Fire (BC) S.p.A

As the issuer of €650.0 million Senior Secured Floating Rate Notes due 2024

Rule 144A Notes ISIN number: XS1883354893

Regulation S Notes ISIN number: XS1883354976

Interim Financial Report as of and for the nine months ended

September 30, 2019

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements include statements about expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not statements of historical fact. Words or phrases such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "ongoing," "plan," "potential," "predict," "project," "seek," "target" or similar words or phrases or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Interim Report. There are important risks, uncertainties and other factors that could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this Interim Report by us or on our behalf. Therefore, you should not place undue reliance on any of these forward-looking statements.

Furthermore, any forward-looking statement speaks only as of the date on which it is made, and the Issuer and its subsidiaries (the "Group") do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for the Group to predict such factors. In addition, the Group cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements. All future written and oral forward-looking statements attributable to the Group, or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section and contained in the listing particulars dated as of October 12, 2018 relating to the issuance by the Issuer of €410,000,000 Senior Secured Floating Rate Notes due 2024 (the "Existing Notes"), in the listing particulars dated as of May 9, 2019 (together, the "Listing Particulars") relating to the issuance by the Issuer of €200,000,000 Senior Secured Floating Rate Notes due 2024 (the "Existing New Notes") and relating to the issuance by the Issuer of €40,000,000 Senior Secured Floating Rate Notes due 2024 (the "New Notes). In light of these risks, the actual results of the Group could differ materially from the forward-looking statements contained in this Interim Report. None of the information contained on the Group's website is incorporated by reference into or otherwise deemed to be linked to this Interim Report.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. We undertake no obligation to publicly update or

revise any forward-looking statement, whether as a result of new information, future events or otherwise. All forward-looking statements are expressly qualified in their entirety by the cautionary statements referred to in this section and contained elsewhere in this Interim Report or the Listing Particulars, including those described under the section entitled "Risk Factors" of the Listing Particulars. In light of these risks, our results could differ materially from the forward-looking statements contained in this Interim Report.

Presentation of our financial information

Issuer

Fire (BC) S.p.A. (the "Issuer") was formed on July 13, 2018 in connection with the Italmatch Acquisition and, as of the date of this Interim Report, is a holding, management and finance company with no revenue-generating activities of its own and no business operations. The Issuer's material assets and liabilities are its interest in the issued and outstanding shares of Italmatch Chemicals and its outstanding indebtedness and intercompany balances incurred in connection with the Italmatch Acquisition, including the indebtedness incurred under the Existing Notes and the Existing Revolving Credit Facility, as well as the indebtedness incurred under the New Existing Notes and the Additional Revolving Credit Facility in connection with the BWA acquisition and the indebtedness incurred under the New Notes in connection with the WST Acquisitions.

Italmatch Group

All historical Profit and Loss information presented in this Interim Report is that of Italmatch Chemicals S.p.a. and its consolidated subsidiaries. Accordingly, unless otherwise stated, all references to ''we'', ''us,'' or ''our'' in respect of historical financial information in this Interim Report are to the Italmatch Chemicals S.p.a. and its subsidiaries on a consolidated basis. Moreover, financial information for the nine months ended September 30, 2019, include on a consolidated basis, BWA business as from February 14, 2019. Since the WST acquisition was completed on September 23, 2019, only its assets and liabilities were consolidated in this interim financial information as at September 30, 2019.

We prepare our consolidated financial statements in accordance with Italian GAAP and the financial information presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

The financial information presented in this section is a reclassification of our Financial Statements in order to provide a more typical format for the international investor. No changes have been made to the relevant figures previously reported in the profit and loss account, balance sheets or cash flow statements of the Financial Statements as of and for each of the nine months ended September 30, 2019 and September 30, 2018. For a reconciliation of the financial information presented in this Interim Report with the financial information presented in our Condensed Interim Consolidated Financial Statements as of and for the nine months ended September 30, 2019 attached to this Interim Report, see "Reconciliations" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section included elsewhere in this Interim Report.

Non-GAAP Measures

This Interim Report contains certain financial measures that are not recognised by Italian GAAP or any other generally accepted accounting principles and that are not included in our Condensed Interim Consolidated Financial Statements or footnotes thereto. The primary non-GAAP financial measures used in this Interim Report include:

- Acquisition Capital Expenditure, defined as investment for new acquisitions.
- Adjusted EBITDA, defined as operating profit after adding back depreciation amortization and impairment losses on fixed assets as well as certain management adjustments and non-recurring costs, such as restructuring and advisory costs.
- Contribution Margin, defined as turnover from sales and services less raw materials, consumables, supplies and goods, change in raw materials, consumables, supplies and goods and outside services for transportation, commissions and utilities.
- Expansion and extraordinary capital expenditure, defined as investment for plant construction and expansion building improvements, extraordinary HSE compliance measures as well as measures to enhance our production capacity.
- Recurring capital expenditure, defined as capital expenditure for maintenance, health and safety, industrial automation and production technologies as well as expenditure to increase productivity and the quality of our products.

Non-GAAP financial measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under Italian GAAP.

Key Financial Data

Other Financial Information and Operating

	Nine months ended Sep 30,	
(€ million except percentages)	**2019**	**2018**
Adjusted EBITDA	65,9	52,7
Adjusted EBITDA Margin	16,4%	16,5%

(1) We define Adjusted EBITDA as operating income after adding back depreciation, amortization and impairment losses as well as certain management adjustments and non-recurring costs, such as restructuring and advisory costs. We define Adjusted EBITDA Margin as Adjusted EBITDA divided by Management account sales revenue, expressed as a percentage.

Set forth below is a reconciliation of our net profit to Adjusted EBITDA for the periods indicated.

(€ million)	Nine months ended Sep 30, 2019	Nine months ended Sep 30, 2018
Net profit/(loss)	**(24,6)**	**3,3**
Income taxes	6,1	6,4
Share of profits of associates	0,0	0,0
Finance income	(9,7)	(4,2)
Finance costs	34,8	14,2
Operating income	**6,6**	**19,7**
Depreciation, amortization and impairment losses on fixed assets	49,1	28,9
Management adjustment and non-recurring items	10,2	4,2
Adjusted EBITDA	**65,9**	**52,7**

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of our results of operations and financial conditions as of and for the nine months ended September 30, 2019 and the comparative information for the nine months ended September 30, 2018 as derived from our unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2019.

Results of Operations

The following table provides an overview of our results of operation for the nine months ended September 30, 2019 and September 30, 2018.

(€ million)	Nine months ended Sep 30, 2019	Nine months ended Sep 30, 2018	Change	*Change in %*
Sales revenues	**397,7**	**318,6**	**79,1**	***24,8***
Other operating income	3,3	2,5	0,8	*31,6*
Cost of materials	**(236,9)**	**(176,0)**	**(60,9)**	***34,6***
Cost of services	(68,0)	(56,6)	(11,4)	*20,2*
Cost of personnel	(40,3)	(30,2)	(10,1)	*33,6*
Other costs	(4,7)	(3,4)	(1,3)	*37,2*
Depreciation, amortization and impairment losses	(49,1)	(28,9)	(20,2)	*70,1*
Change in inventories	3,4	(8,0)	11,5	*ns*
Cost of capitalized in-house work	1,1	1,6	(0,5)	*(30,2)*
Operating income	**6,6**	**19,7**	**(13,1)**	***ns***
Financial income	9,7	4,2	5,5	*ns*
Financial costs	(34,8)	(14,2)	(20,6)	*ns*
Net financial income/(costs)	**(25,1)**	**(10,0)**	**(15,1)**	***ns***
Share of profit of associates	(0,0)	(0,0)	0,0	*ns*
Profit before taxes	**(18,6)**	**9,7**	**(28,2)**	***ns***
Income taxes	(6,1)	(6,4)	0,3	*ns*
Net profit	**(24,6)**	**3,3**	**(28,0)**	***ns***

Sales Revenue

Set forth below is a reconciliation of our net Statutory sales to Management accounts sales for the periods indicated.

	Nine months ended Sep 30,	
	2019	**2018**
Sales revenue (€ million)		
Statutory Sales	397,7	318,6
Rebates, by product sales, intercompany sales	4,3	1,1
Management Account Sales	**402,0**	**319,7**

Management sales revenue increased by €82.3 million or 25.8%, to €402.0 million for the nine months ended September 30, 2019 from € 319.7 million for the nine months ended September 30, 2018. The table below sets forth our sales revenue and volume sold for the period.

	Nine months ended Sep 30,	
	2019	**2018**
Volume sold (Ktons)		
AWS	131,2	98,2
LPA	41,4	37,9
FPA	20,8	21,9
PPA	26,6	23,5
Total Volume sold	**220,0**	**181,5**
Sales revenue (€ milion)		
AWS	198,8	129,7
LPA	116,7	105,3
FPA	40,7	45,9
PPA	45,7	38,7
Total Sales Revenues	**402,0**	**319,7**

This increase is primarily due to an increase in sales revenue in the AWS and LPA end market. Here below a brief overview of our business units:

- **AWS:** Legacy WOPA displayed positive performance vs. 9M 2018LfL (CM + 6.8%) driven by strong traction with key accounts and pricing improvement. This, as expected, was offset by a continuation of the softness in BWA Oil & Gas results seen in 2019 and driven by the reduction of the US "O&G completion" activity which is expected to recover first part of 2020; the rest of BWA business is continuing its strong performance trajectory. Business unit affected by a one off on duty on Phosphorous Acid.

- **LPA**: c. 4% volumes and slightly reduced margins vs. 9M 2018LfL, some limited one off impacts, with unit margins maintained thanks to positive mix shift towards more specialty products; volume slight reduction mainly hit Europe/USA MWF activities and some low margin product abandoned. In addition, LPA business unit affected by the stoppage at Major Customer site during the month of September.

- **FPA:** Lower volumes driven by demand headwinds in Electronic Materials end markets; HFFR still affected by high price of Red Phosphorus raw material, which is expected to soften starting from 2020. On the other hand, PVC and Polyolefine additives YTD 2019 CM increased by 9%.

- **PPA:** Solid performance both in terms of sales (+18% LfL) and margin (+11% LfL), due to exposure to non cyclical end markets such as personal care, agrochemicals and niche value automotive applications. Performance in Frankfurt and Arese specialty products was especially strong in terms of volumes and unit margin.

Cost of Materials

Cost of materials increased by €60.9 million, or 34.6%, to €236.9 million for the nine months ended September 30, 2019 from €176.0 million for the nine months ended September 30, 2018.
This was due to the increase in sales volumes in 2019 which created greater requirements for materials, and acquisitions.
Infact, in 2019 the Group consolidated €40.5 million in cost of materials from BWA. Moreover, the increase of cost of materials was partly due to the strengthening of the U.S. dollar on Euro in the nine months ended September 30, 2019 as compared to the same period in 2018, one of the main negative impact was related to phosphorus purchases.

The following table sets forth our cost of materials as a percentage of sales revenue for the period.

	Nine months ended Sep 30,	
	2019	2018
Sales revenue (€ million)	402,0	319,7
Cost of materials as a percentage of sales revenue (%)	58,9	55,0

Cost of Services

Cost of services increased by €11.4 million, or 20.2%, to €68.0 million for the nine months ended September 30, 2019 from €56.6 million for the nine months ended September 30, 2018. This increase in cost of services was primarily due to the consolidation of €6.5 million in cost of services from BWA business and €0.7 million from Fire (BC) S.p.a.. Cost of services accounted for 17,1% of our net sales revenues for the nine months ended September 30, 2019 compared with 17,8% for the nine months ended September 30, 2018. The remaining part was due to (i) an increase in professional fees incurred in connection with the acquisitions of BWA as well as (ii) an increase of freight costs resulting from the higher sales volumes and higher fuel costs.

Cost of Personnel

Cost of personnel increased by €10.1 million, or 33.6%, to €40.3 million for the nine months ended September 30, 2019 from €30.2 million for the nine months ended September 30, 2018. This increase in cost of personnel was primarily due to the consolidation of €5.8 million in cost of personnel from BWA business. Cost of personnel accounted for 10.1% of our sales revenues for the nine months ended September 30, 2019 compared with 9.5% for the nine months ended September 30, 2018.

Net Financial Costs

Net financial costs increased by €15.1 million to €25.1 million for the nine months ended September 30, 2019 from €10.0 million for the nine months ended September 30, 2018.
This increase was mainly due to the net effect of:

- +€19.9 million due to higher indebtedness of the Group for the nine months ended September 30, 2019 comparing to the nine months ended September 30, 2018. Interests on €650.0 million Notes, of which €410.0 million issued on September 28, 2018, €200.0 million issued on April 14, 2019 and €40.0 million issued on September 20, 2019, together with the interest on the Bridge Loan financing, request in order to finance BWA acquisition (closed on April 17, 2019) with the commission paid for it, amount to €30.0 million. The corresponding value during the nine months ending September 30, 2018 amounts to €10.2 million.

- -€5.8 million due to the strengthening of US dollar and GB pound. The re-translating of USD and GBP denominated intra-group loans caused €2.3 million of unrealised exchange rate gains for the nine months ended September 30, 2018 and €8.1 million of unrealised exchange rate gains for the nine months ended September 30, 2019.

Depreciation, Amortization and Impairment Losses

Depreciation, amortization and impairment losses increased by €20.2 million to €49.1 million for the nine months ended September 30, 2019 from €28.9 million for the nine months ended September 30, 2018. This increase in cost of depreciation, amortization and impairment losses was primarily due to the consolidation of €14.4 million from BWA. The increase is primarily due to the amortization of the higher goodwill resulting from the last twelve months acquisitions.

Changes in Inventories

The following table sets forth our change in inventory for the periods indicated:

	Nine months ended Sep 30,		
(€ million)	**2019**	**2018**	**Change**
Change in work in progress, semi-finished products and finished goods	6,3	(1,2)	7,5
Change in inventory of raw materials, auxiliaries,supplies and goods	(2,9)	(6,9)	4,0
Change in inventories	**3,4**	**(8,0)**	**11,5**

Changes in inventories of work in progress, semi-finished goods and finished goods increased by €7.5 million to €6.3 million for the nine months ended September 30, 2019 from -€1.2 million for the nine months ended September 30, 2018. Change in raw materials, consumables and supplies generated a lower cost by €4.0 million to -€2.9 million for the nine months ended September 30, 2019 comparing to -€6.9 million for the nine months ended September 30, 2018.

Income Taxes

Income taxes increased by €0.3 million, or 4.2%, to €6.1 million for the nine months ended September 30, 2019 from €6.4 million for the nine months ended September 30, 2018. This increase was primarily due to the increase in not deductible amortization arising from new goodwill.

Cash Flows

The table below sets forth a summary of our consolidated statements of cash flows for the periods indicated:

(€ million)	Nine months ended Sep 30, 2019	2018	Change
Cash Flow from operating activities	8,4	17,3	8,9
Cash Flow (used in) investing activities	(365,4)	(65,0)	300,4
Cash Flow (used in) financing activities	373,9	28,7	(345,3)
Increase/(decrease) in cash and cash equivalent	17,0	(18,9)	(36,0)
Cash and cash equivalent at the beginning of period	21,7	64,5	42,8
Cash and cash equivalent at the end of period	38,8	45,6	6,8

For further details refer to the Cash Flow Statement, at page 17 of this document, prepared under the indirect method, for the nine months ended September 30 2018 and 2019, of which the table above is a summary.

Cash Flows from Operating Activities

Cash flows from operating activities decrease by €8.9 million to €8.4 million for the nine months ended September 30, 2019 from €17.3 million for the nine months ended September 30, 2018. The decrease in cash flow was generated by different opposite effects. Among these effects the most relevant are the increase in interests paid in relation to the Notes, the Revolving Credit Facilities and to the Bridge Financing Loan, equal to €23.3 million and the increase in amortization and depreciation mostly due to the Goodwill related to the last twelve months acquisitions, equal to €20.2 million.

Cash Flows (Used In) Investing Activities

Cash flows used in investing activities increased by €300.4 million to €365.4 million for the nine months ended September 30, 2019 from €65.0 million for the nine months ended September 30, 2018. With regard to the nine months ended September 30, 2019 the amount is related to BWA and WST acquisitions for €318.4 million and to investments in tangible and intangible fixed assets for respectively €32.4 million and €11.8. With regard to the nine months ended September 30, 2018 the cash flows used in investing activities was primarily related the investment in Polartech and Jiayou as well as recurring capital expenditures for production facility maintenance and upgrade.

Cash Flows (Used In) from Financing Activities

Cash flows used in financing activities increased by €345.3 million to €373.9 million for the nine months ended September 30, 2019 from €28.7 million for the nine months ended September 30, 2018. This increase was primarily due to the finalization of BWA and WST businesses acquisitions: (i) greater long term indebtedness for €240.0 million of which €200.0 million related to the Notes issued on April 14, 2019, in order to refinance the Bridge Financing Loan used by the Group to finalize the acquisition of BWA business and €40.0 million related to the Notes issued on September 20, 2019 in order to finance the WST acquisition, (ii) Shareholder capital increase for €99.6 million. Moreover, during the period (iii) there was an additional €22.0 million drawing down of the Super Senior Revolving Credit Facility. With regard to nine months ended September 30, 2018 the cash flows from financing activities, equal to €28.4 million, was primarily related to an increase of a medium/long-term debt with a syndicate of 11 banks for €25.0 million for respectively €15.0 million to acquire the Polartech business and €10.0 million to fund capex at the Chinese site of Fangcheng.

Net Working Capital

We actively manage our working capital requirements to optimize and improve our capital efficiency.

Net Working Capital represents inventories and trade receivables, less trade payables. Changes in raw material prices have a direct effect on our working capital levels. In general, increases in the cost of raw materials lead to an increase in our working capital requirements, as our inventories and trade receivables increase as a result of raw materials prices and related sales levels, partially offset by an increase in trade payables. Our working capital levels vary as a result of several other factors as well, including the terms for the collection of receivables from our customers or the payables by our suppliers, the effect of selling prices, production stoppages and maintenance works, changes in payment terms in the case of key suppliers, foreign exchange rates, our decisions to hold inventories, the operating level of our business, seasonality and cyclicality of the industries that we supply.

The following table summarizes our Net Working Capital for the periods indicated:

(€ million)	As of Sep 30, 2019	As of Dec 31, 2018	Change
Inventories	105,9	72,7	33,3
Trade receivables	95,6	54,6	41,0
Trade payables	(72,8)	(59,3)	(13,5)
Net Working Capital	128,6	67,9	60,7

Our Net Working Capital increased by €60.7 million to €128.6 million as of September 30, 2019, from €67.9 million as of December 31, 2018. This increase is primarily related to accounts receivables for +€41.0 million (of which €22.4 million due to BWA and €8.9 million due to WST) following higher sales and to inventories for +€ 33.3 million (of which €24.0 million due to BWA and €.5.8 million due to WST) and was partially offset by an increase in accounts payables for €13.5 (of which €11.3 million due to BWA and €2.5 million due to WST).

Capital Expenditures

Our capital expenditures consist of investments in intangible assets and investments in property, plant and equipment (including extraordinary capital expenditures), net disposals of intangible assets and disposals of property, plant and equipment. We finance our capital expenditures with cash flow from operating activities and cash flow from financing activities.

The table below sets forth our capital expenditures based on cash flows for the periods indicated.

	Nine months ended Sep 30,	
(€ million)	**2019**	**2018**
Recurring Capital Expenditure[(a)]	10,8	6,7
Expansion and extraordinary Capital Expenditure[(b)]	20,0	25,1
Acquisition Capital Expenditure[(c)]	279,6	26,7
Total	**310,4**	**58,5**

(a) Recurring capital expenditure includes expenditure for maintenance, health and safety, industrial automation and production technologies as well as expenditures to increase productivity and the quality of our products.

(b) Expansion and extraordinary capital expenditure includes expenditures for plant construction and expansion as well as measures to enhance our production capacity.

(c) Acquisition capital expenditure includes investments for new acquisitions.

Recurring capital expenditure equal to €10.8 million (2.7% on sales revenues) remain substantially in line with last couple of years.

Expansion and Extraordinary capital expenditure equals to €20.0 million and includes mainly the completion of Fangcheng and Jiayou projects (€11.0 million in the nine months ended September 30, 2019 and €15.6 million in the nine months ended September 30, 2018).

Acquisition capital expenditure of nine months ended September 30, 2019 are related to the BWA and WST business acquisitions.

Reconciliation to the Condensed Interim Financial Statements for the Nine months ended September 30, 2019.

Please find below a reconciliation of the income statement line items listed above and presented in this Interim Report and the corresponding line items of the Financial Statements for the nine-month periods ended September 30, 2018 and 2019. Tables setting forth a reconciliation of the reclassified and renamed line items to corresponding line items in the Financial Statements for the periods indicated are attached to this Interim Report as Annex A.

Sales revenues. This item includes the following: A) Production revenues—1) Turnover from sales and services.

Other operating income. This item includes the following: A) Production revenues—5) Other revenues and income.

Cost of materials. This item includes the following B) Production costs—6) Raw materials, consumables, supplies and goods.

Cost of services. This item includes the following: B) Production costs—7) Services.

Cost of personnel. This item includes the following: B) Production costs—9) Total personnel expenses.

Other costs. This item includes:

- B) Production costs—8) Use of third party assets;
- B) Production costs—14) Other operating costs.

Depreciation, amortization and impairment losses. This item includes the following: B) Production costs—10) Total amortization, depreciation and write-downs.

Change in inventories. This item includes:

- A) Production revenues—2) Change in work in progress, semi-finished products and finished goods.
- B) Production costs—11) Change in raw materials, consumables, supplies and goods.

Net Financial Cost. This item reflects:

Financial income, which includes:

- C) Financial income and charges—16) Other financial income—d) Other income;
- C) Financial income and charges—17 bis) Exchange rate gains and losses—Unrealised exchange rate gains;
- C) Financial income and charges—17 bis) Exchange rate gains and losses—Realised exchange rate gains;
- D) Adjustments to financial assets—18) Write-backs—d) Derivatives.

Financial costs. This item includes:

- C) Financial income and charges—17) Interest and other financial charges;
- C) Financial income and charges—17 bis) Exchange rate gains and losses—Unrealised exchange rate losses;
- C) Financial income and charges—17 bis) Exchange rate gains and losses—Realised exchange rate losses;
- D) Adjustments to financial assets—19) Write-downs—a) Investments;
- D) Adjustments to financial assets—19) Write-downs—d) Derivatives.

Income taxes. This item includes 20) Income taxes, current and deferred.

Fire (BC) S.p.A

Condensed interim consolidated financial statements

as of and for the nine months ended

September 30, 2019

FIRE GROUP - BALANCE SHEET

(amounts in €)

ASSETS

		30/09/2019	31/12/2018
A)	**Share capital proceeds to be received**		
	b) To be called up	0	0
	Total share capital proceeds to be received (A))	**0**	**0**
B)	**Fixed Assets**		
I.	INTANGIBLE FIXED ASSETS		
	1) Start-up and capital costs	41.534	40.300
	3) Industrial patents	38.406.345	40.353.774
	4) Concessions, licenses, trademarks and similar rights	35.517.111	37.064.477
	5) Goodwill	712.483.063	461.461.655
	6) Assets under development and payments on account	2.267.530	1.931.243
	7) Other intangibles	7.814.116	7.945.999
	TOTAL	796.529.699	548.797.448
II.	TANGIBLE FIXED ASSETS		
	1) Land and buildings	53.530.584	30.351.074
	2) Plant and machinery	76.565.841	44.441.958
	3) Industrial and commercial equipment	923.002	739.768
	4) Other assets	2.823.539	15.636.771
	5) Assets under construction and payments on account	36.504.150	52.454.296
	TOTAL	170.347.116	143.623.867
III.	FINANCIAL FIXED ASSETS		
	1) Equity investments		
	b) Associates	920.068	910.363
	d bis) Others	90.152	90.152
	TOTAL	1.010.220	1.000.515
	2) Financial receivables:		
	d bis) From others	3.056.290	93.983
	TOTAL	3.056.290	93.983
	Total fixed assets (B)	**970.943.325**	**693.515.813**
C)	**Current assets**		
I.	INVENTORY		
	1) Raw materials, consumables and supplies	40.391.691	38.133.709
	2) Work in progress and semifinished goods	131.367	116.860
	4) Finished goods	64.773.962	34.105.568
	5) Payments on account	616.926	301.573
	TOTAL	105.913.946	72.657.710
II.	RECEIVABLES		
	1) Trade receivables	95.552.983	54.573.942
	5 bis Tax receivables	15.193.809	12.367.941
	5 ter Deferred tax assets	3.687.997	5.520.921
	5 qu from others	9.586.049	4.409.147
	TOTAL	124.020.838	76.871.951
III.	CURRENT FINANCIAL ASSETS		
	6) Other securities	0	241.589
	TOTAL	0	241.589
IV.	LIQUID FUNDS		
	1) Bank and postal accounts	38.733.502	21.709.748
	3) Cash-in-hand and cash equivalents	17.340	14.309
	TOTAL	38.750.842	21.724.057
	TOTAL CURRENT ASSET (C)	**268.685.626**	**171.495.307**
D)	**PREPAYMENTS AND ACCRUED INCOME**		
	Prepayments	2.613.388	2.493.204
	Total prepayments and accrued income (D)	**2.613.388**	**2.493.204**
TOTAL ASSETS		**1.242.242.338**	**867.504.324**

FIRE GROUP - BALANCE SHEET (amounts in €)	30/09/2019	31/12/2018

LIABILITIES AND STOCKHOLDERS' EQUITY

A)	**NET EQUITY**		
I.	SHARE CAPITAL	4.447.085	3.451.047
II.	SHARE PREMIUM RESERVE	440.261.354	341.653.619
VII.	HEDGING RESERVE	(2.285.541)	(1.328.294)
	CONSOLIDATION RESERVE	4.576.120	4.634.914
	TRANSLATION RESERVE	1.669.083	(6.021.514)
VIII.	RETAINED EARNINGS/(LOSSES CARRIED FORWARD)	(18.797.993)	0
IX.	NET PROFIT/(LOSS) FOR THE PERIOD/YEAR	(24.683.841)	(17.483.014)
	Total net equity attributable to the group	**405.186.266**	**324.906.758**
	SHARE CAPITAL AND RESERVES ATTRIBUTABLE TO MINORITY INTERESTS	245.140	239.066
	NET PROFIT FOR THE PERIOD/YEAR ATTRIBUTABLE TO MINORITY INTERESTS	35.836	6.074
	Total net equity attributable to minority interests	**280.975**	**245.140**
	Total net equity (A)	**405.467.242**	**325.151.898**
B)	**PROVISIONS FOR RISKS AND CHARGES**		
2)	Tax provision, including deferred tax liabilities	28.969.792	23.389.729
3)	Derivatives	5.045.033	1.797.532
4)	Other provisions	6.869.797	7.303.593
	Total provisions for risks and charges (B)	**40.884.622**	**32.490.854**
C)	**EMPLOYEES' LEAVING ENTITLEMENT**	**1.498.833**	**1.443.923**
D)	**PAYABLES**		
1)	Bonds	636.726.430	400.103.091
4)	Bank loans and borrowings	61.193.987	33.782.922
6)	Payments on account	467.091	34.143
7)	Trade payables	72.824.836	59.334.729
12)	Taxes payables	7.358.945	2.468.958
13)	Social security charges payable	607.553	991.362
14)	Other payables	13.936.140	11.274.405
	Total payables (D)	**793.114.982**	**507.989.610**
E)	**ACCRUED EXPENSES AND DEFERRED INCOME**		
	Accrued expenses	950.795	238.578
	Deferred income	325.864	189.461
	Total accrued expenses and deferred income (E)	**1.276.659**	**428.039**
TOTAL LIABILITIES		**1.242.242.338**	**867.504.324**

FIRE GROUP - PROFIT AND LOSS ACCOUNT

(amounts in €)			September 2019	September 2018
A)	**PRODUCTION REVENUES**			
1)	Turnover from sales and services		397.678.731	318.563.636
2)	Change in work in progress, semi-finished products and finished goods		6.342.355	(1.164.755)
4)	Internal work capitalised		1.149.121	1.645.538
5)	Other revenues and income		3.330.917	2.530.663
Total production revenues (A)			**408.501.124**	**321.575.081**
B)	**PRODUCTION COST**			
6)	Raw materials, consumables, supplies and goods		**(236.897.726)**	**(175.969.998)**
7)	Services		**(68.013.189)**	**(56.566.522)**
8)	Use of third party assets		**(1.952.592)**	**(1.564.261)**
9)	Personnel expenses			
	a)	Wages and salaries	(34.447.344)	(25.589.442)
	b)	Social security contributions	(5.142.339)	(4.094.403)
	c)	Provision for employee severance indemnities	(713.230)	(487.901)
			(40.302.912)	**(30.171.747)**
10)	Amortisation, depreciation and write-downs			
	a)	Amortisation of intangible fixed assets	(38.055.700)	(18.646.395)
	b)	Depreciation of tangible fixed assets	(11.037.304)	(10.195.465)
	c)	Writedowns of fixed assets	9.726	0
	d)	Write-downs of current receivables	0	(16.117)
			(49.083.278)	**(28.857.976)**
11)	Change in inventory of raw materials, consumables, supplies and goods		(2.924.745)	(6.875.905)
14)	Other operating costs		(2.752.745)	(1.865.898)
Total production cost (B)			**(401.927.188)**	**(301.872.308)**
Operating profit (A-B)			**6.573.936**	**19.702.773**
C)	**FINANCIALS INCOME AND EXPENSE**			
16)	Other financial income			
	d)	Other financial income	26.805	356.751
17)	Interest and other financial charges		(30.041.078)	(10.186.264)
17 bis)	Exchange rate gains and losses		6.915.322	403.962
Net financial charges (C)			**(23.098.951)**	**(9.425.551)**
D)	**ADJUSTMENTS TO FINANCIAL ASSETS**			
19)	Writedowns		0	0
	d)	derivatives	(2.037.742)	(621.762)
Total adjustments to financial assets (D)			**(2.037.742)**	**(621.762)**
PRE-TAX PROFIT/(LOSS) (A-B-C-D))			**(18.562.757)**	**9.655.460**
	a)	Current income taxes	(5.112.625)	(4.917.512)
	b)	Deferred and anticipated income taxes	(972.623)	(1.434.958)
20)	Income taxes, current and deferred		(6.085.248)	(6.352.471)
21)	**NET PROFIT/(LOSS) FOR THE PERIOD**		**(24.648.005)**	**3.302.989**
	of which: Group		(24.683.841)	3.102.634
	of which: Minority interst		35.836	200.356

FIRE GROUP - CASH FLOW STATEMENT

(amounts in €)	2019	2018
A) Cash flows from operating activities		
Net profit/(loss) for the period	(24.648.005)	3.302.989
Income taxes	5.629.362	6.352.471
Interest expense, net	30.013.474	9.829.513
1. Profit before income taxes, interest, dividends and (gains)/losses on sale of assets	10.994.831	19.484.974
Non-monetary adjustments with no effect on net working capital		
Accruals to provisions	3.688.083	1.492.247
Accruals for employees' leaving entitlement	713.230	487.901
Amortisation and depreciation	49.093.004	28.841.859
Other non-monetary adjustments	2.229.555	1.248.318
2. Cash flows before changes in net working capital	66.718.704	51.555.300
Changes in net working capital		
Decrease/(Increase) in trade receivables	(12.455.857)	(18.452.468)
Increase/(Decrease) in trade payables	5.674.603	3.804.983
Decrease/(Increase) in inventory	(8.817.531)	(2.115.667)
Decrease/(increase) in prepayments and accrued income	(120.184)	(2.627.479)
(Decrease)/increase in accrued expenses and deferred income	848.620	92.880
Other changes in working capital	(10.410.055)	(1.801.629)
3. Cash flows after changes in net working capital	41.438.300	30.455.920
Other adjustments		
Interest (paid)/collected	(30.084.522)	(6.816.419)
(Income taxes paid)	(2.183.933)	(5.714.000)
(Utilisation of provisions)	(62.239)	(62.239)
(Utilisation of employees' leaving entitlement)	(658.319)	(526.168)
Cash flows from operating activities (A)	8.449.287	17.337.094
B) Cash flows used in investing activities		
(Investments in tangible fixed assets)	(32.446.576)	(40.470.305)
(Investments in intangible fixed assets)	(11.873.259)	(13.372.429)
(Investments)/Disinvestments in financial fixed assets	(2.624.232)	(15.605)
(Investments in new company)	(318.419.457)	(11.095.061)
Cash flows used in investing activities (B)	(365.363.524)	(64.953.400)
C) Cash flows from financing activities		
Third-party funds		
Increase/(decrease) in borrowings	246.020.423	2.060.964
New loans	22.000.000	25.000.000
Own funds		
Capital increases against consideration	996.038	0
Increase (decrease) in Share Premium Reserve	98.607.735	0
Other changes in net equity	6.316.827	1.605.523
Cash flows from financing activities (C)	373.941.023	28.666.487
Increase (decrease) in liquid funds (A+B+C)	17.026.786	(18.949.819)
Opening liquid funds	21.724.057	64.512.708
- bank and postal accounts	21.709.748	64.491.336
- cash	14.309	21.373
Closing liquid funds	38.750.842	45.562.889
- bank and postal accounts	38.733.502	45.543.775
- cash	17.340	19.114

Notes to condensed interim consolidated financial statements as of and for the nine months ended September 30, 2019

BASIS OF PRESENTATION AND CONSOLIDATION

The condensed interim consolidated financial statements of the "Fire (BC) S.p.A. (the "Parent") and its subsidiaries and associates ("Fire Group" or the "Group") as at and for the nine months ended 30 September 2018 and 2019 have been prepared in accordance with the provisions of article 2423 and following articles of the Italian Civil Code and Legislative decree no. 127/91, interpreted in the context of and integrated by the reporting standards promulgated by the Italian Accounting Standard Setter (the 'OIC') and specifically OIC 30. They consist of a balance sheet, a profit and loss account, a cash flow statement and these notes.

In accordance with OIC 30, the condensed interim consolidated financial statements do not include all the disclosures required for annual consolidated financial statements for which, therefore, reference is made to the Group's annual consolidated financial statements as at and for the year ended 31 December 2018.

Each balance sheet caption presents the figures as at 31 December 2018 and 30 September 2019 and each profit and loss account and cash flow statement caption presents the figures for the nine months ended 30 September 2018 and 2019.

The cash flow statement for the nine months ended 30 September 2018 and 2019 shows the reasons for increases and decreases in liquid funds during the periods and has been prepared under the indirect method, using the layout provided for by OIC 30.

The amounts presented in the balance sheet, profit and loss account, cash flow statement and notes are in Euros, without a decimal point, except as otherwise specified.

Captions with a nil balance in all periods have been omitted.

The reporting dates of the consolidated financial statements are 31 December 2018 and 30 September 2019, coinciding with those of the financial statements of the Parent, Fire (BC) S.p.A., and all its subsidiaries and associates.

The financial statements used for consolidation purposes are those prepared by the boards of directors of the individual companies.

The Parent's accounting policies are used.

THE GROUP STRUCTURE AND CONSOLIDATION SCOPE

The consolidation scope includes the Parent, and, pursuant to article 38 of Legislative decree no. 127/91, the following directly or indirectly controlled companies which are consolidated on a line-by-line basis:

Company Registered Office	Share Capital K/€	Investement % direct	 indirect	Consolidated %
1) Italmatch Chemicals S.p.a. Via Magazzini del Cotone 17, modulo 4, 16128 Genova (GE) - Italy	9.421	100%	0%	100%
2) Nantong Italmatch Chemicals Co., Ltd. Rugao Economic Development Zone, Rugao Port, Rugao City Jiangsu Province	6.892	0%	100%	100%
3) Italmatch International Trading (Shanghai) Co. Ltd. Waigaoqiao, Shanghai	36.534	0%	100%	100%
4) Italmatch Spain S.l. Comte d'Urgell 240, 4th D, 08036 Barcelona - Spain	500	0%	100%	100%
5) Italmatch Polska Narutowicza 15, PL-41503 Chorzow	228	0%	100%	100%
6) Italmatch UK ltd. One Glass Wharf, BS2 0ZX, Bristol, Great Britain	5.069	0%	100%	100%
7) Italmatch USA Corp. 5544Oakdale Rd. SE - Smyrna - GA 30082	9	0%	100%	100%
8) Italmatch Singapore 101 THOMSON ROAD #9-01 UNITED SQUARE, SINGAPORE 307591	517	0%	100%	100%
9) Italmatch Belgium Sprl Boulevard Auguste Reyers 80 - 1030 Schaerbeek - Belgium	19	0%	100%	100%
10) Italmatch Deutschland Gmbh Brüningstraße 50, 65926 Frankfurt am Main	25	0%	100%	100%
11) GRS Chemical Technologies Srl Area Industriale Consorzio ASI - Qualiano (NA)	600	0%	100%	100%
12) Compass Chemicals International Holding LLC 5544 Oakdale Rd SE - Smyrna, GA 30082	17.331	0%	100%	100%
13) Fangchenggang Yue Yang Chemicals Co. Ltd Yuzhouping Industrial Park, Gangkou District -Fangchenggang, Guangxi	39.266	0%	100%	100%
14) Italmatch Japan Ltd Burex Kojimachi 2F, 3-5-2 Kojimachi, Chiyoda-ku Tokyo, 102-0083 Japan	25	0%	100%	100%
15) Italmatch Do Brasil Av. Mario Lopes Leao - 1350 Sao Paulo -Brasile	122	0%	100%	100%
16) Italmatch Investment Jiangsu Co ltd 58 Guanqu Middle Road, Changzhou - Cina	43.214	0%	100%	100%
17) Detrex Corporation 1000 Belt Line St, Cleveland, Ohio -44109	22.955	0%	100%	100%
18) Elco Corporation 1000 Belt Line St, Cleveland, Ohio -44109	262	0%	100%	100%
19) Italmatch Quimica do Brasil Av. Prof Alceu Maynard Araus 31 - Sao Paulo - Brasile	1.181	0%	100%	100%
20) Union Derivan Comte d'Urgell 240, 4th D, 08036 Barcelona - Spain	4.647	0%	100%	100%
21) Italmatch Chemicals India Plc P-24, GREEN PARK EXTENSION, New Delhi - India	2.595	0%	100%	100%
22) Italmatch Chemicals GB Ltd Ashburton Road West, Trafford Park, Manchester M17-GB	3.999	0%	100%	100%
23) Italmatch SC LLC 5544 Oakdale Rd SE - Smyrna, GA 30082	2.835	0%	100%	100%
24) Changzhou Jiayou Chemical Co ltd Weicun Industrial Park of Chunjiang Village, China	33.605	0%	100%	100%
25) Changzhou Jiayou Xinye Co ltd 58 Guanqu Middle Road, Changzhou - China	257	0%	100%	100%
26) Italmatch Middle East Limited Riyadh 11576, P.O Box 11512, Kingdom of Saudi Arabia	24	0%	100%	100%
27) Eco Inhibitors AS Professor Olav Hanssensvei 7 4021 Stavanger, Norway	19	0%	100%	100%
28) BWA UK Holdco Limited 2 Brightgate Way, Manchester, M32 0TB, United Kingdom	112	0%	100%	100%
29) BWA Water Additives US LLC 2711 Centerville Road, Suite 400, Wilmington 19808, State of Delaware (USA)	914	0%	100%	100%
30) BWA Gulf Gmbh Baarerstrasse 8 6301, Zug, Switzerland	18	0%	100%	100%
31) BWA Water Additives Japan KK Tobu Tateno Building, 8F, 2-10-27 Kitasaiwai, Nishi-ku, Yokohama, Kanagawa 220-0004	85	0%	100%	100%
32) BWA Water Additives UK Limited 2 Brightgate Way, Manchester, M32 0TB, United Kingdom	676	0%	100%	100%
33) BWA Water Additives (Shangai) Trading Co Limited Room 285, 2/F, Building 1, No. 350 East Fute No.1 Road, China (Shanghai) Free Trade Zone	1.065	0%	100%	100%
34) BWA Water Additives FZE National Industries Park -Jebal Ali, Dubai, United Arab Emirates	250	0%	100%	100%
35) BWA Water Additives DMCC Unit 1802, Jumeirah Bay Tower X3, Jumeirah Lakes Towers, Dubai, UAE	13	0%	100%	100%
36) Water Science Technologies, LLC P.O. Box 2207 Birmingham - Alabama 35201 - USA	46.960	0%	100%	100%
37) Italmatch DW 5544Oakdale Rd. SE - Smyrna - GA 30082	3.499	0%	100%	100%

The consolidation scope also includes the following associates, which are not consolidated on a line-by-line basis but are instead measured using the equity method:

Company Registered Office	Share Capital K/€	Investement % direct	 indirect	Consolidated %
38) Kunming Italphos Chemicals Co., Ltd. Yangling, Songming County, Kunming City, Yunnan Province	1.026	0%	50%	50%
39) Yunnan Xundian Italphos YP Jinsuo Industrial Park, Xundian County, Yunnan Province	3.207	0%	50%	50%

Additional details on the measurement of investments in associates are given in the section on the accounting policies.

BASIS OF CONSOLIDATION

The condensed interim consolidated financial statements of the Fire Group are prepared in Euros. The financial statements expressed in a currency other than the Euro are firstly translated into Euros before their line-by-line consolidation or equity accounting.

The foreign subsidiaries are consolidated as described below:

- the carrying amount of investments in subsidiaries consolidated on a line-by-line basis is eliminated as a balancing entry to the Group's share of their net equity and the recognition of their assets, liabilities, costs and revenues, regardless of the percentage of investment;
- if the investment's carrying amount exceeds the Group's share of the subsidiary's net equity at the acquisition date, the difference is recognised under intangible fixed assets as goodwill arising on consolidation and amortised over the useful life estimated at the acquisition date;
- if the investment's carrying amount is lower than the Group's share of the subsidiary's net equity at the acquisition date, the difference is recognised under net equity in the consolidation reserve;
- all material intragroup balances and transactions are eliminated, along with all unrealised gains and losses on intragroup transactions, considering the related deferred taxes;
- foreign currency transactions recognised at the exchange rate ruling on the transaction date are re-translated at the closing rate;
- when foreign subsidiaries are consolidated, all foreign currency assets and liabilities are translated at the closing rate (i.e., using the current exchange rate method). Income and expenses are translated at the average exchange rate of the period/year. Any exchange rate differences are classified under net equity in a specific translation reserve.

The Group's share of the net profit/(loss) of associates is recognised using the equity method. Associates are companies in which the Group has a significant influence over their financial and operating policies or in which it holds a 20% to 50% interest.

The following exchange rates were used to translate the financial statements of subsidiaries and associates reported in a foreign currency:

Currency	30/9/19	30/9/18	Average Jan_Sept 19	Average Jan_Sep 18	Average Feb_Sep 19 (*)	Average Mar_Sep 18 (**)	Average Jun_Sep 18 (***)	Average Jul_Sep 18 (****)
PLN	4,386500	4,277400	4,383852	-	-	-	-	-
CNY	7,794700	7,966200	7,713500	7,778900	-	7,766100	-	-
BRL	4,549200	4,653500	4,364600	4,296600	-	-	-	-
USD	1,093500	1,157600	1,123600	1,194200	1,120400	-	1,162700	-
GBP	0,88778	0,88730	0,88347	-	0,88347	-	0,89050	-
JPY	118,21000	131,23000	-	-	-	-	-	-
NOR	9,91550	-	-	-	-	-	-	-
INR	77,06850	83,91600	78,83010	-	-	-	-	81,90240

(*) average exchange rate applied consenquentely to the acquisitions of the BWA made by Italmatch USA and Italmatch GB ON February 14, 2019
(**) average exchange rate applied to the acquisitions of Changzhou Jiayou Xinye Trading Co. Ltd and Changzhou Jiayou Chemical Co. Ltd. dated March 6, 2018
(***) average exchange rate applied consenquentely to the acquisitions of the Bedford Park site in Illinois (US) of the US company AFTON Chemical Corporation and its related business thro
an asset purchase agreement by Italmatch SC and to the acquisitions of English company AFTON Chemical Ltd.'s businessthrough an asset purchase agreementby Italmatch Chemicals GB
(****)average exchange rate applied to the acquisitions of the business of Indian company AFTON Chemical India Pvt Ltd by Italmatch Chemicals India Plc dated July 20, 2019

BASIS OF PREPARATION

The condensed interim consolidated financial statements captions have been measured in accordance with the general principles of prudence and accruals on a going-concern basis. Captions have been recognised and presented in accordance with the substance over form principle, if in compliance with the Italian Civil Code and the OIC.

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

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

The accounting policies have not been changed in the periods considered for the purposes of comparability of financial reporting over time.

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

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

The preparation of the condensed interim consolidated financial statements requires management to make estimates that affect the carrying amount of assets and liabilities and the related disclosures. Actual results may differ. Estimates are revised regularly and the effect of any changes, if not due to

errors, are recognised in the profit and loss account when the estimates are changed, if they affect just one period, and also in the following periods, if they affect both the current and subsequent periods.

Accounting policies

1. Intangible and tangible fixed assets

Introduction

Goodwill includes that recognised by the Parent in its financial statements, that arising on the consolidation of subsidiaries and any goodwill presented by the consolidated subsidiaries in their financial statements.

1 bis. Intangible fixed assets

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

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

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

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

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

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

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

available for use. The amortisation pattern depends on how the benefits are expected to flow to the Group.

Following the above mentioned Italmatch Chemicals S.p.A's acquisition, the Group appointed an independent third party to carry out accounting and valuation activities aimed at allocating the excess value paid for its purchase to the assets and liabilities of Italmatch Chemicals S.p.A. and its subsidiaries.

Calculation of Excess Value	
Date: 22/10/2018	
Equity investment in Italmatch Chemicals Spa	510,390,612
Puchased net equity of Italmatch Group as of 31/10/2018	13,429,145
Excess value to be allocated	**496,961,467**

The process of allocation has shown a residual post having the nature of Goodwill.

Excess Value Allocation	Gross Value	Deferred tax	Net Value
Industrial patents	39,220,000	10,823,799	28,396,201
Trademarks	6,679,000	1,863,441	4,815,559
Excess value allocated	45,899,000	12,687,240	**33,211,760**
Attributable to minority interest			- **153,338**
Goodwill			**463,903,044**

The same expert estimated the useful life of goodwill at 15 years, examining the strategic position of the group as a whole or of the specific business units in which it is divided in the sectors in which it operates.

In detail, the expert's estimation process, to support the determination of the useful life, has taken as a reference the following peculiarities and specificities of the group's business:

- competitive positioning;
- the strategies in place to strengthen/consolidate its competitive positioning, including Research and Development activities aimed at maintaining a competitive advantage in the technological field and activities aimed at developing, maintaining and increasing the value of the brand.

The results of the expert, supported by performance indicators (turnover, profitability) and the exclusivity of the patented knowhow, have shown that the Italmatch Chemicals Group currently enjoys a consolidated competitive position in the sectors in which it operates and that, from a prospective point of view, it intends to further strengthen this position by means of constant research and development in the sectors that are most advantageous in terms of economic return. The Group's ability to innovate, as shown in the final data analysed by the expert, has enabled it to positively assess its ability to remain at the frontier of innovation, and consequently to preserve its competitive advantages in future years. The

analyses and verifications carried out have therefore guided the choice of the expert in considering an amortisation period of 15 years as appropriate.

The historical cost of goodwill at 30 September 2019 amounted to €752.3 million, gross of amortization of €39.8 million. Comparing to 31 December 2018 the net increase, equal to €251.0 million is mainly due to the acquisition of BWA business for a gross value of €236.4 million, of WST business for a gross value of €37.8 million, an exchange rate effect equal to €11.3 million and by the amortization of the period for €34.6 million.

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

- start-up and capital costs are amortised over five years;
- development costs are amortised over their useful life and, in any case over a period not exceeding five years;
- patents, intellectual property rights, concessions, licences and trademarks, are amortised over the shorter of their legal or contractual term and their expected useful life. The estimated useful life of trademarks cannot exceed 20 years and, for the patents subject to the expert's report, was determined in 15 years;
- goodwill is amortised systematically over its useful life, i.e., the period of time within which the related economic benefits will probably arise which, in any case, cannot exceed 20 years and was determined by the expert over 15 years;
- other - leasehold improvements and technology. The first are amortised over the shorter of their useful life and the residual lease term, considering any renewal period, if at the Group's option. The technology is amortised in 13 years.

The above amortization rates were reduced to reflect the nine-month reporting period. Assets under development are not amortised. The amortization process begins when these assets are reclassified to their relevant intangible fixed asset caption.

Amortization rates

The following amortization rates were applied in 2018 and 2019:

Amortisation rates:	2018	2019
Start-up and capitalisation costs	20,0%	20,0%
Concessions, licenses, industrial patents	6,0%-20,0%	6,0%-20,0%
Trademark	2,0%-10,0%	2,0%-10,0%
Goodwill	6,7%	6,7%
Other	6,0%-20,0%	6,0%-20,0%

1 ter. Tangible fixed assets

Tangible fixed assets are recognised at purchase or production cost, adjusted by accumulated depreciation and write-downs. The purchase cost is the cost actually incurred to purchase the asset and includes the related transaction costs. The production cost includes all directly attributable charges and

the reasonably attributable portion of other costs incurred from production up to when the asset is available for use.

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

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

Depreciation is calculated systematically, using rates held to reflect the asset's estimated useful life.

Depreciation begins when the asset becomes available for use. In accordance with the principle of materiality set out in article 2423.4 of the Italian Civil Code and the applicable reporting standard, the depreciation rates are halved in the first year in which the asset is available for use. The annual depreciation rates were decreased to reflect the nine-month reporting period and for additions made in the period.

Temporarily unused assets are also depreciated.

Land is not depreciated. If the carrying amount of a building also includes the underlying land, it is separated, including based on estimates, for depreciation purposes.

The amount to be depreciated is the difference between the cost of the asset and, when it can be calculated, the residual amount at the end of its useful life which is estimated when the depreciation plan is prepared and periodically revised in order to check that the initial estimate is still valid. When the check shows that an asset's estimated residual value is equal to or higher than its carrying amount, the asset is no longer depreciated.

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

In accordance with the provisions of article 10 of Law no. 72/83, it is noted that there are no assets recognised in the consolidated financial statements that were previously subject to monetary revaluations or departures from legal measurement criteria.

The rates shown above take into account the useful life as it was revised in 2011 considering the specific technical appraisals.

Depreciation rates

The annual depreciation rates applied to the annual periods are shown below and are decreased for the interim periods:

Depreciation rates:	2018	2019
Industrial buildings	3,0%-7,0%	3,0%-7,0%
Light constructions	10,0%	10,0%
Generic plant	7,0%-12,5%	7,0%-12,5%
Marginally corrosive plant	15,5%	15,5%
Higly corrosive plant	22,5%-33,0%	22,5%-33,0%
Laboratory equipment	10,0%-40,0%	10,0%-40,0%
Internal means of transport	20,0%	20,0%
Office furniture and equipment	10,0%-12,0%	10,0%-12,0%
Electronic equipment	18,0%-33,0%	18,0%-33,0%

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

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

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

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

Future cash flows are estimated for the asset in its current condition. Therefore, they do not include estimated future cash inflows or outflows that are expected to arise from a future restructuring to which the Group is not yet committed or improving or enhancing the asset's performance.

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

This rate is estimated using the weighted average cost of capital.

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

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

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

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

2. Financial fixed assets

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

Receivables are recognised under fixed or current assets depending on their intended use in relation to the Group's ordinary activities that generate them. Accordingly, financial receivables are recognised under financial fixed assets, whereas trade receivables are recognised under current assets, regardless of their due date. They are measured as detailed below.

Investments in associates are measured using the equity method.

Other equity investments are measured at cost. They are initially recognised at acquisition or incorporation cost, including the related transaction costs. They are written down for impairment when their carrying amount decreases to below their recoverable amount at the reporting date. The recoverable amount is calculated based on the economic benefits the Group expects to receive from the equity investment. They are written down to the extent of the carrying amount. They are written back up to their original cost if the reasons for the write-downs cease to exist.

3. Inventory

Inventory consists of the following:

- raw materials, consumables and supplies;
- semi-finished products;
- finished goods.

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

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

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

The Group has adopted the weighted average cost model.

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

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

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

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

4. Receivables

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

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

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

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

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

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

With regard to financial receivables, the Group recognises the difference between the cash disbursed and the present value of future cash flows calculated using the market rate as financial income or charges

upon initial recognition, except when the transaction's or contract's substance requires its allocation to another caption and a different accounting treatment.

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

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

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

The receivables that are transferred without substantially transferring all the risks are not derecognised and are treated as mentioned above. Any advance on the agreed consideration received from the transferee is recognised as a financial liability in the balance sheet.

5. Derivatives

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

a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the underlying);

b) it requires no initial net investment or an initial net investment that is smaller than that required for other types of contracts that would be expected to have a similar response to changes in market factors;

c) it is settled at a future date.

Derivatives also include contracts for the purchase and sale of non-financial items that give one of the parties the right to settle the contract in cash or using another financial instrument, unless the following conditions are simultaneously met:

a) the contract was agreed or maintained to meet requirements for the purchase, sale or use of non-financial items;

b) the contract had that purpose since when it was entered into;

c) its expected performance is the delivery of the non-financial item.

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

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

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

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

Hedge accounting

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

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

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

The hedge effectiveness is documented at initial recognition and also on an ongoing basis. At each reporting date, the Group assesses whether the hedging relationship is still effective.

If all the requirements mentioned above are met, hedging relationships may be accounted for using the following models.

Fair value hedges

If a derivative is designated as a hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment that is attributable to a particular risk and could affect the net profit or loss, the gain or loss on both the hedging instrument and the hedged item attributable to the hedged risk is recognised in the specific profit and loss account caption, to the extent that the gain or loss on the hedged item does not exceed the fair value gain or loss of the hedging instrument. Any surplus is recognised in the profit and loss account caption affected by the hedged item. The fair value gain or loss attributable to the hedged risk adjusts the carrying amount of the hedged item in the balance sheet to the extent, for assets, of their recoverable amount.

Cash flow hedges

If a derivative is designated as a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, a firm commitment or a highly probable forecast transaction and could affect the net profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in the specific net equity reserve, whereas the ineffective portion of the gain or loss on the hedging instrument is recognised in the profit and loss account.

The gains or losses accumulated in the net equity reserve are reclassified to the profit and loss account in the year or over the years during which the hedged future cash flows affect the net profit or loss. If a firm commitment or a highly probable forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated gains or losses that were recognised in the specific reserve are reclassified from net equity to the carrying amount of the asset (to the extent of its recoverable amount) or liability upon its recognition.

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

The disclosures required by article 2427-bis.1 of the Italian Civil Code on the fair value of derivatives and those required by OIC 32 are provided in a specific section of these notes.

6. Liquid funds

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

7. Prepayments and accrued income and accrued expenses and deferred income

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

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

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

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

8. Grants for research and development

Grants for research and development are recognised when it is certain that the grant will be received, which coincides with its formal approval by the granting body or the Group's statement that it will comply with any restrictions or limitations in order to receive the grant, if later.

Grants are recognised in the profit and loss account as a direct reduction in the costs incurred, deferring the amount of the grants relating to future years on an accruals basis.

9. Net equity

Net equity is the difference between assets and liabilities measured in accordance with the accounting polices described above. It includes the shareholders' contributions, all reserves and retained earnings.

The effects of the application of other accounting policies on net equity are disclosed in the relevant notes.

10. Provisions for risks and charges

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

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

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

11. Employees' leaving entitlement

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

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

Law no. 296/06 (the 2007 Finance Act) took effect in 2007, implementing pension reform. This reform led to the transfer of employees' leaving entitlement accrued in the year to the pension funds that the individual employees had selected or to the INPS (Italian social security institution) treasury fund. Consequently, the only change in employees' leaving entitlement is the revaluation pursuant to article 2120 of the Italian Civil Code and any advances.

12. Payables

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

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

Payables are recognised at amortised cost, considering the time value of money.

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

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

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

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

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

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

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

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

13. Foreign currency transactions, assets and liabilities

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

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

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

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

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

14. Costs and revenues

Revenues and income, costs and charges are stated net of returns, allowances, discounts and premiums, as well as taxes directly related to the sale of goods or provision of services, in compliance with the

accruals and prudence concepts. Revenues from the sale of goods are recognised when the production process for the goods has been completed and the exchange has already taken place i.e., upon the substantial rather than formal transfer of title, with the transfer of risks and benefits being the key parameter. Revenues from the provision of services are recognised once the services have been provided, i.e., when they have been carried out.

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

When the amortised cost method is applied, interest is recognised using the effective interest method.

Other financial charges are recognised for the amount accrued during the year.

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

15. Development costs

Research and development costs are normally expensed in full in the year when they are incurred, except for those with future income generating potential, which are amortised over a maximum of five years.

16. Income taxes

Current income taxes for the year are calculated on the basis of a realistic forecast of the taxable profit under the relevant tax legislation and applying the enacted tax rates at the reporting date.
The related tax payable is stated at its nominal amount in the balance sheet and may be offset against recognised tax receivables of the same nature.
Deferred tax assets and liabilities are calculated on the accumulated amount of all temporary differences between the carrying amounts of assets and liabilities and their tax base that will reverse in subsequent years. Deferred tax assets and liabilities are recognised when the temporary differences arise and are calculated at the tax rates that will be applicable in the year in which the temporary differences reverse, if they have already been established at the reporting date, otherwise at the enacted tax rates at the reporting date.
The deferred tax assets on deductible temporary differences and on the benefit connected with the tax losses carried forward are recognised and maintained only when their future recoverability is reasonably certain, through the availability of future taxable profits against which the deferred tax assets may be used or the availability of sufficient taxable temporary differences to recover them in the years in which they reverse.

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

Deferred tax assets and liabilities are offset if the relevant requirements are met (offsetting ability and intention) and the resulting positive or negative balance is respectively stated under the specific captions of current assets or provisions for risks and charges.

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

17. Post-balance sheet events

These events modify conditions existing at the reporting date. They require adjustments to the carrying amounts of recognised assets and liabilities in accordance with the relevant accounting policy. They are recognised on an accruals basis to present their reporting-date effect on the Group's financial position and results of operations.

The post-balance sheet events that modify situations existing at the reporting date but do not require adjustments to the carrying amounts under the relevant accounting policy as they relate to the subsequent period are not recognised but are disclosed in the notes if necessary to give a more complete view of the Group's position.

Risk management

In the performance of its activities, the Parent uses financial instruments, a financial instrument being any contract that gives rise effect to a financial asset for one party and a financial liability or equity instrument for another.

The Parent is exposed to the following risks due to its use of financial instruments. Among the other Companies of the Group, only Italmatch Chemical S.p.A has uses derivatives to hedge interest rate and FX risk:

- Credit risk
- Market risk (interest rate and currency risks)
- Liquidity risk

As required by article 2428.6-bis of the Italian Civil Code, information on the Group's exposure to each of the risks listed above is provided below.

CREDIT RISK

This is the risk that one party will cause a financial loss for the other party by failing to discharge an obligation, particularly its payment obligations.

To minimise this risk, the Group manages credit risk by optimising its risk profile in the pursuit of commercial and business targets through well-structured processes, by adopting the necessary monitoring procedures for receivables as they fall due and implementing credit recovery procedures.

The Group assigns each of its counterparties a specific ceiling credit limit or, alternatively, grants credit against suitable guarantees (cash against documents, letters of credit).

The Group's credit policy is based on credit checks on the customers that request deferred payment plans using international databases and observing historical customer delinquency. In addition, credit balances are constantly monitored throughout the year month to take immediate action and reduce the risk of losses.

Credit risk is adequately covered by the provision for bad debts accrued in the respective financial statements.

The provision for bad debts is considered sufficient to cover credit risk, also considering the type of receivables, since:

- sales in at-risk countries are made exclusively with payment in advance or letters of credit;
- in other countries, over 50% of sales are to multi-national companies with which strategic partnership agreements are in place for the development of new products.

MARKET RISK.

Market risk is the risk of changes in the market value of a financial instrument (interest and exchange rates) triggered by a change in one or more market conditions. The use of derivatives is authorized exclusively to hedge underlying commercial items in order to reduce the impact of volatility in interest and exchange rates. No derivative transactions are permitted for speculative purposes.

The Group uses derivative and/or traditional financial instruments to manage market risk. In particular, it hedges the following risks:

- INTEREST RATE RISK

The Group's policy for managing market risk caused by fluctuations in interest rates is to hedge its exposure from the medium/long-term portion of debt.

This risk is managed using interest rate swaps (IRS).

With regard to the structure of medium/long-term debt, on September 28, 2018, the parent issued guaranteed non-convertible bonds (Floating rate notes FRN) for an amount of Euro 410.0 million, at the variable interest rate Euribor + 4.75% spread, quarterly coupons and maturity on 30 September 2024. Furthermore, on April 14, 2019, the parent issued a Tap Notes of €200.0 million in order to fund the acquisition of BWA Water Additives. On this date, a greater portion of the proceeds of the offering of the Notes was used to repay the Issuer's existing debt (the "Bridge Financing"), a medium/long term financing bank agreement for €193.0 million in which the Issuer entered on 13, February 2019 in order to finance the Transaction. Moreover, on September 20, 2019, the parent issued a second Tap Notes of €40.0 million in order to fund the acquisition of WST.

The bonds were secured by a pledge on the entire share capital of the parent and on the shares of the subsidiary Italmatch Chemicals S.p.A., a pledge on some of the company's current accounts and the assignment as security of the receivables arising from the intragroup loan agreement as collateral.

In order to protect itself from the risk of interest rate fluctuations, the Parent Company signed 3 IRS contracts (interest rate swaps), maturing on 31 December 2022 for a cumulative notional amount of Euro 305,000,000. At the reporting date, 47% of the medium/long-term related to the FRN exposure was hedged. The cumulative Fair Value at 30 September 2019 is a negative Euro 3,007,291.

LIQUIDITY RISK

This is the risk of the Group not meeting its payment obligations in either normal or extraordinary operating conditions.

In this respect, the Parent has access to short-term bank credit lines to ensure the entire Group has access to sufficient funds.

Liquidity management policies are therefore oriented towards ensuring that the sources of funding are properly balanced in terms of both the duration and composition of debt in order to cover operating cost and development plan requirements.

The Fire (BC) Group has access to wide range of competitively-priced banking and para-banking instruments, such as factoring and confirming, and coordinates cash pooling arrangements centrally. The Group currently believes its access to funds (specifically its access to committed bank facilities) is sufficient to ensure that it will meet its financial obligations.

PERSONNEL RISK

The Group has employees in countries where legislators have established powers of consultation and income protections in the event of corporate reorganisations and the conversion of production plants, which could affect redundancy plans. Not only do these powers and protections affect the Group's flexibility as it outlines business strategies, but they could generate extraordinary costs with an impact on the results of the individual operations.

Extraordinary transactions incurred during the period 1.10.18-30.9.19

Italmatch Chemicals Group, in line with its development plan, acquired several companies in the period from 1 October 2018 to 30 September 2019.

The Group's mergers and acquisitions (M&As) are detailed below with the dates of the respective transactions.

- 4 October 2018: Italmatch Chemicals S.p.A. established a new company, a Foreign Limited Liability Company, in Kingdom of Saudi Arabia (Italmatch Middle East Limited), a holding company created for developing local chemical industrial projects through Joint Ventures;
- 31 October 2018: Italmatch Middle East Limited signed a Joint Venture with a Saudi partner, in order to develop a chemical industrial project in KSA;
- 3 December 2018: Italmatch Chemicals S.p.A., through a notarial deed, acquired a further stake in Italmatch Espana sl from minority investors, thus bringing its total stakeholding to 99.17%.
- 14 February 2019: Italmatch Group, through its subsidiaries Italmatch USA and Italmatch GB, acquired BWA Water Additivies;
- 29 March 2019: Italmatch Chemical S.p.a. has finalised the acquisition of Eco Inhibitors, a technology startup company based in Norway;
- 1 April 2019: BWA Holding LLC has been merged with the company Italmatch USA Corp;
- 3 July 2019: Italmatch DW, LLC was founded by Italmatch USA as vehicle finalized to make an investment in FRX Polymers Inc. (FRX);
- 26 September 2019: Italmatch Group, through its subsidiary Italmatch USA, acquired Water Science Technologies (WST).

Notes to main condensed interim consolidated financial statements captions

The following tables show the main variations between the two periods with separate indication, of the contribution to the balances for 2019 of the acquisitions of BWA business (acquired by Italmatch USA and by Italmatch Chemical GB) and of Water Science Technologies (WST) (acquired by Italmatch USA) which had not taken place as at December 31, 2018.

Main changes in balance sheet caption as of September 30, 2019 compared to December 31, 2018 are summarised below.

- **Assets**

	30/09/2019	31/12/2018	Change	of which, due to acquisition of WST	BWA	Total
			(in millions of €)			
Intangible assets	796,3	548,8	247,5	37,8	229,5	267,3
Tangible assets	170,3	143,6	26,7	5,4	0,4	5,8
Financial assets	0,9	0,9	0,0	-	0,5	0,5
Total Assets	**967,5**	**693,3**	**274,2**	**43,2**	**230,3**	**273,5**

For details on assets refer to the paragraph "Capital Expenditures" in Management Discussion and Analysis document.

- **Net Working capital**

	30/09/2019	31/12/2018	Change	of which, due to acquisition of WST	BWA	Total
			(in millions of €)			
Inventories	105,9	72,7	33,3	5,8	24,0	29,8
Accounts Receivables	95,6	54,6	41,0	8,9	22,4	31,4
Other Receivables	31,1	25,0	6,0	0,1	1,3	1,4
Accounts Payables	(72,8)	(59,3)	(13,5)	(2,5)	(11,3)	(13,8)
Provisions	(35,8)	(30,7)	(5,1)	0,0	(8,9)	(8,9)
Other Payables	(23,6)	(15,2)	(8,4)	(1,1)	(2,9)	(4,0)
Total Net working capital	**100,2**	**47,0**	**53,2**	**11,23**	**24,72**	**35,95**

The changes in receivables classified as current assets from 31 December 2018 to 30 September 2019 were mainly due to the larger consolidation scope and, hence, the greater revenues earned. The table below shows the calculation of DSO (Days Sales Outstanding). The DSO's increase is almost entirely related to acquisitions. On a like for like consolidation basis, that is without considering BWA and WST acquisition, the value of DSO as of 30 September 2019 would be equal to 52 days instead of 59 days, that is in line with the nine months ended September 30, 2018.

	30/09/2019 (*)	31/12/2018	30/09/2018	31/12/2017
		(in millions of €)		
Trade receivables	86,6	54,6	65,3	41,1
Turnover from sales and services	397,7	422,5	318,6	342,5
days	270	360	270	360
DSO	**59**	**47**	**55**	**43**

(*) - WST data are not included as only asset and liabilities were consolidated in this interim financial information

Trade payables increased as at 30 September 2019, compared to 31 December 2018.
The DPO (Days Payable Outstanding) remain stable at the two reporting dates. The following table provides a breakdown of the related calculation.

	30/09/2019 (*)	31/12/2018	30/09/2018	31/12/2017
		(in millions of €)		
Trade payables	70,3	59,3	54,8	48,3
Production cost excluding personnel expense and amortisation/depreciation	312,5	333,1	242,8	268,7
days	270	360	270	360
DPO	**61**	**64**	**61**	**65**

(*) - WST data are not included as only asset and liabilities were consolidated in this interim financial information

The DPO value net of the acquisitions would be equal to 60 days remaining in line with the corresponding value as at September 30, 2018.

- **Shareholders' equity**

	31/12/2018	Allocation of net loss for 31/12/2018	Profit (loss) for the period	Capital Increase	Change	30/09/2019
			(in millions of €)			
Share capital	3,5	0,0	0,0	1,0	0,0	4,4
Share premium Reserve	341,7	0,0	0,0	98,6	0,0	440,3
Hedging reserve	(1,3)	0,0	0,0	0,0	(1,0)	(2,3)
Consolidation reserve	4,6	0,0	0,0	0,0	(0,1)	4,6
Translation reserve	(6,0)	0,0	0,0	0,0	7,7	1,7
Retained earnings (losses carried forward)	0,0	(17,5)	0,0	0,0	(1,3)	(18,8)
Net profit (loss) for the period	(17,5)	17,5	(24,7)	0,0	0,0	(24,7)
Total net equity	**324,9**	**0,0**	**(24,7)**	**99,6**	**5,4**	**405,2**
Share capital and reserves att. to minority interests	0,2	0,0	0,0	0,0	0,0	0,2
Net profit for the period att. to minority interests	0,0	(0,0)	0,0	0,0	0,0	0,0
Total net equity for the period att. to minority interests	**0,2**	**0,0**	**0,0**	**0,0**	**0,0**	**0,3**

The increase in the Shareholder's Equity between 31 December 2018 and 30 September 2019 is mostly due to the Capital increases made by Shareholders in order to fund acquisitions of the BWA and WST business by the Group. Pursuant to OIC 17, a comparison of the cost incurred to acquire the business and the Group's share of the business units' net equity gave rise to negative goodwill at the consolidation date attributable to the bargain purchase price, which was recognised in the consolidation reserve.

- **Net financial position**

	30/09/2019	31/12/2018	Change
		(in millions of €)	
Long Term Financial Debt	694,5	432,5	262,0
Short Term Bank Debt	19,2	13,3	5,9
Cash and Banks	(38,8)	(21,7)	(17,0)
Total Net Financial Position	**675,0**	**424,1**	**250,9**

Medium/long-term debt is related to the issue of guaranteed non-convertible bonds (Floating rate notes FRN) for a total amount of €650.0 million, issued in three different tranches, respectively €410.0 million on September 28, 2018, €200.0 million on April 14, 2019 and €40.0 million on September 20, 2019, at a variable interest rate of Euribor + 4.75% spread, quarterly coupons and maturing on September 30, 2024.

The bonds were secured by a pledge on the entire share capital of the parent and on the shares of the subsidiary Italmatch Chemicals S.p.A., a pledge on certain current accounts of the parent company and by the assignment of receivables arising from the intragroup loan agreement as collateral.

The amount due to bondholders arising during the year is recognised at amortised cost, i.e. net of all the transaction costs and equal to €9.9 million as at December 31, 2018 and €13.3 million as at September 30, 2019.

On 22 October, 2018, the parent company signed a medium/long-term agreement that provides for a "bullet" line, for an amount of €70.0 million increased to €100.0 million on February 13, 2019, at a variable interest rate of Euribor + 3.5% spread, quarterly coupons and maturity date 22 April 2024.

The loan was secured by a pledge on the entire share capital of the company and on the shares of the subsidiary Italmatch Chemicals S.p.A., a pledge on some of the company's current accounts and an assignment as security of the receivables arising from the intragroup loan agreement as collateral.

At 30 September, 2019, only part of this amount had been used, i.e. €44.5 million had been drawn down, comparing to €22.5 million as at 31 December 2018, both the amounts are recognised at amortised cost,

i.e. net of all the transaction costs and equal to €2.0 million as at December 31, 2018 and to €2.5 million as at September 30, 2019.

Comparison of results of operations for the nine months ended September 30, 2019 and 2018

Profit and Loss of nine months ending 30 September 2019 of Fire Group has been a lot influenced by the acquisitions listed in above paragraph.

The following tables show the main variations between the two periods with separate indication, of the contribution to the balances for the nine months of 2019 of the acquisitions of BWA business which had not taken place in the corresponding period of 2018.

-Production Turnover

This caption is analysed as follows:

	Nine months ended Sep 30,			of which, due to acquisition of	
	2019	2018	Change	BWA	Total
	(in millions of €)				
Revenues from sales and services	**397,7**	**318,6**	**79,1**	**66,4**	**66,4**
Change in work in progress, semi-finished products and finished goods	6,3	(1,2)	7,5	(1,1)	(1,1)
Internal work capitalised	1,1	1,6	(0,5)	0,0	0,0
Other revenues and income	3,3	2,5	0,8	0,0	0,0
Total production turnover	**408,5**	**321,6**	**86,9**	**65,3**	**65,3**

For details on sales performance refer to the paragraph "Result of Operation" in Management Discussion and Analysis document.

-Production costs

This caption is analysed as follows:

	Nine months ended Sep 30,			of which, due to acquisition of	
	2019	2018	Change	BWA	Total
	(in millions of €)				
Cost of materials	236,9	176,0	60,9	40,5	40,5
Cost of services	68,0	56,6	11,4	6,5	6,5
Cost of third party assets	2,0	1,6	0,4	0,0	0,0
Personnel cost	40,3	30,2	10,1	5,8	5,8
Amortisation, depreciation and write-downs	49,1	28,9	20,2	14,4	14,4
Change in inventory of raw materials, consumables, supplies and goods	2,9	6,9	(4,0)	0,0	0,0
Other operating costs	2,8	1,9	0,9	0,3	0,3
Total production costs	**401,9**	**301,9**	**100,1**	**67,4**	**67,4**

The caption increased by €100.1 million for the nine months ending September 30, 2019, from €301.9 million for nine months ended September 30, 2018. The increase is mostly due to the BWA acquisition (€67.4 million) and in line with the increase of Sales revenue and turnover.
Moreover, part of the increase is related to Polartech business, infact meanwhile for the nine months ended September 30, 2019 the business is represented for the full period, for the nine months ended September 30, 2018 the Polartech contributed only for three months.
In addition, the production costs were again affected by the mentioned increase in EUR/USD exchange rate comparing to the nine months ended September 30, 2018.

-Financial charges

This caption is analysed as follows:

	Nine months ended Sep 30,			of which, due to acquisition of		
	2019	2018	Change	Fire (BC)	BWA	Total
	(in millions of €)					
Other financial income	0,0	0,4	(0,3)	0,0	0,6	0,6
Interest and other financial charges	(30,0)	(10,2)	(19,9)	(29,5)	(0,6)	(30,1)
Total financial charges	**(30,0)**	**(9,8)**	**(20,2)**	**(29,5)**	**(0,0)**	**(29,5)**

Financial charges increased by €20.2 million to €30.0 million for nine months ended 30 September 2019 from €9.8 million for nine months ended September 30, 2018. The increase is due to a different financial indebtedness of the Group of the two periods: as at 30 September 2018 the €285.0 million of long term debt was towards bank comparing to €694.5 as at 30 September 2019, of which €650.0 million related to Notes and €44.5 million related to the mentioned Super Senior Revolving Facilities.

-Net exchange rate gain/(loss)

The table here following splits total amounts of Net exchange rate gain/(loss) between the realised gains and losses and the unrealised ones.

	Nine months ended Sep 30,		
	2019	2018	Change
	(in millions of €)		
Exchange rate gains	1,6	1,6	(0,0)
Exchange rate losses	(2,7)	(3,4)	0,7
Net unrealised exchange rate gains (losses)	8,1	2,3	5,8
Total net exchange gain/(loss)	**6,9**	**0,4**	**6,5**

The variation in the net amount is due to net unrealised exchange rate gains.

During the nine months ending September 30, 2019, the Group set intercompany loans in order to fund business acquisitions. Italmatch USA Corporation was provided by USD 198.7, of which USD 166.7 million related to BWA acquisition and USD 32.0 and WST business acquisition, and Italmatch Chemical GB was provided by GBP 40.9 million to for the BWA business acquisition.

Net unrealised exchange rate gains (losses) for nine months of 2019 included unrealised exchange rate gains arising from the period-end exchange rate of the USD and GBP intragroup loans provided to the subsidiaries Italmatch USA Corporation and Italmatch Chemicals GB.

Translation of the all USD loans into Euros using the closing rate at 30 September 2019 of EUR/USD 1,0935 compared to the rate of EUR/USD1.14540 at 31 December 2018 generated an unrealised loss of €7.8 million during the first nine months of 2019, meanwhile translation of the new GBP loan into Euro generated during the period an unrealised losses of €0.5 million.

Translation of the USD loans using the closing rate at 30 September 2018 of EUR/USD 1,1576 compared to the rate of EUR/USD1.19930 at 31 December 2017 generated an unrealised gains of €2.1 million.

Realised exchange rate gains and losses in the two periods considered were due to trade transactions (purchases and sales) and were mainly generated by the translation of amounts in USD arising from purchases of a large part of raw materials and sales to third parties by the US subsidiary.

-Adjustments to financial assets

Adjustments to financial assets include write-back of €-2.0 million of derivatives for the nine months ended September 30, 2019. The balance was -€0.6 for the corresponding period of 2018; the derivatives were agreed to hedge commercial transactions mainly in US dollars.
They are not eligible for hedge accounting and, accordingly, changes in their fair value are recognised in the profit and loss account.

Post balance-sheet events

No relevant post balance-sheet events.