), consequent to a positive operating cash flow for the year which, coupled with positive working capital cash impact, allowed the Company fund about €70 million of capital expenditures projects, and to increase cash position at year end by about €51 million, after having paid €24.7 million of interests, €2 million of dividends and €57.1 million of loans and borrowings (Revolving Credit Facilities and related interests), thanks to a total of €100 million of combined Private Tap and Equity injection.

Net medium to long-term financial position includes now, on top of the €350 million Senior Secured Notes, also the €50 million Private Tap signed in December in connection with the transaction closing. The afore mentioned €50 million have been utilized to fully repay the original Revolving Credit Facilities, fully available as of December 31, 2023, and increased from €50 million to €80 million.

The convertible bonds were issued by the Company in 2019. The increase of €0.4 million at 31 December 2023 compared to 31 December 2022 is attributable to the net interest accrued during the year, related to the application of the amortised cost criteria.

Economic and Financial Performance for the Year

The Sources of Financing, thanks to the issue and placement of the €350 million senior secured sustainability-linked bond, and increased thanks to the €50 million Private Tap, shifted to a long-term horizon. In fact, this instrument has a duration of 5.5 years, while the RCF line expires 6 months earlier than the main instrument. Relationships with reference banking institutions are maintained, and indeed remain very important, but are focused on more operational management, on working capital dynamics, rather than on activities of a financial nature.

Net Financial Position is a measure used by management to assess the financial position and liquidity of the business. The Company does not include convertible loan notes in Net Financial Position. Management believes convertible loan notes will not represent future cash outflows, as management believes they will be converted into equity prior to their maturity date.

Net financial position - €'000	2023	2022
Cash and bank balances	119,069	67,938
A. Liquidity	119,069	67,938
Current loans and borrowings*	(17,123)	(82,719)
Current lease liabilities	(1,698)	(1,614)
B. Current financial indebtedness	(18,821)	(84,333)
Non-current loans and borrowings**	(400,000)	(350,000)
Non-current lease liabilities	(3,180)	(3,536)
C. Non-current financial indebtedness	(403,180)	(353,536)
D. Net Financial Position (A+B+C)	(302,932)	(369,931)

(*) Current loans and borrowings include €8,436 thousand in accrued interest in relation to Senior Secured instruments as of Dec. 31, 2023 (€8,203 thousand as of Dec. 31, 2022)

(**) Senior Secured instruments' nominal amounts. In F.I.S.' IFRS Financial Statements the instruments are measured at amortized cost, classified in non-current loans and borrowings amounting to €390.799 thousand as of Dec. 31, 2023 (€340.943 thousand as of Dec. 31, 2022), please refer to note 20 Borrowings

	2023	2022
Net Financial Position (NFP)*/Adjusted EBITDA	2.79	3.72

(*) Net Financial Position calculated considering Senior Secured instruments' nominal amounts

Reclassified Cash Flow Statement - €'000	2023	2022
Opening net financial debt	(360,874)	(253,098)
Operating cash flow	96,114	93,377
Change in working capital	23,850	(92,837)
Change in net investments	(69,929)	(59,265)
Change in financing activities	17,993	(48,816)
Total changes	68,028	(107,541)
Effect of foreign exchange rate changes	(885)	(234)
Closing net financial debt	(293,731)	(360,873)

The operating cash flow generated a positive cash flow of about €96 million, which is pretty in line with previous year.

Differently for previous year, the Company has been able to manage working capital, which generated about €24 million of positive cash, mostly thanks to stock containment as well as thanks to the prepayment of some key raw materials given from a top tier customer. And this, couple with operating cash flow, allowed the Company to fund about €70 million of investments projects.

Economic and Financial Performance for the Year

Financing activities funded about €100 million to the Company, including a Private Tap to the original Senior Secured Notes, as well as a Capital Injection, both occurred at the transaction closing with Bain Capital. Mentioned €100 million have been used by the Company to fully repay the Revolving Credit Facility, to pay the bond related interests, and still add to the operative cash flow about €24 million.

Total cash flow from the 2023 amounts to €67 million, for and ending Net Financial Position at about €293 million.

Economic and Financial Performance for the Year

Outlook

The 2024 financial year will certainly be a year dedicated to transformation activities and projects under the new ownership, laying the groundwork for a further and accelerated phase of development in the coming years.

The management team will therefore be called upon to lead the Company through this crucial phase of transformation, while also remaining focused on the daily management of the business.

From a procurement standpoint, the derisking activities in place and in the implementation, phase should mitigate the risks of potential inefficiencies in the supply chain related to the current geopolitical situation in the Middle East.

To ensure continuity of production for itself and its customers, even in the face of ongoing geopolitical stress, the Company has also agreed with some of its key customers to build up safety stocks of raw materials and intermediates by 2024, largely funded by the customers themselves. This will mitigate the risk of supply shortages while reducing the financial impact on the Company.

A dedicated focus on top-line development, supported by sustainable growth from a financial standpoint, and balanced in terms of customer, product, and therapeutic area diversification, will undoubtedly be provided by the transformation projects in the commercial development domain.

In support of the development of the top-line products, the project activity in the R&D domain will contribute significantly, with a rather significant project pipeline already at the beginning of the year, as well as the initiation of some fundamental projects for the development of new technologies and skills.

2023 has been dedicated to the development and refinement of processes and tools of strategic relevance, particularly in the areas of Supply Chain, Operations, and Procurement.

All the projects and activities mentioned in the previous paragraphs have a common and indispensable element: continuous investment in the development of F.I.S. personnel. In this respect, the year 2024 will see the results of the fundamental activities developed in HR department, but extended to the whole Company, aimed at enhancing human capital, one of the fundamental values of F.I.S..

F.I.S. maintains a strong focus on ESG issues, with dedicated activities and investments, not only regarding KPIs related to sustainability-linked bonds. Among these, it is worth mentioning the investment project called "Zero Liquid Discharge," which was completed during 2023.

Finally, in 2024, as expected, Company's efforts will continue to be directed towards ensuring sustainable growth, also from an economic and financial perspective, with particular attention to cash generation and working capital management, in order to ensure results that enable the Company to support growth.

Economic and Financial Performance for the Year

Information on the main risks to which the Company is exposed

Failure to obtain and maintain regulatory approval is one of the main risks to which we and our customers are exposed.

Risk in the custom manufacturing sector is linked to the risks of our customers, where the progress of clinical trials of a new drug affects API requirements. Sometimes, however, a change in top management leads to a consequent change in outsourcing strategies, which affects so-called Custom Manufacturing Organisations (CMO) companies such as F.I.S..

The strategy is therefore to cultivate a dynamic portfolio of new projects to be consolidated into products within the clinical-pharmaceutical development of our customers.

And, in this respect, the generic sector confirms itself as a stabilising element to be guarded with particular care and attention to the most profitable novelties and niche products.

In order to avoid the risk that Italy's strict patent regulation will prevent the development of the generic line, F.I.S. is continuing its long-standing collaboration with partner companies in territories where such patents have already expired, thus enabling the production and sale of APIs for the launch phase of new generic products. When these patents also expire in Italy, F.I.S. will be able to take over as second supplier, or main supplier, depending on market demand and necessary production capacity. In any case, the maintenance and continuous development of a portfolio of new generic APIs is crucial for the success of this strategic sector for F.I.S..

Economic and Financial Performance for the Year

Information on financial risk factors

Pursuant to Article 2428, Section II, No. 6-bis of the Italian Civil Code, it is noted that the main risks identified and managed by F.I.S. are related to its operations and specifically:

- market risk (mainly interest rate risk): arises from exposure to fluctuations in interest rates;
- credit risk: highlights the possibility of default by a counterparty or any deterioration in the creditworthiness assigned to it;
- liquidity risks: they express the possibility that available financial resources will be insufficient to meet payment commitments;
- exchange rate risk: identifies the risk associated with commercial transactions in foreign currencies

F.I.S. constantly monitors the financial risks to which it is exposed, in order to assess potential negative effects well in advance and take corrective action accordingly.

The main financial instruments used by F.I.S. include a high-yield sustainability-linked bond, bank loans, demand, and short-term bank deposits. These instruments have the main objective of financing the Company's operational activities. F.I.S. also has the possibility of activating and accessing other financial instruments, leveraging trade payables and receivables from its operating activities.

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 a high-yield sustainability-linked bond, only partially expose the Company to the risk that future hikes in interest rates could significantly increase its financial charges, since €350 million out of €400 million of the nominal main debt instrument (high-yield sustainability-linked bond) is at a fixed rate (5.625%) throughout its maturity (August 2027). Therefore, the main exposure to interest rate risk in relation to the outstanding loans and borrowings as of December 31, 2023 is related to the New Notes issued on December 13, 2023 with a nominal value of €50 million, which accrues interest at variable rate amounting to Euribor 3m + 5.5%.

Refer to 27. Financial instruments in the Notes to the financial statements for the sensitivity on the Company's profit before tax on December 31, 2023 to a reasonably possible change in interest rates, with all other variables held constant, based on year-end balances and rates.

Current transactions and their effects are detailed 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.

The Company's principal financial assets are bank balances, short term time deposits, cash and trade and other receivables which represent the Company's maximum exposure to credit risk in relation to financial assets.

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, F.I.S. has put in place the following policies and processes to optimise its financial resources:

Economic and Financial Performance for the Year

- 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; and
- monitoring its future liquidity requirements in line with its business plans.

Exchange rate risk

The Company's foreign currency trade transactions mostly take place in US dollars and Canadian dollars.

Reported below is the sensitivity of the Company's foreign currency exposure to reasonably possible changes in foreign currency rates based on the Company's historical experience and the current economic outlook. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items (including derivative instruments) in US dollars and Canadian dollars.

If the rates moved by +/- 10% the effect on profit and loss would be +/- €4.6 million.

Economic and Financial Performance for the Year

Control reports

F.I.S. Fabbrica Italiana Sintetici S.p.A. is controlled by Bidco (BC) Molecole., which is based in Milano (Italy) and holds 100% of our Company's capital.

F.I.S. Fabbrica Italiana Sintetici S.p.A. is subject to management and coordination activities by the parent company Molecole (BC) HoldCo S.p.A., which, at the date of approval of these financial statements, has not yet prepared its first financial statements.

Transactions with the parent company and other group's companies are detailed in the Notes to the Financial Statements in the table 'Related Party Transactions'.

Own shares

The Company does not own any of its own shares, nor has it carried out any transactions on them either directly or through trust companies or intermediaries.

Sub-offices

The Company carries out its activities not only at its headquarters in Montecchio Maggiore (VI), viale Milano 26, but also at its branch offices in Termoli (CB), via Massimo D'Antona 13, and in Lonigo (VI), via Dovaro.

Montecchio Maggiore, 15th April 2024

The Chairman of the Board of Directors

Michele Gavino

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

(in Euro '000s)

Financial Statements as at 31 December 2023

	Note	1 January – 31 December 2023	1 January – 31 December 2022
Revenue	5	744,002	681,540
Cost of sales	7	(649,987)	(608,867)
Gross profit		94,015	72,673
Marketing and selling expenses	7	(9,716)	(9,528)
Administrative expenses	7	(34,895)	(26,629)
Research and development costs	7	(3,090)	(1,746)
Other operating income	9	1,472	1,548
Other operating expenses (including non-underlying charges)	10	(44,322)	(5,506)
Finance income		250	30
Other gains and losses		(144)	2,292
Finance costs	11	(33,324)	(32,779)
Profit/ (Loss) before tax		(29,754)	355
Income tax	12	12,591	7,721
Profit/ (Loss) for the year		(17,163)	8,076
Other comprehensive income / (expense)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefits plan		78	700
Related tax effect		(19)	(168)
Total items that will not be reclassified subsequently to profit or loss		59	532
Other comprehensive income for the year, net of income tax		59	532
Total comprehensive income		(17,104)	8,608

Statement of Financial Position

As at 31 December 2023

(in Euro '000s)

	Note	31 December 2023	31 December 2022	1 January 2022
Non-current assets				
Goodwill	13	14,812	14,812	14,812
Other intangible assets	13	16,485	15,327	14,852
Property, plant and equipment	14	336,553	327,806	332,501
Right-of-use assets	15	4,833	5,107	5,307
Other investments	16	1,989	1,989	44
Derivative financial assets	27	2,147	1,935	-
Deferred tax asset	17	42,928	5,700	8,159
Trade and other receivables	19	9,225	3,895	4,482
Total non-current assets		428,972	376,571	380,157
Current assets				
Inventories	18	349,037	360,329	295,581
Trade and other receivables	19	137,342	182,097	149,057
Contract assets		718	838	979
Cash and bank balances		119,069	67,938	74,770
Tax receivable		-	-	136
Total current assets		606,166	611,202	520,523
Total assets		1,035,138	987,773	900,680

Statement of Financial Position

As at 31 December 2023

(in Euro '000s)

	Note	31 December 2023	31 December 2022	1 January 2022
Equity and liabilities				
Issued share capital	26	10,000	10,000	10,000
Revaluation reserve	26	94,801	94,801	94,801
Other reserves	26	56,771	3,902	3,032
Retained earnings		116,732	135,896	136,319
Total equity		278,304	244,599	244,152
Non-current liabilities				
Borrowings	20	390,799	340,943	211,718
Convertible loan notes	21	51,594	51,213	51,925
Retirement benefit obligations	22	4,659	4,866	6,026
Lease liabilities	23	3,180	3,536	3,827
Provisions		1,683	-	-
Other non-current liabilities	24	239	393	34,469
Total non-current liabilities		452,154	400,951	307,965
Current liabilities				
Trade and other payables	24	203,168	226,511	210,298
Lease liabilities	23	1,698	1,614	1,481
Borrowings	20	17,123	82,719	110,842
Convertible loan notes	21	-	-	445
Derivative financial instruments	27	-	-	445
Contract liabilities	25	82,599	31,089	25,052
Tax payable		92	290	-
Total current liabilities		304,680	342,223	348,563
Total liabilities		756,834	743,174	656,528
Total equity and liabilities		1,035,138	987,773	900,680

Statement of changes in equity for the year ended 31 December 2023

(in Euro '000s)

	Share capital	Revaluation reserve	Other reserves	Retained Earnings	Total
Balance at 1 January 2022 (as previously reported)	10,000	94,801	88,948	51,397	245,146
Impact of IFRS transition on previously reported numbers (Appendix)	-	-	(85,916)	84,922	(994)
Balance at 1 January 2022	10,000	94,801	3,032	136,319	244,152
Profit for the year	-	-	-	8,076	8,076
Other comprehensive income for the year (Note 22)	-	-	532	-	532
Total comprehensive income for the year	-	-	532	8,076	8,608
Dividends paid ¹	-	-	-	(20,500)	(20,500)
Waiver of overdue dividend receivable relating to the years 2017 and 2018 by prior parent of the entity	-	-	-	12,000	12,000
Fair value losses on derivatives (Note 27)	-	-	445	-	445
Deferred tax impact on fair value losses on derivatives (Note 17)	-	-	(107)	-	(107)
Balance at 31 December 2022	10,000	94,801	3,902	135,895	244,598
Profit for the year	-	-	-	(17,163)	(17,163)
Other comprehensive income for the year (Note 22)	-	-	59	-	59
Total comprehensive income for the year	-	-	59	(17,163)	(17,104)
Dividends paid	-	-	-	(2,000)	(2,000)
Reserve for capital contribution (Note 26)	-	-	52,810	-	52,810
Balance as at 31 December 2023	10,000	94,801	56,771	116,732	278,304

¹ Dividends per share is €1 for 2023 (2022: €10.25).

Statement of cash flows

For the period ended 31 December 2023

(in Euro '000s)

	Note	1 January - 31 December 2023	1 January - 31 December 2022
Profit for the year		(17,163)	8,076
Adjustments for:			
Interest expenses		33,324	32,779
Income tax expense/ (benefit)		(12,591)	(7,721)
Depreciation and amortisation		59,015	61,636
Depreciation of right-of-use assets		1,916	1,622
Loss/(Gain) on disposal of property, plant and equipment		1,009	(95)
Write-off of inventory		29,982	-
Provisions for inventory disposal obligations		1,683	-
Impairment of trade receivables		184	
Other gains and losses		673	(667)
Reversal of provision for retirement benefit obligations		146	(254)
Operating cash flows before movements in working capital		98,178	95,376
Decrease/(increase) in Inventories		(18,690)	(64,748)
Decrease/(increase) in Trade and Other receivables		14,407	(32,453)
Increase/(decrease) in Trade and Other payables		(23,497)	(1,815)
Decrease/(increase) in Contract Assets		120	142
Increase/(decrease) in Contract Liabilities		51,510	6,037
Cash generated by operations		122,028	2,539
Retirement benefits paid		(295)	(474)
Net cash from operating activities		121,733	2,065
Investing activities			
Purchases of property, plant and equipment		(66,326)	(54,036)
Acquisition of intangible assets		(4,180)	(3,442)
Proceeds on disposal of property, plant and equipment		577	158
Acquisition of investments		-	(1,945)
Net cash (used in)/from investing activities		(69,929)	(59,265)
Financing activities			
Dividends paid		(2,000)	(20,500)
Interest paid		(30,983)	(18,769)
Repayments of loans and borrowings	20	(57,065)	(265,804)
Repayment of lease liabilities		(2,041)	(1,683)
Proceeds from loans and borrowings	20	48,046	363,467
Net (decrease) / increase in other borrowings	20	(8,555)	(6,109)
Proceeds from capital contribution		52,810	-
Net cash (used in) / from financing activities		212	50,602

Statement of cash flows

For the period ended 31 December 2023

(in Euro '000s)

	Note	1 January - 31 December 2023	1 January - 31 December 2022
Net increase / (decrease) in cash and cash equivalents		52,016	(6,598)
Cash and cash equivalents at beginning of year		67,938	74,770
Effect of foreign exchange rate changes		(885)	(234)
Cash and cash equivalents at end of year		119,069	67,938

Notes to the financial statements

For the year ended 31 December 2023

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Notes to the financial statements

1. General information

F.I.S. Fabbrica Italiana Sintetici S.p.A. (“F.I.S.”, the “Company”) is a joint stock company (società per azioni) incorporated and registered in Italy, Viale Milano 26, 36075 Montecchio Maggiore (VI), with its administrative headquarter in Montecchio Maggiore (VI).

The Company specialises in the production of chemical products for the pharmaceutical industry. It has operated on the international markets since its incorporation in 1957. 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, antibacterial, anticonvulsants, anti-inflammatories, diuretics, analgesics and cardiovascular drugs; and
- the veterinary market, be that for generic or custom products.

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

The Company is a wholly owned subsidiary of Molecule (BC) Bidco S.p.A and is indirectly owned by Molecule (BC) Holdco S.p.A., which prepares consolidated financial statements. F.I.S.’ ultimate controlling party is the fund managed by Bain Capital.

F.I.S. holds 100% of the equity shares of F.I.S. North America Inc. and F.I.S. Japan KK. However, F.I.S. has not prepared consolidated financial statements due to the immaterial impact of these two subsidiaries on the Company’s balance sheet and profit and loss.

These financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union. The term “IFRS” also encompasses all the International Accounting Standards (“IAS”) and all interpretations published by the International Financial Reporting Interpretations Committee (“IFRIC”), the former Standing Interpretations Committee (“SIC”).

F.I.S. adopted IFRS on 1 January 2022. In this context, the accounting policies applied in these financial statements are consistent with those adopted in preparing the IFRS opening balance sheet at 1 January 2022, as well the financial statements at 31 December 2022, as restated in accordance with IFRS and presented in the Appendix attached to these notes to which reference should be made. Reconciliations between profit or loss and equity under previous GAAP (Italian GAAP) to profit or loss and equity under IFRS for the periods shown as comparatives, as required by IFRS 1 ‘First-time Adoption of IFRS’ together with related explanatory notes, are included in this Appendix.

The numbers included in the financial statements are presented in Euro (€), which is the currency of the primary economic environment in which the Company operates and are rounded to the nearest thousands of Euro (€’000).

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1.1 Name and registered office of the company that prepare consolidated financial statements of the largest and smallest group of companies which F.I.S. is part of

Name	Molecule (BC) HoldCo S.p.A.
City (if in Italy) or foreign country	Milan (Italy)
Tax code (for Italian companies)	12882870962
Place of filing of consolidated financial statements	Italy

1.2 Membership of a group

On 12 December 2023, Molecule (BC) Bidco S.p.A., a wholly owned subsidiary of Molecule (BC) Holdco S.p.A. obtained control of the Company through the acquisition of shares from Nine Trees Group S.p.A.. As at the issuance date of these financial statements, Molecule (BC) Bidco S.p.A. does not have a set of consolidated financial statements approved by its directors.

F.I.S. Fabbrica Italiana Sintetici S.p.A. is subject to management and coordination activities by the parent company Molecule (BC) HoldCo S.p.A., which, at the date of approval of these financial statements, has not yet prepared its first financial statements.

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2. Adoption of new and revised Standards

2.1 New and amended IFRS Accounting Standards that are effective for the current year

In the current year, the Company has applied a number of amendments to IFRS Accounting Standards issued by the IASB that are mandatorily effective for the accounting period that begins on or after 1 January 2023.

<p>IFRS 17 <i>Insurance Contracts</i> (including the June 2020 and December 2021 Amendments to IFRS 17)</p>	<p>The Company does not have any contracts that meet the definition of an insurance contract under IFRS 17.</p>
<p>Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IFRS Practice Statement 2 <i>Making Materiality Judgements—Disclosure of Accounting Policies</i></p>	<p>The Company has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'.</p>
<p>Amendments to IAS 12 <i>Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i></p>	<p>The Company has adopted the amendments to IAS 12 for the first time in the current year. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.</p>
<p>Amendments to IAS 12 <i>Income Taxes— International Tax Reform — Pillar Two Model Rules</i></p>	<p>The Company has adopted the amendments to IAS 12 for the first time in the current year. The IASB amends the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.</p>
<p>Amendments to IAS 8 <i>Accounting Polices, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates</i></p>	<p>The Company has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted.</p>

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2.2 New and revised IFRS Accounting Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective. The directors will apply the standards starting from their effective date, without early application:

Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>	<i>Effective from 1 January 2024</i>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants</i>	<i>Effective from 1 January 2024</i>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i>	<i>Effective from 1 January 2024</i>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>	<i>Effective from 1 January 2024</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except if indicated below.

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

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information.

To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- the terms and conditions of the arrangements;
- the carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements;
- the carrying amount, and associated line items for which the suppliers have already received payment from the finance providers;
- ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement; and
- liquidity risk information.

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. F.I.S. enters into supplier finance arrangements. The disclosure requirements will be taken into consideration whilst preparing 2024 financial statements.

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3. Accounting policies

3.1 Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS Standards) and they include the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the financial statements. The Company presents its statement of profit or loss and other comprehensive income using a classification method based on the function of expense, as it provides relevant information to its investors.

The Company reports current and non-current assets and liabilities as separate classifications in its financial statements. Current items are those expected to be realised within 12 months from the reporting date or to be sold or consumed in the normal operating cycle of the Company.

The Company presents the Statement of cash flows using the “indirect method”, as permitted by IAS 7 — *Statement of Cash Flows* (“IAS 7”), and presents cash flows by operating, investing and financing activities.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Further details on the accounting policies adopted are set out below.

3.2 Going concern

The Company made a loss for the year ended 31 December 2023 of €17.1 million (for the year ended 31 December 2022 a net profit of €8.6 million). The net cash flows generated from/ (used in) operating, investing and financing activities, for the year were €122 million, (€70.0) million and €0.2 million, respectively (€2.1 million, (€59.3) million and €50.6 million for year ended 31 December 2022). The Company’s ratio of current assets to current liabilities is 1.99:1 indicating a strong balance sheet position. In addition, the Company has €80 million of unused committed and €23 million of unused uncommitted lines of credit.

Considering the above factors, the directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

3.3 Goodwill

Goodwill on the balance sheet represents the excess of the sum of the consideration paid over the acquisition date amounts of the identifiable assets acquired and liabilities assumed from the Company’s business acquisitions in 2016 and 2017.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company’s cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested

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for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.4 Revenue recognition

The Company recognises revenue from the following material streams:

- Custom – Production and sale of custom synthesis, or the exclusive production of intermediates, advanced intermediates and main active ingredients for pharmaceutical companies that own the patents;
- Generic – Production and sale of generic active ingredients such as tranquilisers, anxiolytics, antibacterials, anticonvulsants, anti-inflammatories, diuretics, analgesics and cardiovascular drugs to pharma companies. This includes products which are not patented or where the patent period is complete;
- Vet – Production and sale of APIs for the veterinary market, be that for generic or custom products; and
- Research and development (R&D) – Provision of research and development activities to its customers.

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue from the sale of custom, generic and veterinary products at a point in time when it transfers control of a product or service to a customer which typically coincides with dispatch of products to the customer.

Revenue relating to the provision of R&D services is recognised over time corresponding to the service provided to the customer based on the hours incurred by R&D employees in provision of such services multiplied by the hourly rate agreed with each customer.

3.5 Leases

(i) The Company as a lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, other than short-term leases that have a lease term of 12 months or less, and leases of low-value assets with a purchase price under €5,000. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

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- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has used this practical expedient in relation to vehicles.

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3.6 Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

3.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.8 Government grants

F.I.S. receives government grants in relation to its investments in eligible assets, costs incurred for research and development activities as well as use of certain utilities, specifically to compensate the impacts of energy crisis in the recent years. Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable and they are presented net off the initial charges.

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3.9 Retirement and termination benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit plans are accounted for as payments to defined contribution plans where the Company's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans relate to the Italian employee service indemnity (TFR) and the integration provided to Lonigo employees. The amount of TFR to which each employee is entitled must be paid when the employee leaves the Company and is calculated based on the period of employment and the taxable earnings of each employee. Under certain conditions the entitlement may be partially advanced to an employee during their working life.

The legislation regarding this scheme was amended by Law 296 of 27 December 2006 and subsequent decrees and regulations issued in the first part of 2007. Under these amendments, companies with at least 50 employees are obliged to transfer the TFR to the "Treasury fund" managed by the Italian state-owned social security body (INPS) or to supplementary pension funds. Prior to the amendments, accruing TFR for employees of all Italian companies could be managed by the company itself. Consequently, the Italian companies' obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of defined contribution plans whereas the amounts recorded in the provision for employee severance pay retain the nature of defined benefit plans.

Accordingly, the provision for employee severance indemnity in Italy consists of the residual obligation for TFR until 31 December 2006. This is an unfunded defined benefit plan as the benefits have already been entirely earned, with the sole exception of future revaluations. Since 2007, the scheme has been classified as a defined contribution plan and F.I.S. recognises the associated cost over the period in which the employee renders service.

The integration provided to Lonigo employees relates to deferred payments that employees negotiated in the context of the acquisition of the plant. These payments are based on the length of service as of the acquisition date and are to be paid upon their retirement.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurements comprising actuarial gains and losses are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are not reclassified. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Company recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs arising from TFR are split into three categories:

- service costs, which includes past service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurements.

Net interest expense or income is recognised within finance costs (see note 22).

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

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3.10 Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Company in respect of services provided by employees up to the reporting date.

3.11 Taxation

The income tax expense represents the sum of current and deferred income tax expense.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated by applying:

- the ordinary IRES rate of 24% 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.

(ii) Deferred tax

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 equity are not recognised in the profit and loss statement but are initially recognised by reducing the related equity account.

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 or substantively 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.

3.12 Property, plant and equipment

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Property, plant and equipment are recognised at purchase or production cost, or where the asset was revalued under previous GAAP, at a cost equal to such previous revalued amount, 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. Items of property, plant and equipment revalued under previous GAAP include industrial buildings, plant for slightly corrosive processing and plant for corrosive processing.

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 which reflect the asset's estimated useful life.

Depreciation begins when the asset becomes 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, if unknown, 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 depreciation rates applied are as follows:

Asset category	Rate
Land and buildings	5.5% - 10.0%
Plants	10.0% - 17.5%
Vehicles and internal means of transport	20.0% - 25.0%
Furniture and equipment	12.0% - 40.0%

Assets with a unit value of less than €516 purchased during the year are directly expensed due to the immaterial nature of the asset.

Obsolete property, plant and equipment 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.

3.13 Intangible assets

Assets acquired separately

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Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives which are disclosed in note 13. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.14 Impairment of property, plant and equipment and intangible assets excluding goodwill

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication at the end of a reporting period that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the

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impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

3.15 Inventory

Inventory is initially recognised at purchase or production cost and subsequently measured at the lower of cost and net realisable value.

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

Cost for raw materials, semi-finished products and finished products is calculated using the FIFO (First In First Out) cost method.

Net realisable value represents the estimated selling price less all estimated costs of completion. Obsolescence and turnover are also taken into account in calculating the estimated realisable value based on market trends.

3.16 Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and on hand, time deposits with banks and short-term, highly liquid investments with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

3.17 Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets and liabilities

Financial assets primarily include trade receivables, derivative financial instruments, prepayments and accrued income, cash and cash equivalents.

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Financial liabilities primarily consist of debt, derivative financial instruments, accrued expenses and deferred income, trade payables and other liabilities.

Classification and measurement

The classification of a financial asset is dependent on the Company's business model for managing such financial assets and their contractual cash flows. The Company considers whether the contractual cash flows represent solely payments of principal and interest that are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets are classified and measured at fair value through profit or loss ("FVTPL"). Where the financial asset is held within a business model whose objective is both collecting contractual assets and selling the financial asset, and the cash flows are solely payments of principal and interest, the related financial assets are classified and measured at fair value through other comprehensive income ("FVOCI")

Financial asset cash flow business model	Initial measurement¹	Measurement category²
Solely to collect the contractual cash flows (Held to Collect)	Fair Value including transaction costs	Amortised Cost
Collect both the contractual cash flows and generate cash flows arising from the sale of assets (Held to Collect and Sell)	Fair Value including transaction costs	FVOCI
Generate cash flows primarily from the sale of assets (Held to Sell)	Fair Value	FVTPL

Factors considered by the Company in determining the business model in which financial assets are held include:

- past experience on how the cash flows for these assets were collected;
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and future sales activity expectations; and
- how the asset's performance is evaluated and reported to key the Company personnel.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Cash and cash equivalents include cash at banks and on hand. Cash and cash equivalents are subject to an insignificant risk of changes in value and are measured at amortised cost.

Impairment of financial assets

The Company's credit risk is related to trade receivables arising from the sale of products, for which the Company is mostly exposed to the direct risk of counterparty default. These risks are mitigated by the fact that collection exposure is spread across a large number of counterparties.

¹ A trade receivable without a significant financing component, as defined by IFRS 15, is initially measured at the transaction price.

² On initial recognition, the Company may irrevocably designate a financial asset at FVTPL that otherwise meets the requirements to be measured at amortised cost or at FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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The IFRS 9 impairment requirements are based on a forward-looking expected credit loss (“ECL”) model. ECL is a probability-weighted estimate of the present value of cash shortfalls. The Company applies the simplified impairment model to its trade receivables as set out in IFRS 9. Impairment losses on financial assets are recognised in profit and loss.

The simplified approach for determining the lifetime ECL allowance involves a process where all trade receivables that are in default are individually assessed for impairment and provided for.

Derecognition of financial assets

The Company derecognises financial assets when the contractual rights to the cash flows arising from the asset are no longer held or if it transfers substantially all the risks and rewards of ownership of the financial asset to another entity. On derecognition of financial assets, the difference between the carrying amount of the asset and the consideration received or receivable for the transfer of the asset is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company’s own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

Compound instruments

The component parts of convertible loan notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the parent company’s own equity instruments is an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument’s maturity date. The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised. Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognised in equity will be transferred to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Company, are measured in accordance with the specific accounting policies set out below.

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Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if either:

- It has been acquired principally for the purpose of repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'Other gains and losses' line item in profit or loss.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within 'Other gains and losses'.

Derivative financial instruments

The Company may enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss

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immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Company has both a legally enforceable right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

3.18 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

3.19 Other operating expenses / non-underlying items

Other operating expenses (including non-underlying charges) are those which in the opinion of management, should be disclosed separately on the basis that they are material, either by their nature or their size and significantly distort the comparability of financial performance between periods. Therefore, they are presented separately from other key balances in the income statement. The classification of these items requires management judgement with regards to the nature and intentions of a transaction.

Items of income or expense that are considered by management for designation as [non-underlying items] include such items as significant restructuring costs, expenses incurred in relation to one-off transformation projects, write-downs or impairments of assets including unusual inventory obsolescence, costs or bonuses relating to business acquisitions or divestitures and gains or losses on disposals of businesses or investments.

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4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of revenue, costs, assets and liabilities and the related disclosures. Estimates and judgements are continually evaluated and are based on historical experience and expectations of future events that are considered reasonable in the circumstances. Actual results may differ from those estimated. The judgements made by management may or may not also require the use of assumptions and other sources of estimation uncertainty. All judgements that management consider have the most significant effect on the financial statements are discussed below.

Critical accounting judgements

Reverse factoring

Trade payables include liabilities that are assigned to financial institutions as part of direct or reverse factoring by the supplier. These transactions may occur with or without notification to the Company. The Company considers these liabilities to have the characteristics of trade payables when their characteristics have not been substantially modified. This includes maintaining their contractual terms, including debt maturity.

However, if there has been a substantial modification, such as an extension of debt maturity, the related liabilities are not considered to meet the definition of trade and other payables and are instead presented as financial liabilities. The Company can control the extension of debt maturity until the expiration of the original terms. Therefore, the liabilities presented as financial liabilities only include transactions for which the original terms have already expired as of the reporting date and an extension of debt maturity has been requested by the Company.

Research and development expenses

The Company recognises internally generated intangible assets arising from the development of production processes for generic API. The amount recognised on the balance sheet for internally generated intangible assets is the sum of the expenditure incurred, mainly consisting of the payroll expenses of the staff working on the development project. The Company applies judgement in determining the point in time when the intangible asset first meets the recognition criteria required under IFRS.

Treatment of convertible bonds

In 2019, the Company issued a convertible bond which includes a protective condition that can be triggered by the bondholders. The condition intends to safeguard the convertible debt holders from adverse movements in the share value. Directors are of the opinion that the condition does not result in a transfer of value (in relative terms) from ordinary shareholders to convertible debt holders. Therefore, the convertible bond has been accounted for as a compound instrument where a liability and equity components are recognised separately.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Inventory obsolescence

Impairment allowances are raised against inventory when the amount realisable from the sale of such inventory is considered to be less than its carrying amount. The methodology used to calculate the provision for inventory

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For the year ended 31 December 2023

(in Euro '000s)

obsolescence takes into account turnover, ageing of stock, quality issues, possibility of reuse/sale, and the market trend.

In the current year, in the context of Bain Capital's acquisition of F.I.S., management undertook a comprehensive inventory measurement and recoverability review of unsellable, slow-moving, and obsolete stock involving all of the relevant departments (manufacturing, finance, planning, and procurement). This cross-functional process enabled management to identify additional information on unsellable, slow-moving, and obsolete stock which have a production date spanning over 7 years from 2016 to 2023. Consequently, the outcome of the review resulted in a provision of €29.9 million in the current year financial statements. Management considers that the provision recognised is based on a prudent approach and does not expect any future losses of this magnitude.

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(in Euro '000s)

5. Revenue

The Company derives its revenues from contracts with customers for the transfer of goods and services.

€'000	31 December 2023	31 December 2022
Revenue from sale of products	701,110	650,894
Research and development services	19,305	15,690
<i>Revenue from operations</i>	<u>720,415</u>	<u>666,583</u>
Other revenue	23,587	14,956
Total	744,002	681,540

Details of the Company's trade receivables and amounts to be billed to customers are disclosed in Note 19.

The Company has applied the practical expedient set out in IFRS 15 in respect of presentation of the transaction price allocated to partially or fully unsatisfied contracts with customers where the contract period is for a year or less, or where the right to consideration corresponds directly to the performance completed to date. As at 31 December 2023 and 2022, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied on fixed price contracts with a duration of greater than one year was not material.

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6. Segment information

Management has identified a single operating segment, in line with the management and control model used. In particular, the articulation of the information corresponds to the reporting structure periodically analysed by the Board of Directors for the purposes of business management. As required by IFRS 8, although there is only one operating segment, information on the geographical distribution of revenue are provided below.

The table below shows the Company's revenue mainly from the sale of products and the provision of R&D services disaggregated by principal geography:

€'000	31 December 2023	31 December 2022
Italy	75,690	81,390
EU Countries	412,323	381,890
North America	112,424	118,646
South America	10,773	6,881
Asia	127,279	91,350
Other countries	5,513	1,383
Total	744,002	681,540

The following tables summarise non-current assets (other than financial instruments and deferred tax assets) by geography.

€'000	31 December 2023	31 December 2022
Italy	381,862	366,902
North America	1,945	1,945
Asia	90	89
Total	383,897	368,936

Information about major customers

Revenues arising from sales of products to the Company's largest customer amount to €123 million (€146 million in 2022). The two largest customers of the company have respectively contributed 17.6% and 14.1% to the Company's revenue from sale of products in 2023 (22.5% and 12.5% in 2022).

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(in Euro '000s)

7. Cost of sales, Marketing and Selling, Administrative and Research and Development expenses

€'000	Note	31 December 2023	31 December 2022
Cost of sales		649,987	608,867
Marketing and selling expenses	7.1	9,716	9,528
Administration expenses	7.2	34,895	26,629
Research and development expenses	7.3	3,090	1,746
		697,688	646,770
7.1 Marketing and selling expenses			
Employee expenses		2,912	2,867
Depreciation and amortisation		29	12
Other marketing expenses		6,776	6,650
		9,716	9,528
7.2 Administration expenses			
Employee expenses		13,939	11,238
Depreciation and amortisation		1,724	1,708
Maintenance, Insurance and consultancy expenses		7,004	5,776
Other miscellaneous expense		12,227	7,907
		34,895	26,629
7.3 Research and development expenses			
Employee expenses		2,576	1,328
Depreciation and amortisation		212	-
Other miscellaneous expenses		302	418
		3,090	1,746

Employee expenses, depreciation and amortisation included in profit or loss, are the following:

€'000	31 December 2023	31 December 2022
Employee expenses	147,644	128,715
Depreciation and amortisation	60,930	63,258

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8. Employee costs

The average number of employees for the years ending 31 December 2023 and 2022, on a full-time equivalent basis, were:

Number	31 December 2023	31 December 2022
Managers	37	31
Middle managers	216	207
White collar employees	712	708
Blue collar employees	965	966
Total	1,930	1,912

Employee costs incurred during the year were:

€'000	31 December 2023	31 December 2022
Wages and salaries	102,317	89,623
Social security costs	30,952	28,637
Other pension costs	6,340	6,366
Other costs	8,035	4,089
Total	147,644	128,715

9. Other operating income

€'000	31 December 2023	31 December 2022
Other operating income		
Tax credits on investments	1,359	1,256
Other miscellaneous income	113	292
Total	1,472	1,548

10. Other operating expenses (including non-underlying charges)

Other operating expenses includes the following exceptional items.

€'000	31 December 2023	31 December 2022
Inventory write-downs ¹	29,982	-
Transaction related expenses	10,571	-
Transformation costs ²	1,013	-
Other expenses	2,756	5,506
Total	44,322	5,506

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¹ During the year the Company incurred €44.3 million of non-recurring expenses (€5.5 million in 2022), of which €29.9 million are non-cash items (2022: nil). Non-recurring items in 2023 mainly include a one-off write-down of obsolete inventory of €29.9 million. At the time of the acquisition of the Company by Bain Capital, management conducted a comprehensive inventory measurement and recoverability review involving all of the relevant departments (manufacturing, finance, planning, and procurement). This cross-functional process enabled management to identify additional information on unsellable, slow-moving, and obsolete stock which have a production date mainly from 2016 to 2023. Consequently, the outcome of the review resulted in a non-cash impairment charge of €29.9 million in the current year financial statements. Management considers that the approach used was prudent and does not expect any future losses of this magnitude.

² On 17 May 2023, the company sold a portion of a building and land at the Lonigo site to its former sister company, Brenta S.r.l. (which was used as an office by the same company), for a total value of €0.5 million. This sale resulted in a loss of €1.0 million (2022: Nil).

The other expenses of a non-recurring nature include transaction related fees and bonuses of €10.5 million (2022: nil) as well as other one-off items including disposal costs and restructuring costs of €2.8 million (2022: €5.5 million).

11. Finance costs

€'000	31 December 2023	31 December 2022
Finance costs:		
Interest on borrowings ¹	27,038	24,274
Interest on lease liabilities (note 23)	130	105
Interest on factoring	4,842	2,314
Penalty on early repayment of loans	-	5,758
Interest on retirement benefit obligations	165	14
Other finance cost	1,148	314
Total finance costs	33,324	32,779

¹ Interest on borrowings represents interest on financial liabilities held at amortised cost.

12. Income tax

The taxation benefit which arises in the Company comprises:

€'000	31 December 2023	31 December 2022
Current tax		
Adjustment in respect of prior periods	(27)	18
Income taxes for the year	(567)	(1,231)
Other current tax	54	-
Deferred tax		
Current year movement	12,864	(2,184)
Income from the tax consolidation scheme	267	11,118
Total Income tax	12,591	7,721

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(in Euro '000s)

The income taxes for the year can be reconciled to the profit before tax as follows:

€'000	Year ended 31 December 2023		Year ended 31 December 2022	
	Taxable income	Tax	Taxable income	Tax
Profit before tax	(29,753)	-	355	85
IAS/IFRS transition entries	-	-	(6,994)	(1,679)
Theoretical taxable income and tax charges for the year ⁽¹⁾	(29,753)	-	(6,639)	-
Tax effect of expenses that are not deductible in determining taxable profit	7,337	1,761	2,383	572
Tax effect of income not taxable in determining taxable profit	(31,501)	(7,560)	(37,616)	(9,028)
Changes in temporary differences	32,290	7,749	(3,383)	(812)
Change in unrecognised deferred tax assets	(469)	(113)	-	-
Effective taxable income and tax charges for the year ⁽¹⁾	(22,096)	-	(45,256)	-
IRAP	-	567	-	1,231
Other current taxes	-	(54)	-	-
Adjustment in respect of prior periods	-	27	-	(18)
Deferred tax charge/(credit) to profit or loss	-	(12,864)	-	2,184
Income from the tax consolidation scheme	-	(267)	-	(11,118)
Total Income tax	-	(12,591)	-	(7,721)

(1) Corporation tax (IRES) at the Italy rate of 24% (2022: 24%). In case of a negative tax base, no tax is due.

The impact deriving from the Italian regional production tax (IRAP) rate and other taxes was determined separately as these taxes are not calculated on the basis of the profit before tax.

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13. Intangible assets

€'000	Goodwill	Patents and trademarks	Concessions, licenses, trademarks and similar rights	Other assets	Assets under development	Total
Cost						
At 1 January 2022	35,113	20,618	11,104	1,294	6,946	75,075
Additions	-	686	728	-	2,028	3,442
Transfers from assets under development	-	-	4,015	-	(4,015)	-
At 31 December 2022	35,113	21,304	15,847	1,294	4,959	78,517
Additions	-	398	626	-	3,156	4,180
Disposals	-	(1)	-	-	(86)	(87)
Reclassifications	-	-	1,290	-	(1,290)	-
At 31 December 2023	35,113	21,701	17,763	1,294	6,739	82,610
Amortisation and Impairment						
At 1 January 2022	(20,301)	(14,054)	(9,843)	(1,213)	-	(45,411)
Amortisation charge for the year	-	(1,383)	(1,504)	(81)	-	(2,968)
Disposals	-	-	-	-	-	-
At 31 December 2022	(20,301)	(15,437)	(11,347)	(1,294)	-	(48,379)
Amortisation charge for the year	-	(1,567)	(1,367)	-	-	(2,934)
Impairment charge for the year	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2023	(20,301)	(17,004)	(12,714)	(1,294)	-	(51,313)
Carrying value						
At 31 December 2023	14,812	4,697	5,049	-	6,739	31,297
At 31 December 2022	14,812	5,867	4,500	-	4,959	30,138

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Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (“CGUs”) that are expected to realise economic benefits from the business combination. Management has determined that the Company has a single CGU. The recoverable amount of this CGU as of 31 December 2023, is determined based on its fair value. Fair value is defined as the price that would be received to sell the CGU in an orderly transaction between market participants as of the measurement date. Considering that F.I.S. underwent a change in control on 12 December 2023, and that the purchase price paid by the acquirer was substantially higher than the CGU's carrying amount, Management has concluded that the CGU's fair value is higher than the carrying amount. Therefore, no impairment loss needs has been recognised.

Intangible assets (patent rights, intellectual property rights, concessions, licences and trademarks, know-how) are amortised over the shorter of their legal or contractual duration and their remaining useful life. The estimated useful life of trademarks does not exceed 20 years, while the costs of licences for the use of software are amortised on a straight-line basis over 3 years. Concessions, licences, trademarks and similar rights, amounting to €5 million at 31 December 2023 (2022: €4.5 million), include the cost of programme licences, amortised systematically over three years. It should be noted that the “Warehouse Management System” project was completed during 2022, whereby the Company equipped itself with an automated system for the physical management of stock. The capitalised value is equal to €4.5 million and, unlike other software, is amortised over 10 years.

14. Property, plant, and equipment

€'000	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2022	173,060	632,948	13,380	64,485	45,400	929,273
Additions	1,594	10,315	666	1,374	40,087	54,036
Transfers	2,732	25,003	-	732	(28,467)	-
Disposals	-	-	(27)	(741)	-	(768)
At 31 December 2022	177,386	668,266	14,019	65,850	57,020	982,541
Additions	60	348	462	1,766	63,690	66,326
Transfers	8,780	36,849	147	1,822	(47,599)	-
Disposals	(825)	(1,200)	(1)	(1)	-	(2,028)
At 31 December 2023	185,401	704,263	14,628	69,437	73,111	1,046,840
Accumulated Depreciation						
At 1 January 2022	(67,579)	(462,078)	(12,866)	(54,249)	-	(596,772)
Depreciation charge	(7,031)	(46,870)	(460)	(4,307)	-	(58,668)
Impairment charge	-	-	-	-	-	-
Disposals	-	-	27	678	-	705
At 31 December 2022	(74,610)	(508,949)	(13,299)	(57,878)	-	(654,735)
Depreciation charge	(7,408)	(44,612)	(553)	(3,506)	-	(56,080)
Disposals	-	526	1	1	-	528
At 31 December 2023	(82,018)	(553,035)	(13,852)	(61,383)	-	(710,288)
Net book value						
At 31 December 2023	103,383	151,228	776	8,054	73,111	336,553

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For the year ended 31 December 2023

(in Euro '000s)

At 31 December 2022	102,776	159,318	720	7,972	57,020	327,806
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Land and buildings, amounting to €103.4 million at 31 December 2023 (€102.8 million at 31 December 2022), comprise all industrial and office buildings at Lonigo and Termoli, as well as the headquarters at Montecchio Maggiore.

As at 31 December 2023 and 2022, assets under construction mainly related to the costs of leasehold improvements at a number of production sites.

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

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

15. Right-of-use assets

€'000	Buildings	Vehicles	Equipment	Total
Cost				
At 1 January 2022	349	766	4,192	5,307
Additions	158	360	904	1,421
Re-measurements	-	-	-	-
Disposals	-	-	-	-
At 31 December 2022	507	1,125	5,097	6,729
Additions	86	970	586	1,643
Re-measurements	-	-	-	-
Disposals	-	-	-	-
At 31 December 2023	593	2,095	5,683	8,371
Depreciation and impairment				
At 1 January 2022	-	-	-	-
Depreciation charge	(129)	(346)	(1,147)	(1,622)
Impairment charge	-	-	-	-
Disposals	-	-	-	-
At 31 December 2022	(129)	(346)	(1,147)	(1,622)
Depreciation charge	(185)	(455)	(1,276)	(1,916)
Disposals	-	-	-	-
At 31 December 2023	(314)	(801)	(2,423)	(3,538)
Net book value				
At 31 December 2023	279	1,294	3,259	4,833
At 31 December 2022	378	779	3,949	5,107

The Company leases several assets including buildings, vehicles and equipment. At 31 December 2023, the weighted average remaining lease term is 3.6 years (2022: 4.0 years). Such lease arrangements typically include extension and termination options which are exercised in line with business requirements. The maturity analysis (contractual undiscounted lease payments) of lease liabilities is presented in note 23.

Amounts recognised in the statement of profit or loss consist of:

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For the year ended 31 December 2023

(in Euro '000s)

€'000	31 December 2023	31 December 2022
Depreciation of right-of-use assets	1,916	1,622
Interest on lease liabilities	130	105
Foreign exchange (gains)/losses	(4)	-
Costs relating to short-term leases ¹	295	253
Costs relating to low-value asset leases ¹	1	1

¹ These amounts are included in 'Cost of Sales' in the statement of profit or loss.

The total cash outflow for leases consists of fixed payments of €2.0 million in 2023 (€1.7 million in 2022).

16. Other investments

The Company's other investments as at 31 December 2023 are listed below:

Legal entity	Country of incorporation	Percentage owned by the Company	Principal activity	Carrying amount of investment		
				31 December 2023 €'000	31 December 2022 €'000	1 January 2022 €'000
F.I.S. North America Inc.	United States – New Jersey	100%	Agent for North America region	1,945	1,945	-
F.I.S. Japan KK	Japan	100%	Agent for Asia region	40	40	40
Total				1,985	1,985	40

The Company also has minority investments in a number of entities. The total value of the investment in associates amount to €4,000 (€4,000) as at 31 December 2023.

17. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting period.

€'000	31 December 2023	31 December 2022	1 January 2022
Write-down of inventory	11,479	4,283	4,802
Provision for charges/contingencies	404	-	-
Goodwill	1,429	1,973	2,517
Depreciation of buildings	331	340	340
Unrealised exchange rate losses	773	444	261
Derivative financial liabilities	-	-	340
Tax losses	29,685	-	-
Lease liabilities	986	1,437	1,481

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€'000	31 December 2023	31 December 2022	1 January 2022
Retirement benefit obligations	118	93	224
Intangible assets - Start-up and capital costs	125	175	110
Loans and borrowings	173	214	-
Other	-	-	3
Total deferred tax assets	45,502	8,960	10,079
Unrealised exchange rate gains	(730)	(482)	(20)
Accelerated amortisation and depreciation	(97)	(102)	(114)
Bad debts	-	(72)	(72)
Fair value losses on derivatives	-	-	(233)
Right-of-use assets	(978)	(1,425)	(1,481)
Retirement benefit obligations	(187)	(168)	-
Intangible assets - Development expenses	(118)	(178)	-
Derivative financial assets	(464)	(464)	-
Convertible loan notes	-	(369)	-
Total deferred tax liabilities	(2,574)	(3,260)	(1,920)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

€'000	31 December 2023	31 December 2022	1 January 2022
Deferred tax liabilities	(2,574)	(3,260)	(1,920)
Deferred tax assets	45,502	8,960	10,079
Total	42,928	5,700	8,159
Change year over year	37,228	(2,459)	<i>n/a</i>
<i>Of which:</i>			
Charge/(credit) to profit or loss	12,864	(2,184)	<i>n/a</i>
Charge to other comprehensive income	(19)	(168)	<i>n/a</i>
Charge direct to equity	-	(107)	<i>n/a</i>
Reclassifications	24,382	-	<i>n/a</i>

In 2022, the Company participated in a domestic tax consolidation scheme with its former prior parent. During 2023, the Company terminated the tax consolidation scheme and therefore recognised in deferred tax assets €24,382 thousand of accumulated tax losses from prior years, which were previously included in trade receivables from the prior parent company.

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(in Euro '000s)

18. Inventories

€'000	31 December 2023	31 December 2022	1 January 2022
Raw materials, consumables, and supplies	144,288	125,434	127,900
Work in progress and semi-finished products	126,528	133,287	102,313
Finished goods	78,122	91,391	56,247
Prepayments	99	10,217	9,121
Total	349,037	360,329	295,581

Prepayments mainly relate to the advances paid to suppliers for future supplies of raw materials and finished goods.

The cost of inventories recognised as an expense during the year in respect of continuing operations was €646.6 million (2022: €605.3 million). The cost of inventories recognised as an expense includes €36.1 million (2022: €0.4 million) in respect of write downs of inventory to net realisable value and has been reduced by €6.1 million (2022: €2.5 million) in respect of the reversal of such write-downs. Previous write-downs have been reversed as a result of increased sales prices in certain markets.

19. Trade and other receivables

€'000	31 December 2023	31 December 2022	1 January 2022
Current			
Trade receivables	124,433	121,942	105,666
Prepayments and accrued income	2,378	6,794	11,223
Other receivables	2,021	4,160	1,178
Receivable from related parties	-	34,699	23,782
Loans to employees	455	2,597	3,275
Tax credits and tax related receivables	4,954	9,547	398
VAT receivables	3,101	2,358	3,536
Total	137,342	182,097	149,057
Non-current			
Tax credits and tax related receivables	6,992	1,244	4,082
Prepayments and accrued income	530	517	7
Other receivables	1,703	2,134	392
Total	9,225	3,895	4,482

The carrying amount of the financial assets in the table above approximates their fair value given their short-term nature.

Notes to the financial statements

For the year ended 31 December 2023

(in Euro '000s)

Trade receivables

The average credit period on sales of goods is 60 days. No interest is charged on outstanding trade receivables.

Ageing of trade receivables are as follows:

€'000	31 December 2023	31 December 2022	1 January 2022
Not overdue / overdue within 30 days	120,835	115,498	98,826
31-60 days	1,244	4,948	6,091
61-120 days	110	1,354	1
More than 120 days	2,243	141	747
	124,433	121,942	105,666

The Company writes off a trade receivable when there is information indicating that the debtor is in financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. In the current year, the Company recognised a loss allowance expense of €0.2 million.

As part of the normal course of business the Company enters into arrangements for factoring of receivables. All of the factoring arrangements entered were without recourse.

20. Borrowings

The borrowings of the Company can be analysed as follows:

€'000	31 December 2023	31 December 2022	1 January 2022
Unsecured borrowings at amortised cost			
Bank loans	-	17,148	199,329
Bonds	-	-	99,917
Other borrowings	8,651	17,206	23,314
Secured borrowings at amortised cost			
Bank loans	37	40,162	-
Bonds	399,235	349,146	-
Total	407,922	423,662	332,560
Current	17,123	82,719	110,842
Non-current	390,799	340,943	211,718
Total	407,922	423,662	322,560

The principal features of the Company's secured bonds are as follows:

- the issuance on 10th February 2022 of the sustainability-linked senior secured loan with a nominal value of €350 million (the "**2022 Bond**"), which was taken out by major international institutional investors, is measured at

Notes to the financial statements

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amortised cost. Maturity is on 1 August 2027. The 2022 Bond accrues interest at fixed rate amounting to 5.625%, and payments are made semi-annually in arrears.

- the issuance on 12th December 2023 of institutional, privately placed, Sustainability-Linked Senior Secured Floating Rate Notes with an aggregate principal amount of €50 million, due August 2027 (the “**New Notes**”). The New Notes were issued by the Company pursuant to the indenture of the 2022 Bond mentioned above. The New Notes are valued at amortised cost, and it accrues interest at variable rate amounting to Euribor 3m + 5.5%.

On 10th February 2022, F.I.S. entered into a €50 million revolving credit facility (RCF) agreement. On 12 December 2023, the total commitment of the RCF was increased by €30 million, from €50 million to €80 million.

The cost of the revolving credit facility is equal to EURIBOR + variable spread depending on the NFP/EBITDA ratio. In case of the use of more than 40% of the total value of the RCF (i.e., €32 million), a springing covenant is applied. As at the issuance date of these financial statements no covenants were breached.

Bank loans as at 31 December 2023 mainly relate to the remaining interest accrued on the revolving credit facility (following settlement of the principal). Bank loans as at 31 December 2022 mainly relate to (i) €40 million of principal amount of the revolving credit facility, (ii) €9 million of principal amount of the short-term loan with Banca delle Terre Venete, (iii) €8 million of advance cash accounts with Banca IFIS, and (iv) €0.3 million of other loans and borrowings and accrued interest.

Other borrowings relate to the assignment of (i) receivables to factors which the Company collects directly and transfers to the factors, and (ii) payables to factors for which F.I.S. receives a postponement in the due date (reverse-factor), therefore an implicit financing component is recognised.

As part of the normal course of business the Company enters into arrangements for factoring of receivables. As at 31 December 2023 the total value of trade receivables assigned to factoring companies was €40.6 million (2022: €46.1 million). All of the factoring arrangements entered were without recourse.

The following table shows the detail of the changes in Borrowings:

€'000	For the year ended 31 December 2023	For the year ended 31 December 2022
Balance as of January 1	423,662	322,560
Financing cash flows		
+ Proceeds	48,046	363,467
- Repayments	(57,065)	(265,804)
+/- Change in other borrowings	(8,555)	(6,109)
Other movements		
+/- Net interest accrued (paid)	1,834	8,513
+/- Other ¹	-	1,034
+/- Foreign currency exchange	-	-
Balance as of December 31	407,922	423,662

¹ Other in 2022 refers to the initial recognition of the embedded derivative in relation to the 2022 Bond.

21. Convertible loan notes

In 2019, the Company issued 5,310 convertible bonds with a nominal amount of €53.1 million, paying 2% interest rate paid semi-annually (originally redeemable in 2024, extended to 2027 during 2022). Starting from the 2022 amendment, interest is due on the maturity date. On the maturity date or in the event of early conversion, the increase in share

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(in Euro '000s)

capital will be €10 for each bond converted up to a maximum of €53,100. Following the acquisition of F.I.S. by Bain Capital, the convertible loan note is now fully owned by the controlling shareholder of the Company.

The net proceeds received from the issue of the convertible loan notes have been split between a financial liability element and an equity component.

The equity component of €1.9 million has been credited to a non-distributable reserve under shareholders' equity.

The interest expense for the year is calculated by applying an effective interest rate to the liability component which is measured at amortised cost (2.88% at 31 December 2023).

Current and non-current split of unsecured convertible loan notes carried at amortised cost is as follows:

€'000	31 December 2023	31 December 2022	1 January 2022
Current	-	-	445
Non-current	51,594	51,213	51,925
Total	51,594	51,213	52,370

The following table shows the detail of the changes in Convertible loan notes:

€'000	For the year ended 31 December 2023	For the year ended 31 December 2022
Balance as of January 1	51,213	52,370
Financing cash flows		
+ Proceeds	-	-
- Repayments	-	-
Other movements		
+/- Net interest accrued (paid)	381	347
+/- Other ¹	-	(1,504)
+/- Foreign currency exchange	-	-
Balance as of December 31	51,594	51,213

¹ Other in 2022 refers to the recognition of the extension of the due date from 2024 to 2027 and the change in interest payments, from semi-annually to at maturity.

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22. Retirement benefit obligation

TFR

The Italian post-employment benefits (“TFR”) is considered a defined benefit plan and is measured in accordance with the “Projected Unit Credit Method”.

The liability recognised for TFR refers exclusively to the post-employment benefit earned by employees up to 31 December 2006 which, following the introduction of Law 296 of 27 December 2006, continues to constitute an obligation of the company. Since 2007 the scheme has been classified as a defined contribution plan and the Company recognises the associated cost over the period in which the employee renders service. Consequently, the measurement of the defined benefit liability (for the residual amount of TFR accrued until 31 December 2006) does not take into consideration service costs components and does not include future salary increase as part of the actuarial assumptions.

Additionally, there is an integration provided to Lonigo employees related to deferred payments that employees negotiated in the context of the acquisition of the plant. These payments are based on the length of service as of the acquisition date and are to be paid upon their retirement.

TFR - Defined Contribution Scheme

The total expense recognised in profit or loss of €6.2 million (2022: €5.9 million) represents contributions payable to these plans by the Company at rates specified in the rules of the plans. As at 31 December 2023, there are no contributions due in respect of the current reporting period which had not been paid over to the plans.

TFR - Defined Benefit Scheme

Amounts recognised in the statement of profit or loss in respect of the TFR defined benefit scheme are as follows:

€'000	31 December 2023	31 December 2022
Contributions to defined contribution schemes included in:		
Employee costs ¹	6,263	5,930
Total	6,263	5,930

¹ Employee costs are recorded in cost of sales, marketing and selling, administrative or R&D expenses depending on the function of the personnel.

TFR - Defined benefit scheme risks

The defined benefit scheme exposes the Company to risks such as interest rate risk and longevity risk.

Interest rate risk

The present value of the scheme's liability is calculated using a discount rate determined by reference to high quality corporate bond yields. A decrease in the bond interest rate will increase the scheme's liability.

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Longevity risk

The present value of the scheme's liability is calculated by reference to the best estimate of the mortality of the scheme's participants during their employment. An increase in the life expectancy of the scheme's participants will increase the scheme's liability.

Scheme obligations

Amounts recognised in the statement of financial position in respect of the TFR defined benefit scheme are as follows:

€'000	31 December 2023	31 December 2022	1 January 2022
TFR	4,340	4,520	5,545
Integration provided to Lonigo employees	319	346	481
Total	4,659	4,866	6,026

The changes in defined benefit obligations were as follows:

€'000	31 December 2023			31 December 2022		
	TFR	Integration provided to Lonigo employees	Total	TFR	Integration provided to Lonigo employees	Total
Present value of defined benefit obligations at 1 January	4,520	346	4,866	5,545	482	6,027
Current service cost	0	0	0	0	0	0
Interest cost	154	11	165	13	1	14
Re-measurement (gains)/losses:			0			0
Changes in demographic assumptions	0	0	0	0	0	0
Changes in financial assumptions	76	4	80	(958)	(88)	(1,046)
Experience adjustments on defined benefit obligations	(150)	(7)	(157)	347	(1)	346
Past service cost (including curtailments)	0	0	0	0	0	0
Benefits paid	(260)	(35)	(295)	(426)	(48)	(474)
Present value of defined benefit obligation at 31 December	4,340	319	4,659	4,520	346	4,866

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(in Euro '000s)

Maturity profile of the defined benefit obligation

The average duration of the scheme at the end of the reporting period is as follows.

€'000	31 December 2023		31 December 2022	
	TFR	Integration provided to Lonigo employees	TFR	Integration provided to Lonigo employees
Duration	6.68	7.00	7.66	6.68

Assumptions

The principal assumptions used for the purposes of the key scheme's actuarial valuations are as follows:

Percentage	31 December 2023	31 December 2022	1 January 2022
Discount rate (EUR CORPORATE AA+)	3.2% (TFR) 3.3% (Integration provided to Lonigo employees)	3.5%	0.24%
Inflation (IPCA)	2023: 5.6% 2024: 2.3% 2025 onwards: 2.0%	2022: 6.6% 2023: 4.5% 2024: 2.3% 2025 onwards: 2.0%	2021: 1.6% 2022: 1.5% 2023: 1.3% 2024 onwards: 1.5%
Turnover rate	5%	5%	5%
Probability of advance payment	1%	1%	1%

Sensitivity analysis for each significant actuarial assumption

The analysis below shows the sensitivity of the scheme's defined benefit obligation to reasonably possible changes in discount rate, inflation rate and life expectancy assumptions occurring at the statement of financial position date, while holding all other assumptions constant.

Assumptions	Change in Assumption	Italian post-employment benefits €'000 (Decrease)/increase	Integration provided to Lonigo employees €'000 (Decrease)/increase
Discount rate	Increase by 0.5%	4,203	310
	Decrease by 0.5%	4,484	329
Inflation rate	Increase by 0.5%	4,429	319
	Decrease by 0.5%	4,253	319
Turn Over	Increase by 0.5%	4,366	330
	Decrease by 0.5%	4,308	305

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23. Lease liabilities

Maturity analysis of contractual undiscounted cash flows is as follows:

€'000	31 December 2023	31 December 2022	1 January 2022
Less than one year	1,808	1,702	1,576
One to five years	3,297	3,348	3,387
More than five years	42	327	612
Total	5,147	5,377	5,575

The Company does not face a significant liquidity risk with regards to its lease liabilities. Refer to note 27 for the impact of liquidity risk on the Company.

Lease liabilities included in the Statement of Financial Position

€'000	31 December 2023	31 December 2022	1 January 2022
Current	1,698	1,614	1,481
Non-current	3,180	3,536	3,827
Total	4,878	5,150	5,308

Amounts recognised in the profit or loss

€'000	31 December 2023	31 December 2022
Interest on lease liabilities	130	105
Foreign exchange (gains) and losses	(4)	-
Expense relating to short term leases	295	253
Costs relating to low-value asset leases ¹	1	1
Total	422	359

¹ These amounts are included in 'Cost of Sales' in the statement of profit or loss.

Amounts recognised in the statement of cash flows

€'000	31 December 2023	31 December 2022
Cash outflow for lease payments made	2,041	1,683
Total	2,041	1,683

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24. Trade and other payables

€'000	31 December 2023	31 December 2022	1 January 2022
Current			
Trade payables	152,590	166,822	158,345
Other taxation and social security	14,508	15,425	13,892
VAT payables	104	57	163
Other payables	2,019	1,079	1,141
Accruals and deferred income	12,699	9,742	7,036
Payable to employees	20,253	18,970	21,583
Payable to related parties (Note 29)	995	14,415	8,138
Total	203,168	226,510	210,298
Non-current			
Other taxation and social security	-	393	513
Payable to related parties (Note 29)	-	-	33,956
Other payables	239	-	-
Total	239	393	34,469

The carrying amount of the financial liabilities in the table above approximates their fair value.

25. Contract liabilities

Contract liabilities include advances and security deposits received from customers.

€'000	31 December 2023	31 December 2022	1 January 2022
Contract liabilities	-	-	33,956
Amounts received in advance and security deposits	82,599	31,089	25,052
Total	82,599	31,089	25,052

26. Equity

Authorised share capital

The company's share capital is €10,000,000.00, divided into 2,000,000 Ordinary Shares without par value. The articles of association allow for the issuance of category A, B, C, or D shares with different rights. No category A, B, C or D shares are currently outstanding.

In addition, the extraordinary shareholders' meeting on June 27, 2019, approved the issuance of a bond convertible into company shares and an increase in the share capital. The company will issue A, B, C, or Ordinary shares for a maximum nominal amount of €53,100 as necessary to satisfy the Exchange Ratio indicated in the Bond Regulation.

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Issued share capital

€'000	
Issued and fully paid up:	
At 1 January 2022 and 1 January 2023 - 2 million ordinary shares of €5 each	10,000
Issued during the year	-
At 31 December 2023 - 2 million ordinary shares of €5 each	10,000

Revaluation Reserve

This reserve remained unchanged from 31 December 2022.

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

Other Reserves

	2023	2022	2021
Legal reserve	2,395	2,395	2,395
Equity component for convertible bonds	1,969	1,969	1,969
Reserve for remeasurement of defined benefit plans	591	532	-
Hedging reserve	-	-	(338)
FTA reserve	(994)	(994)	(994)
Reserve for capital contribution	52,810	-	-
	56,771	3,902	3,032

The legal reserve relates to amounts reserved in accordance with the requirements of article 2430 of the Italian Civil Code and article 41.2 of the Company's by-laws.

As a result of the issuance of the convertible loan notes in 2019, subscribed by the sole shareholder, the Company recognised a specific non-distributable reserve of €1.9 million for the related derivatives, i.e. the option to convert the notes into equity instruments in accordance with IAS 32 and IFRS 9, as management believes it substantially satisfies the fixed-for-fixed criteria.

The hedging reserve includes the fair value gains and losses on hedging derivatives. There were no hedging contracts in place as at 31 December 2023 and 2022.

The reserve for capital contribution relates to cash amounts received by Bain Capital as a capital contribution on the acquisition date.

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(in Euro '000s)

Origin, possible use and distribution of net equity items

€'000	Amount	Possible uses ¹	Available portion	Non-distributable portion	Distributable portion	Used in the last three years
Issued share capital	10,000					
Revaluation reserve	94,801	A - B - C	94,801		94,801	
Legal reserve	2,395	B	2,395	2,395		
Reserve for capital contribution	52,810	A - B - C	52,810		52,810	
Equity component for convertible bonds	1,969					
Reserve for remeasurement of defined benefit plans	591					
FTA reserve	(994)					
Extraordinary reserve	93,002	A - B - C	93,002		93,002	
Undistributed net profits reserve	37,433	A - B - C	37,433		37,433	22,500
Negative goodwill	2,415	A - B - C	2,415		2,415	
Reserve for state and regional aid	1,045	A - B - C	1,045		1,045	
Profit / (Loss) for the year	(17,163)		(17,163)		(17,163)	
Total	278.304		266.738	2.395	264.343	22.500

¹ A – Share capital increases, B – To cover losses, C – Dividends

27. Financial instruments

Financial risk policies and strategies

The main risks identified and managed by the Company relating to its business operations are as follows:

- Market risk (mainly interest rate risk): the risk of changes in the interest rates;
- Credit risk: possibility of default of a counterparty or deterioration in its credit rating;
- Liquidity risk: the risk of insufficiency of the Company's financial resources and the risk of not being able to meet its payment commitments; and
- Currency risk: the risk related to the fluctuations in the foreign currency exchange rates.

The key financial instruments of the Company 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 and to collect interest from the use of excess liquidity, respectively. The Company also has access to other financial instruments, leveraging trade receivables and payables arising from operations. Directors monitor the financial risks to which it is exposed regularly so as to anticipate any potential negative effects and take the necessary remedial actions.

Financial instruments

The principal financial instruments held, other than the prepayment derivative embedded in the 2022 ESG bond, are trade and other receivables, cash and bank balances, trade and other payables, bonds and borrowings. The table below summarises such financial assets and liabilities by category. The carrying amounts of the financial instruments are as follows:

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(in Euro '000s)

31 December 2023		Carrying value			
€'000	Assets at amortised cost	FVTPL	FVTOCI	Liabilities at amortised cost	Fair Value
Assets					
Trade and other receivables ¹	126,909	-	-	-	-
Cash and bank balances	119,069	-	-	-	-
Derivative financial instruments	-	2,147	-	-	2,147
Other non-current assets ²	9,225	-	-	-	-
Liabilities					
Trade and other payables ³	-	-	-	175,857	-
Loans and borrowings	-	-	-	407,922	-
Convertible loan notes	-	-	-	51,594	-
Lease liabilities	-	-	-	4,878	-
Other non-current liabilities	-	-	-	239	-

¹ Trade and other receivables in the balance sheet include prepayments and corporation tax, which are not financial assets and hence excluded from the tables above.

² Other non-current assets include investments in equity and debt instruments and excludes prepayments, which are not financial assets.

³ Trade and other payables in the balance sheet include progress billings, corporation tax, social security and other taxes and certain accruals which are not financial liabilities and hence excluded from the tables above.

31 December 2022		Carrying value			
€'000	Assets at amortised cost	FVTPL	FVTOCI	Liabilities at amortised cost	Fair Value
Assets					
Trade and other receivables ¹	128,699	-	-	-	-
Cash and bank balances	67,938	-	-	-	-
Derivative financial instruments	-	1,935	-	-	1,935
Other non-current assets ²	3,895	-	-	-	-
Liabilities					
Trade and other payables ³	-	-	-	201,286	-
Loans and borrowings	-	-	-	423,662	-
Convertible loan notes	-	-	-	51,213	-
Lease liabilities	-	-	-	5,150	-
Other non-current liabilities	-	-	-	393	-

¹ Trade and other receivables in the balance sheet include prepayments and corporation tax, which are not financial assets and hence excluded from the tables above.

Notes to the financial statements

For the year ended 31 December 2023

(in Euro '000s)

² Other non-current assets include investments in equity and debt instruments and excludes prepayments, which are not financial assets.

³ Trade and other payables in the balance sheet include progress billings, corporation tax, social security and other taxes and certain accruals which are not financial liabilities and hence excluded from the tables above.

1 January 2022	Assets at amortised cost	Carrying value		Liabilities at amortised cost	Fair Value
		FVTPL	FVTOCI		
€'000					
Assets					
Trade and other receivables ¹	110,119	-	-	-	-
Cash and bank balances	74,770	-	-	-	-
Other non-current assets ²	4,482	-	-	-	-
Liabilities					
Trade and other payables ³	-	-	-	189,207	-
Loans and borrowings	-	-	-	322,561	-
Convertible loan notes	-	-	-	52,370	-
Lease liabilities	-	-	-	5,307	-
Other non-current liabilities	-	-	-	34,469	-
Derivative financial instruments	-	-	445	-	445

¹ Trade and other receivables in the balance sheet include prepayments and corporation tax, which are not financial assets and hence excluded from the tables above.

² Other non-current assets include investments in equity and debt instruments and excludes prepayments, which are not financial assets.

³ Trade and other payables in the balance sheet include progress billings, corporation tax, social security and other taxes and certain accruals which are not financial liabilities and hence excluded from the tables above.

Fair value measurement

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table shows the fair value hierarchy for financial assets and liabilities for which fair value was disclosed.

31 December 2023	€'000	Carrying value		
		Level 1	Level 2	Level 3
Assets				
Derivative financial assets		-	2,147	-

31 December 2022	€'000	Carrying value		
		Level 1	Level 2	Level 3
Assets				

Notes to the financial statements

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(in Euro '000s)

31 December 2022 €'000	Carrying value		
	Level 1	Level 2	Level 3
Derivative financial assets	-	1,935	-

1 January 2022 €'000	Carrying value		
	Level 1	Level 2	Level 3
Liabilities			
Derivative financial instruments	-	445	-

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/Financial liabilities	Valuation techniques and key inputs	Significant unobservable inputs	Relationship and sensitivity of unobservable inputs to FV
Prepayment derivative embedded in the 2022 Bond. Level 2 fair value measurement.	The fair value of the derivative was estimated by comparing the fair value of a Plain Vanilla bond with the same terms of the 2022 Bond and the fair value of the structured 2022 Bond. The fair value of the bonds were estimated by actualising future cash flows at the risk free rate plus g-spread/option adjusted spread.	N/A	N/A
Hedging derivatives. Level 2 fair value measurement	The Company's foreign currency forward contracts are measured at fair value at the end of each reporting period using the discounted cash flow valuation technique. The fair value of these instruments is estimated using future cash flows based on the foreign exchange rates discounted by the market interest rate and adjusted for counterparty credit risk.	N/A	N/A

There were no transfers between Level 1 and 2 during the current or prior year.

Interest rate risk

Notes to the financial statements

For the year ended 31 December 2023

(in Euro '000s)

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 a high-yield sustainability-linked bond, only partially expose the Company to the risk that future hikes in interest rates could significantly increase its financial charges, since €350 million out of €400 million of the nominal main debt instrument (high-yield sustainability-linked bond) is at a fixed rate (5.625%) throughout its maturity (August 2027). Therefore, the main exposure to interest rate risk in relation to the outstanding loans and borrowings as at 31 December 2023 is related to the New Notes issued on December 13, 2023 with a nominal value of €50 million, which accrues interest at variable rate amounting to Euribor 3m + 5.5%.

The following table demonstrates the sensitivity on the Company's profit before tax at 31 December 2023 to a reasonably possible change in interest rates, with all other variables held constant, based on year-end balances and rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Company's actual exposure to market rates changes as the Company's portfolio of debt and cash changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

€'000	Movement in basis points	31 December 2023	31 December 2022
	+100	(500)	(570)

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.

The Company's principal financial assets are bank balances, short term time deposits, cash and trade and other receivables which represent the Company's maximum exposure to credit risk in relation to financial assets. The following table is a summary of the Company's maximum exposure to credit risk:

€'000	31 December 2023	31 December 2022	01 January 2022
Total trade and other receivables	146,567	185,992	153,539
Cash and cash equivalents	119,069	67,938	74,770
Total	265,636	253,930	228,309

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

Notes to the financial statements

For the year ended 31 December 2023

(in Euro '000s)

activities, its credit standing and the repayment and renewal conditions of its bank debt. With respect to its ordinary operating activities, F.I.S. has put in place the following policies and processes to optimise 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; and
- monitoring its future liquidity requirements in line with its business plans.

Following the completion of the acquisition by Bain Capital, on 14 December 2023: i) Fitch revised the Outlook to Positive from Stable and confirmed the senior secured instrument rating at “B+”; ii) Moody’s revised the Outlook to Stable from Negative confirming the “B3” rating and iii) S&P confirmed both the Outlook at stable and the rating at “B”.

Contractual maturity

The following tables detail the Company’s remaining contractual maturity for its financial liabilities with regard to the repayment periods. The tables have been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest until maturity and principal cash flows.

31 December 2023 €'000	Gross Contractual cash flows	Within one year	2-5 years	More than 5 years
<i>Non-derivative financial liabilities</i>				
Trade payables	152,590	152,590	-	-
Other payables	2,258	2,019	206	34
Lease liabilities	5,147	1,808	3,297	42
Loans and borrowings	504,631	33,388	471,242	-
Convertible loan notes	57,796	-	57,796	-
Total	722,422	189,805	532,541	76

31 December 2022 €'000	Gross Contractual cash flows	Within one year	2-5 years	More than 5 years
<i>Non-derivative financial liabilities</i>				
Trade payables	166,822	166,822	-	-
Other payables	1,079	686	275	118
Lease liabilities	5,377	1,702	3,348	327
Loans and borrowings	523,008	94,204	428,804	-
Convertible loan notes	58,858	-	58,858	-
Total	755,592	263,414	491,285	445

1 January 2022 €'000	Gross Contractual cash flows	Within one year	2-5 years	More than 5 years
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For the year ended 31 December 2023

(in Euro '000s)

Non-derivative financial liabilities

Trade payables	158,345	158,345	-	-
Other payables	1,141	628	225	288
Lease liabilities	5,575	1,576	3,387	612
Loans and borrowings	343,267	132,423	190,191	20,653
Convertible loan notes	56,734	1,062	55,672	-
Total	565,062	294,034	249,475	21,553

Foreign currency risk

The Company's foreign currency trade transactions mostly take place in US dollars and Canadian dollars.

The following table is a summary of the Company's net foreign currency-denominated monetary assets/(liabilities):

€'000	31 December 2023	31 December 2022	01 January 2022
US Dollar	41,390	17,500	13,600
Canadian Dollar	(5,352)	-	-
Total	36,038	17,500	13,600

Foreign currency sensitivity analysis

Presented below is the sensitivity of the Company's foreign currency exposure to reasonably possible changes in foreign currency rates based on the Company's historical experience and the current economic outlook. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items (including derivative instruments) in US dollars and Canadian dollars.

If the rates moved by +/- 10% the effect on profit and loss would be +/- €4.6 million.

28. Commitments, guarantees and contingent liabilities not recognised in the balance sheet

The contingent liabilities of the Company include securities provided to financial institutions for the loans and borrowings used and the details are as follows:

31 December 2023					
Issuer	Type	Risk	Amount	Start date	Maturity date
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
Zurich	Surety	Amm.ne Prov.Vicenza waste storage	55,777	28/12/1999	30/04/2024
Coface	Surety	Vicenza Customs Agency, Excise Electricity	7,320	16/09/2016	16/09/2024
Coface	Surety	AIA Montecchio in favour of Provincia Vicenza	775,000	07/07/2015	31/12/2026
Liberty Insurance Europe	Mutul Surety	New Viale Europa car park	68,200	03/03/2021	03/03/2024

Notes to the financial statements

For the year ended 31 December 2023

(in Euro '000s)

Coface	Surety	Vicenza Customs for the deposit of customs duties	6,494,960	09/03/2021	28/06/2024
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31 December 2022					
Issuer	Type	Risk	Amount	Start date	Maturity date
Coface	Surety	Lonigo waste-to-energy plant	841,740	15/12/2012	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
Zurich	Surety	Amm.ne Prov. Vicenza waste storage	55,777	28/12/1999	30/04/2023
Coface	Surety	Vicenza Customs Agency, Excise Electricity	7,320	16/09/2016	16/09/2023
Coface	Surety	AIA Montecchio in favour of Provincia Vicenza	775,000	07/07/2015	31/12/2023
Liberty Mutual Insurance Europe	Surety	New Viale Europa car park	68,200	03/03/2021	03/03/2023
Coface	Surety	Vicenza Customs for the deposit of customs duties	6,494,960	09/03/2021	28/06/2023

In addition, the Company is party to a number of litigations arising from legal disputes and tax matters. Contingent liabilities arising from legal disputes mainly relate to possible obligations under labour law. Directors do not expect any cash outflows to arise as a result of these contingencies.

Other commitments

The Company has purchase commitments of €13.3 million for fixed assets at 31 December 2023 (2022: €26.7million).

29. Related party transactions

During the year, the Company engaged in trade and financial transactions with group companies and other related parties. These transactions are part of the Company's normal business activities and take place at the contractually established conditions, on an arm's length basis.

Trading transactions

During the year, the Company entered into the following transactions with related parties:

€'000	Financing transactions		Trading transactions	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Prior Parent company	-	-	-	2,212
Other related parties	-	110	-	16,554
Subsidiaries	-	-	4,771	2,102
Total		110	4,771	20,868

Notes to the financial statements

For the year ended 31 December 2023

(in Euro '000s)

The following amounts were outstanding at the reporting date:

€'000	Amounts owed by related parties			Amounts owed to related parties		
	31 December 2023	31 December 2022	1 January 2022	31 December 2023	31 December 2022	1 January 2022
Prior Parent company	-	32,302	22,851	-	8,274	32,075
Other related parties	-	11,985	11,579	-	5,090	6,906
Subsidiaries	-	254	-	995	1,051	157
Total	-	44,541	34,430	995	14,415	39,138

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Remuneration of key management personnel

The remuneration of the key management personnels which are the leadership team of the company, is set out below as required under IAS 24 *Related Party Disclosures*.

€'000	31 December 2023	31 December 2022
Short-term employee benefits	4,180	3,753
Total	4,180	3,753

30. Directors Remuneration and Fees Paid to Statutory and Independent Auditors

The following table shows the remuneration of the Directors, the Board of Statutory Auditors and the fee for the independent statutory audit.

€'000	31 December 2023	31 December 2022
Remuneration of Directors	743	852
Remuneration of the Statutory Auditors	56	60
Fees of the Independent Auditors and companies of its network for services provided during the year	95	55

31. Information pursuant to Article 1, paragraph 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 operating income, Note 9.

Paying entity	Grant date	Measurement	Instrument	Amount	Status as of 31 December 2023
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Notes to the financial statements

For the year ended 31 December 2023

(in Euro '000s)

AVEPA Agenzia Veneta per i pagamenti	27/06/2 022	National State Aid Framework Scheme COVID 10 (Arts. 54-61 of Relaunch DL, as amended by Art. 62 of DL 104/2020	Subsidy/grant on account of interest	25,084	Not paid
Invitalia – Agenzia nazionale per l’attrazione degli investimenti e lo sviluppo d’impresa S.p.A.	29/12/2 023	COVID-19 : Investments for sustainable recovery – Development contracts	Subsidy/grant on account of interest	1,744,229	Not paid
Invitalia - Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa S.p.A.	29/12/2 023	COVID-19: Investments for sustainable recovery - Development contracts	Subsidy / grant on account of interest	8,255,771	Not paid
Invitalia - Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa S.p.A.	29/12/2 023	Development contracts per article 43 of the legislative decree of 25 June 2008, n.112, converted by law 6 August 2008, n. 133	Subsidy / grant on account of interest	19,985,000	Not paid
Regione Veneto - Direzione Formazione e Istruzione	03/07/2 023	"Programma Regionale del Fondo Sociale Europeo Plus"	Subsidy / grant on account of interest	3,853	Not paid
Cassa per i servizi energetici e ambientali (CSEA)	22/03/2 023	Concessions for electricity- intensive	Other (Tax concession or tax exemption)	1,852,630	Fully paid

32. Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 15th April 2024.

33. Allocation of net loss for the year

Pursuant to article 2427.1.22-septies of the Italian Civil Code, it is proposed that the net loss for the year of €17,162,548.25 to be carried forward as retained earnings.

Appendix – First-time adoption of IFRS

(in Euro '000s)

Appendix – First-time adoption of IFRS

First-time adoption of IFRS

For periods up to and including the year ended 31 December 2022, the Company prepared its financial statements in accordance with the provisions of article 2423 and 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”) (Local GAAP).

These financial statements, for the year ended 31 December 2023, are the Company’s first set of financial statements prepared in accordance with IFRS. Accordingly, the Company has prepared financial statements that comply with IFRS applicable as at 31 December 2023, together with the comparative period data for the year ended 31 December 2022, as described in the summary of significant accounting policies.

The Company’s opening statement of financial position was prepared as at 1 January 2022, the Company’s date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its local GAAP financial statements, including the statement of financial position as at 1 January 2022 and the financial statements as of, and for, the year ended 31 December 2022.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Company has applied the following exemptions:

- IFRS 3 Business combinations: The Company has elected to apply this exemption to the acquisitions of the US generic business unit, acquired as a going concern (trade and assets, and employees) from PHF SA in 2016 and the generic business unit, also acquired as a going concern (trade and assets, and employees) and related plant of Zach System S.p.A. in 2017. Accordingly, F.I.S. has not retrospectively restated its financial statements for business combinations which occurred before the transition date.
- Deemed cost (Property, plant and equipment): The Company has elected not to use the first-time adoption exemption to measure items of property, plant and equipment, right-of-use assets, and intangible assets at fair value at the date of transition.
- Certain items of property, plant and equipment were revalued in 2020 under Italian GAAP. In accordance with IFRS 1:D6, the company has elected to apply the exemption to use the Italian GAAP revaluation as the deemed cost at the date of revaluation, on the basis that the valuation methodology was broadly comparable to fair value.
- IFRS 16 Leases: The Company has elected to:
 - (i) Assess whether a contract existing at the date of transition to IFRS contains a lease – The Company has assessed that there are no such contracts in existence as at the date of transition.
 - (ii) Measure lease liabilities at the transition date equal to the present value of the remaining lease payments, discounted using its incremental borrowing rate.
 - (iii) Measure the right-of-use assets at amount equal to the lease liability, adjusted for any recognised prepaid or accrued lease payments.
 - (iv) Apply IAS 36 to right-of-use assets at the date of transition – no impairments were noted.
 - (v) Apply a single discount rate to portfolios of leases with similar characteristics.
 - (vi) Not apply the requirements to recognise a lease liability and right-of-use asset to short-term leases (leases with a remaining lease term of less than 12 months from the date of transition to IFRS) and lease of low value assets (assets with a value of €5,000 or less when new).

Appendix – First-time adoption of IFRS

(in Euro '000s)

(vii) Exclude initial direct costs from the measurement of right-of-use assets.

(viii) Used hindsight in determining the lease term where the contracts contained options to extend or terminate the lease.

- Investments in subsidiaries, associates and joint ventures: The Company has elected to measure its investments in subsidiaries at a deemed cost equal to the carrying value of the investments as at the date of transition to IFRS, calculated in accordance with Italian GAAP.
- Borrowing costs: The Company has elected to apply the requirements of IAS 23 from the date of transition – no borrowing costs were capitalised under Italian GAAP.
- All borrowing costs incurred on qualifying assets from the date of transition to IFRS are capitalised in accordance with IAS 23.
- Revenue: In accordance with IFRS 1:D34, the Company has elected to apply the transition provisions in IFRS 15:C5. Therefore, F.I.S. has applied the following practical expedients:
 - for completed contracts, F.I.S. has not restated contracts that began and ended within the same annual reporting period; and
 - for completed contracts with variable consideration, the transaction price at the completion of the contract has been used.

No reporting periods are presented before the date of transition to IFRS.

The Company has also elected, in accordance with IFRS 1:D35, not to restate contracts that were completed before the earliest period presented, i.e., 1 January 2022.

Estimates

Accounting estimates required under IFRS Accounting Standards that were made under previous GAAP may not be adjusted on transition except to reflect differences in accounting policies or unless there is objective evidence that the estimates were in error. On the other hand, F.I.S. is not bound by the accounting policy choices it made under Italian GAAP, even if the previous treatment is consistent with IFRS Accounting Standards. Therefore, all changes in estimates have been accounted for in the current year in accordance with the relevant standard.

Appendix – First-time adoption of IFRS

(in Euro '000s)

Reconciliation of equity as at 1 January 2022 (date of transition to IFRS)

	Note	Local GAAP	Reclassifications	Remeasurements	IFRS as at 1 January 2022
Non-current assets					
Goodwill		-	14,812	-	14,812
Other intangible assets	[a]	30,057	(14,812)	(393)	14,852
Property, plant and equipment		332,501	-	-	332,501
Right-of-use assets	[b]	-	-	5,307	5,307
Other investments		44	-	-	44
Derivative financial assets		-	-	-	-
Deferred tax asset	[h]	-	7,825	334	8,159
Trade and other receivables		-	4,482	-	4,482
Total non-current assets		362,602	12,307	5,248	380,157
Current assets					
Inventories		296,561	(980)	-	295,581
Trade and other receivables		148,362	695	-	149,057
Contract assets		-	980	-	980
Cash and bank balances		74,770	-	-	74,770
Prepayments and accrued income		1,109	(1,109)	-	-
Tax receivable		-	136	-	136
Total current assets		520,802	(279)	-	520,523
Total assets		883,404	12,028	5,248	900,680
Equity and liabilities					
Issued share capital		10,000	-	-	10,000
Revaluation reserve		94,801	-	-	94,801
Other reserves	[c]	88,948	(84,922)	(994)	3,032
Retained earnings		51,397	84,922	-	136,319
Total equity		245,146	0	(994)	244,152
Non-current liabilities					
Loans and borrowings		112,837	98,881	-	211,718
Bonds		98,881	(98,881)	-	-
Convertible loan notes		51,925	-	-	51,925
Retirement benefit obligations	[d]	4,800	291	935	6,026
Lease liabilities	[b]	-	-	3,827	3,827
Provisions		1,176	(1,176)	-	-
Other non-current liabilities		34,469	-	-	34,469
Total non-current liabilities		304,088	(885)	4,762	307,965

Appendix – First-time adoption of IFRS

(in Euro '000s)

	Note	Local GAAP	Reclassifications	Remeasurements	IFRS as at 1 January 2022
Current liabilities					
Trade and other payables		225,664	(15,366)	-	210,298
Lease liabilities	[b]	-	1	1,480	1,481
Borrowings		99,950	10,892	-	110,842
Convertible loan notes		-	445	-	445
Derivative financial instruments		-	445	-	445
Deferred income		8,556	(8,556)	-	-
Contract liabilities		-	25,052	-	25,052
Total current liabilities		334,170	12,913	1,480	348,563
Total equity and liabilities		883,404	12,028	5,248	900,680

Reconciliation of equity as at 31 December 2022

	Note	Local GAAP	Reclassifications	Remeasurements	IFRS as at 31 December 2022
Non-current assets					
Goodwill	[e]	-	11,301	3,511	14,812
Other intangible assets	[a]	26,620	(11,301)	8	15,327
Property, plant and equipment		327,805	1	-	327,806
Right-of-use assets	[b]	-	-	5,107	5,107
Other investments		1,989	-	-	1,989
Derivative financial assets	[f]	-	-	1,935	1,935
Deferred tax asset	[h]	-	7,363	(1,663)	5,700
Trade and other receivables		-	3,895	-	3,895
Total non-current assets		356,414	11,260	8,897	376,571
Current assets					
Inventories		361,167	(838)	-	360,329
Trade and other receivables		185,723	(3,626)	-	182,097
Contract assets		-	838	-	838
Cash and bank balances		67,938	-	-	67,938
Prepayments and accrued income		634	(634)	-	-
Total current assets		615,462	(4,260)	-	611,202
Total assets		971,876	7,000	8,897	987,773

Equity and liabilities

Issued share capital		10,000	-	-	10,000
Revaluation reserve		94,801	-	-	94,801
Other reserves	[c]	101,287	(96,922)	(462)	3,902

Appendix – First-time adoption of IFRS

(in Euro '000s)

	Note	Local GAAP	Reclassifications	Remeasurements	IFRS as at 31 December 2022
Retained earnings	[g]	33,808	96,923	5,165	135,896
Total equity		239,896	1	4,702	244,599
Non-current liabilities					
Loans and borrowings	[f]	-	340,051	892	340,943
Bonds		340,051	(340,051)	-	-
Convertible loan notes	[f]	52,306	445	(1,537)	51,213
Retirement benefit obligations	[d]	4,736	441	(310)	4,866
Lease liabilities	[b]	-	-	3,536	3,536
Provisions		1,097	(1,097)	-	-
Other non-current liabilities		393	-	-	393
Total non-current liabilities		398,582	(211)	2,581	400,951
Current liabilities					
Trade and other payables		253,074	(26,563)	-	226,511
Lease liabilities	[b]	-	-	1,614	1,614
Loans and Borrowings		61,688	21,031	-	82,719
Convertible loan notes		-	-	-	-
Derivative financial instruments		-	-	-	-
Deferred income		18,635	(18,635)	-	-
Contract liabilities		-	31,089	-	31,089
Tax payable		-	290	-	290
Total current liabilities		333,398	7,211	1,614	342,223
Total equity and liabilities		971,876	7,000	8,897	987,773

Notes

- Italian GAAP allows for the capitalisation of start-up cost and costs sustained for expanding the business. Capitalised start-up costs amounting to €0.4 million and €0.6 million as of 01 January 2022 and 31 December 2022. These expenses do not satisfy IAS 38 requirements for recognition as intangible assets and are, therefore, derecognised from the balance sheet as of the date of transition.
- In the financial statements prepared under Italian GAAP, the lease payments referring to operating leases were accounted for as an expense in the statement of profit or loss on an accrual basis. In accordance with IFRS 16, the Company has recognised a right-of-use asset among the assets amounting to €5.3 million and €5.1 million as of as of 1 January 2022 and 31 December 2022, representing the right to use the underlying leased asset, and a lease liability amounting to €5.3 million and €5.1 million as of as of 1 January 2022 and 31 December 2022 (split into current and non-current items) among the liabilities, representing the obligation to make the lease payments foreseen under the lease. The principal amounts of the lease payments have been recognised as a reduction of such liability, and the interest amount in profit or loss on an accrual basis. The section “Exemptions applied” contains a more detailed description of the approach applied to leases and the optional exemptions adopted by the Company.

Appendix – First-time adoption of IFRS

(in Euro '000s)

- c. This represents First-time adoption reserve created to account for the IFRS transition re-measurements for Other intangible assets and Retirement benefit obligations as mentioned in [a] and [d] respectively, net of as mentioned in [h].
- d. The Italian employee indemnity (TFR) accrued by the Company until 31 December 2006, and the integration provided to Lonigo employees, are considered to be defined-benefit obligations for IAS 19. Both plans do not generate any additional current service cost, due to their terms. However, under IFRS the Company has used projected unit credit method to measure its obligations as at 1 January 2022 and 31 January 2022 resulting in adjustments amounting to €0.9 million and €0.3 million in Retirement benefit obligations.
- e. The Company has recognised goodwill arising from the acquisition of the PHF business unit in 2016 and the business unit from Zach System S.p.A. in 2017. Under Italian GAAP, goodwill was recognised as an intangible asset with a finite useful life and following its recognition it was amortised over its useful life. In accordance with the requirements of IFRS, goodwill has an indefinite useful life and is subject to annual impairment tests. On the basis, the amortisation recognised under Italian GAAP has been reversed in transitioning to IFRS.
- f. Derivative financial instruments: The 2022 Bond includes contractual terms that allow the Company to terminate the contract early and accelerate the repayment of the outstanding principal, either in whole or in part. This embedded derivative is not closely related to the host debt contract because the exercise price is fixed and not approximately equal to the debt host contract's amortised cost on each exercise date. In addition, the exercise price is not setup to reimburse the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract, as there is no reference to the market interest as of the date of the eventual early repayment. At inception, F.I.S. determined the fair value of the embedded derivative first. The difference between the consideration received for the entire contract and the fair value of the embedded derivative has been assigned to the host contract. Therefore, the Company recognised a derivative financial asset amounting to €1.9 million as of 31 December 2022.
- g. This represents the IFRS transition impact recognised in the profit and loss as shown in the reconciliation below.
- h. The various transitional adjustments resulted in various temporary differences. According to the accounting policies in Note 3.11, the Company has to recognise the tax effects of such differences. Therefore, deferred tax is recognised in respect of adjustments to the carrying amounts of assets and liabilities recognised at the date of transition and thereafter for the year ended 31 December 2022.

Appendix – First-time adoption of IFRS

(in Euro '000s)

Reconciliation of total comprehensive income for the year ended 31 December 2022

Under IFRS, an entity is required to present an analysis of expenses recognised in profit or loss using a classification based on their function within the entity as it provides more relevant information to users, but allocating costs to functions may require extensive reclassifications and involve considerable judgement. Previously, expenses were classified based on their nature, such as salaries, rent, and utilities. However, under the new presentation method, expenses are classified based on their function, such as production, administration, or marketing. This change in presentation provides a more meaningful and relevant view of expenses, as it allows for a better understanding of how expenses relate to the overall operations of the business.

The adjustments which have an impact on the net profit are as under :

€'000	Notes	For the year ended 31 December 2022
Net profit under Italian GAAP		2,911
Leases	[a]	44
Pensions	[b]	546
Intangible assets - Development expenses	[c]	637
Intangible assets - Start-up and capital costs	[d]	(235)
Intangible assets – Goodwill	[e]	3,511
Financial liabilities	[f]	2,580
DTA/DTL	[g]	1,830
Total effects of transitions to IFRS		5,165
Net profit under IFRS		8,076
Remeasurement of defined benefit plan	[b]	700
Tax effect		(168)
Total comprehensive income under IFRS		8,608

Notes to the reconciliation of total comprehensive income for the year ended 31 December 2022

- a. Under Italian GAAP, the lease payments referring to operating leases were accounted for as an expense in the statement of profit or loss on an accrual basis. In accordance with IFRS 16, the Company has recognised an amortisation of the right-of-use asset over the term of the leases and interest expense on lease liability.
- b. The Italian employee indemnity (TFR) accrued by the Company until 31 December 2006, and the integration provided to Lonigo employees, are considered to be defined-benefit obligations for IAS 19. Both plans do not generate any additional current service cost, due to their terms. However, under IFRS the Company has used projected unit credit method to measure its obligations and costs and recognised actuarial gains arising from its application directly in other comprehensive income (“OCI”), in a special reserve net of the tax effect.
- c. Italian GAAP requires research costs to be expensed and provides a policy choice for development costs, therefore the Company did not recognise any internally generated intangible assets from R&D activities under Italian GAAP. Under IFRS, the Company is required to capitalise intangible assets arising from development (or from the development phase of an internal project) if these assets meet the criteria under IAS 38 “Intangible Assets.” The management has concluded that the production processes developed by F.I.S. for generic APIs meet the criteria for capitalisation and therefore the Company has capitalised €0.6m development costs as at 31 December 2022.

Appendix – First-time adoption of IFRS

(in Euro '000s)

- d. Italian GAAP allows for the capitalisation of start-up cost and costs sustained for expanding the business. The Company had capitalised start-up costs. However, these expenses do not satisfy IAS 38 requirements for recognition as intangible assets and are, therefore, have been written off in the year ended 31 December 2022.
- e. The Company has recognised goodwill arising from the acquisition of the PHF business unit in 2016 and the business unit from Zach System S.p.A. in 2017. Under Italian GAAP, goodwill was recognised as an intangible asset with a finite useful life and following its recognition it was amortised over its useful life. In accordance with the requirements of IFRS, goodwill has an indefinite useful life and is subject to annual impairment tests. On the basis, the amortisation recognised under Italian GAAP has been reversed in transitioning to IFRS.
- f. According to IFRS 9, the Company has recognised a prepayment option that is embedded in the 2022 Bond issued in 2022 as a stand-alone derivative, as it did not meet the conditions to be considered closely related to the debt host contract. The related liability was initially measured residually, as required by IFRS 9 for hybrid instruments, and then measured at amortised cost. The net result for 2022 includes the change in fair value of the embedded derivative and the amortised cost of the liability. Additionally, during the period, the company recognised a modification gain resulting from an extension of the term of a financial liability from 2024 to 2027.
- g. The various transitional adjustments resulted in various temporary differences. According to the accounting policies in Note 3.11, the Company is required to recognise the tax effects of such differences. Therefore, deferred tax has been recognised in respect of adjustments to the carrying amounts of assets and liabilities recognised at the date of transition and thereafter for the year ended 31 December 2022.

Notes to reconciliation of cash flows for the year ended 31 December 2022

In addition to the cash effect of the adjustments discussed above, under IFRS lease payments are classified as cash flows from financing activities as the repayment of lease liabilities. As a result, net cash provided by operating activities are increased by €1.68 million and net cash used in financing activities increased by the same amount. Depreciation on right-of-use assets is added back to the profit for the year, as it is a non-cash item.



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 statement of financial position as of 31 December 2023, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2023, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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.

Other Matters

The financial statements present for comparative purposes the data relating to the balance sheet as of 1 January 2022 prepared in accordance with international accounting standards which derive from the financial statements as of 31 December 2021 prepared in compliance with the Italian regulations governing the financial statements preparation criteria, previously subject to audit by another auditor, who issued an unmodified opinion on 29 March 2022. The appendix to the explanatory notes - "Transition to international accounting standards (IFRS)" - illustrates the effects of the transition to the International Financial Reporting Standards adopted by the European Union and includes information relating to the reconciliation statements required by the international accounting standard IFRS 1.

PricewaterhouseCoopers SpA

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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 International Financial Reporting Standards as adopted by the European Union 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 Directors' report of F.I.S. Fabbrica Italiana Sintetici SpA as of 31 December 2023, 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 Directors' report with the financial statements of F.I.S. Fabbrica Italiana Sintetici SpA as of 31 December 2023 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the Directors' report is consistent with the financial statements of F.I.S. Fabbrica Italiana Sintetici SpA as of 31 December 2023 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, 24 April 2024

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