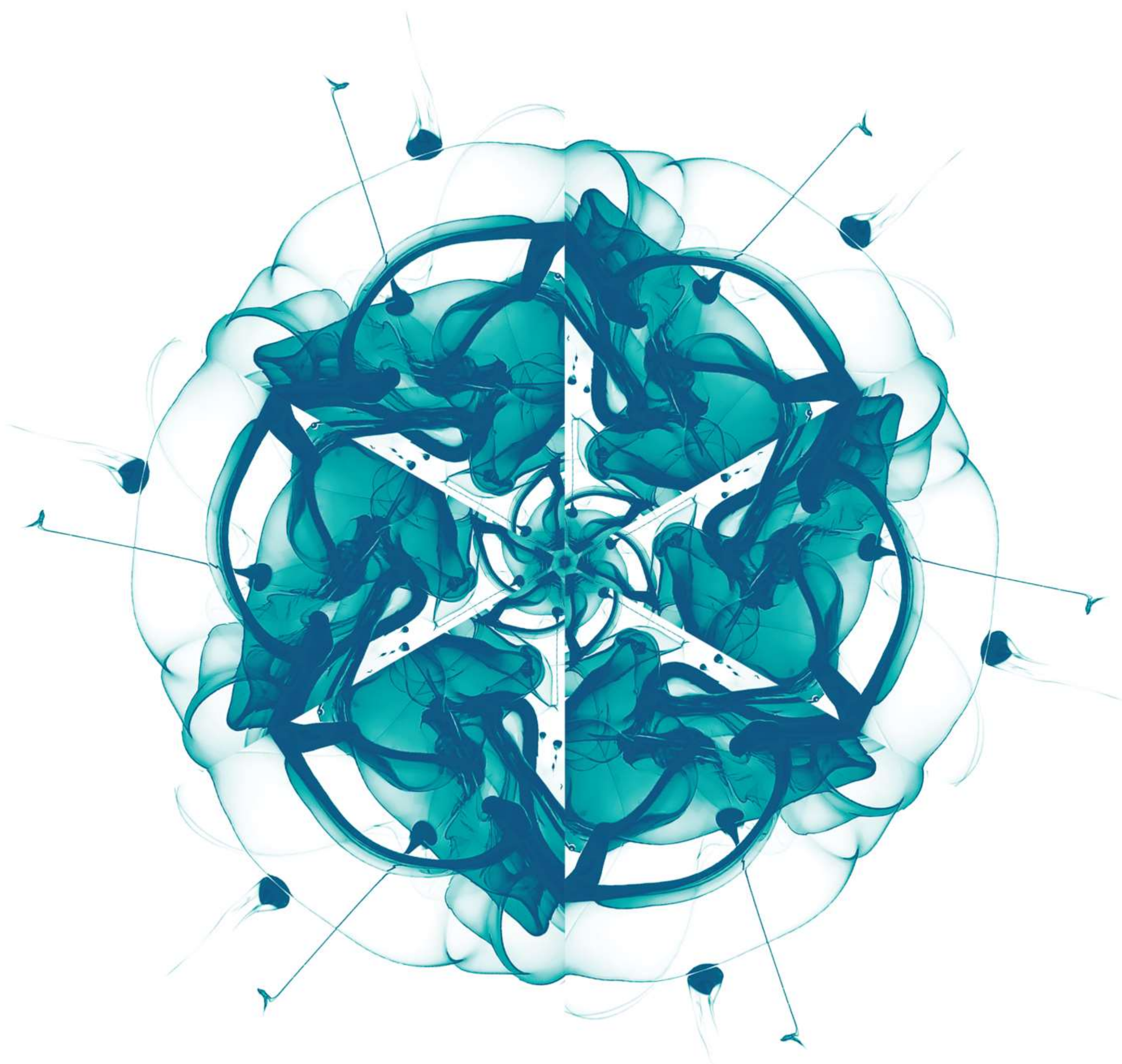

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INTERIM CONDENSED FINANCIAL REPORT AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2024

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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 evolution of the Russia-Ukraine conflict as well as the conflict in Israel, 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 Interim Condensed Financial Statements as of and for six months ended June 30, 2024 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"). However, Issuer's Interim Condensed Financial Statements do not include all the information required by IFRS or International Accounting Standard 34 (IAS 34 – Interim Financial Reporting). The financial information presented in this section is derived from the Issuer Interim Condensed Financial Statements for six months ended June 30, 2024 and June30, 2023 and from the Audited Financial Statements for period ended December 31, 2023, but it is summarized differently in some cases from the original captions in the Issuer Interim Condensed 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 due to the immaterial impact of these two subsidiaries on the Company's balance sheet and profit and loss.

Non-GAAP Measures

In this Report, we present certain financial measures that are not recognized by IFRS 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 IFRS or are calculated using financial measures that are not calculated in accordance with IFRS. 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, IFRS (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 IFRS 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 IFRS and should not be considered as alternatives to performance measures derived in accordance with IFRS 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

As of the date of this Report, we are not aware of any material changes to the Risk Factors described in the Offering Memorandum. Nonetheless, please see below certain updates.

Although the Company does not have operations nor business in the territories and countries sanctioned as a result of the Russia-Ukraine conflict, we are constantly monitoring the evolution of such conflict 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, despite a gradual stabilization of utility procurement costs, they have not yet returned to pre-conflict levels, as well as 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.

Finally, the medium and long term consequences of the conflict between Israel and Palesting 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, failure to obtain and maintain regulatory approval is one of the main risks to which we and our customers are exposed.

Furthermore, 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, the Issuer 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, the Issuer 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 the Issuer.

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 six months ended June 30, 2024 and the comparative information for the six months ended June 30, 2023 as derived from Issuer's Unaudited Interim Condensed Financial Statements for the six months ended June 30, 2024. For some of the results and conditions shown in the Report, the comparative information are for the twelve months ended December 31, 2023 as derived from Issuer's Audited Financial Statements as of December 31, 2023.

Results of operations

The following tables provides an overview of our results of operation for the six months ended June 30, 2024, June 30, 2023 and December 31, 2023.

Reclassified Profit and Loss Statement

	For the six months ended June 30,		As of December 31
(millions of €)	**2024**	**2023**	**2023**
Production revenues	336,6	340,0	744,0
Cost of Sales*	(247,4)	(263,0)	(591,0)
Gross profit	**89,2**	**76,9**	**153,0**
Marketing and selling expenses*	(5,9)	(5,4)	(9,7)
Administration expenses*	(21,0)	(18,5)	(33,2)
Research and development expenses*	(1,2)	(1,6)	(2,9)
Other operating income	1,4	0,6	1,5
EBITDA [Pre non-underlying charges]	**62,5**	**52,1**	**108,7**
Non-underlying charges	(18,7)	(5,3)	(44,3)
EBITDA [Post non-underlying charges]	**43,8**	**46,8**	**64,4**
Depreciation and amortisation	(30,6)	(28,8)	(60,9)
EBIT [operating profit]	**13,2**	**17,9**	**3,5**
Net financial charges	(16,9)	(17,4)	(33,1)
Fair value gains on revaluation of derivatives	-	-	0,2
Other gains and losses	0,8	(0,0)	(0,4)
Pre-tax profit	**-2,9**	**0,5**	**-29,8**
Income taxes	0,1	0,1	12,6
PROFIT FOR THE YEAR	**-2,9**	**0,6**	**-17,2**

** amounts net of depreciation and amortisation*

Run rate Proforma Adjusted EBITDA			
(in millions of €)	For the six months ended June 30,		As of December 31,
	2024	2023	2023
EBITDA (Italian GAAP)	**41,3**	**43,1**	**61,5**
IFRS impact	2,4	3,7	2,9
EBITDA reported	**43,8**	**46,8**	**64,4**
COVID-19	-	-	-
Inventory write-off	-	-	30,0
Provision inventory disposal	-	-	1,7
Transaction costs	17,9	4,9	10,6
Personnel restructuring related	0,8	0,4	1,1
Disposal investment	-	-	1,0
Raw materials and shipping costs	-	-	-
Agency agreement termination	-	-	-
Subtotal	**18,7**	**5,3**	**44,3**
EBITDA adjusted	**62,5**	**52,1**	**108,8**
FISNA and FISJAP	0,6	0,9	0,4
Pro-forma adj. EBITDA	**63,1**	**52,9**	**109,2**
Project efficiency	-	2,4	-
24 months fwd identified cost savings	5,0	-	20,0
Run rate Pro-forma adjusted EBITDA	**68,1**	**55,3**	**129,2**

Sales in the first half of the year are quite in line with the same period of the previous year, confirming the historical trend.

Cost of Sales, which also includes the change in work in progress, semi-finished and finished products, highlight a decrease due to inventory being significantly higher than in June 2023, mainly related to an increase in production volumes, to face sales needs for the second half of 2024.

It should be noted that as of June 30, 2024 about €70,5 million of inventory is covered by prepayment from customers, that asked for safety stock increase to secure supply chain and business continuity.

Non-underlying charges include such items as significant restructuring costs and expenses incurred in relation to one-off transformation projects.

Sales

The following table provides an overview of our sales for the six months ended June 30, 2024 and June 30, 2023:

Total sales breakdown by business division

	For the six months ended June 30,			
	2024		2023	
	M€	%	M€	%
Custom	250,4	75%	245,2	73%
Generic	67,1	20%	76,3	23%
Animal health	8,5	3%	6,9	2%
Research & Development	7,5	2%	6,7	2%
Total sales	**333,6**	**100%**	**335,1**	**100%**
Other revenues	3,0		4,8	
Total revenues	**336,6**		**340,0**	

Sales in the first six months were in line with the same period of the previous year.

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

Total sales breakdown by geography

	For the six months ended June 30,			
	2024		2023	
	M€	%	M€	%
Italy	34,9	10%	37,2	11%
EU countries (excluding Italy)	231,6	69%	185,8	55%
North America	33,3	10%	52,4	16%
South America	2,9	1%	5,0	1%
Asia	29,4	9%	51,7	15%
Other countries	1,4	0%	3,0	1%
Total sales	**333,6**	**100%**	**335,1**	**100%**

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

Sales in the last six months also confirm the positioning in the North America as well as Asia market proving the role of the Company in the international market.

Total sales breakdown by therapeutic class

	For the six months ended June 30,			
	2024		2023	
	M€	%	M€	%
Anti-diabetics	90,0	28%	92,1	28%
Antibacterial	24,5	8%	30,6	9%
Antiepiletics	25,0	8%	22,9	7%
Immunosuppressants	18,6	6%	23,4	7%
Mucolytic	11,2	3%	10,7	3%
Antinflammatory	14,1	4%	10,0	3%
Oncology	5,0	2%	12,8	4%
Psychleptics	5,8	2%	8,0	2%
Ligand	7,8	2%	-	0%
Ophthalmogicals	10,8	3%	9,4	3%
Others	113,1	35%	108,4	33%
Products sales*	**326,1**	**100%**	**328,4**	**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 six months of 2024 followed by antibacterial and atiepiletics products.

Summary of balance sheet data

The following table provides an overview of our balance sheet recap for the six months ended June 30, 2024, June 30, 2023 and for the twelve months ended December 31, 2023.

Summary Balance Sheet data			
(millions of €)	For the six months ended June 30,		As of December 31
	2024	2023	2023
Total non-current assets	421,4	375,7	429,0
Total current assets	611,5	639,0	606,2
Total assets	**1.032,9**	**1.014,7**	**1.035,1**
Total equity	275,4	244,9	278,3
Total non-current liabilities	458,2	401,0	452,2
Total current liabilities	299,2	368,8	304,7
Total equity and liabilities	**1.032,9**	**1.014,7**	**1.035,1**

Non-current assets include Deferred Tax which highlight a €43 million increase, mainly due to the accounting of a Deferred Tax Assets consequent to the write-down of inventory and tax losses as of December 31, 2023. The increase is also related to a Tax Credit linked to the domestic tax consolidation scheme between the Company and the former prior Parent Company, Tax Credit which is accounted back within the Company books.

The current assets drop is the consequence of the decrease in trade and other receivables, which were partially offset by higher Inventory value as well as in cash and bank balances. 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.

The equity growth is mainly related to cash amounts received as a capital contribution on the acquisition date and accounted in the reserve for capital contribution.

On the other hand, non-current liabilities growth is mainly due to 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 signed in December 2023 substantially concurrently with the completion of the acquisition. While the decrease in current liabilities is mainly due to a decrease in trade payables and short-term financial borrowings, partially offset by higher contract liabilities.

Net financial position

NET FINANCIAL POSITION			
	For the six months ended June 30,		As of December 31
(millions of €)	2024	2023	2023
Cash and bank balances	77,4	46,9	119,1
A. Liquidity	**77,4**	**46,9**	**119,1**
Current loans and borrowings*	(34,6)	(67,5)	(17,1)
Current lease liabilities	(2,1)	(1,8)	(1,7)
B. Current financial indebtedness	**40,7**	**(22,4)**	**100,2**
Non-current loans and borrowings**	(400,0)	(350,0)	(400,0)
Non-current lease liabilities	(7,9)	(3,5)	(3,2)
C. Non-current financial indebtedness	**(407,9)**	**(353,5)**	**(403,2)**
D. Net Financial Position (A+B+C)	**(367,1)**	**(375,9)**	**(302,9)**

(*) Current loans and borrowings include €M 8,2 in accrued interest in relation to Senior Secured instruments as of June 30, 2024 (€M 8,2 as of June30, 2023 and €M 8,4 as of Dec. 31, 2023)

(**) 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 €M 392,0 as of June, 2024 (€M 341,8 as of June 30, 2023 and €M 390,8 as of Dec. 31, 2023).

The above table represents the Company's financial situation for the six months ended June 30, 2024, June 30, 2023 and the twelve months ended December 31, 2023.

As represented, the composition of financial indebitness is directly affected by the subscription for €50 million by means of Private Tap signed in December 2023 with the same maturity of the original bond that has been used to repay current loans and borrowings.

Cash and bank balances decrease, compared with December 31, 2023, represents a consequence of seasonal working capital outflow, whilst reaching a more solid level compared to June 30, 2023, due in part to the cash amounts received as a capital contribution on the acquisition date.

Capital expenditures

Capital expenditures breakdown			
(in millions of €)	**For the six months ended june 30,**		**For the twelve months ended December 31,**
	2024	**2023**	**2023**
Recurring capital expenditures	17,5	12,5	35,8
Strategic capital expenditures	4,4	15,7	32,2
Other capital expenditures	1,4	1,5	2,8
Total capital expenditures	**23,3**	**29,7**	**70,8**

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 six months ended June 30,**	**For the twelve months ended December 31,**
	2024	**2023**
Cash flows before changes in net working capital	45,1	98,2
Cash flows from operating activities	(65,3)	23,6
Cash flows used in investing activities	(22,4)	(69,9)
Cash flows from (used in) financing activities	0,7	0,2
Change in liquid funds	**(41,8)**	**52,0**

Cash flow from operating activities is impacted by seasonality working capital cash absorption.

Cash used in investing activities is mainly composed by capital expenditures as per breakdown details reported above.

Cash from financing activities is mainly composed by interests on the sustainability-linked bond, as well as factors' repayment.

INTERIM CONDENSED FINANCIAL STATEMENTS

Condensed Statement of profit or loss and other comprehensive income for the six-months period ended 30 June 2024 and 2023

(millions of €)	Six-months period ended June 30,		
	2024	2023	Changes
Revenue	336,6	340,0	(3,4)
Cost of sales	(277,0)	(291,0)	13,9
Gross profit	**59,6**	**49,0**	**10,6**
Marketing and selling expenses	(5,9)	(5,4)	(0,5)
Administrative expenses	(21,8)	(19,3)	(2,5)
Research and development costs	(1,4)	(1,7)	0,4
Other operating income	1,4	0,6	0,8
Other operating expenses /	(18,7)	(5,3)	(13,4)
[Non-underlying charges]	-	-	-
Finance income	0,9	0,1	0,7
Other gains and losses	0,8	(0,0)	0,8
Finance costs	(17,8)	(17,5)	(0,3)
Profit/ (Loss) before tax	(2,9)	0,5	(3,4)
Income tax	0,1	0,1	(0,0)
Profit/ (Loss) for the year	(2,9)	0,6	(3,5)
Other comprehensive income / (expense)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefits plan	-	0,0	(0,0)
Related tax effect	-	(0,0)	0,0
Total items that will not be reclassified subsequently to profit or loss	-	0,0	(0,0)
Other comprehensive income for the year, net of income tax	-	0,0	(0,0)
			-
Total comprehensive income	(2,9)	0,7	(3,5)

Condensed Statement of financial position

(millions of €)	2Q 2024	2Q 2023	Changes
Non-current assets			
Goodwill	14,8	14,8	0,0
Other intangible assets	9,1	9,3	-0,2
Property, plant and equipment	337,0	334,6	2,4
Right-of-use assets	9,5	5,2	4,2
Other investments	2,0	2,0	0,0
Derivative financial assets	2,1	1,9	0,2
Deferred tax asset	42,9	7,4	35,5
Trade and other receivables	3,9	0,5	3,5
Total non-current assets	**421,4**	**375,7**	**45,7**
Current assets			
Inventories	452,9	443,3	9,6
Trade and other receivables	80,0	148,0	-67,9
Contract assets	1,2	0,8	0,4
Cash and bank balances	77,4	46,9	30,4
Tax receivable	0,0	0,0	0,0
Total current assets	**611,5**	**639,0**	**-27,5**
Total assets	**1.032,9**	**1.014,7**	**18,1**

(millions of €)	2Q 2024	2Q 2023	Changes
Equity and liabilities			
Issued share capital	10,0	10,0	0,0
Revaluation reserve	94,8	94,8	0,0
Other reserves	56,8	3,8	53,0
Retained earnings	113,9	136,3	-22,5
Total equity	**275,4**	**244,9**	**30,5**
Non-current liabilities			
Borrowings	392,0	341,8	50,2
Convertible loan notes	52,2	51,0	1,2
Retirement benefit obligations	4,6	4,7	-0,1
Lease liabilities	7,9	3,5	4,4
Provisions	1,4	0,0	1,4
Other non-current liabilities	0,0	0,0	0,0
Deferred tax liability	0,0	0,0	0,0
Total non-current liabilities	**458,2**	**401,0**	**57,2**
Current liabilities			
Trade and other payables	192,4	278,3	-85,9
Lease liabilities	2,1	1,8	0,2
Borrowings	34,6	67,5	-32,9
Convertible loan notes	0,0	0,0	0,0
Derivative financial instruments	0,0	0,0	0,0
Contract liabilities	70,7	21,2	49,5
Tax payable	-0,5	0,0	-0,5
Total current liabilities	**299,2**	**368,8**	**-69,6**
		0,0	**0,0**
Total liabilities	**757,4**	**769,8**	**-12,4**
			0,0
Total equity and liabilities	**1.032,9**	**1.014,7**	**18,1**

Condensed Statement of cash flows

	For the six months ended June 30, 2024	For the twelve months ended December 31, 2023*
Profit for the year	(2,9)	(17,2)
Adjustments for:		
Interest expenses	17,8	33,3
Income tax expense/ (benefit)	(0,1)	(12,6)
Depreciation and amortisation	29,3	59,0
Depreciation of right-of-use assets	1,2	1,9
Loss/(Gain) on disposal of property, plant and equipment	1,0	1,0
Write-off of inventory	-	30,0
Provisions for inventory disposal obligations	(245,7)	1,7
Imperment of trade receivable	-	0,2
Other gains and losses	(0,1)	0,7
Provision for retirement benefit obligations	0,1	0,1
Operating cash flows before movements in working capital	45,1	98,2
Decrease/(increase) in Inventories	(103,8)	(18,7)
Decrease/(increase) in Trade and Other receivables	62,1	14,4
Increase/(decrease) in Trade and Other payables	(11,0)	(23,5)
Decrease/(increase) in Contract Assets	(0,5)	0,1
Increase/(decrease) in Contract Liabilities	(11,9)	51,5
Cash generated by operations	(20,0)	122,0
Retirement benefits paid	(0,1)	(0,3)
Net cash from operating activities	(20,1)	121,7
Investing activities		
Purchases of property, plant and equipment	(21,6)	(66,3)
Acquisition of intangible assets	(0,7)	(4,2)
Proceeds on disposal of property, plant and equipment	-	0,6
Acquisition of investments	-	
Net cash (used in)/from investing activities	(22,4)	(69,9)
Financing activities		
Dividends paid	-	(2,0)
Interest paid	(15,9)	(31,0)
Repayments of loans and borrowings	-	(57,1)
Repayment of lease liabilities	(1,1)	(2,0)
Proceeds from loans and borrowings	17,6	48,0
Net decrease in other borrowings	-	(8,6)
Proceeds from capital increase	-	52,8
Net cash (used in)/from financing activities	0,7	0,2
Net increase/(decrease) in cash and cash equivalents	(41,8)	52,0
Cash and cash equivalents at beginning of year	119,1	67,9
Effect of foreign exchange rate changes	0,1	(0,9)
Cash and cash equivalents at end of year	77,4	119,1

** The Condensed Statement of cash flows for the six-months period ended 30 June 2024 does not include comparative figures for the corresponding interim period of the year ended 31 December 2023 because they were prepared in accordance with Italian GAAP, therefore they are not comparable with the current period, as they are prepared in accordance with IFRS.*

ACCOUNTING POLICIES

Accounting policies

Basis of accounting

The Company's annual financial statements are prepared in accordance with International Financial Reporting Standards and adopted by the European Union ("IFRS"). The accounting policies adopted in the preparation of these interim condensed financial statements (the "Interim Condensed Financial Statements") are consistent with those applied in the annual financial statements, however they do not include all the information required by IFRS or International Accounting Standard 34 (IAS 34 – Interim Financial Reporting) issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

These Interim Condensed Financial Statements have not been audited or reviewed by the independent auditors.

These Interim Condensed Financial Statements include the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of cash flows.

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 amounts presented in Interim Condensed Financial Statements are in millions of Euros, with one decimal point, which is the Company's functional currency and the Company's presentation currency. Foreign operations are included in accordance with the policies set out in the following notes.

The preparation of the Interim Condensed Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities as well as the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on management's best judgment at the date of these Interim Condensed Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Reference should be made to the section "Critical accounting judgements and key sources of estimation uncertainty" in the financial statements as of and for the year ended 31 December 2023, for a detailed description of the more significant valuation procedures used by the Company in preparing its financial statements. Impairment tests of non-current assets are not performed for the preparation of the Interim Condensed Financial Statements unless impairment indicators have been identified. Derivatives are not remeasured to their fair value at each reporting date, except in the event of significant change in market conditions. Income tax is not calculated for interim periods. Similarly, the actuarial valuations that are required for the determination of employee benefit provisions are also usually carried out during the preparation of the annual financial statements, except in the event of significant market fluctuations, or significant plan amendments, curtailments or settlements.

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 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.

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, antibacterial, 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.

Leases

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;
- 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.

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.

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.

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.

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.

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.

Taxation

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

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.

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.

Property, plant and equipment

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.

Intangible assets

Assets acquired separately

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. 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.

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 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.

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.

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.

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.

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 measurement[1]	Measurement category[2]
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;

[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.

- 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.

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.

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 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.

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.

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.