



FIS Fabbrica
Italiana
Sintetici

**CONDENSED INTERIM FINANCIAL REPORT
AS OF AND FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2023**

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Forward looking statement

This Financial Report (the “Report”) of F.I.S. - Fabbrica Italiana Sintetici S.p.A. (the “Issuer”) may contain and refer to certain forward-looking statements with respect to our financial condition, results of operations and business. Forward-looking statements are statements of future expectations that are based on management’s current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among others, statements concerning the potential exposure to market risks and statements expressing management’s expectations, beliefs, plans, objectives, intentions, estimates, forecasts, projections, and assumptions. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements provide our current expectations, intentions, or forecasts of future events.

Forward-looking statements include statements about expectations, beliefs, plans, objectives, intentions, assumptions, and other statements that are not statements of historical fact. Words or phrases such as “anticipate,” “believe,” “continue,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “predict,” “project,” “seek,” “target” or similar words or phrases or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. The consequences of the pandemic are easing, but the evolution of the Russia-Ukraine conflict and, more broadly, the macroeconomic outlook still creates unprecedented and extraordinary uncertainties for most businesses including the Issuer and its subsidiaries and affiliates. As a result, any projections or forward-looking information (including any underlying assumptions) contained herein are subject to significant uncertainties and contingencies and no assurance can be given that any projections or forward-looking information (including any underlying assumptions) will be realized. Actual results may differ from any projections or forward-looking information and such differences may be material. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Report. There are important risks, uncertainties and other factors that could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this Report by us or on our behalf. Therefore, you should not place undue reliance on any of these forward-looking statements.

Furthermore, any forward-looking statement speaks only as of the date on which it is made, and the Issuer and its subsidiaries (the “Group”) do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for the Group to predict such factors. In addition, the Group cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements. All future written and oral forward-looking statements attributable to the Group, or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section and contained in the listing particular dated as of February 10, 2022 relating to the issuance by the Issuer of € 350,000,000 Sustainability-Linked Senior Secured Notes due in August 2027. Considering these risks, the actual results of the Group could differ materially from the forward-looking statements contained in this Report. None of the information contained on the Group’s website is incorporated by reference into or otherwise deemed to be linked to this Report.

This Report includes comparisons of certain non-GAAP historical financial and other information, including Production Revenues, Proforma Adjusted EBITDA and Run Rate Proforma adjusted EBITDA on a consolidated basis after adjustments to facilitate comparability between periods (the “Like for Like or “Lfl” Comparisons”) using a constant perimeter. The Like-for-Like Comparisons have not been audited or reviewed, do not indicate future results, have not been prepared in accordance with any generally accepted accounting standards and should not be considered as alternatives to performance measures derived in accordance with IFRS or any other generally accepted accounting principles. You should not place undue reliance on the Like-for-Like Comparisons, and no opinion or any other form of assurance is provided with respect thereto.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the statement. We undertake no obligation to publicly update or revise any forwardlooking statement, whether because of new information, future events or otherwise. All forward-looking statements are expressly qualified in their entirety by the cautionary statements referred to in this section and contained elsewhere in this Report or the Listing Particular, including those described under the section entitled “Risk Factors” of the Listing Particular. Considering these risks, our results could differ materially from the forward-looking statements contained in this Report.

We or our affiliates may, at any time and from time to time, seek to purchase or retire our outstanding notes through open-market purchases, privately negotiated transactions, tender offers or otherwise. Such purchases, if any, will be upon such terms and at such prices as we or our affiliates, as the case may be, may determine in light of then-existing market conditions.

Presentation of our financial information

General

The Issuer's Condensed Interim Consolidated Financial Statements as of and for nine months ended September 30, 2023 have been prepared in accordance with Italian laws governing the preparation of financial statements, as interpreted and integrated by the accounting principles established by the Organismo Italiano di Contabilità—OIC ("Italian GAAP"). The financial information presented in this section is derived from the Issuer Condensed Interim Consolidated Financial Statements for nine months ended September 30, 2023 and September 30, 2022 and from the Audited Consolidated Financial Statements for period ended December 31, 2022, but it is summarized differently in some cases from the original captions in the Issuer Condensed Interim Consolidated Financial Statements to provide a more typical format for the international investors. We believe this method of presentation allows more effective representation of our business because it more closely describes the items of revenue and cost that characterize our operations.

As of the date of this Financial Report, the Issuer wholly owns two subsidiaries, FIS Japan K.K. ("FIS Japan") and FIS North America, Inc ("FIS North America"). Both FIS Japan and FIS North America are consolidated in the Parent's financial statements and not in our Financial Statements pursuant to an exemption available under applicable Italian law.

Non-GAAP Measures

In this Report, we present certain financial measures that are not recognized by Italian GAAP or any other generally accepted accounting principles. We refer to these measures as "non-GAAP measures" as they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with Italian GAAP or are calculated using financial measures that are not calculated in accordance with Italian GAAP. In particular, we present certain financial measures of the Issuer and ratios related thereto in this Report, and other measures and ratios that are not recognized by, or presented in accordance with, Italian GAAP (collectively, the "Non-GAAP Measures"). We use such measures to assess the operating financial performance and liquidity of our business. We believe that these and similar measures are used widely by the investment community, securities analysts and other interested parties, as supplemental measures of financial performance and liquidity and are intended to assist in the analysis of our results of operations, profitability, and ability to service debt.

The Non-GAAP Measures that we use in this Report are defined as follows:

- "EBITDA" is defined as net profit/(loss) for the year/period before total income taxes, interest, amortization of intangible fixed assets and depreciation of tangible fixed assets;
- "EBITDA Margin" is defined as EBITDA divided by Total sales, expressed as a percentage;
- "Pro Forma Adjusted EBITDA" is defined as EBITDA adjusted for adjustments to financial assets and liabilities, net exchange rate losses, certain items we believe are non-recurring or exceptional in nature;
- "Pro Forma Adjusted EBITDA Margin" is defined as Pro Forma Adjusted EBITDA divided by Total sales, expressed as a percentage;

- “Run-rate Pro Forma Adjusted EBITDA” is defined as Pro Forma Adjusted EBITDA adjusted for certain estimated run-rate cost savings from project efficiencies and personnel efficiencies;
- “Run-rate Pro Forma Adjusted EBITDA Margin” is defined as Run-rate Pro Forma Adjusted EBITDA divided by Total sales, expressed as a percentage;
- “Total Gross Financial Indebtedness” is defined as the sum of the Revolving Credit Facility, the Notes offered hereby, Refinanced Indebtedness and Rolled Indebtedness. Total Gross Financial Indebtedness does not include obligations in respect of the F.I.S. Convertible Bond;
- “Total Net Financial Indebtedness” is defined as the sum of Cash and Cash Equivalents, Bank loans and borrowings due within one year, Bank loans and borrowings due after one year, Loans and borrowings from other financial backers, Bonds, net of amortized cost effect. Total Net Financial Indebtedness does not include obligations in respect of the F.I.S. Convertible Bond;
- “Recurring capital expenditures” is defined as investments relating to the upgrade of our existing production lines and equipment to the latest available technologies and maintenance of our facilities, plants and equipment as well as investment activities in relation to the preparation of our production lines for the production of new products, our information technology systems, compliance, and quality and R&D;
- “Strategic capital expenditures” is defined as investments relating to investments for the increase in production capacity at our facilities as well as extraordinary investments for quality upgrades.
- “Other capital expenditures” is defined as internal work capitalized consisting of personnel costs that we incurred in connection with investment projects;
- “Net working capital” is defined as the sum of trade receivables, inventories, trade payables and other elements of working capital;
- “Trade working capital” is defined as the sum of trade receivables, inventories, and trade payables; and
- “Trade working capital days” is defined as Trade working capital as of the relevant end of period divided by Total sales for the relevant period multiplied by 365;
- “Other elements of working capital” is defined as the sum of Receivables from subsidiaries, Receivables from Sister Companies, Receivables from the Parent, Tax receivables, Deferred tax assets, Receivables from others, Prepayments and accrued income, Payments on account, Social security charges payables, Other payables, Accrued and deferred income, Tax payables, Payables to subsidiaries, Payables to Sister Companies, Payables to the Parent, Provision for risk and charges, Employees’ leaving entitlement;
- “EBITDA net of Recurring capital expenditures” is defined as EBITDA less Recurring capital expenditures;
- “Free operating cash flow” is defined as EBITDA less Recurring capital expenditures less change in net working capital less Strategic capital expenditure;
- “Cash conversion (Recurring capital expenditures)” is defined as EBITDA less Recurring capital expenditures divided by EBITDA, expressed as a percentage;
- “Cash conversion” is defined as EBITDA less Recurring capital expenditures less change in Net working capital less Strategic capital expenditure divided by EBITDA, expressed as a percentage;
- “Total cost of materials” is defined as purchase costs of raw materials from Italy, the EU (excluding Italy) and non-EU countries.

The information presented by each of the Non-GAAP Measures is unaudited and has not been prepared in accordance with Italian GAAP or any other accounting standards. In addition, the presentation of these

measures is not intended to and does not comply with the reporting requirements of the SEC; compliance with its requirements would require us to make changes to the presentation of this information.

Our Non-GAAP Measures and ratios are not measurements of our performance or liquidity under Italian GAAP and should not be considered as alternatives to performance measures derived in accordance with Italian GAAP or any other generally accepted accounting principles. Our Non-GAAP Measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under GAAP. Some of the limitations of Non-GAAP Measures are that:

- they do not reflect our cash expenditures or future requirements for capital investments or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the significant interest expense or cash requirements necessary to service interest or principal payments on our debt;
- they do not reflect any cash income taxes that we may be required to pay;
- they are not adjusted for all non-cash income or expense items that are reflected in our statements of profit and loss and comprehensive income;
- they do not reflect the impact of earnings or charges resulting from certain matters we consider not to be indicative of our ongoing operations;
- assets are depreciated or amortized over differing estimated useful lives and often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and
- other companies in our industry and analysts may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Risk factors

The global outbreak of the coronavirus SARS-CoV-2 (“COVID-19”), which resulted in a widespread health crisis that adversely affected the economies and financial markets of many countries in the last years, particularly of regions from which we derive a significant amount of our revenues, among others Europe and North America, is now showing the termination of its negative consequences.

Governmental severe measures, which have been adopted in several countries, including Italy, are now almost completely abolished.

At Company level as well, all of the measures and procedures implemented to safeguard employees health as well as to contain the pandemic spread, are now ceased. Nevertheless, some practices have been kept, being now embedded in the day to day company activities: as an example, we could mention the work-from-home policies and the utilization of specific tools to held remote meetings between employees, and also with external stakeholders.

Also some long tail effects which were still affecting the environment in which the company was exploiting its business are now easing their effects. The supply chain model is no more experiencing any turbulence, and the real change is linked to concrete signals of a reshoring wave, which seems to be solid.

On February 24, 2022, the Russia-Ukraine went to war. Since that moment, the Company follows the evolution of the conflict also with reference to the mechanism and the sanction escalation prepared by the Allies and constantly evolving against Russia and Belarus; the Company does not have operations nor business in and with sanctioned countries; nevertheless, we are constantly monitoring the evolution of the situation through a internal crisis committee, which has been appointed as soon as the conflict started.

The Ukraine/Russia conflict had also triggered serious consequences on the world and global economy in terms of price increase of energy, which is still higher compared to the pre-conflict environment, raw materials cost inflation, difficulties in commodities provisions, blocks of movement of goods or diversions of the normal transport routes. The Company has been nevertheless able to offset higher costs with pass-through initiatives. The ultimate impact of the conflict is still highly and extraordinary uncertain and subject to change adding unexpected disruptions once the negative pressures from the Covid 19 pandemic seem to be over. An extended period of global supply chain disruption makes difficult to assess and predict the impact on the global economy, financial market and our business to the full extent the duration is uncertain.

Since some weeks, another geopolitical event escalated to a serious conflict between Israel and Palestine. The immediate market reaction affected for few days commodities and utilities prices, which then retraced promptly. Nevertheless, the medium and long term consequences of this situation are uncertain and potentially significant, and thus the Company is monitoring the evolution to quickly react in case of potentially adverse impacts on the business continuity.

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

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

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

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

The risk linked to the sector's strong dependency on Chinese suppliers for key starting materials emerged in 2020 and was confirmed in 2021, exacerbated by the spread of the Covid-19 pandemic especially in the early part of the year. As mentioned earlier, the fragility of the drug supply chain, which is dependent on certain Far East regions for supplies of materials, is a hot issue together with reshoring actions aimed at gradually returning drug and API production back to the region or even the country of origin.

Finally, a significant inflation risk, which began to materialise at the end of 2021, is continuing to have effects on the business, with the Company effort focused on containing costs increase thanks to process improvements, or to offset mentioned increase through costs passthrough activities. This trend affects prices for certain raw materials and solvents, while energy costs seem to be stabilizing at a lower level compared to second half of 2022, but way above the pre-2022 level, and freight costs seem to be easing their effect reaching the pre-2022 level. Nevertheless, it is crucial that the company maintains and reinforces the mentioned process of passing such costs through to customers, in order to partially or fully mitigate the impact on the profitability of its products.

As of the date of this Report, we are not aware of any additional material changes to the Risk Factors described in the Offering Memorandum.



*MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATION*

Management's discussion and analysis of financial condition and results of operations

The following is a discussion and analysis of our results of operations and financial conditions as of and for the nine months ended September 30, 2023 and the comparative information for the nine months ended September 30, 2022 as derived from Issuer's Unaudited Condensed Consolidated Financial Statements for the nine months ended September 30, 2023.

Results of operations

The following table provides an overview of our results of operation for the nine months ended September 30, 2023 and September 30, 2022.

Summary profit and loss statement data		
(millions of €)	For the nine months ended	
	September 30,	
	2023	2022
Production Revenues		
Total sales	486,4	433,8
Other production revenue	122,9	153,9
Total Production Revenues	609,3	587,7
Production Cost		
Raw materials, consumables, supplies and goods	(345,2)	(337,5)
Services	(104,3)	(113,0)
Use of third party assets	(1,6)	(1,4)
Personnel expenses	(107,0)	(95,0)
Amortization of intangible fixed assets and depreciation of tangible fixed assets	(44,9)	(48,0)
Change in raw materials, consumables, supplies and goods	10,6	9,4
Other operating costs	(3,5)	(2,2)
Total Production Costs	(595,9)	(587,5)
Operating Profit	13,4	0,2
Financial Income and Charges		
Other financial income	0,1	0,0
Interest and other financial charges	(23,1)	(24,6)
Net exchange rate losses	0,6	(2,0)
Net Financial Charges	(22,5)	(26,6)
Adjustments to Financial Assets and Liabilities	0,0	0,0
Pre-tax Profit	(9,0)	(26,4)
Total income taxes	0,1	0,3
Net profit/(loss) for the year/period	(8,9)	(26,1)

Run rate Proforma Adjusted EBITDA			
(in millions of €)	For the nine months ended September 30,		For the twelve month ended December 31
	2023	2022	2022
Net profit/(loss) for the year/period	(8,9)	(26,1)	2,9
Total income taxes	(0,1)	(0,3)	(9,6)
Interest	22,5	26,6	35,1
Amortization of intangible assets and depreciation of tangible fixed assets	44,9	48,0	65,3
EBITDA	58,3	48,2	93,8
FISNA and FISJAP	0,9	0,6	0,6
COVID-19 extra costs	0,1	0,3	0,4
Raw materials and shipping cost increase			2,2
Agency agreement termination			0,6
Capital loss on disposal (Brenta)	1,0	0,0	
Out of period (income)/expenses	0,8	0,1	0,1
Restructuring and Saving from FY 2022 personnel made redundant	0,4	0,0	0,9
Pro Forma Adjusted EBITDA	61,5	49,2	98,6
Project efficiencies	2,8	3,5	4,7
Personnel efficiencies	1,3	1,3	1,8
Run-rate Pro Forma Adjusted EBITDA	65,7	54,1	105,2

Sales revenues (including sales of products and R&D services) increased from 433,8 million euros to 486,4 million euros for the nine months ended September 2023 (+12%). The significant positive trend is the consequence of an important volume growth, both on new molecules, as well as on the existing portfolio, but also supported by prices increase implemented since the beginning of 2023, to secure profitability despite the still tough inflationary outlook. Other production revenues, which includes also the change in work in progress, semi-finished and finished products, highlight a decrease due to a reduction of the mentioned inventory variation; this decline does not offset the slight growth of internal work capitalized, as well as other revenues. It should be noted that as of September, 2023 about 19,8 M€ of inventory is covered by prepayment from customers, that asked for safety stock increase to secure supply chain and business continuity.

With regards to production costs, main variances relate: a) the increase in “raw materials, consumables, supplies and goods” costs largely due to higher production value; b) the increase of personnel expenses mainly due to the new secondary level agreement and the transfer of 10 people from the holding company (Nine Trees Group) to FIS, as well as the physiological increase in the number of employees compared with the previous year; c) the decrease of services largely due to lower costs of utilities and transports.

Interests and other financial charges highlight a significant decrease, given the fact that in 2022 the Company had accounted for the pro-quota of the make-whole fee on the Private Placement early repayment, which more than offset the higher interests paid on the RCF drawn portion.

Sales

The following table provides an overview of our sales for the nine months ended September 30, 2023 and September 30, 2022:

Total sales breakdown by business division

	For the nine months ended September 30,			
	2023		2022	
	M€	%	M€	%
Custom	350,8	72%	308,9	71%
Generic	111,3	23%	115,0	27%
Animal health	14,0	3%	2,4	1%
Research & Development	10,3	2%	7,5	2%
Total sales	486,4	100%	433,8	100%

Sales in the first nine months increased by 12% compared to the same period last year mainly due to new molecules sales increase, as well as current existing portfolio volumes development.

R&D services sales are in line with historical trends.

Total sales breakdown by geography

	For the nine months ended September 30,			
	2023		2022	
	M€	%	M€	%
Italy	51,4	11%	50,0	12%
EU countries (excluding Italy)	276,8	57%	246,6	57%
North America	71,7	15%	71,8	17%
South America	7,8	2%	4,3	1%
Asia	76,5	16%	56,7	13%
Other countries	2,2	0%	4,5	1%
Total sales	486,4	100%	433,8	100%

Presence in the European market remains significant and confirms previous year trend.

Sales in the last nine months also confirm the positioning in the North and South American market, as well as in Asia, proving the significant role of the Company in the international market.

Total sales breakdown by therapeutic class

	For the nine months ended September 30,			
	2023		2022	
	M€	%	M€	%
Anti-diabetics	125,0	26%	113,8	27%
Antibacterial	39,1	8%	39,6	10%
Immunosuppressants	36,3	8%	30,8	7%
Antiepileptics	31,1	7%	28,8	7%
Antiinflammatory	15,4	3%	17,9	4%
Mucolytic	15,8	3%	11,6	3%
Oncology	16,2	3%	10,9	3%
Psychleptics	13,6	3%	9,3	2%
Drugs for acid related disorder	6,1	1%	5,5	1%
Ophthalmologicals	11,4	2%	-	0%
Others	167,4	35%	147,4	35%
Products sales*	477,3	100%	415,7	100%

*Products sales: Therapeutic classes are divided on total amount of products sales, excluding R&D services amounts at the closing date.

The most relevant therapeutic area proves to be the anti-diabetic also for the first nine months of 2023 followed by antibacterial products. Strong increases in absolute terms were also experienced in the therapeutic areas related to oncology, mucolytic, immuno-suppressant and anti-epileptics.

Summary of balance sheet data

The following table provides an overview of our balance sheet recap for the nine months ended September 30, 2023, September 30, 2022 and for the twelve months ended December 31, 2022.

Summary balance sheet data

(millions of €)	For the nine months ended		As of
	September,		December 31
	2023	2022	2022
Assets:			
Total fixed assets	358,4	353,0	356,4
Total current assets	577,8	564,1	614,8
Total prepayments and accrued income	0,4	3,0	0,6
Total assets	936,6	920,2	971,9
Equity and Liabilities:			
Total net equity	229,0	214,7	239,9
Total provisions for risks and charges	1,1	0,8	1,1
Employees' leaving entitlement	4,6	4,6	4,7
Total payables	689,7	689,9	707,5
Total accrued expenses and deferred income	12,3	10,2	18,6
Total liabilities and equity	936,6	920,2	971,9

Total fixed assets record a slight increase as of September 30, 2023, compared with September 30, 2022 due to continued effort of the Company in capital expenditures projects, aimed to support the top lined expansion, projects which offset the decrease related to depreciation for the period. As a matter of fact, the

company is pursuing its capex plan, strictly connected with the strategic plan, in order to support the planned business growth as well as to focus on its capex readiness pillar.

The current assets growth is partially the consequence of the increase in inventory value (4.5 M€) but is also represented by higher receivables and liquid funds. These effects can be attributed to the solid and long-lasting business growth, which implies an increase in the production, in order to sustain commercial as well as validation campaigns.

On liabilities and equity standpoint, while total payables are in substantial balance compared to the values as of September 30, 2022, the net equity shows an increase with the comparative previous period, and this is mainly due to the different results achieved in the first nine months (September 30, 2023, closes with a better result of about 17 million euros compared to the same period of previous year).

Net financial position

Net financial position			
(in millions of €)	For the nine months ended September 30,		As of December 31,
	2023	2022	2022
	Bank loans and borrowings – due within one year	73,1	54,1
Bank loans and borrowings – due after one year	0,0	0,0	0,0
Loans and borrowings from other financial backers	4,3	1,3	4,6
Sustainability linked bond	341,5	339,7	340,1
Total Gross Financial Indebtedness	418,9	395,1	401,7
Cash and cash equivalents	(35,1)	(30,8)	(67,9)
Total Net Financial Indebtedness	383,8	364,3	333,8

The above table represents the Company's financial situation for the nine months ended September 30, 2023, September 30, 2022 and the twelve months ended December 31, 2022.

As represented, the composition of Gross Financial indebtedness is slightly worsening compared to both September 2022, and last December, due to an higher utilization of the Revolving Credit Facility.

Cash and cash equivalents decrease, compared with December 31, 2022, represents a consequence of seasonal working capital outflow, while it is showing a more solid level compared to September 30, 2022.

Capital expenditures

Capital expenditures breakdown

(in millions of €)	For the nine months ended september 30,		For the twelve months ended December 31,
	2023	2022	2022
	Recurring capital expenditures	23,7	25,1
Strategic capital expenditures	22,6	8,2	28,8
Other capital expenditures	2,2	1,7	3,6
Total capital expenditures	48,5	35,0	54,8

Recurring capital expenditures mainly relate to the upgrade of our existing production lines and equipment to the latest available technologies and maintenance of our facilities, plants and equipment as well as investment activities in relation to the preparation of our production lines for the production of new products, our information technology systems, compliance, and quality and R&D.

Strategic capital expenditures mainly relate to investments for the increase in production capacity at our facilities as well as extraordinary investments for quality and efficiency upgrades.

Other capital expenditures mainly relate to internal work capitalized consisting of personnel costs that we incurred in connection with investment projects.

Cash Flow summary

Summary statement of cash flow data

(in millions of €)	For the nine months ended September 30,		For the twelve months ended December 31,
	2023	2022	2022
	Cash flows before changes in net working capital	60,2	52,2
Cash flows from operating activities	(30,6)	(97,5)	(72,3)
Cash flows used in investing activities	(47,9)	(38,4)	(59,0)
Cash flows from (used in) financing activities	(14,5)	39,7	25,9
Change in liquid funds	(32,9)	(44,0)	(6,8)

Cash flow from operating activities is impacted by both seasonality working capital cash absorption. But it is worth to mention the improvement in the cash generated from operating activities (mostly working capital related), which shows about 67 €M positive trend with respect with the comparable quarter of previous year.

Cash from financing activities is composed by interests on the sustainability-linked bond, as well as to the repayment of a credit line on one bilateral agreement.



CONDENSED INTERIM FINANCIAL REPORT

Profit and loss statement

€M	3Q 2023	3Q 2022	Variation
A) PRODUCTION REVENUES			
turnover from sales and services	486,4	433,8	52,5
change in work in progress, semi-finished products and finished goods	55,6	103,4	(47,8)
contract work in progress	1,3	(0,6)	1,9
internal work capitalised	47,0	33,8	13,2
other revenues and income	19,1	17,3	1,8
TOTAL PRODUCTION REVENUES	609,3	587,7	21,6
B) PRODUCTION COST			
raw materials, consumables, supplies and goods	(345,2)	(337,5)	(7,7)
services	(104,3)	(113,0)	8,7
use of third party assets	(1,6)	(1,4)	(0,3)
personnel expenses			
wages and salaries	(77,4)	(70,7)	(6,8)
social security contributions	(20,3)	(19,0)	(1,3)
employees' leaving entitlement	(4,3)	(4,0)	(0,3)
other costs	(4,9)	(1,3)	(3,6)
	(107,0)	(95,0)	(12,0)
amortisation and depreciation			
amortisation of intangible fixed assets	(4,5)	(4,6)	0,1
depreciation of tangible fixed assets	(40,4)	(43,4)	2,9
	(44,9)	(48,0)	3,1
change in raw materials, consumables, supplies and goods	10,6	9,4	1,2
other operating costs	(3,5)	(2,2)	(1,3)
TOTAL PRODUCTION COST	(595,9)	(587,5)	(8,4)
(A - B) OPERATING PROFIT	13,4	0,2	13,2
C) FINANCIAL INCOME AND CHARGES			
other financial income			
financial income from subsidiaries of parents	0,1	0,0	0,0
from securities classified as current assets	0,0	0,0	0,0
	0,1	0,0	0,0
interest and other financial charges			
financial charges to subsidiaries of parents	(0,1)	(0,1)	0,1
other interest expense	(23,1)	(24,5)	1,4
	(23,1)	(24,6)	1,5
net exchange rate losses	0,6	(2,0)	2,6
NET FINANCIAL CHARGES	(22,5)	(26,6)	4,1
D) ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES			
write-backs of derivatives	0,0	0,0	0,0
write-downs of derivatives	0,0	0,0	0,0
TOTAL ADJUSTMENTS	0,0	0,0	0,0
PRE-TAX PROFIT (A-B+-C+-D)	(9,0)	(26,4)	17,3
Income taxes			
current taxes	0,1	0,0	0,1
taxes relative to prior years	0,0	0,0	0,0
change in deferred tax assets and liabilities	0,0	0,0	0,0
income from domestic tax consolidation scheme	(0,0)	0,3	(0,3)
Total income taxes	0,1	0,3	(0,2)
NET PROFIT FOR THE YEAR	(8,9)	(26,1)	17,2

Balance sheet

€M	3Q 23	3Q 22	Variation
B) FIXED ASSETS			
I. Intangible fixed assets			
start-up and capital costs	0,5	0,3	0,2
industrial patents and intellectual property rights	4,2	5,6	(1,3)
concessions, licences, trademarks and similar rights	4,0	0,6	3,4
goodwill	8,7	12,2	(3,5)
other	0,0	0,0	(0,0)
assets under development and payments on account	0,0	0,0	0,0
	17,4	18,7	(1,3)
II. Tangible fixed assets			
land and buildings	101,2	102,6	(1,4)
plant and machinery	145,0	162,0	(17,0)
industrial and commercial equipment	0,6	0,6	0,0
other assets	6,8	8,2	(1,4)
assets under construction and payments on account	85,4	58,9	26,4
	339,0	332,3	6,7
III. Financial fixed assets			
investments in subsidiaries	2,0	2,0	0,0
investments in other companies	0,0	0,0	0,0
	2,0	2,0	0,0
TOTAL FIXED ASSETS	358,4	353,0	5,4
C) CURRENT ASSETS			
I. Inventory			
raw materials, consumables and supplies	136,0	137,3	(1,3)
work in progress and semi-finished products	174,0	173,6	0,4
contract work in progress	2,1	0,3	1,8
finished goods	106,3	93,7	12,6
payments on account	0,1	9,1	(9,0)
	418,5	414,0	4,5
II. Receivables			
trade receivables	69,3	73,8	(4,5)
from subsidiaries	0,0	0,0	0,0
from parents	32,3	23,0	9,3
from subsidiaries of parents	0,0	2,3	(2,3)
tax receivables	0,0	0,0	
- due within one year	3,8	6,8	(3,0)
- due after one year	2,6	2,4	0,1
deferred tax assets	8,0	5,4	2,6
from others	0,0	0,0	
- due within one year	4,8	5,3	(0,5)
- due after one year	3,4	0,3	3,0
	124,2	119,4	4,8
IV. Liquid funds			
bank and postal accounts	35,1	30,8	4,3
cash-in-hand and cash equivalents	0,0	0,0	(0,0)
	35,1	30,8	4,3
TOTAL CURRENT ASSETS	577,8	564,1	13,7
D) PREPAYMENTS AND ACCRUED INCOME			
Prepayments and accrued income	0,4	3,0	(2,6)
TOTAL PREPAYMENTS AND ACCRUED INCOME	0,4	3,0	(2,6)
TOTAL ASSETS	936,6	920,2	16,5

€M		3Q 23	3Q 22	Variation
A) NET EQUITY				
	I. Share capital	10,0	10,0	0,0
	III. Revaluation reserves	94,8	94,8	0,0
	IV. Legal reserve	2,4	2,4	0,0
	VI. Other reserves			
	- Undistributed net profits reserve	32,1	34,7	(2,6)
	- Extraordinary reserve	93,0	93,0	0,0
	- Negative goodwill	2,4	2,4	0,0
	- Reserve for state and regional aid	1,0	1,0	0,0
	- Reserve for derivatives	2,0	2,0	0,0
	- Reserve for unrealised exchange rate gains	0,2	0,5	(0,3)
VII.	Hedging reserve	0,0	0,0	0,0
VIII.	Net profit/loss carried forward	0,0	0,0	0,0
IX.	Net profit for the year	(8,9)	(26,1)	17,2
TOTAL NET EQUITY		229,0	214,7	14,3
B) PROVISIONS FOR RISKS AND CHARGES				
	pension and similar provisions	0,4	0,2	0,2
	tax provision, including deferred tax liabilities	0,7	0,5	0,1
	derivatives	0,0	0,0	0,0
	other provisions	0,0	0,0	0,0
TOTAL PROVISIONS FOR RISKS AND CHARGES		1,1	0,8	0,3
C) EMPLOYEES' LEAVING ENTITLEMENT		4,6	4,6	0,0
		4,6	4,6	0,0
D) PAYABLES				
	bonds			
	- due within one year	0,0	0,0	0,0
	- due after one year	341,5	339,7	1,8
		341,5	339,7	1,8
	convertible bonds	52,6	52,2	0,4
	bank loans and borrowings			
	- due within one year	73,1	54,1	19,0
	- due after one year	0,0	0,0	0,0
		73,1	54,1	19,0
	loans and borrowings from other financial backers	4,3	1,3	3,0
	payments on account	23,0	43,6	(20,6)
	trade payables	155,0	155,0	0,0
	payables to subsidiaries	1,1	0,4	0,7
	payables to parents	0,0	0,0	0,0
	- due within one year	0,9	7,1	(6,2)
	- due after one year	0,0	0,0	0,0
		0,9	7,1	(6,2)
	payables to subsidiaries of parents			
	- due within one year	3,1	0,7	2,4
	- due after one year	0,0	3,0	(3,0)
		3,1	3,7	(0,6)
	tax payables	1,4	1,7	(0,3)
	social security charges payable			
	- due within one year	4,9	3,9	1,0
	- due after one year	0,4	0,5	(0,1)
		5,3	4,4	0,9
	other payables			
	- due within one year	28,5	26,8	1,6
	- due after one year	0,0	0,0	0,0
		28,5	26,8	1,6
TOTAL PAYABLES		689,7	689,9	(0,2)
E) ACCRUED EXPENSES AND DEFERRED INCOME				
	Accrued expenses and deferred income	12,3	10,2	2,1
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME		12,3	10,2	2,1
TOTAL LIABILITIES		936,6	920,2	16,5

Cash flow statement

€M	9M 2023	9M 2022
Net profit for the year	(8,9)	(26,1)
Income taxes	(0,1)	(0,3)
Interest expenses (income)	23,1	26,6
Capital gains on disposal of assets	1,0	
1. Profit before taxes, interest, dividends and gains/losses	15,1	0,2
Adjustments for non-monetary items		
Accruals to provisions	0,2	4,0
Amortisation and depreciation	44,9	48,0
Adjustments to financial assets and liabilities	0,0	0,0
Other adjustments for non-monetary items	0,0	0,0
Total adjustments for non-monetary items	45,1	52,0
2. Cash-flows before changes in net working capital	60,2	52,2
Changes in net working capital		
Decrease/(increase) in inventory	(57,3)	(112,1)
Decrease/(increase) in trade receivables	51,2	28,8
Increase/(decrease) in trade payables	(16,9)	(25,4)
Decrease/(increase) in prepayments and accrued income	0,2	(1,9)
Increase/(decrease) in accrued expenses and deferred income	(6,4)	1,6
Other changes in net working capital: assets	10,3	(0,8)
Other changes in net working capital: liabilities	(11,7)	12,3
Total changes in net working capital	(30,6)	(97,5)
3. Cash flows after other adjustments	29,6	(45,3)
Other adjustments		
Interest paid	(13,0)	(18,3)
Interest collected	0,0	0,0
Income taxes paid	0,0	(0,6)
Utilisation of provisions	(0,3)	(4,1)
Total other adjustments	(13,3)	(23,0)
4. Cash flows after other adjustments	16,3	(68,3)
Investing activities		
Tangible fixed assets	(53,1)	(36,3)
Disinvestments	0,5	0,0
Intangible fixed assets	4,7	(0,2)
Investments	0,0	0,0
Disinvestments	0,0	0,0
Financial fixed assets	0,0	(1,9)
Current financial assets	0,0	0,0
<i>Acquisition or sale of business units net of cash acquired</i>	0,0	0,0
5. Cash flows used in investing activities	(47,9)	(38,4)
Financing activities		
Third party funds		
Increase (decrease) in short-term bank loans and borrowings	16,0	38,2
Increase in financing	0,0	350,0
Decrease in financing	(8,4)	(292,4)
Own funds		
Dividends and interim dividends paid	(8,8)	(33,2)
6. Cash flows from (used in) financing activities	(1,2)	62,7
TOTAL CASH FLOWS	(32,9)	(44,0)
OPENING LIQUID FUNDS	67,9	74,8
CLOSING LIQUID FUNDS	35,1	30,8
CHANGES IN LIQUID FUNDS	(32,9)	(44,0)



ACCOUNTING POLICIES

Introduction

These financial statements have been prepared in accordance with the provisions of article 2423 and following articles of the Italian Civil Code, interpreted in the context of and integrated by the reporting standards promulgated by the Italian Accounting Standard Setter ("OIC"). They consist of a balance sheet, a profit and loss statement, a cash flow statement and the notes.

These financial statements incorporate the changes introduced by Legislative decree no. 139/2015 applicable for annual reporting periods beginning on or after 1 January 2016 and the resulting amendments to the OIC. Each balance sheet, profit and loss statement and cash flow statement caption presents the corresponding figures of the previous year. Where necessary, the latter are adjusted for comparative purposes and the related effects are disclosed in the notes, if material.

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

The amounts presented in the balance sheet, profit and loss statement and cash flow statement are in millions Euros, with one decimal point.

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

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

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

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

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

Basis of preparation

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

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

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

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

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

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

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

Intangible fixed assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tangible fixed assets

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

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

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

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

Depreciation begins when the asset becomes available for use.

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

Temporarily unused assets are also depreciated.

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

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

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

The company refers to the maximum rates in the table attached to the Ministerial decree of 31 December 1988 (updated by the Ministerial decree of 17 November 1992) for Group IX, Species 9 (Pharmaceutical, chemical-pharmaceutical and related production) to define its depreciation pattern and rates. These maximum rates are deemed to reflect the assets' residual useful lives in accordance with the provisions of article 2426.1.2 of the Italian Civil Code.

The depreciation rates applied are as follows:

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

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

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

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

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

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

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

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

If, at the reporting date, there are indications of impairment losses on tangible and intangible fixed assets, the recoverable amount of such assets is estimated.

If the recoverable amount, being the higher of value in use and fair value less costs to sell, is lower than the corresponding carrying amount, the assets are written down.

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

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

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

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

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

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

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

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

Financial fixed assets

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

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

financial fixed assets, whereas trade receivables are recognised under current assets, regardless of their due date.

Equity investments

Equity investments in subsidiaries and other companies are measured at cost.

They are initially recognised at acquisition or incorporation cost, including the related transaction costs. The latter comprise costs that are directly attributable to the transaction such as, for example, bank and financial brokerage fees, commissions, expenses and taxes.

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

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

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

Inventory

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

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

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

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

Raw materials and supplies used in manufacturing finished goods are not written down if the realisable value of such goods is expected to be equal to or higher than their production cost. Moreover, should the price of raw materials and supplies decrease and the cost of finished goods exceed their realisable value, the raw materials and supplies are written down to their net realisable value, assumed to be the best estimate of their market price.

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

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

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

Receivables

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

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

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

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

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

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

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

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

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

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

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

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

The company recognises these receivables at their estimated realisable value by writing down their carrying amount through the provision for bad debts, in order to provide for any risk of impairment. To this end, the company considers specific indicators based on past trends and any other useful information about a probable impairment. The write-downs are estimated on an individual basis for significant receivables and collectively for the others, by calculating the expected impairment losses at the reporting date.

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

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

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

Current financial assets

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

Liquid funds

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

Prepayments and accrued income and accrued expenses and deferred income

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

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

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

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

Net equity

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

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

Provisions for risks and charges

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

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

If the measurement of the accruals gives a range of values, the accrual represents the best possible estimate between the upper and lower thresholds of the range.

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

Derivatives

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

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

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

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

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

Derivatives embedded in hybrid contracts are separated from the non-derivative host and recognised separately if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative provided for in OIC 32. The company assesses whether it is required to separate an embedded derivative and recognise it separately only at the hybrid instrument's initial recognition or at the date when its contractual clauses are amended.

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

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

Hedge accounting

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

If a derivative is designated as a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, a firm commitment or a highly probable forecast transaction and could affect the net profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in the specific net equity reserve, whereas the ineffective portion of the gain or loss on the hedging instrument is recognised in the profit and loss statement. The gains or losses accumulated in the net equity reserve are reclassified to the profit and loss statement in the year or over the years during which the hedged future cash flows affect the net profit or loss. If a firm commitment or a highly probable forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated gains or losses that were recognised in the specific reserve are reclassified from net equity to the carrying amount of the asset (to the extent of its recoverable amount) or liability upon its recognition.

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

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

- the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
- the main elements of the hedging instrument and hedged item (nominal amount, settlement date of cash flows, due date and underlying variable) match or are closely in line and the counterparty's credit risk does not significantly affect the fair value of the hedging instruments and hedged item.

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

Employees' leaving entitlement

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

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

Payables

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

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

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

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

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

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

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

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

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

At each reporting date, the carrying amount of payables measured at amortised cost is the present value of future cash flows discounted using the effective interest rate.

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

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

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

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

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

Foreign currency transactions, assets and liabilities

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

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

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

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

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

Revenues and costs

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

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

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

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

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

Income taxes

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

The company participates in its parent's domestic tax consolidation scheme for IRES (corporate income tax) purposes (see the relevant section of these notes).

Deferred tax assets and liabilities are calculated on the accumulated amount of all temporary differences between the carrying amounts of assets and liabilities and their tax base that will reverse in subsequent years.

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

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

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

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

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

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

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

Current taxes are calculated by applying:

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

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

Domestic tax consolidation scheme

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

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

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

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