

# INTERIM REPORT – 2023 Q3

Kepler S.p.A

Unaudited Condensed Interim Consolidated Financial Report as of and for the nine months ended

September 30th 2023



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# 01

## INTRODUCTION

- **GENERAL INFORMATION ABOUT KEPLER S.P.A. AND ITS CONSOLIDATES SUBSIDIARIES (THE “GROUP”)**
- **SIGNIFICANT EVENTS THROUGHOUT THE PERIOD**
- **SIGNIFICANT EVENTS OCCURRED AFTER SEPTEMBER 30, 2023**

## **GENERAL INFORMATION ABOUT KEPLER S.P.A. AND ITS CONSOLIDATES SUBSIDIARIES (THE “GROUP”)**

Kepler S.p.A. (following the “Parent Company”) is an holding company indirectly controlled by Ardian Buyout Fund VII B SLP through its wholly-owned subsidiary Vegeta S.p.A. which was created on February 7, 2022 for the purpose of the acquisition (the “Biofarma Acquisition”) of Biofarma Srl and its subsidiaries (the “Biofarma Group”) from White Bridge Investments and certain other sellers. Vegeta, together with Victoria HD S.r.l. (holding company of the Scarpa family – founders of Biofarma), and certain managers, finalized the Biofarma Acquisition on March 22, 2022. The Biofarma Acquisition was performed via a newco (Tauri S.p.A.), which was subsequently merged into Biofarma Srl with retrospective accounting and fiscal effects at acquisition date. The Biofarma Acquisition has been financed via a mix of equity injections and debt. In particular, in connection with it, Kepler S.p.A. entered into a i) Bridge Facility Agreement providing for €345 million Bridge facilities, and ii) a Revolving Credit Facility Agreement providing for €60m Revolving Credit Facility (undrawn at closing).

On May 2022, Kepler S.p.A. successfully completed the offering of 345 million of Euro aggregate principal amount of Senior Secured Floating Rate Notes due 2029 (the “Notes”), which were used to repay the Bridge Facilities as per above and related interests and transaction costs. The Notes bear interest equal to three-month EURIBOR (with 0% floor) plus 5.75% per annum, reset quarterly, and were issued at an issue price of 96.00% of the nominal amount thereof. Application has been successfully made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market thereof. On August 8, 2022, Kepler S.p.A. signed an ISDA master agreement for an interest rate cap based on a notional amount of 345 million of Euro with an underlying rate based on 3m Euribor, a maturity of 3 years (starting from 15/09/2022), and a strike at 0%, to hedge against the interest rate risk relating to the Notes for a running premium of 152bps. Thus, the Group capped its EURIBOR exposure to 1.52% for 3 years, which is generating meaningful savings in the current interest-rate environment.

The Biofarma Group was formed in February 2020 from the aggregation of the Biofarma Srl, Nutrilinea Srl, Apharm Srl (initially acquired for 70% controlling stake), Pasteur Srl (initially acquired for 75% controlling stake) and International Health Science Srl, creating a consolidated group operating in the R&D, manufacturing, and sale for third parties of health supplements, medical devices, and cosmetics products. On April 2022 and May 2022, Biofarma further consolidated its perimeter, by acquiring the minority interests in Pasteur and Apharm, respectively.

On September 2022, the Biofarma Group started its international expansion. In fact, on September 15, 2022, the Group completed the acquisition of 100% of the shares of Codilab and Laboratoire Pierre Caron (together “Nutraskills”), two French companies specialized in the research and development, manufacture, and packaging of food supplements. More precisely, Codilab is a Contract Manufacturing Organization specialist of dry-form food supplements (in particular tablets, capsules, powders) and Laboratoire Pierre Caron is a Contract Development Organization focused on the formulation and packaging (mostly pill jars) of food supplements for third parties.

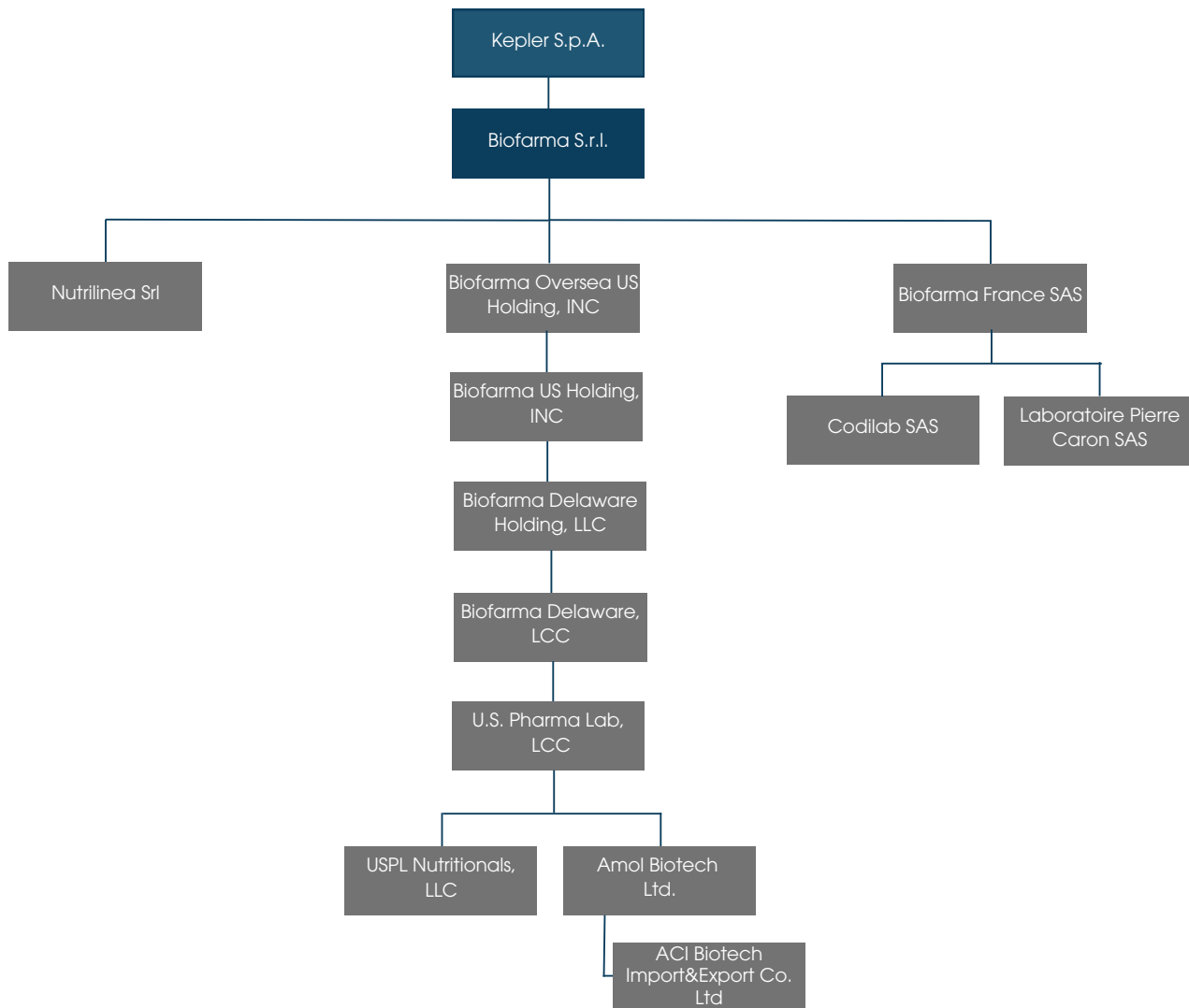
This transaction has been performed thanks to the constitution of a new legal entity (“Biofarma France”), which is controlled at 100% by Biofarma S.r.l. and which is structured with the idea to become the legal and fiscal vehicle for all Kepler S.p.A. initiatives in France. In order to perform this acquisition, Biofarma France has received the necessary capital injection from Biofarma S.r.l., mostly financed by the Group’s available financial resources. The Group primarily funded the acquisition of Nutraskills through the issuance of approximately 38.5 million of Euro in aggregate principal amount of additional subordinated PIK notes by an indirect parent company of Kepler S.p.A., the proceeds of which were contributed as equity to Kepler S.p.A. and its subsidiaries, with an accretive effect on leverage.

In Q1-23, the Group continued to focus on the simplification of its legal structure in Italy, which had as a first step the merger of Apharm S.r.l. into Biofarma S.r.l. finalized on 31st of March 2023. With a view of enhancing intragroup efficiencies and unlock cost synergies, on February 6, 2023, the Board of Directors approved the mergers of IHS S.r.l., Apharm S.r.l., and Pasteur S.r.l. in Biofarma S.r.l., with retrospective accounting effects from January 1, 2023. The merge of IHS S.r.l., Apharm S.r.l. and Pasteur S.r.l. in Biofarma S.r.l. has been officially completed on June 15, 2023.

On July 25, 2023, the previously-announced acquisition (the “USPL Acquisition”) of 100% of US Pharma Lab, Inc. (“US Pharma Lab”) – has been successfully completed. Headquartered in New Jersey (US), and with operations in both the US and China, US Pharma Lab is a fast-growing and highly innovative CDMO specialized in the custom development, manufacture and distribution of innovative nutraceutical products including probiotics, vitamins, minerals, supplements, and premium dietary ingredients. This highly strategic partnership marks the evolution of Biofarma Group into the first global CDMO solely focused on nutraceuticals with (i) a production footprint in the United States, Europe (Italy and France) and China, (ii) strong innovation capabilities on both sides of the Atlantic with strong expertise in probiotics and other nutraceutical products, and (iii) a highly complementary customer base, focused on pharma clients, CPGs and fast-growing and highly innovative digitally native brands.

The USPL Acquisition was financed through a combination of equity, including a significant reinvestment by US Pharma Lab’s CEO Mr. Amol Luhadia and other Luhadia family members and contributions by Ardian, the Scarpa family, Biofarma’s managers and other co-investors, into an indirect parent company of Biofarma, and debt in the form of €80,854,470 Senior Secured Floating Rate Notes due 2029 and \$22,127,660 Senior Secured Floating Rate Notes due 2029 issued by Kepler S.p.A. (together, the “Kepler Private Notes”) and \$110,638,300 Senior Secured Floating Rate Notes due 2029 issued by Biofarma’s subsidiary Biofarma Delaware, LLC (the “US BidCo Private Notes”, and together with the Kepler Private Notes, the “Private Notes”) that were, in each case, privately placed with certain institutional investors. The Private Notes mature on May 15, 2029, bear interest equal to the applicable EURIBOR or Term SOFR (with 0% floor) plus 6.50% per annum, subject to certain margin adjustments, were issued under a new indenture having terms substantially aligned with the terms of the indenture governing Kepler S.p.A.’s existing Senior Secured Floating Rate Notes due 2029 (the “Existing SSNs”) and rank pari passu with the Existing SSNs. The Kepler Private Notes are listed on the Vienna Stock Exchange and admitted to trading on the Vienna MTF market.

As of September 30, 2023, the scope of consolidation perimeter (Kepler Group) is described as follow:



## SIGNIFICANT EVENTS THROUGHOUT THE PERIOD



### **MERGER OF IHS S.R.L., APHARM S.R.L. AND PASTEUR S.R.L. IN BIOFARMA S.R.L.**

In Q1-23, the Group continued to focus on the simplification of its legal structure in Italy, which had as a first step the merger of Apharm S.r.l. into Biofarma S.r.l. finalized on 31st of March. With a view of enhancing intragroup efficiencies and unlock cost synergies, on February 6, 2023, the Board of Directors approved the mergers of IHS S.r.l., Apharm S.r.l., and Pasteur S.r.l. in Biofarma S.r.l., with retrospective accounting effects from January 1, 2023. The merge of IHS S.r.l., Apharm S.r.l. and Pasteur S.r.l. in Biofarma S.r.l. has been officially completed on June 15, 2023.



### **ACQUISITION OF US PHARMA LAB**

On July 25th, 2023, Biofarma S.r.l. announces the acquisition (the "USPL Acquisition") of 100% of US Pharma Lab, Inc. ("US Pharma Lab") – a fast-growing and highly innovative US-based nutra CDMO – from its Founder and Chairman, Mr. Ashok Luhadia, its CEO, Mr. Amol Luhadia, as well as other members of the Luhadia family. To cement a partnership between Ardian, the Scarpa family and the Luhadia family, the current shareholders of US Pharma Lab reinvest a significant portion of their proceeds into an indirect parent company of Biofarma Group.

This highly strategic partnership marks the evolution of Biofarma Group into the first global CDMO solely focused on nutraceuticals with (i) a production footprint in the United States, Europe (Italy and France) and China, (ii) strong innovation capabilities on both sides of the Atlantic with strong expertise in probiotics and other nutraceutical products, and (iii) a highly complementary customer base, focused on pharma clients, CPGs and fast-growing and highly innovative digitally native brands.



### **WAR IN UKRAINE**

The Company is not directly exposed with direct sales to Russia or Ukraine; however, the Company is manufacturing nutraceuticals products for European clients, which deliver these goods to such two markets. The total estimated yearly sales to those markets are equal to €5.1m, which is equal to less than 1,5% of the total company turnover.



### **INFLATION**

The Company, as further disclosed within this report, is facing progressive decreases in raw-material prices, energy, labor and services costs, in light of an improving macroeconomic environment. Such trend is starting to materialize in H1-23, but more visible in H2 of the year. In parallel, the Company has continued to perform the planned price increases to pass-through the increased costs of 2022, also supported by a constant dialogue with customers. In addition, in YTD September-23, Biofarma has been also able to further reduce the cost increases impact via dedicated mitigation actions, such as hedging on energy prices and introduction of new raw-materials and packaging suppliers.



### **NEW STRATEGIC PROJECTS ON GOING**

As of July 2023, the Company activated three strategic projects related to 1. Long term Strategic review, 2. Operational excellence to unlock further margin improvement opportunities and 3. ICT global setup review with the support of tier 1 external professional advisors.

## SIGNIFICANT EVENTS OCCURRED AFTER SEPTEMBER 30, 2023



### ISRAEL - GAZA CRISIS

The Company has a limited direct exposure with direct sales to Israel by manufacturing nutraceutical and cosmetics products for Israeli clients. The total estimated yearly sales to those markets are equal to €1.2m, which is equal to less than 0,2% of the total company turnover.





# 02

## GROUP ACTIVITIES AND OPERATIONS

- MAIN KPIs
- TOTAL REVENUES  
BREAKDOWN

Biofarma is a leading Global CDMO fully focused on nutraceuticals, and the undisputed leader of the Italian market. The Company is the result of a “buy-and-build” story of complementary businesses that led to the creation of a leading player with a wide portfolio of differentiated products and manufacturing technologies.

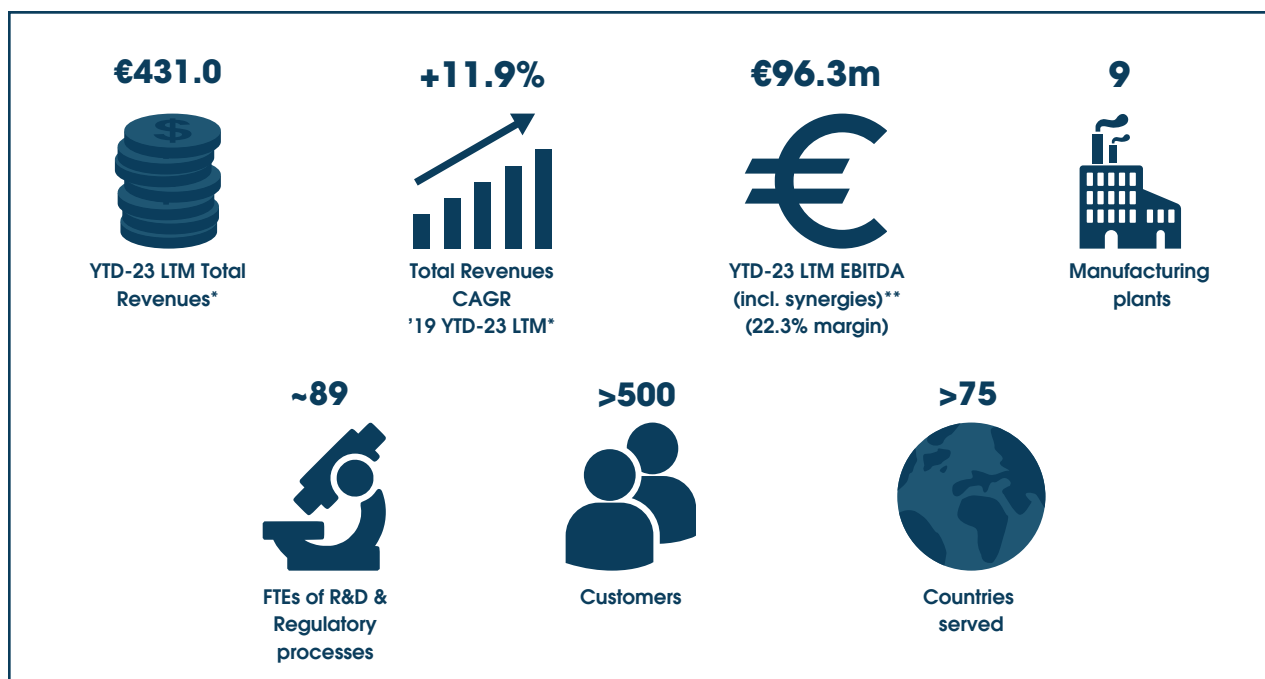
The Company positions itself as large Pharmaceutical Companies’ (“PharmaCos”) and Consumer Health Clients’ (“CHCs”) partner-of-choice for co-development projects thanks to:

- An end-to-end CDMO proposition from market intelligence, R&D and regulatory, to finished dosage forms (“FDFs”) manufacturing and packaging
- A proactive offer of innovative solutions (“push innovation model”), trying to anticipate market trends and clients’ needs also leveraging on a strong R&D department and a solid portfolio of differentiated technologies (e.g., Microencapsulation, Dry-Cap, T-Win)

Biofarma’s differentiated positioning is based on:

- Strong in-house R&D capabilities and a team of c. 65 FTEs working on clinical studies to support products’ claims (over 87 patents and 70 trademarks);
- Regulatory know-how with a dedicated team of c. 24 FTEs, supporting clients in registering product dossiers both at local and international level;
- State-of-the-art manufacturing capabilities, with several “pharma-like” manufacturing equipment and quality control systems.

## MAIN KPIs



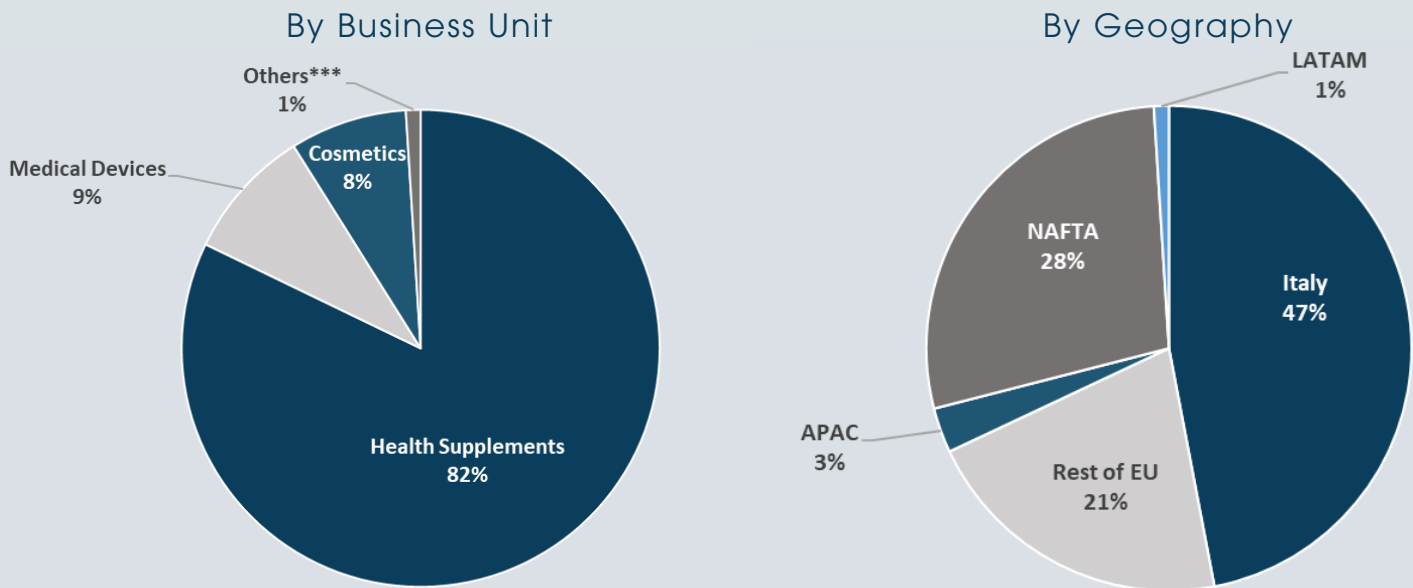
Notes:

(\*) Incl. IHS, USpharmalab and Nutraskills Revenues for '19, '20, '21,22 and YTD23;

(\*\*) Includes cost synergies;

# TOTAL REVENUES BREAKDOWN

LTM YTD-23



Notes:

\*\*\* Mainly refers to government grants related to new products R&D.  
All data presented at Kepler level, i.e., including Nutraskills and Uspharmalab as well.

Biofarma operates the business through three business units:

- **Health Supplements.** Through our Health Supplements business unit, we develop and manufacture health-enhancing products that primarily enable the maintenance of good health and support or enhance prevention treatments individually or in combination with pharmaceutical products, including for chronic diseases. While the purchase of Health Supplements does not require a formal doctor's prescription in most of our geographies, the initial purchase of health supplements by end consumers is usually driven by doctors' recommendations.
- **Medical Devices.** Through our Medical Devices business unit, we develop and manufacture products that achieve their therapeutic effect through a physical (e.g., aerosol) or mechanical (e.g., a protective layer in the stomach) action to prevent and treat diseases. Medical devices are closer to pharmaceuticals (compared to health supplements) due to the specific regulatory framework they need to comply with at a national and European level. Similar to health supplements, medical devices are typically recommended by doctors and sold to end-customers through pharmacies.
- **Cosmetics.** Through our Cosmetics business unit, we primarily develop and manufacture premium skin care products, such as anti-ageing creams, sun care and hair care products. Our strategic focus in this business unit is represented by "cosmeceuticals," consisting of cosmetic products that are purported to have therapeutic action. Our Cosmetics business unit includes certain differentiated innovative technologies, such as the Bag on Valve ("BOV") technology.



# 03

## ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- EXECUTIVE BUSINESS OVERVIEW
- REVENUES BY BUSINESS UNIT
- REVENUES BY REGION
- CASH FLOW STATEMENT
- NET FINANCIAL POSITION

## EXECUTIVE BUSINESS OVERVIEW

YTD (€m)	Sep-23A	Sep-22A	Δ (%)	Δ
Net Sales	326,1	299,3	8,9%	26,8
Other Revenues	2,9	3,8	(23,9%)	(0,9)
<b>Total Revenues</b>	<b>329,0</b>	<b>303,1</b>	<b>8,5%</b>	<b>25,8</b>
Raw Material Costs	(158,2)	(143,5)	10,2%	(14,7)
<b>First Margin</b>	<b>170,8</b>	<b>159,6</b>	<b>7,0%</b>	<b>11,2</b>
<i>First Margin (%)</i>	<i>51,9%</i>	<i>52,7%</i>	<i>(74bps)</i>	
Third Party Works Costs	(12,9)	(13,1)	(1,5%)	0,2
Direct Personnel Costs	(26,0)	(24,6)	5,8%	(1,4)
Other Direct Production Costs	(15,7)	(16,0)	(2,0%)	0,3
<b>Transformation Margin</b>	<b>116,2</b>	<b>105,9</b>	<b>9,7%</b>	<b>10,3</b>
<i>Transformation Margin (%)</i>	<i>35,3%</i>	<i>34,9%</i>	<i>+38bps</i>	
Indirect Personnel Costs	(12,6)	(11,7)	8,0%	(0,9)
Maintenance Costs	(6,4)	(5,9)	7,6%	(0,4)
Logistics and Storage Costs	(6,0)	(5,2)	14,9%	(0,8)
Other Indirect Production Costs	(4,2)	(2,6)	60,1%	(1,6)
<b>Second Margin</b>	<b>87,0</b>	<b>80,5</b>	<b>8,1%</b>	<b>6,5</b>
<i>Second Margin (%)</i>	<i>26,5%</i>	<i>26,6%</i>	<i>(10bps)</i>	
<b>Total SG&amp;A Costs</b>	<b>(26,4)</b>	<b>(22,4)</b>	<b>18,3%</b>	<b>(4,1)</b>
<i>% of revenue</i>	<i>(8,0%)</i>	<i>(7,4%)</i>	<i>(66bps)</i>	
<b>EBITDA</b>	<b>60,6</b>	<b>58,1</b>	<b>4,2%</b>	<b>2,5</b>
<i>EBITDA Margin (%)</i>	<i>18,4%</i>	<i>19,2%</i>	<i>(76bps)</i>	
Adjustments	3,4	3,7	(8,1%)	(0,3)
<b>Adj. EBITDA</b>	<b>64,0</b>	<b>61,8</b>	<b>3,5%</b>	<b>2,2</b>
<i>Adj. EBITDA Margin (%)</i>	<i>19,4%</i>	<i>20,4%</i>	<i>(94bps)</i>	

During the first nine months of 2023, despite a more difficult macro environment affecting end customers' consumption, the Biofarma Group posted a strong performance with topline growing by almost €26 m compared to the same period of the previous year. Total Revenues reached €329.0m, growing by 8.5% compared to the first nine months of 2022, in light of positive contribution of all business lines and geographies, driven by the execution of the defined 3-pillars strategy:

- Customer penetration: increased share of wallet with key accounts, especially on certain products and therapeutic areas such as probiotics, gastro, and baby care products;
- Geographical expansion: the Group was able to strengthen its revenues growth in key EMEA countries (such as Italy, France, Germany and Spain) and NAFTA;
- Technological innovation: leveraging on the outputs of its R&D department, Biofarma has been able to continue to innovate and showed strong performance on Probiotics, Dry Cap and T Win technologies.

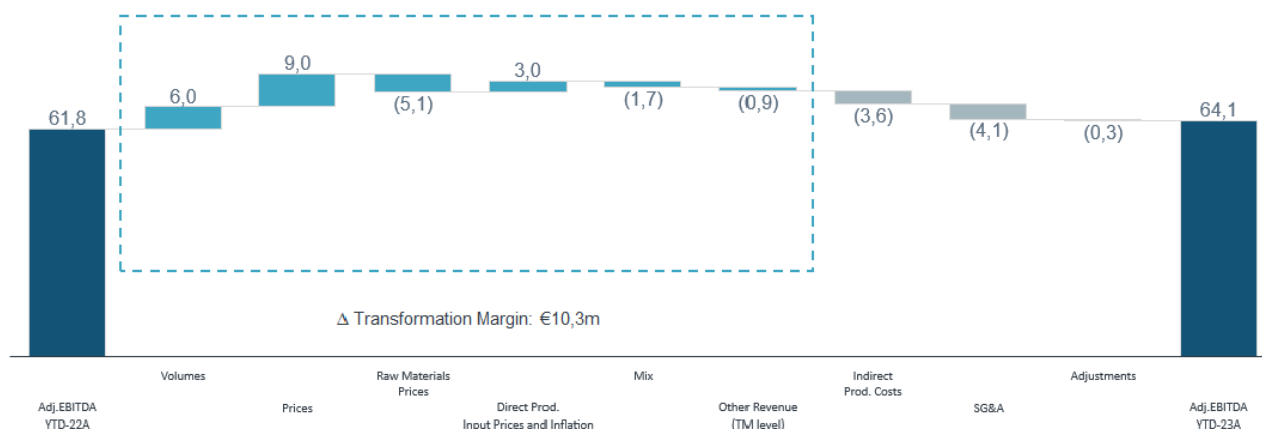
First Margin for the first nine months of 2023 amounted to €170.8m, an increase of 7.0% compared to the first nine months of 2022.

Higher raw material and packaging prices were more than offset by a well-managed increase in selling prices. In fact, raw material price increases of €5.1 (at constant volumes) have been offset by €9.0m price increases (at constant volumes), thanks to a constant dialogue and long-lasting relationships with customers. The First Margin slightly deteriorated vs. previous year due to a negative product mix of H1-23, with strong growth on slightly less profitable products within certain customers, as well as by a decline in sales of microencapsulation.

Transformation Margin for the first nine months of 2023 amounted to €116.2m, with marginality up to 35.3% vs. 34.9% for the first nine months of 2022. The improvement versus 2022 is mainly due to the operations and manufacturing excellence program deployment, which was able to recover the deterioration in the First Margin, despite higher costs for Utilities.

Second Margin for the first nine months of 2023 amounted to €87.0 m (26.5%) vs. €80.5m (26.6%), with a margin deterioration of 46 bps, mainly related to the increased logistic and maintenance cost.

Sales, General and Administration costs (SG&A) increased by €4.1m compared to the first nine months of 2022, mainly due to higher Commercial activities (€ 0.8m), Personnel cost (€2.3m) and higher R&D expenditure (€1.0m).



## REVENUES BY BUSINESS UNIT

YTD €m	Sep-23A	Sep-22A	23a vs. 22a
<b>Revenue</b>	<b>329,0</b>	<b>303,1</b>	<b>8,5%</b>
Health Supplements	253,8	236,5	7,3%
Medical Devices	37,7	32,7	15,3%
Cosmetics	34,6	30,1	15,0%
Others	2,9	3,8	(23,7%)

Health Supplements: Total Revenues stood at 253.8m, growing by c. +7.3% compared to the first nine months of 2022, mainly thanks to new customers wins as well as growth with all existing customers with long-lasting relationships. Within existing customers, there is an important increase of Tier 1 consumer healthcare clients' volumes.

Medical Devices: Total Revenues stood at €37.7m, up by +15.3% compared to the first nine months of 2022, mainly thanks to the increase in sales of Esoxx family products in Central and Eastern Europe and Enterogermina in Italy.

Cosmetics: Total Revenues amounted to €34.6m, +15.0% compared to the first nine months of 2022, mainly thanks to new clients wins as well as increased business with existing clients (with significant cross selling achieved). Furthermore, we highlight an important new client win in Israel and strong performance of BoV technology products in Northern Europe. In addition, we reinforced an important customer relationship with a leader player in pedicure treatment.

Others: Total Revenue equal to €2.9m related to government grants for clinical studies. In YTD September-2022 the revenue was 23.7% higher than in the same period this year only due to a different phasing of the grants.

## REVENUES BY REGION

YTD €m	Sep-23A	Sep-22A	23a vs. 22a
Italy	140,0	126,3	10,8%
France	22,5	19,9	13,1%
Spain	8,3	7,4	11,7%
Germany	4,8	4,1	17,6%
UK	5,1	4,3	18,2%
Other EMEA	34,7	29,1	19,3%
<b>Total EMEA</b>	<b>215,4</b>	<b>191,1</b>	<b>12,7%</b>
APAC	17,5	20,4	(14,2%)
NAFTA	94,6	90,7	4,2%
LATAM	1,5	0,8	77,4%
<b>Total RoW</b>	<b>113,6</b>	<b>112,0</b>	<b>1,4%</b>
<b>Total</b>	<b>329,0</b>	<b>303,1</b>	<b>8,5%</b>

EMEA: For the first nine months of 2023, Total Revenues increased by 12.7% compared to the same period of the previous year, mainly on the back of higher revenues coming from Tier 1 consumer healthcare clients' volumes. In particular, in Italy, Total Revenues increased by 10.8% compared to the same period of the previous year, with growth spread between new clients' acquisitions and existing clients. Strong growth has been also accounted in Central and Eastern Europe, as well in UK thanks to some strategic projects.

Asia and Pacific (APAC): For the first nine months of 2023, Total Revenues decreased by 14.2% compared to the same period of the previous year, mainly due to the a € 4.0m Cosmax customer order shift from Q3 to Q4 2023.

North America (NAFTA): For the first nine months of 2023, Total Revenues increased by 4.2% compared to the same period of the previous year, mainly due to the new innovation projects, both in Uspharmalab and Europe.

Latin America (LATAM): For the first nine months of 2023, Total Revenues are negligible still referred to an area to develop.

## CASH FLOW STATEMENT

YTD (€m)	Sep-23A
<b>Adjusted EBITDA</b>	<b>60,6</b>
(-) EBITDA acquired over the period	(11,6)
<b>EBITDA</b>	<b>49,0</b>
Δ Receivables	(4,5)
Δ Payables	(1,8)
Δ Inventory	6,8
<b>Δ TWC</b>	<b>0,5</b>
Δ Other Working Capital	(1,5)
<b>Δ NWC</b>	<b>(1,1)</b>
Maintenance Capex	(1,8)
<b>Recurring Op. CF (pre-Tax)</b>	<b>46,1</b>
<i>Cash Conversion (%)</i>	<i>94,1%</i>
Growth Capex	(18,1)
o/w Manufacturing Capex	(14,2)
o/w R&D Capex	(2,0)
o/w Other / IT Capex	(1,9)
<b>Op. CF (pre-Tax)</b>	<b>28,0</b>
<i>Cash Conversion (%)</i>	<i>57,1%</i>
Interests	(25,8)
Taxes	(9,7)
Other	
<b>Free Cash Flow (pre-M&amp;A)</b>	<b>(7,5)</b>
<i>Cash Conversion (%)</i>	<i>(15,3%)</i>
M&A Capex	(369,2)
<b>Free Cash Flow (post-M&amp;A)</b>	<b>(376,7)</b>
<i>Cash Conversion (%)</i>	<i>n.m.</i>
New Debt / Debt Repayments	188,5
Capital Contribution	188,3
Other Changes in Equity	
<b>Δ Cash</b>	<b>0,1</b>

YTD September-23 Trade Working-Capital variation versus December 2022 has been positive by €0.5m, despite higher volumes but strongly improved due to Inventory policy and processes optimization (no more safety stock needed as the delivery lead time came back on the normal level, which was not the case in 2022 due to macroeconomic trends).

Total Capex amounted to €19.9m in YTD September-23, in particular:

- Maintenance capex of €1.8m
- Growth capex of €18.1m linked to:
  - Manufacturing capex of €14.2m mainly related to investments in new production equipment and to an extension of the Gallarate facility;
  - R&D capex of €2.0m mainly related to several R&D projects in the gastro, CNS (central neuro system) and cardio therapeutic areas;
  - Other/ IT Capex of €1.9m mainly related to reinforcement of Manufacturing Enterprise System (MES) solutions



The Interests are equal to €25.8m and mainly linked to the interests on the Notes.

M&A Capex mainly relates to Us Pharmalab acquisition (including associated transaction costs), while New Debt and Capital Contribution are mainly related to sources for the above mentioned acquisition .

## NET FINANCIAL POSITION

<b>Leverage</b>	<b>Sep-23A</b>
Gross Debt for Bond Holders	345,0
RCF	--
New Private Placement	200,5
Short-term bank financing	10,6
Long-term bank financing	4,6
Cash	(24,4)
<b>NFP for Bond Holders</b>	<b>536,3</b>
<hr/>	
<b>Banks' EBITDA</b>	<b>96,3</b>
<i>Leverage for Bond Holders</i>	<i>5,6x</i>

Banks' financing is equal to €15.2m and mainly related to short-term bank-loan for invoices on cash and minorly by long-term banks' financing of Nutraskills and leasing contracts.

The Pro Forma Adjusted EBITDA is equal to €96,3m and it is composed of:

- LTM Adjusted EBITDA in Europe, equal to €63,8m
- LTM Adjusted EBITDA in US, equal to €21,4m
- Synergies in Europe, equal to €7,1m and they are mainly related to:
  - extension of Biofarma's purchasing best practices and prices in Purchasing of the raw material and packaging to French and other Italian subsidiaries (€2,1m);
  - manufacturing footprint optimisation of €3,4m, linked to several efficiency programs to improve equipment performance and improve machinery saturation by sharing the production volumes among plants;
  - €1,6m organizational synergies related to legal entities closures/consolidation (Apharm, IHS and Nutrilinea in Biofarma).
- Synergies in US, equal to €4,0m and referred to:
  - Switch to direct procurement in China and other procurement synergies;
  - Packaging efficiencies.



# 04

## INTERIM REPORT - 2023 Q3 KEPLER S.P.A.

- **SUMMARY  
CONSOLIDATED  
STATEMENT OF  
FINANCIAL POSITION  
INFORMATION OF  
KEPLER S.P.A.**
- **CONSOLIDATED  
STATEMENT OF  
CHANGES IN  
SHAREHOLDERS' EQUITY**
- **SUMMARY INCOME  
STATEMENT OF KEPLER  
S.P.A.**
- **SUMMARY CASH FLOW  
STATEMENT  
INFORMATION OF  
KEPLER S.P.A.**

## SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION INFORMATION OF KEPLER S.P.A.

Please note that the Summary Consolidated Statement of Financial Position information as of and for the nine months ended September 30, 2023, presented herein is derived from the financial information of Kepler S.p.A.. and its consolidated subsidiaries.

€ thousands	As of September 30, 2023
<b>Assets</b>	
Goodwill	1.030.416
Intangible Assets	401.175
Property, plant and equipment	135.807
Investments in subsidiaries and other companies	384
Other non current assets	57.526
<b>Non-current Assets</b>	<b>1.625.308</b>
Inventories	82.408
Trade receivables	87.091
Tax receivables	14.524
Deferred tax assets	6.321
Other receivables	3.432
Prepaid expenses and accrued income	3.543
Cash at bank and on hand	24.382
<b>Current Assets</b>	<b>221.701</b>
<b>Total Assets</b>	<b>1.847.009</b>

€ thousands	As of September 30, 2023
<b>Liabilities and Shareholders' equity</b>	
Share capital	3.000
Reserve	1.139.881
Retained earnings	(35.929)
Profit/(Loss) for the year	(38.621)
Equity attributable to the owners of the parent	1.068.331
Equity attributable to non-controlling interests	-
<b>Total Shareholders' equity</b>	<b>1.068.331</b>
Deferred tax liabilities	115.985
Provisions for employee severance indemnities	2.534
Provisions for risks and charges	2.000
Bank loan	534.900
Other financial liabilities	
<b>Non-current Liabilities</b>	<b>655.419</b>
Bank loan	10.621
Other financial liabilities	
Trade payables	82.580
Advances	
Tax payables	375
Social security payables	3.599
Other payables	16.697
Accrued expenses	9.386
<b>Current Liabilities</b>	<b>123.259</b>
<b>Total Liabilities and Shareholders' equity</b>	<b>1.847.009</b>

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ thousands	Share capital	Legal reserve	Share premium reserve	Extraordinary Reserve	Cash-flow hedge Reserve	Other Reserves	Retained earnings/losses	Fiscal year profit/loss	Total Group shareholders' equity
<b>Balance as of December 31, 2022</b>	-	-	-	-	-	-	-	-	-
Business Combination	3.000	-	834.123	37.500	-	75.327	(9.060)	(26.869)	914.021
Allocation of profit (loss) for the year	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	192.931	-	-	192.931
Result for the current fiscal year	-	-	-	-	-	-	-	(38.621)	(38.621)
<b>Balance as of September 30, 2023</b>	<b>3.000</b>	<b>-</b>	<b>834.123</b>	<b>37.500</b>	<b>-</b>	<b>268.258</b>	<b>(9.060)</b>	<b>(65.490)</b>	<b>1.068.331</b>

## SUMMARY INCOME STATEMENT OF KEPLER S.P.A.

For comparative purposes, the Summary Income Statement as of and for the nine months ended September 30, 2023, presented herein for 2023 and 2022 are derived from the financial information of Biofarma S.r.l. and its consolidated subsidiaries, pro forma for Uspharmalab for 2023 and for 2022 pro forma both Nutraskills and Uspharmalab acquisitions.

€ thousands	As of September 30, 2023	As of September 30, 2022
Revenue	320.467	294.791
Other revenue and income	8.553	8.400
<b>Total revenue and income</b>	<b>329.020</b>	<b>303.191</b>
Purchase of goods and changes in inventory	158.230	143.567
Cost of services	77.229	60.159
Use of third party assets	986	696
Personnel costs	36.226	29.234
Other operating costs	17.803	16.379
Capitalization in fixed assets for internal work	(3.035)	(2.790)
Depreciation - tangible assets	24.836	23.097
Amortization - intangible assets	25.877	37.884
Provisions for risks	-	-
<b>Total operating costs</b>	<b>338.152</b>	<b>308.226</b>
<b>Operating profit/(loss)</b>	<b>(9.132)</b>	<b>(5.035)</b>
Financial Income (expenses)	(25.809)	(22.558)
<b>Profit/(loss) before taxes</b>	<b>(34.941)</b>	<b>(27.593)</b>
Income taxes (expenses)	(9.656)	(7.898)
<b>Profit/(loss) for the year</b>	<b>(44.597)</b>	<b>(35.491)</b>

## SUMMARY CASH FLOW STATEMENT INFORMATION OF KEPLER S.P.A.

For comparative purposes, the Summary Income Statement as of and for the nine months ended September 30, 2023, presented herein for 2023 and 2022 are derived from the financial information of Biofarma S.r.l. and its consolidated subsidiaries, pro forma for Uspharmalab for 2023 and for 2022 pro forma both Nutraskills and Uspharmalab acquisitions.

€ thousands	As of September 30, 2023
<b>Cash flow from operating activities</b>	
Profit/(loss) for the year	(44.597)
Income taxes	9.656
Net financial expenses	25.809
<b>1. Profit (loss) for the year before income taxes and interest</b>	<b>(9.132)</b>
<b>Non cash adjustments</b>	
Depreciation and Amortization	50.713
Provision (Uses) for contingencies	
<b>Total non-monetary adjustments without effects in working capital</b>	<b>50.713</b>
<b>2. Cash flow from operating activities before changes in net working capital</b>	<b>41.581</b>
<b>Changes in Net Working Capital</b>	
Decrease / (Increase) of inventories	6.826
Decrease / (Increase) of trade receivables	(4.496)
(Decrease) / Increase in trade payables	(1.769)
Decrease / (Increase) in accrued income and prepaid expenses	(3.045)
(Decrease) / Increase in accrued expenses and deferred income	(5.382)
Other working capital	6.732
<b>Total changes in working capital</b>	<b>(1.134)</b>
<b>3. Cash flow from operating activities after changes in working capital</b>	<b>40.448</b>
<b>Other adjustments</b>	
(Income tax paid)	(9.656)
(Interests paid)	(18.353)
(Use of provisions)	-
Other adjustments	
<b>Total other adjustments</b>	<b>(28.009)</b>
<b>Cash flow from operating activities (A)</b>	<b>12.439</b>
<b>Cash flow from investing activities</b>	
(Payments for tangible assets)	(17.896)
Proceeds from   sale of tangible assets	-
(Payments for intangible assets)	(2.045)
Proceeds from   sale of intangible assets	-
(Payments for financial assets)	
Proceeds from   sale of financial assets	(369.200)
Other investments activities and consolidation adjustments	
<b>Cash flow from investing activities (B)</b>	<b>(389.141)</b>
<b>Cash flow from financing activities</b>	
Proceeds of Bank loan	201.648
Repayment of Bank loan	(13.046)
Capital injection	189.303
Capital repayment	
Dividends paid	-
Other non-monetary adjustments	
Change of Control cash impact	
<b>Cash flow from financing activities (C)</b>	<b>376.805</b>
<b>Increase / (Decrease) cash and cash equivalents (A + B + C)</b>	<b>103</b>
<b>Cash at hand and on bank at the beginning of the year</b>	<b>24.279</b>
<b>Cash at hand and on bank at the end of the year</b>	<b>24.382</b>



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## PRESENTATION OF OUR FINANCIAL INFORMATION

- **GENERAL INFORMATION ABOUT THE GROUP**
- **BASIS AND METHOD OF CONSOLIDATION**
- **ACCOUNTING POLICIES**
- **RECENTLY ISSUED ACCOUNTING STANDARDS**
- **ACCOUNTING STANDARDS, AMENDMENTS, AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT EFFECTIVE YET AND NOT APPLIED IN ADVANCE BY THE GROUP**
- **IFRS ACCOUNTING STANDARDS, AMENDMENTS, AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION**

## GENERAL INFORMATION ABOUT THE GROUP

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union, and with the provisions issued in enactment of Italian Legislative Decree n. 38/2005, Article 9. The term "EU-IFRS" means the International Financial Reporting Standards (IFRS), all International Accounting Standards (IAS), and all Interpretations of the International Financial Reporting Interpretations Committee (IFRIC, previously known as the Standing Interpretations Committee, or SIC) which, as of the date of approval of the Consolidated Financial Statements, have been endorsed by the European Union in accordance with the procedures established by Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002. The Consolidated Financial Statements were prepared according to the best knowledge of the EU-IFRS and the best doctrine applicable. Any future changes in interpretation or orientation will be reflected in subsequent periods as established at the time by applicable accounting standards.

The Consolidated Financial Statements have been prepared on a going concern basis, as the Directors have verified the Group's ability to meet its obligations in the foreseeable future and specifically in the next 12 months.

A description of how the Group manages financial risk, including both liquidity and equity risk, is provided in Note 3 regarding the management of financial risks.

The Consolidated Financial Statements are presented in Euro, the currency used in the economies in which the Group primarily operates; the figures are rounded off to the thousands, except where stated otherwise. The rounding off could cause discrepancies in the tables between the total amounts and the sums presented.

Below is a description of the financial statements and related classification criteria adopted by the Group as envisaged in IAS 1 – Presentation of Financial Statements:

- The consolidated statement of financial position has been prepared by classifying assets and liabilities as either current or non-current;
- The consolidated income statement has been prepared by classifying operating costs by their nature;
- The consolidated statement of comprehensive income includes both the net profit for the period as shown in the consolidated income statement and the other changes in equity resulting from transactions not entered into with shareholders of the Company;
- The consolidated statement of cash flows has been prepared by showing the cash flows resulting from operations by way of the "indirect approach".

The Consolidated Financial Statements have been prepared under the historical cost convention, except for financial assets measured at fair value through other comprehensive income, financial assets measured at fair value through profit and loss, and derivative financial instruments, which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the fair value changes for the hedged risks (fair value hedge).

## BASIS AND METHOD OF CONSOLIDATION

Described below are the criteria adopted by the Group in determining the companies to be consolidated in terms of subsidiaries and associates and their respective consolidation methods.

## CONSOLIDATED COMPANIES

### SUBSIDIARIES

The Consolidated Financial Statements include those of the Company and companies over which, in accordance with IFRS 10, Kepler S.p.A. exercises control either directly or indirectly by virtue of direct or indirect ownership of the majority of voting rights or the exercise of dominant influence in terms of the power to make decisions about the financial and operating policies of the companies/entities, obtaining the related benefits, regardless of the ownership interest. All subsidiaries are included in the consolidation perimeter from the date on which they are acquired until the date on which control over the subsidiary ceases.

Subsidiaries are consolidated on a line-item basis as described below:

- the assets and liabilities, income and expenses are consolidated line by line, with non-controlling interests allocated their share of equity and net profits as shown separately in the statement of changes in equity, consolidated income statement, and consolidated statement of comprehensive income;
- business combinations which, during the period under review, result in acquiring control over an entity are recognized using the acquisition method under IFRS 3. The acquisition cost is the fair value, at the control transfer date, of assets acquired, liabilities assumed, and equity instruments issued. Transaction costs are recognized through profit or loss on the date on which the related services are provided. The assets, liabilities and contingent liabilities acquired are recognized at their fair value at the acquisition date. The difference between the acquisition cost and the fair value of the assets and liabilities acquired is recognized, if positive, among intangible assets as goodwill or, if negative and after verifying the proper measurement of the fair value of the assets and liabilities acquired and their acquisition cost, through profit or loss. If the fair value of the identifiable assets and liabilities acquired can be determined only provisionally, the business combination is recognized using the provisional values. Any adjustments resulting from the measurement process are recognized within twelve months from the acquisition date, and the comparative figures are remeasured;
- the acquisition of non-controlling interests related to entities in which there is already control, or the sale of non-controlling interests that do not result in a loss of control, are considered equity transactions. This means that, in the event of acquisition or sale of non-controlling interests that result in control being maintained, any difference between the acquisition/sale cost and the related share of equity acquired/sold is recognized in equity;
- receivables, payables, income and expenses between the consolidated companies as well as significant profits and losses and related tax effects resulting from transactions conducted between companies and not yet realized with other parties are eliminated, with the exception of unrealized losses, which are not eliminated if the transaction provides evidence of an impairment loss of the business transferred. Also eliminated, if material, are reciprocal receivables and payables, revenues and expenses, financial income and finance costs;
- profits or losses resulting from the sale of equity interests in consolidated companies that results in a loss of control over that entity are recognized through profit or loss in an amount equal to the difference between the selling price and the corresponding share of the equity sold.

The financial statements of subsidiaries are prepared with reporting periods ending on March 31.



## ASSOCIATES

Associates are companies over which the Group exercises significant influence, which is the power to contribute to determining the financial and operating policies of the entity without having either control or joint control. Significant influence is assumed to exist when at least 20% of the exercisable voting rights is held either directly or indirectly through subsidiaries. When determining the existence of significant influence, potential voting rights that are actually exercisable or convertible are also taken into account. Investments in associates are measured using the equity method and initially recognized at the cost incurred for their acquisition. A description of the equity method is provided hereunder:

- the carrying value of these investments is aligned with the equity held and adjusted, as necessary, in application of the EU-IFRS; this includes the recognition of the greater value attributed to the assets and liabilities and any goodwill established at the time of acquisition;
- profit or loss attributable to owners of the parent company is recognized from the date on which significant influence began until the date on which it ceases; if realized losses of a company measured at equity should result in negative equity, the carrying value of the investment is eliminated, and any excess attributable to the owners of the parent is recognized in a specific reserve if the parent has undertaken to meet the associate's legal or other constructive obligations; changes in equity for companies measured at equity that are not related to net profits are recognized as a direct adjustment to equity reserves;
- significant unrealized profits and losses generated on transactions between the Company, its subsidiaries and equity-accounted associates are eliminated based on the value of the equity interest that the Group owns in the associate; unrealized losses are eliminated, apart from cases in which such losses represent an impairment loss.

A list of subsidiaries and associates, which includes information on their headquarters and the respective ownership interests, is provided below.

Company	Control	Percentage Holding	Owned by:
Kepler S.p.A.	Parent Company	100,0%	Denis S.p.A.
Biofarma S.r.l	Indirect	100,0%	Kepler S.p.A.
Nutrilinea S.r.l.	Indirect	100,0%	Biofarma S.r.l.
Biofarma France SAS	Intermediate Holding	100,0%	Biofarma S.r.l.
Codilab SAS	Indirect	100,0%	Biofarma France SAS
Laboratoire Pierre Caron SAS	Indirect	100,0%	Biofarma France SAS
Biofarma Oversea US Holding INC	Intermediate Holding	100,00%	Biofarma S.r.l
Biofarma US Holding INC	Intermediate Holding	100,00%	Biofarma Oversea US Holding INC
Biofarma Delaware Holding LLC	Intermediate Holding	100,00%	Biofarma US Holding INC
Biofarma Delaware LCC	Intermediate Holding	100,00%	Biofarma Delaware Holding LLC
USPharmalab Inc	Indirect	100,00%	Biofarma Delaware LCC
USPL Nutritional LLC	Indirect	100,00%	USPharmalab Inc
USPharmalab Inc	Indirect	100,00%	USPharmalab Inc
Amol Biotech Ltd	Indirect	100,00%	USPharmalab Inc
ACI Biotech Import&Export Co. Ltd	Indirect	100,00%	Amol Biotech Ltd

## ACCOUNTING POLICIES

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at purchase or production cost net of accumulated depreciation and any impairment losses. The purchase or production cost includes any charges incurred directly to bring the assets to working condition for their intended use, as well as any charges for disposal and removal that should be incurred as a result of contractual obligations that require restoring the asset to its original condition. Finance costs directly attributable to the purchase or construction of qualified assets are capitalized and depreciated over the useful life of the related asset.

Expenditure incurred for routine and/or cyclical maintenance and repairs is fully recognized directly in the income statement of the period in which they are incurred. Costs related to the expansion, modernization, or improvement of structural components of owned assets are capitalized when such components meet the requirements for separate classification as assets or part of an asset in application of the component approach, which establishes that each component subject to separate determination of its useful life and related value must be treated individually.

Depreciation is recognized monthly on a straight-line basis based on rates that enable the asset to be fully depreciated by the end of its useful life.

The useful lives estimated by the Group for the main categories of fixed assets are reflected in the following depreciation rates:

Buildings	3%-10%
Plant and machinery	10% - 20%
Equipment	10% - 40%
Other tangible assets	20% - 25%

The useful lives of property, plant and equipment and the residual value of such assets are reviewed and updated as necessary at the end of each year. Land is not depreciated.

## LEASES

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease, i.e., whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group adopts a single recognition and measurement model for all leases, excluding short-term leases and leases of low-value assets. The Group recognizes the liabilities referring to lease payments and the right-of-use asset, which represents the right to use the underlying asset in the lease.

## RIGHT-OF-USE ASSET

The Group recognizes the right-of-use assets at the commencement date of the lease (the date on which the underlying asset is available for use). The right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment losses, adjusted by any remeasurements of lease liabilities. The cost of the right-of-use asset comprises the amount of lease liability recognized, the initial direct costs incurred, and any lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis from the commencement date to the end of the useful life of the underlying asset or, if earlier, to the end of the lease term.

If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

The right-of-use assets are subject to impairment testing. More information is provided in the section on impairment testing.

## LEASE LIABILITY

At the lease's commencement date, the Group measures the lease liability at the present value of the lease payments not paid at that date. The lease payments due include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be payable under residual value guarantees. The lease payments also include the exercise price of a purchase option if the Group is reasonably certain to exercise that option and the payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are recognized as costs in the period in which the event or condition that generated the payment occurs.

In calculating the present value of the lease payments due, the Group uses the incremental borrowing rate at the commencement date if the implicit interest rate cannot be determined easily. After the commencement date, the lease liability is increased to reflect interest on the lease liability and reduced to reflect the lease payments made. Moreover, the carrying amount of the lease liability is remeasured to reflect any lease modifications or revised contractual terms for payment modifications; it is also remeasured to reflect any changes in the assessment of whether the option to purchase the underlying asset is reasonably certain to be exercised or modifications in future payments deriving from a change in the index or rate used to determine such payments.

## **SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS**

The Group applies the exemption for recognizing short-term leases (those that, at the commencement date, have a term of 12 months or less and do not contain a purchase option). The Group also applies the exemption for leases with low-value assets mainly to leases for office equipment considered to have a low value. The payments on short-term leases and low-value leases are recognized as costs on a straight-line basis over the lease term.

## **INTANGIBLE ASSETS**

Intangible assets are identifiable, non-monetary items without physical substance, which generate future economic benefits. Goodwill is included when acquired for valuable consideration. Intangible assets are recognized at purchase and/or production cost including any directly attributable expenses incurred to prepare the asset for use and net of accumulated amortization and any impairment losses. Any interest expense accrued during and for the development of intangible assets is considered part of the purchase cost. Amortization begins when the asset is available for use and is recognized systematically in relation to the remaining useful life of the asset.

Intangible assets with a finite useful life are amortized on a straight-line basis over their useful life, i.e. the estimated period in which such assets will be used by the Group. Intangible assets with a finite useful life are tested for impairment in order to determine whether those assets have suffered a loss in value (impairment loss) whenever there is any indication thereof.

Intangible assets with an indefinite useful life are not depreciated, but they are tested for impairment at least annually). The impairment test is described in the section on "impairment losses".

When part or all of a previously acquired business is sold, and goodwill had emerged on the acquisition, the corresponding residual value of goodwill is taken into account in determining the capital gain or capital loss on the sale.

### **(A) INDUSTRIAL PATENTS AND INTELLECTUAL PROPERTY RIGHTS**

Patents and intellectual property rights are amortized on a straight-line basis over their useful life.

### **(B) CONCESSIONS, LICENSES AND TRADEMARKS**

Concessions, licenses and trademarks are amortized on a straight-line basis over their respective term except for the brands, emerging when accounting for the acquisitions, which are measured using the royalty method and are not amortized because they have indefinite useful lives but are tested annually for impairment.

Costs for software licenses, including expenses incurred in order to make the software ready for use, are amortized on a straight-line basis over a period of 3 years.

Costs related to software maintenance are expensed as incurred.

## (C) CUSTOMER RELATIONSHIPS

Customer relationships represents the total contractual relationships (supply agreements, service agreements, etc.) and non-contractual relationships with customers and are amortized over their useful life, estimated as 15 years for the historical data.

## (D) RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed as incurred, whereas development costs are recognized as intangible assets when all the following conditions are met:

- the project is clearly identified and the related costs can be reliably identified and measured;
- the technical feasibility of the project has been demonstrated;
- the intention to complete the project and to sell the intangible assets generated has been demonstrated;
- a potential market exists or, in the event of internal use, the utility of the intangible asset to produce the intangibles generated by the project has been demonstrated;
- the technical and financial resources needed to complete the project are available.

The amortization of any development costs recognized as intangible assets begins on the date on which the project becomes marketable.

In an identified internal project for the creation of an intangible asset, if the research stage is indistinguishable from the development stage, the cost of this project is fully recognized through profit or loss as if there had only been a research stage.

## BUSINESS COMBINATION

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see below);
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

## **IMPAIRMENT OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS**

At each reporting date, a review is performed to determine whether there is any indication that assets have suffered an impairment loss. Both internal and external sources of information are taken into account for the impairment testing. Internal sources include: the obsolescence or physical deterioration of the asset, any significant changes in the use of the asset, and the financial performance of the asset compared to expectations. External sources of information include trends in the market price of the asset; any technological, market or legislative changes; trends in market interest rates or in the cost of capital used to measure the value of the investment.

If any such indication exists, the recoverable value of the asset is estimated, and any impairment loss compared to the current carrying value is recognized in the income statement. The recoverable value of an asset is its fair value less any costs to sell or its value in use (i.e. the present value of estimated future cash flows generated by the asset), whichever is greater. To determine value in use, the present value of expected future cash flows is calculated using a pre-tax discount rate that reflects the current market values of the cost of money based on the investment period and the risks specific to the asset. For an asset that does not generate sufficiently independent cash flows, the recoverable value is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying value of the asset or of the related cash-generating unit exceeds its recoverable value. Impairment of cash-generating units is initially recognized as a reduction of the carrying value of any goodwill attributed to it and subsequently as a reduction of the other assets proportionate to their carrying values and to the extent of their respective recoverable values. If the conditions for a previous impairment loss should cease to exist, the carrying value of the asset is reinstated and recognized in the income statement to the extent of the net carrying value that the asset would have had if it had not been written down and all related depreciation or amortization had been recognized.

## TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

Trade receivables and other financial assets are initially recognized at fair value and subsequently at amortized cost in accordance with the effective interest rate approach, net of any write-downs. Trade receivables and other financial assets are included among current assets, excluding those contractually due after twelve months from the reporting date, in which case they are classified as non-current assets.

Impairment losses on receivables are recognized when there is objective evidence that the Group will not be able to collect the amount from the counterparty based on the related agreement's terms.

Objective evidence includes events such as:

- significant financial difficulty of the Parent Company or debtor;
- pending legal disputes with the debtor concerning the receivables;
- likelihood that the debtor will declare bankruptcy or will initiate other such financial restructuring procedures.

The amount of the write-down is measured as the difference between the carrying value of the asset and the present value of the future cash flows and is recognized in the income statement under "other costs". Uncollected receivables are eliminated from the statement of financial position and recognized in a provision for doubtful debts. If the reasons for a previous write-down should cease to exist in future periods, the value of the asset is reinstated at the value of its amortized cost without the write-down.

Financial assets are written off when the right to receive cash flows from them ceases or is transferred, or when the Group has substantially transferred all risks, rewards and control associated with the financial instrument to a third party.

## DERIVATIVES AND HEDGE ACCOUNTING

The Group uses derivatives to hedge against risks of variability in:

- interest rates with respect to the note issuance through Interest Rate Swaps;

The use of derivatives is regulated by the Group's policies approved by the management bodies, which lay down precise written procedures on the use of derivatives in keeping with the Group's risk management strategies. Derivative agreements were stipulated with some of the most financially solid counterparties to reduce the risk of contractual breach. The Group does not use derivatives for trading purposes, but to hedge against identified financial risks. A description of the criteria and methods used to manage financial risks is contained in the "Financial risk management" section.

Derivatives are initially measured at their fair value, in accordance with IFRS 13, and the attributable transaction costs are recognized in profit and loss as incurred. After initial recognition, the changes in fair value are recognized in profit and loss if the derivatives do not qualify for hedge accounting due to their type or to the Group's decision not to perform effectiveness testing. Derivatives are designated as hedging instruments when formal documentation of the hedging relationship exists and the hedge effectiveness, tested periodically, is high, under IFRS 9.

Hedge accounting differs according to the purpose of the hedge: hedging of the exposure to variability in future cash flows (cash flow hedge) or of changes in fair value (fair value hedge):

- Cash flow hedge: the changes in the fair value of the derivatives that are designated, or are effective, for hedging future cash flows regarding probable transactions are recognized directly in other comprehensive income and other reserves, while the ineffective portion is recognized immediately in profit or loss. The amounts, which had been recognized directly in the Statement of Comprehensive Income and accumulated in equity, are included in profit or loss when the hedged transactions affect profit or loss.
- Fair value hedge: for effective hedging of exposure to changes in fair value, the hedged item is adjusted by the fair value changes attributable to the risk hedged with a balancing item in the income statement. Gains and losses deriving from measurement of the derivative are also recognized in profit or loss. Fair value changes of derivatives that do not qualify for hedge accounting are recognized in profit or loss as they occur.

In the absence of quoted prices on active markets, the fair value is the amount resulting from appropriate valuation techniques that take into account all factors adopted by market participants and the prices obtained in an actual market transaction. The fair value of the interest rate swaps is determined by discounting the future cash flows to their present value.

## **DERIVATIVES QUALIFIED AS TRADING INSTRUMENTS**

Derivative instruments are used for strategic and financial hedging purposes. However, since some derivatives do not meet conditions set by EU-IFRS for hedge accounting, those derivatives are recognized as trading instruments. Accordingly, the derivatives are initially recognized at fair value, and subsequent changes in fair value are recognized as components of financial income and finance costs for the period.

The fair value of financial instruments not listed on an active market is determined using valuation approaches based on a series of methods and assumptions related to the market conditions at the reporting date.

The fair value classification of financial instruments is set forth below based on the following hierarchical levels:

Level 1: fair value determined based on quoted (non-adjusted) prices in active markets for identical financial instruments;

Level 2: fair value determined using valuation techniques based on inputs that are observable in active markets;

Level 3: fair value determined using valuation techniques based on unobservable inputs in active markets.

Given the short-term nature of trade receivables and payables, we believe that the carrying value is a good approximation of their fair value.

For more information on the valuation of financial instruments at Fair Value based on this hierarchy, see Note 3.5.

## **INVENTORIES**

Inventories are recognized at the lower of purchase or production cost and net realizable value, i.e. the amount that the Group expects to receive on their sale under normal business conditions, less costs to sell. The cost of inventories of raw and ancillary materials, consumables and finished products is determined by using the weighted average cost method.

The cost of finished products and semi-finished goods includes the costs of raw materials, direct labor, and other production costs (based on normal operating capacity). Finance costs are not included in the measurement of inventories because the conditions for their capitalization are not present.

## **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include available bank deposits and other forms of short-term investment with a maturity not exceeding three months. At the reporting date, bank overdrafts are classified as current financial liabilities in the statement of financial position. The items included in cash and cash equivalents are measured at fair value, and subsequent changes are recognized through profit or loss.

## **TRADE PAYABLES AND OTHER LIABILITIES**

Trade payables and other liabilities are initially recognized at fair value net of directly attributable costs and are subsequently measured at amortized cost using the effective interest rate method.

## FINANCIAL LIABILITIES

Financial liabilities, which relate to loans, leases and other payment obligations, are initially recognized at fair value net of transaction costs and are subsequently recognized at amortized cost using the effective interest rate method. In the event of changes in the expected cash flows, the value of the liability is recalculated in order to reflect such change based on the present value of the new expected cash flows and using the initially determined internal rate of return. Financial liabilities are classified among current liabilities, excluding those with a contractual maturity of twelve months after the reporting date and excluding those for which the Group has the unconditional right to defer payment for at least twelve months from such date.

Purchases and sales of financial liabilities are recognized on the transaction settlement date.

Financial liabilities are eliminated from the statement of financial condition when paid in full and/or when the Group has transferred all risks and charges related to the instrument.

## EMPLOYEE BENEFITS

Short-term benefits include wages, salaries, related social security charges, compensation for unused vacation time, and incentives and bonuses payable within twelve months of the reporting date. These benefits are recognized as components of the cost of personnel during the service period.

### Pension funds

The companies of the Group have both defined-contribution and defined-benefit plans.

The defined-contribution plans are managed by external fund managers in relation to which there are no legal or other obligations to pay further contributions if the fund should have insufficient assets to meet the obligations toward employees. For those defined-contribution plans, the Group gives voluntary or contractually set contributions to both public and private pension funds. The contributions are recognized as costs of personnel on an accruals basis. Advance contributions are recognized as an asset to be reimbursed or used to offset any future payments due.

A defined-benefit plan is one that cannot be classified as a defined-contribution plan. In defined-benefit plans, the amount of the benefit to be paid to the employee is quantifiable solely upon termination of employment and is tied to one or more factors, such as age, seniority, and salary level. As such, the obligations of a defined-benefit plan are determined by an independent actuary using the projected unit credit method. The present value of a defined-benefit plan is determined by discounting the future cash flows at an interest rate that is equal to that of high-quality corporate bonds issued in the currency in which the liability is to be settled and which considers the term of the related pension plan. Actuarial gains or losses resulting from these adjustments are shown in the statement of comprehensive income as a component of such income. The Group manages solely one defined-benefit plan, which is the fund for employee severance indemnities (or "TFR"). This fund, which is a form of deferred remuneration, is mandatory for Italian companies in accordance with Article 2120 of the Italian Civil Code and is correlated to the length of employment and the salary received throughout the period of service. On January 1, 2007, Italian law no. 296 of December 27, 2006 ("2007 Financial Law"), and subsequent law decrees and regulations introduced significant changes as to how this fund is to be handled, including the right for employees to choose whether their benefit is accumulated in a supplemental pension fund or in the "treasury fund" managed by INPS. As a result, the obligation toward INPS and the contributions to supplementary pension funds have, in accordance with IAS 19 – Employee Benefits, become defined-contribution plans, whereas the amounts contributed to the TFR fund as at January 1, 2007 maintain their status as defined-benefit plans.



## **PROVISIONS FOR RISKS AND CHARGES**

Provisions for risks and charges are recognized for certain or probable losses and other charges of a given nature, but for which the amount and/or timing cannot be determined. The provision for agency termination represents amounts that could be due because of the termination of agency relationships in effect at the reporting date.

Provisions are recognized only when there is a present obligation (legal or constructive) for a future outflow of economic resources that has arisen because of past events and when it is probable that such outflow will be required to settle the obligation. The amount allocated represents the best estimate of the amount required to settle the obligation. The discount rate used to determine the present value of the liability reflects current market values and considers the specific risk associated with each liability.

Where the effect of the time value of money is material and the payment dates of the obligations can be estimated reliably, the provisions are measured at the present value of the outflow expected using a rate that reflects current market conditions, the change in the time value of money, and the risks specific to the liability. Any increases in value of the provision attributable to changes in the time value of money are recognized as interest expense.

Risks for which a liability is only possible are disclosed in the section on contingent liabilities, and no provision is allocated for them.

## **RECOGNITION OF REVENUES**

### **SALES REVENUES**

The group revenues are composed of Finish product related to health supplements, medical devices and cosmetic products.

Sales revenues are recognized when the control over the good is transferred to the customer, which normally coincides with the sending or delivery of the good and receipt of it by the customer. The good has been transferred when the customer obtains control over it, i.e., when the customer has the capacity to make decisions about the use of the asset and to obtain benefits from it.

Within this framework, sales revenues and the costs for purchasing goods are measured at the fair value of the consideration received or due, considering any returns, rebates, sales discounts and quantity premiums.

The Group grants discounts to some customers when the product quantities they purchase during the period exceed the threshold established in the contract. Only when the threshold is exceeded, the discount is granted and accounted for as a reduction of the revenues.

In accordance with IFRS 15, the Group checks whether there are any contractual terms that represent separate performance obligations to which the transaction price must be allocated (such as guarantees), and effects deriving from the presence of variable consideration, significant financing components or non-monetary exchanges that must be paid to the customer.

### **OTHER INCOME**

The Group revenue is also formed by services sales such as laboratories analysis, primary and secondary graphical services and clinical studies. Other income revenues are recognized once the service is fully performed and accepted by the customer and the service life cycle is usually within 30 days.

### **INTEREST INCOME**

Interest income is recognized in the consolidated income statement based on the effective rate of return. It refers primarily to interest earned on bank accounts.

## **GOVERNMENT GRANTS**

When formally authorized and when the right to their disbursement is deemed definitive based on reasonable certainty that the Group will meet the underlying conditions and that the grants will be received, government grants are recognized based on the matching concept of income and expenses.

### **GRANTS RELATING TO ASSETS**

Government grants relating to fixed assets are recognized as deferred income among "other liabilities", either current for short-term portions or non-current for long-term portions. Deferred income is recognized in the income statement as "other operating income" on a straight-line basis over the useful life of the asset for which the grant is received.

### **GRANTS FOR OPERATING EXPENSES**

Grants other than those relating to assets are recognized on the income statement under "other income".

## **RECOGNITION OF EXPENSES**

Expenses are recognized when relating to goods or services acquired or consumed during the period or when systematically allocated.

## **INCOME TAXES**

Current income taxes are calculated based on the taxable income for the period at the tax rates in effect on the reporting date.

Deferred taxes are calculated for differences emerging between the tax base of an asset or liability and its related carrying value, with the exception of goodwill and differences related to investments in subsidiaries when the timing of such differences is subject to control by the Group and it is probable that they will not be recovered in a reasonably foreseeable time frame. Deferred tax assets, including those concerning accumulated tax losses, for the portion not offset by deferred tax liabilities, are recognized to the extent to which it is probable that there will be sufficient future taxable earnings to recover the deferred taxes. Deferred tax assets and liabilities are measured based on the tax rates expected to apply in the period in which the differences will be realized or settled.

Current and deferred taxes are recognized in the income statement under "income taxes", excluding those related to items shown in the consolidated statement of comprehensive income other than net profits and items recognized directly in equity. In the latter cases, deferred taxes are recognized under "income taxes related to other comprehensive income" in the consolidated statement of comprehensive income and directly in equity. Income taxes are offset when they are assessed by the same fiscal authority, there is a legal right to such offsetting, and the net balance is expected to be settled.

Other taxes unrelated to income, such as indirect taxes and other duties, are included with "other costs".

## **EARNINGS PER SHARE**

### **EARNINGS PER SHARE – BASIC**

Basic earnings per share is calculated by dividing the Group's net profit (from continuing operations and discontinued operations) by the weighted-average number of ordinary shares in circulation during the year, excluding treasury shares.

## EARNINGS PER SHARE – DILUTED

Diluted earnings per share is calculated by dividing the Group's net profit (from continuing operations and discontinued operations) by the weighted-average number of ordinary shares in circulation during the year, excluding treasury shares. To calculate diluted earnings per share, the weighted-average number of shares in circulation is adjusted by assuming the exercising of all rights that could potentially have a dilutive effect, and the Group's net profit is adjusted to take into account any effect, net of taxes, of exercising such rights.

## RECENTLY ISSUED ACCOUNTING STANDARDS

Adoption of the following accounting standards and amendments to accounting standards issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union has become mandatory for annual periods beginning on or after January 1, 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IFRS 3, Business Combinations, IAS 16, Property, Plant and Equipment, IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and Annual Improvements 2018-2020.

On May 14, 2020 the IASB published the following amendments:

- Amendments to IFRS 3 Business Combinations: The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.
- Amendments to IAS 16 Property, Plant and Equipment: The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.
- Amendments to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets: The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
- Annual Improvements 2018-2020: amendments have been made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture, and the Illustrative Examples accompanying IFRS 16 Leases.

## ACCOUNTING STANDARDS, AMENDMENTS, AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT EFFECTIVE YET AND NOT APPLIED IN ADVANCE BY THE GROUP

At the reporting date, adoption of the following accounting standards and amendments to accounting standards endorsed by the European Union had not become mandatory yet and were not adopted early by the Group.

### IFRS 17, Insurance Contracts

On May 18, 2017, the IASB published IFRS 17 – Insurance Contracts, which shall supersede IFRS 4 – Insurance Contracts. The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations deriving from insurance contracts issued. IASB developed the standard to eliminate inconsistencies and weaknesses of existing practices through a single principle-based framework to account for all insurance contracts, including reinsurance contracts.

The new standard also has presentation and disclosure requirements to improve comparability among insurance entities.

The standard is effective for annual periods beginning on or after January 1, 2023 but earlier application is permitted if IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" have also been applied.

The Directors do not expect the adoption of this standard to materially affect the Group's consolidated financial statements.

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The company's directors anticipate that the application of these amendments may impact the Group's consolidated financial statements in future periods should such transactions arise.
- Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments. The company's directors anticipate that the application of these amendments may impact the Group's consolidated financial statements in future periods.

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies The amendments change the requirements in IAS 1 about disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. The IASB has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements. The directors of the Company are evaluating the impact on the Group’s consolidated financial statements in future periods.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:
  - A change in accounting estimate that results from new information or new developments is not the correction of an error
  - The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted. The directors of the Company are evaluating the impact on the Group’s consolidated financial statements in future periods.
- Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease. Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The directors of the Company are evaluating the impact on the Group's consolidated financial statements in future periods.

## **IFRS ACCOUNTING STANDARDS, AMENDMENTS, AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION**

As of this writing, the European Union authorities have not yet completed the endorsement process needed for the adoption of the following amendments and standards. The company's directors are evaluating the potential effects of adopting these amendments on the Group's consolidated financial statements.

- On 23 January 2020, the IASB published an amendment called "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current" and on 31 October 2022 it published an amendment called "Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants". The documents aim to clarify how to classify debts and other short-term or long-term liabilities. The changes come into force on 1 January 2024; however, early application is permitted.
- On 7 May 2021, the IASB published an amendment called "Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The document clarifies how deferred taxes must be accounted for on certain transactions that can generate assets and liabilities of equal amounts, such as leasing and decommissioning obligations. The amendments will apply from 1 January 2023, but early application is permitted.
- On 9 December 2021, the IASB published an amendment called "Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information". The amendment is a transition option relating to the comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment is aimed at avoiding temporary accounting mismatches between financial assets and liabilities of insurance contracts, and therefore at improving the usefulness of comparative information for readers of financial statements. The amendments will apply from 1 January 2023, together with the application of IFRS 17.
- On 22 September 2022, the IASB published an amendment called "Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback". The document requires the seller-lessee to value the lease liability arising from a sale & leaseback transaction so as not to recognize an income or loss that refers to the retained right of use. The amendments will apply from 1 January 2024, but early application is permitted.



[WWW.BIOFARMAGROUP.IT/EN/INVESTORS/](http://WWW.BIOFARMAGROUP.IT/EN/INVESTORS/)

[INVESTORS@BIOFARMAGROUP.IT](mailto:INVESTORS@BIOFARMAGROUP.IT)

[www.biofarmagroup.it](http://www.biofarmagroup.it)

