Brønnøysundregistrene

## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2019 - GENERELL INFORMASJON

**Enheten**

| | |
|---|---|
| Organisasjonsnummer: | 978 680 860 |
| Organisasjonsform: | Aksjeselskap |
| Foretaksnavn: | REICHHOLD NORWAY AS |
| Forretningsadresse: | Lilleborggata 4<br>1630 GAMLE FREDRIKSTAD |

**Regnskapsår**

| | |
|---|---|
| Årsregnskapets periode: | 01.01.2019 - 31.12.2019 |

**Konsern**

| | |
|---|---|
| Morselskap i konsern: | Ja |
| Konsernregnskap lagt ved: | Ja |

**Regnskapsregler**

| | |
|---|---|
| Regler for små foretak benyttet: | Nei |
| Benyttet ved utarbeidelsen av årsregnskapet til selskapet: | Regnskapslovens alminnelige regler |
| Benyttet ved utarbeidelsen av årsregnskapet til konsernet: | - |

**Årsregnskapet fastsatt av kompetent organ**

| | |
|---|---|
| Bekreftet av representant for selskapet: | marianne.nerlie@polynt.com |
| Dato for fastsettelse av årsregnskapet: | 30.06.2020 |

**Grunnlag for avgivelse**

År 2019: Årsregnskapet er elektronisk innlevert
År 2018: Tall er hentet fra elektronisk innlevert årsregnskap fra 2019

*Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.*

Brønnøysundregistrene, 01.10.2021

# Resultatregnskap

| Beløp i: NOK | Note | 2019 | 2018 |
|---|---|---|---|
| **RESULTATREGNSKAP** | | | |
| **Kostnader** | | | |
| Annen driftskostnad | 2 | 165 453 | 54 019 |
| **Sum kostnader** | | **165 453** | **54 019** |
| **Driftsresultat** | | **-165 453** | **-54 019** |
| **Finansinntekter og finanskostnader** | | | |
| Annen renteinntekt | | 329 834 | 256 517 |
| Annen finansinntekt | 6 | 9 200 192 | 730 962 |
| **Sum finansinntekter** | | **9 530 026** | **987 479** |
| Nedskrivning av finansielle eiendeler | 3 | 18 943 757 | |
| **Sum finanskostnader** | | **18 943 757** | |
| **Netto finans** | | **-9 413 731** | **987 479** |
| **Ordinært resultat før skattekostnad** | | **-9 579 184** | **933 460** |
| Skattekostnad på ordinært resultat | 5 | 0 | 0 |
| **Ordinært resultat etter skattekostnad** | | **-9 579 184** | **933 460** |
| **Årsresultat** | 4 | **-9 579 184** | **933 460** |
| **Overføringer og disponeringer** | | | |
| Overføringer til/fra annen egenkapital | 4 | -9 579 184 | 933 460 |
| **Sum overføringer og disponeringer** | | **-9 579 184** | **933 460** |

# Balanse

| Beløp i: NOK | Note | 2019 | 2018 |
|---|---|---|---|
| **BALANSE - EIENDELER** | | | |
| **Anleggsmidler** | | | |
| **Immaterielle eiendeler** | | | |
| **Finansielle anleggsmidler** | | | |
| Investering i datterselskap | 3 | 238 511 000 | 257 454 757 |
| **Sum finansielle anleggsmidler** | 3 | **238 511 000** | **257 454 757** |
| **Sum anleggsmidler** | | **238 511 000** | **257 454 757** |
| **Omløpsmidler** | | | |
| **Varer** | | | |
| **Fordringer** | | | |
| Andre fordringer | | 6 000 | 27 507 |
| Konsernfordringer | 6 | 22 763 190 | 13 206 740 |
| **Sum fordringer** | | **22 769 190** | **13 234 247** |
| **Bankinnskudd, kontanter og lignende** | | | |
| Bankinnskudd, kontanter og lignende | | 14 106 | 129 821 |
| **Sum bankinnskudd, kontanter og lignende** | | **14 106** | **129 821** |
| **Sum omløpsmidler** | | **22 783 296** | **13 364 068** |
| **SUM EIENDELER** | | **261 294 296** | **270 818 825** |
| **BALANSE - EGENKAPITAL OG GJELD** | | | |
| **Egenkapital** | | | |
| **Innskutt egenkapital** | | | |
| Selskapskapital | 4 | 228 762 000 | 228 762 000 |
| Overkurs | 4 | 38 033 393 | 38 033 393 |
| **Sum innskutt egenkapital** | | **266 795 393** | **266 795 393** |
| **Opptjent egenkapital** | | | |

## Balanse

| Beløp i: NOK | Note | 2019 | 2018 |
|---|---|---|---|
| Annen egenkapital | 4 | -5 563 859 | 4 015 325 |
| **Sum opptjent egenkapital** | | **-5 563 859** | **4 015 325** |
| | | | |
| **Sum egenkapital** | | **261 231 534** | **270 810 718** |
| | | | |
| **Sum langsiktig gjeld** | | **0** | **0** |
| | | | |
| **Kortsiktig gjeld** | | | |
| Annen kortsiktig gjeld | | 62 762 | 8 106 |
| **Sum kortsiktig gjeld** | | **62 762** | **8 106** |
| | | | |
| **Sum gjeld** | | **62 762** | **8 106** |
| | | | |
| **SUM EGENKAPITAL OG GJELD** | | **261 294 296** | **270 818 824** |

KPMG

**KPMG Accountants N.V.**
Audit
P.O. Box 74500
1070 DB Amsterdam
The Netherlands

Laan van Langerhuize 1
1186 DS Amstelveen
The Netherlands
Telephone +31 (0)20 656 7890
www.kpmg.com/nl

**Confidential**
Specialty Chemicals International B.V.
For the attention of the Board of Directors
Lichtenauerlaan 102
3062 ME ROTTERDAM

Amstelveen, 13 May 2020

**Subject:** Permission letter to the Annual report 2019

Dear Sirs,

Please find enclosed an authenticated copy of the Annual report 2019 of Specialty Chemicals International B.V. and our auditor's report thereon dated 13 May 2020.

We have enclosed two copies of our auditor's report with an original handwritten signature. These copies are meant for your own use. The other copy of our auditor's report states the name of our firm and the name of the responsible audit partner, but without a handwritten signature. We kindly request you to use the copy of the auditor's report without handwritten signature in the version of the annual report that will be published.

We confirm our permission to include and publish our auditor's report in the section 'Other information' of copies of the annual report 2019, provided that they are identical to the enclosed authenticated annual report, subject to adoption of the audited financial statements, without modification, by the General Meeting.

The annual report to be filed with the Trade Register of the Chamber of Commerce, including the audited financial statements should be filed within one month of 13 May 2020. We emphasize that it is not allowed to publish the authenticated version of the annual report.

The annual report to be filed with the Trade Register of the Chamber of Commerce needs to be filed no later than eight days after adoption of the financial statements by the General Meeting and anyhow prior to 31 December 2020.

Please note that it's legally required to (timely) file the annual report including the audited financial statements with the Trade Register of the Chamber of Commerce and non-compliance is an offence punishable by law. In certain situations by not complying with the publication requirements could even lead to personal liability for the Board of Directors.

If prior to the General Meeting circumstances arise that require a modification to the financial statements, please note that under Section 2:362 subsection 6 and Section 2:380a of the Dutch Civil Code such modifications should be made prior to the General Meeting. In this situation, of course, we withdraw our permission granted above.

All members of the the Board of Directors sign a copy of the financial statements. If signatures of a number of them are missing, the reason is included in the annual report to be filed.



1717647-20W00170530AVN

KPMG

***Specialty Chemicals International B.V.***
*Annual report for the year ended 31 December 2019*
*Amstelveen, 13 May 2020*

In order to prevent the abuse of signatures we discourage the filing of a signed copy of the annual report. The annual report to be filed with the Trade Register of the Chamber of Commerce should include the general meeting's adoption date of the financial statements.

If you wish to publish the annual report including the audited financial statements on the Internet, it is your responsibility to ensure proper separation of the annual report from other information on the website. For example, by presenting the annual report as a separate, read-only file, or by issuing a warning if readers switch from the web page containing the annual report ('You are now leaving the secured page containing the annual report, including the audited financial statements.').

Further, we recommend that you include the following disclaimer: 'In the event of any differences or inconsistencies between the text and quantitative information on this internet site and that in the original annual report, including the audited financial statements, as filed at the trade register of the Chamber of Commerce, the latter shall prevail'.

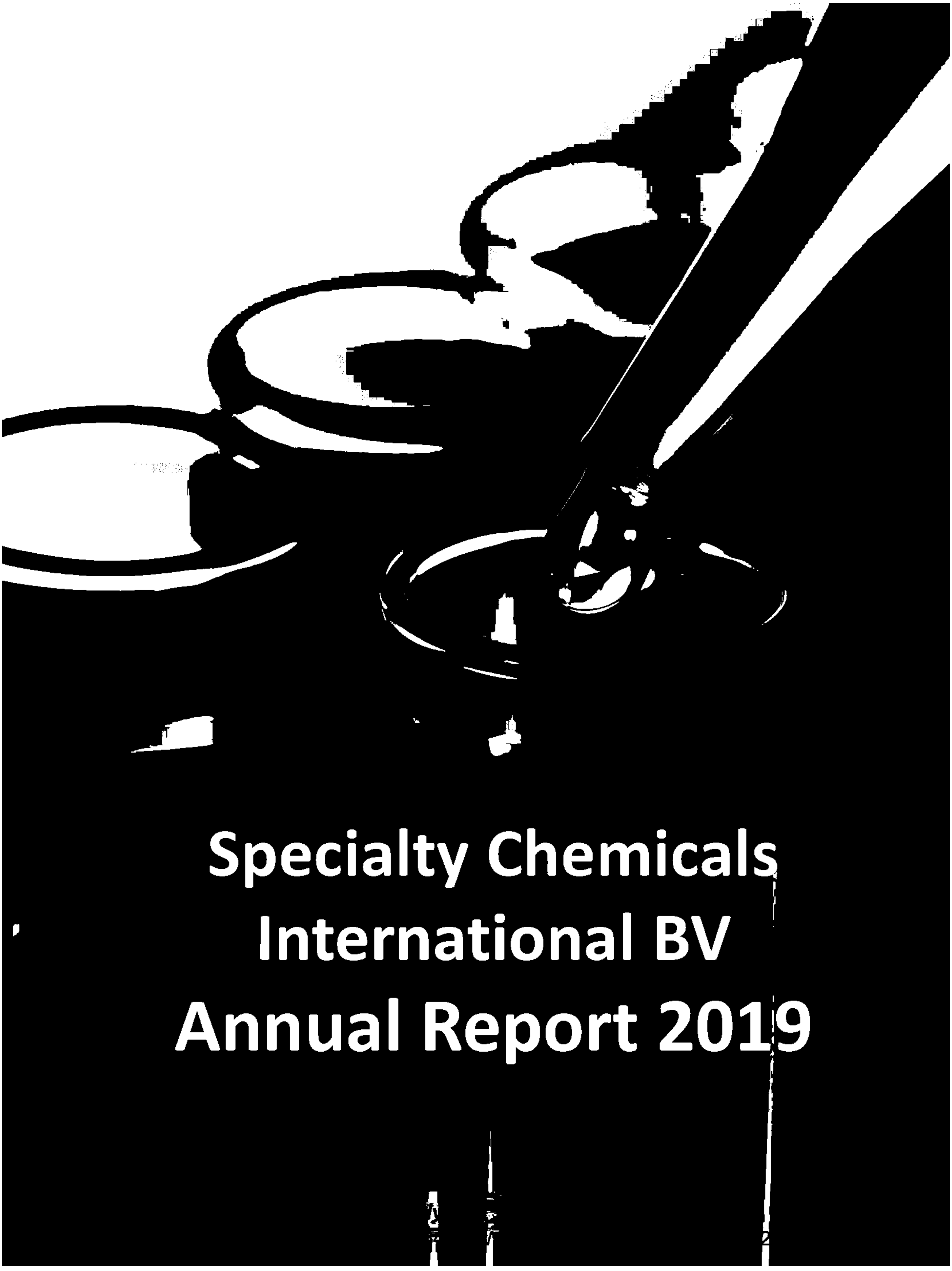
Furthermore, please note that, as per the date on which the dividend is made payable, the Board of Directors is required to assess, with due observance of the information then available, whether the Company will, following dividend payments, be able to continue to pay its exigible debts. Should dividends be paid and the Company turn out at a later stage, following and owing to the dividend payments, to be unable to continue to pay its exigible debts, the Board of Directors may be held jointly and severally liable for payment to the Company of the deficit created by the dividend payments if they knew or should have foreseen at the time when the dividend was made payable that such situation would arise owing to the dividend payments.

We will be pleased to provide any further information you may require.

Yours faithfully,
KPMG Accountants N.V.

L.M.A. van Opzeeland RA
Partner

*Enclosure(s):*
Authenticated copy of the annual report 2019
Two copies of our auditor's report
One unsigned copy of the auditor's report for publishing at the Trade register of the Chamber of Commerce



# Specialty Chemicals International BV

# Annual Report 2019


KPMG

# Contents

## Director's Report



Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

## Consolidated Financial Statements



## Separate Financial Statements



Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers


D nt to which ort (171764 AVN) ated 1 0 rs

## Company officers

| | |
|---|---|
| ***Managing Director*** | Kurt Theo Eckart Vogler |
| ***Managing Director*** | Devi Ajaib Wouter Singh Aujla |
| ***Managing Director*** | Daniel Christopher Vijselaar |
| ***Managing Director*** | Alberto Carpani |

The Director Kurt Theo Eckart Vogler was appointed during 2016 for an indefinite period of time.
On September 25, 2019 Alberto Carpani was appointed as managing director for an indefinite period of time.
On March 27, 2020 Zin Man Ho, Gerard Matthijs Verheij and Jürgen Schröder have resigned as managing directors of the Company. On the same date Devi Ajaib Wouter Singh Aujla and Daniel Christopher Vijselaar have been appointed as managing directors.

**Independent auditors**

KPMG Accountants N.V. with registered office in Amsterdam, the Netherlands. The audit engagement ends with the approval of financial statements as of and for the year ended December 31, 2019.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

## Director's Discussion and Analysis of Financial Condition and Results of Operations

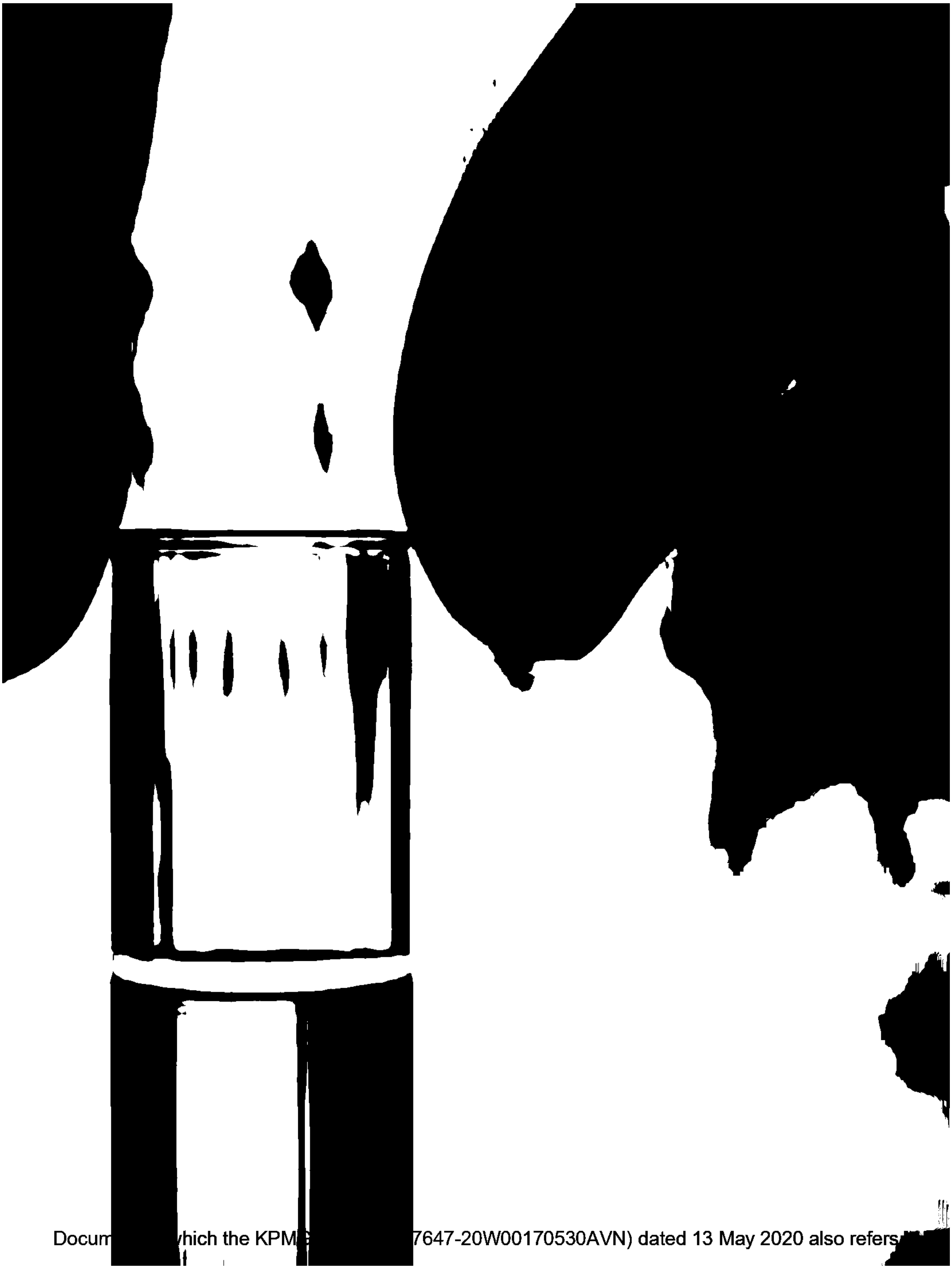
Readers should read the following *"Director's Discussion and Analysis of Financial Condition and Results of Operations"* together with the additional financial information contained elsewhere in this financial report including the consolidated financial statements and the related notes thereto. Our historical results are not necessarily indicative of the results to be expected in the future.

All of the financial data presented in the text and tables below are shown in thousands of Euro, except as otherwise stated. Certain financial data (including percentages) in the following tables have been rounded according to established commercial standards. This may lead to individual numbers presented throughout this report not adding up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

These consolidated financial statements have been prepared in accordance with IFRS endorsed by the European Union and the Title 9 of the Netherland Civil Code.

# Directors’ report

Document to which the KPM



Docum hich the KPM 7647-20W00170530AVN) dated 13 May 2020 also refers

## Directors' report

The Directors of the Company hereby present their report for the financial year ended on December 31, 2019.

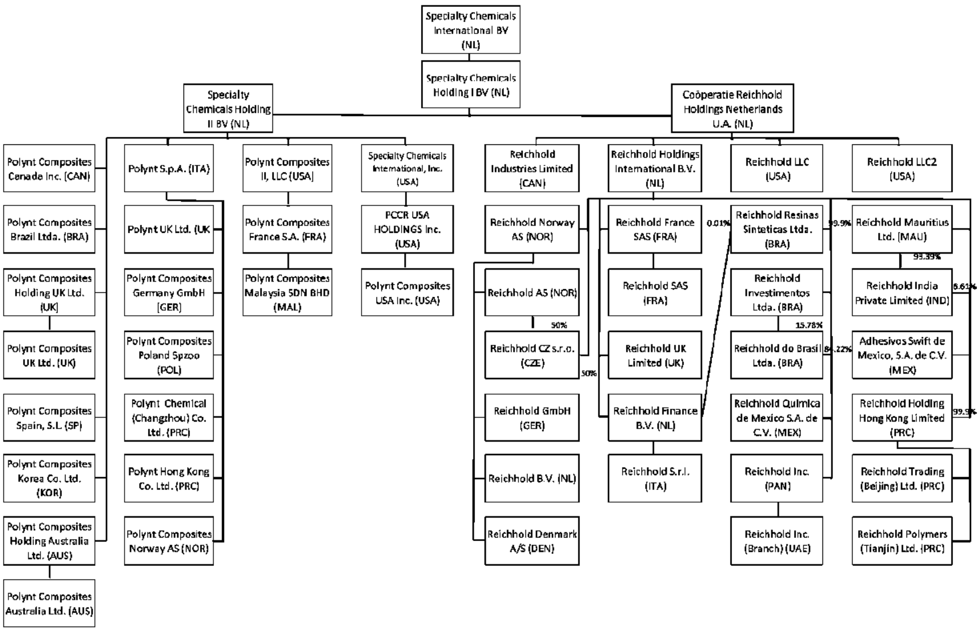
## General information

Specialty Chemicals International B.V. (the *"Parent"* or *"Reporting entity"*) is domiciled in the Netherlands with its statutory seat in Amsterdam and its place of business at Lichtenauerlaan 102, 3062 ME, Rotterdam, the Netherlands. These consolidated financial statements are comprised of the Parent and its subsidiaries and together referred to as the "Group". The Parent is wholly held/controlled by Speciality Chemicals International Ltd., itself equally held by an indirect subsidiary of Investindustrial V L.P. ("Investindustrial") and Black Diamond Capital Management ("Black Diamond"), with other shareholders holding minority positions.

### Polynt – Reichhold business combination

On May 17, 2017 Polynt Group (*"Polynt"*) and Reichhold Group (*"Reichhold"*) agreed to combine their businesses to form a global vertically integrated specialty chemical operation.

No changes to the Group's companies were completed during 2019, the Group structure as at December 31, 2019 is as follows:




Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

**Presentation of Financial Information**

The 2018 operating results, financial position, and cash flow reflect twelve months of operations and are comparable with the twelve months results presented in the operating results, financial position, and cash flow as at December 31, 2019.

**General economic environment overview [1]**

Global growth decelerated markedly in 2019, with continued weakness in global trade and investment. This weakness was widespread, affecting both advanced economies—particularly the Euro Area—and emerging markets and developing economies.
Against a background of high political uncertainty and mounting trade barriers, global gross domestic product (GDP) rose by 2.9%, slower than in 2018 (+3.6%).

The escalation of the trade conflict between the United States and China and the ongoing uncertainty surrounding the timing and nature of Brexit dampened demand for investment goods, consumer durables and their intermediates from the chemical industry. An accelerated structural transformation of the automotive industry also played a role.
In the European Union (E.U.), GDP growth declined from 1.9% in 2018 to 1.2% growth with overall GDP weaker year over year in almost all E.U. countries. The decline was especially pronounced in Germany (2019: +0.5%, 2018: +1.5%), particularly affected by the cyclical economic downturn, the political trade distortions and the structural transformation in the automotive industry. In Italy, GDP was virtually flat (+0.2%) after growing by 0.8% in the previous year.
Despite Brexit uncertainty, growth in the United Kingdom remained largely stable (+1.3%). Growth in the United States weakened over the course of the year but remained at a comparatively high at 2.3% (2018: +2.9%). The main growth driver was private consumption, supported by rising employment and higher real incomes.

Emerging market and developing economies are anticipated to see growth accelerate to +3.7% in 2019 from +4.5% in 2018. However, that acceleration will not be broad-based: the pickup is anticipated to come largely from a handful of large emerging economies stabilizing after deep recessions or sharp slowdowns.
In China, the GDP growth rate gradually weakened over the course of the year, due among other factors to the effects of the trade conflict with the United States (2019: +6.1%, 2018: +6.6%).

**Industry overview**

The Group is a leading global, vertically-integrated chemical player focused on the production of specialty chemical products.
Growth in chemical production (excluding pharmaceuticals) was considerably slower than in the previous year, at 1.8% (2018: +2.7%). The average price for a barrel of Brent crude oil decreased to USD 64 per barrel (2018: USD 71 per barrel).

[1] IMF – World Economic Outlook January 2020
The World Bank – Global Economic Prospects | January 2020

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

Chemical production in the E.U. declined for the second year (2019: –1.1%, 2018: –0.4%). The year-over-year change was particularly pronounced in the United States (2019: –0.4%, 2018: +4.1%). The drop in growth was mainly attributable to weak domestic demand from the automotive industry, agriculture and the construction industry. In addition, U.S. chemical exports to China fell significantly as a result of the trade conflict. In South America, chemical production declined by 2.0% amid a weak overall economic environment (2018: –0.6%).
By contrast, chemical production in the emerging markets of Asia grew by 4.0%, slightly stronger than expected (+3.6%). This was primarily driven by continued solid growth in China (+4.7%).

## Business overview

The Group's activities consist of research and development and the production and sale of organic anhydrides, composites and their derivatives. These products are part of the larger chemical intermediary category encompassing oil refining through to the production, sale and distribution of the finished products to the market. The Group's products are widespread in terms of applications and the number of end user sectors. They are used for, inter alia, the production of plastics, paints, inks and adhesives, electrical and electronic components, paper and lubricants. They also apply to the manufacture of animal feed ingredients, additives for the food industry, and included in compounds for the transportation, construction and electrical sectors.
The Group performs all functions leading to the sale of products, consisting of research and development, production planning, procurement of the raw materials, production, quality control and logistics, warehousing, sales and after sales support for the finished products.
The Group produces two major types of products:

- Specific use products: these products include phthalic anhydride, maleic anhydride, trimellitic anhydride, fumaric acid, malic acid and general purpose plasticizers. These products have a chemical-physical characterization universally defined and not changeable;
- Customized products: these products include unsaturated polyester resins, coatings, special anhydrides, gelcoats, compounds, catalysts and special esters. Products in this category are formulated at the customer's request in order to meet the customer's specifications or application requirements.

## Relevant transactions during 2019 financial year

Significant events that occurred during the reporting period ended December 31, 2019 are as follow:

- on April 29, 2019 the Board of Specialty Chemicals International B.V. adopted a resolution to distribute a cash dividend in the amount of EUR 1.5 million to Speciality Chemicals International Ltd..
- Under the terms of the 2014 CCP's acquisition, effective July 1, 2019, Polynt Composites UK Ltd acquired the asset (formerly owned by Arkema Coating Resins Ltd) located in Stallingborough. The assets in the transaction included land, buildings, equipment, 23 employees and certain contracts

- effective November 1, 2019 (i) Reichhold Holdings International B.V., Reichhold do Brasil Ltda., Reichhold Investimentos Ltda., Reichhold Resinas Sinteticas Ltda., Reichhold Industries Ltd., Reichhold Trading (Beijing) Ltd., Reichhold Polymers (Tianjin) Ltd., Reichhold CZ s.r.o., Reichhold Danmark A/S, Reichhold SAS, Reichhold France SAS, Reichhold GmbH, Reichhold Holding Hong Kong Limited, Reichhold India Private Limited, Reichhold S.r.l., Reichhold Mauritius Ltd., Reichhold Quimica S.A. de C.V., Adhesivos Swift de Mexico S.A. de C.V., Reichhold Finance B.V., Reichhold AS, Reichhold Norway AS, Reichhold Inc. (Panama), Reichhold UK Limited, and Reichhold BV (the " Foreign Controlled Group Members ") and (ii) the Pension Benefit Guaranty Corporation ( "PBGC") have executed a settlement agreement pursuant to which the Foreign Controlled Group Members shall pay to PBGC the principal amount of USD 16,300,000 to be paid in seven annual installments of USD 2,328,571.43 plus interests that will accrue thereon.

  The foregoing agreement settles the claim asserted by the PBGC in March 2015 against the non-US Reichhold subsidiaries. The PBGC had assumed the pension obligations of Reichhold Inc as part of the Reichhold, Inc bankruptcy process.
- On December 2, 2019 Polynt Composites Canada Inc. sold its Canadian distribution business with annual revenues of approximately EUR 39 million.
- On December 14, 2018, the tax audit of the Italian subsidiary Polynt S.p.A. was closed. The tax audit started on June 6th, 2018 and was carried out by officers of the local tax inspection unit ("Guardia di Finanza") and was completed with the notification of the "Processo Verbale di Constatazione" (the "PVC"). The tax audit covered tax year 2016 and, limited to some matters, tax years 2014, 2015 and 2017.

  The PVC identified two main findings: one challenging the royalty rate charged by Polynt S.p.A. to related parties in connection with the trademark "Polynt", as the basis of a total adjustment to the taxable income of EUR 41.5 million over the period covered by the tax audit.

  The second finding is that a portion of certain costs borne by Polynt S.p.A. was not recharged/rebilled to the proper related party as they should have been, such expenses being allegedly for the benefit of the whole Group. Based on this presumption the PVC provides for a total adjustment of EUR 3.3 million to the taxable income for the tax years 2015 and 2016.

  On December 23 and December 27, 2019 the tax office formally notified ("Avviso di Accertamento") against Polynt Spa the findings already assessed in the "PVC" only for the tax year 2014 for a total amount of Euro 1.1 million plus interest.

  The Company, while there are well-founded reasons to support the illegitimacy and groundlessness of the tax claim, in order to minimize the consequence on the Company and the Group, on January 21, 2020 asked for a definition of the 2014 notices.

  Since the assessment relating to these notices is still in progress, it is currently not possible to provide a precise quantification of the potential liabilities that could arise at the end of the procedure.

**Key Factors Affecting Our Results of Operations**

Our results of operations are driven by a combination of factors affecting the specialty chemicals industry. Set forth below is an overview of the key drivers that have affected the

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

historical results of operations of our business and are expected to affect our consolidated results of operations in future periods.

- ***General Economic Conditions, Demand and Cyclicality in our Products' End-markets and Supply Dynamics***

The specialty chemicals industry is generally affected by the overall general economic conditions with historical demand strongly correlated with global GDP growth.
Our products are used in several end-markets, including building and construction, transportation, automotive, electrical, food and feed, marine and home appliances. Most of these end-markets, with special reference to the building and construction sectors, have exhibited cyclical demand over the historical periods presented. We believe this cyclicality, a function of general economic conditions, has affected, and will continue to affect, our results of operations.
Political factors also impact the demand for our products and given the various geographical regions we serve could impact our operating results. Demand in Europe and North America has also been driven by customer's switching to high-quality products and advances in manufacturing that resulted in the replacement of traditional building materials with flexible and recyclable Composites and other synthetic materials. Demand in developing regions such as China and South America has been driven by increased population growth, a growing middle class, focus on industrialization investment and higher infrastructure spending. Our results reflect these trends where we have seen an increase in demand for specialty chemical products being used in building and construction projects in developing regions.
The competitive landscape and macro and micro economic impacts (i.e industry expansion, plant shutdowns, scheduled maintenance, force majeure actions etc) also influence the market supply and our operating results also impacts our operating results.

- ***Fluctuation in the Prices of Raw Materials***

Raw material costs comprise the largest portion of our operating costs. The majority of the raw materials we use are based on crude oil, including, butane, orthoxylene, benzene, styrene and pseudocumene. The prices we pay for our raw materials are closely linked to the price of crude oil and crude oil price fluctuations have affected, and will continue to affect, our results of operations and our financial condition. Other raw material costs such as the cost of soybean oil and normal butane used in the production of certain coating resins don't correlate directly with crude oil prices.
We, like other specialty chemical producers, typically seek to mitigate the risks of fluctuating commodity prices by having contracts both with suppliers and customers that allow for price renegotiation on a monthly or quarterly basis or for automatic price adjustment based on the average price of the commodity according to different price indices. The remainder of our volumes bought and sold are done so using either spot contracts at the then-prevailing market prices or otherwise based on formulas reflecting quotes in industry newsletters and other pricing benchmarks which in turn reflect the most recent changes in raw material costs at the time of sale. We also attempt to align the price negotiation periods between our customer contracts and the relevant supplier contracts where possible.

Passing through increases or decreases in raw material costs to our customers (either through price renegotiation or automatic price adjustments), while enabling us to maximize our Average Unit Margin without having to engage in commodity hedging, does cause our absolute revenue figures to fluctuate in close relation to raw materials prices (assuming constant sales volumes). We are not always able to pass through raw material price increases, or in some instances we suffer a certain time lag and, therefore, experience lower Average Unit Margins. Our inability to quickly pass through all raw material cost increases is affected by several additional factors. For example, demand in the end-markets where our customers compete can sometimes be too weak to absorb the full effect of price increases. As a result, we sometimes postpone passing on cost increases in an attempt to maintain sales volumes, which can adversely affect Average Unit Margin. In contrast, during periods of falling raw material prices, to the extent that customers do not delay purchases while waiting for our prices to reflect falling prices, the time lag in raw material price pass through allows us to realize higher margins.
Changes in raw material prices also have a direct effect on our working capital levels. In general, increases in the cost of raw materials leads to an increase in our working capital requirements, as our inventories and trade receivables increase as a result of raw materials prices and the higher price related sales levels is partially offset by an increase in trade payables. Due to the quantity and turnover of the raw materials that we typically keep in stock, this increase occurs gradually over a period of three months. Conversely, decreases in the cost of raw materials lead to a decrease in our working capital requirements within the same three-month period following the decrease in costs.

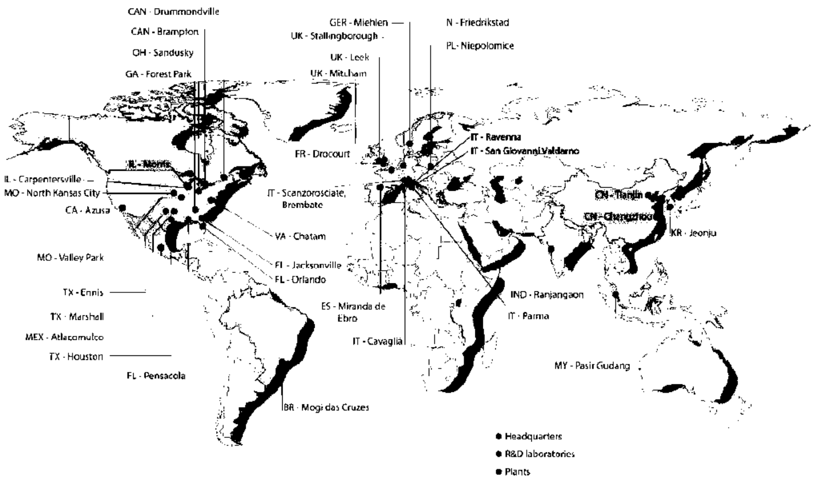
- ***Vertical Integration and a Focus on High-margin Composites and Specialties***

Our vertically integrated production model allows us to leverage the in-house production and consumption of lower-margin, less profitable, more price-volatile Intermediates (i.e. phthalic and maleic anhydrides) in the downstream production of higher-margin Composites and Specialties. For example, phthalic and maleic anhydrides, which we produce for captive use, represent approximately 40% of the total raw materials cost of producing UPRs.
The vertical integration nature of our business together with our proprietary catalyst technology used to produce our higher-margin products gives us significant operational autonomy from the volatile and less profitable Intermediates market, while providing increased visibility on market trends, a greater independence in timing price adjustments and an ability to respond quickly to changes in customer demand and, therefore, has a significant effect on our results of operations.

- ***Product and Geographic Diversification***

We produce and sell a wide range of specialty chemical products in multiple geographic regions, which affects our results of operations. Within our product classes, we offer thousands of product formulations, which comprise a broad and varied product portfolio allowing us to meet the needs of customers in a wide array of end-markets. Composites are tailored to specific applications more often than Intermediates, so the Composites-heavy shift of our product offering, in addition to mitigating our exposure to the volatile

Intermediates market, allows us to meet the needs of more customers in a wide range of end markets from the transportation to construction to the food and feed industries. Furthermore, we believe our geographic diversification creates multiple advantages. Having facilities in close proximity to both our broad and diverse supplier and customer bases enables us to meet client needs on a timely basis while minimizing logistics cost of transporting our raw materials and finished products. Our geographic diversification also acts as a natural hedge against localized economic downturns and allows us to maximize operating leverage and boost margins by increasing output volume in regions of increasing demand.




- ***Exchange Rate Fluctuations***

We operate internationally and, as a result, are exposed to various currency risks and exposures. Although our reporting currency is the Euro, a significant portion of our revenue is denominated in currencies other than the Euro, predominantly the U.S. dollar. For the year ended December 31, 2019, roughly 40% of our revenue was Euro-denominated, approximately a third was U.S. dollar-denominated or U.S. dollar-linked with the remainder denominated in other currencies. The primary effects of exchange rates on our results of operations may be described in terms of translation and transaction exposure.

- ***Translation Risk***

Translation risk is the risk that the value of our revenue, costs, assets and liabilities reported in Euro on our consolidated income statement and balance sheet will fluctuate due to changes in foreign exchange rates. For instance, strengthening of the Euro against the U.S. dollar will result in a decrease in our net sales and costs denominated in U.S. dollars but reported in Euro. As many of our subsidiaries operate in markets that use currencies other than the Euro, these effects may be significant. Translation from each company's reporting

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

currency into Euro does not expose us to any cash flow risk and thus this exposure is not hedged.

- ***Transaction Risk***

As a result of our global customer and operations base, our Group companies occasionally enter into contracts expressed in currencies different from their operating currencies. Because these contracts are often settled and/or executed over a certain period of time, we are exposed to the risk that the relative exchange rate will fluctuate unfavorably between execution and full performance of the contracts. Although we engage in some currency hedging to mitigate the effects of currency transaction risk, the strength of our geographic diversification generally allows us to make use of natural hedges within our foreign currency denominated operations, including through matching the currency of our sales to the currency of the purchases of raw materials and other production costs.

The revaluation of assets and liabilities denominated in currencies other than the functional currencies of our Group companies results in either financial income or financial expense on our income statement for the relevant period. For the year ended December 31, 2019, the Group had financial income from exchange rate gains of EUR 11.5 million (EUR 13.4 million in 2018) and financial expense on exchange rate losses of EUR 8.2 million (EUR 6 million in 2018) mainly related to the exchange rate effect on outstanding loans denominated in USD for some of the subsidiaries.

- ***Environmental and Other Regulatory Compliance***

Our results of operations are affected by the various country health, safety and environmental ("HSE") regulations and the Group's HSE policies. We have incurred, and expect to continue to incur, on-going capital expenditures to ensure compliance with current and future HSE laws and regulations.

Carbon dioxide and other greenhouse gas ("GHG") emissions are by-products of our production processes, and as a result we are regulated by the EU Emissions Trading System in the EU and the Environmental Protection Agency in the United States. National or regional legislation and regulations may impose additional restrictions on us in the future in relation to our carbon dioxide and other GHG emissions, which could lead to increased costs or capital expenditures or require additional operational changes at our production facilities.

The main regulations relating to safety of substances and chemicals affecting our industry are REACH in the European Union, which imposes significant obligations on the chemicals industry as a whole with respect to the testing, evaluation, assessment and registration of basic chemicals and semi-specialty chemical products, and the Toxic Control Substance Control Act in the United States. Complying with these obligations is expensive and time consuming and leads to increased production costs and reduced operating margins for chemical products.

In addition, from time to time, we incur remediation costs at our current facilities and decommissioning costs associated with closing production facilities. As of December 31, 2019 we have provisions of EUR 19.8 million (EUR 19.5 million in 2018) for anticipated ecological remediation costs that may be necessary at certain facilities. Given the nature of our chemical operations, should historical or future environmental conditions be discovered, the company may incur significant future remediation costs including fines and potential damages.

- ***Asset Utilization***

Our ability to utilize our assets by operating at full, or close to full, capacity to achieve maximum production volumes materially affects our results of operations. Moreover, certain of our facilities have minimum capacities below which they cannot be properly operated. Our utilization rate is influenced by factors such as industry consolidation, regulation, product substitution, unplanned downtime for our and our competitors' facilities, industry cycles and customer demand.

We aim to operate our facilities at full capacity, while maintaining a balance between optimizing volume output and the pricing of the corresponding chemical products produced at the relevant facilities. We regularly review and analyze utilization rates and product mix across our portfolio with the aim to optimize utilization rates depending on demand.

We attempt to minimize the need for facility downtime and maximize the useful life of our production facilities by undertaking regular maintenance closures to perform necessary inspections and testing to comply with industry regulations and to permit us to carry out any necessary maintenance activities. We aim to schedule these closures during seasonal periods of reduced demand and in coordination with our raw material suppliers' planned shutdowns. For example, we schedule maintenance closures of most of our European production facilities during August and December of each year to correspond with generally reduced demand during those periods. When possible, we seek to limit the effect of scheduled outages on our results by increasing inventory ahead of planned turnarounds and by coordinating with our customers to manage expectations in terms of product availability and logistical changes such as changes in the location from which we will ship our chemical products. Typically, before a major shutdown, we either sell less of our chemical products or enter into swap contracts with other chemical producers and inform customers we are doing so in order to increase our stored inventory in an effort to ensure we have adequate chemical products available. This allows us to continue to supply our customers with minimal disruption.

- ***Efficient Cost Management***

Our ability to manage and control costs has a significant effect on our results of operations. We have historically been able to react to adverse economic conditions and other events that have the effect of reducing the demand for our products by reducing our underlying cost base, implementing efficient corporate and management structures and maximizing the utilization of our assets by shifting production. We remain competitive with our low fixed-cost base: for the year ended December 31, 2019, fixed costs represented 19.0% of our total costs (17.3% in 2018). In addition, our vertically integrated production model has the effect of reducing costs, particularly transportation and raw material costs. Further the Group's increased scale and operational synergies will drive further operational optimizations including increased ability to organize production in response to peak demand, exploit economies of scale, reduce overhead, consolidate headquarters operations and integrate anhydride production across facilities.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

We regularly monitor our production and distribution processes in an effort to identify profitable streamlining efforts that can optimize efficiency and reduce unnecessary costs. We intend to make strategic capital expenditures seeking to increase production capacity, achieve process improvements, improve our efficiency and margins and reduce production and other costs.

- ***Seasonality***

We experience some seasonal fluctuations in the demand for certain of our products. For example, in the northern hemisphere the summer paint and construction season drives increased mid-year coating sales that typically decline during the colder winter months. As a result, our working capital reflects similar trends with increased working capital requirements in the beginning half of the year, and a decrease in the second half of the year. While certain of our products, such as resins and coatings, are subject to seasonal demand due to the fact that they are used in market segments that have higher demand during spring and summer (e.g., paints for home maintenance and marine coatings), we believe our overall results are relatively stable as a result of the diversity of our product offerings and our geographic diversification.

- ***Management of Trade Receivables and Bad Debts***

Our level of trade receivables and the likelihood of collecting those receivables has a significant effect on our results of operations and cash flows. We actively manage our trade receivables through internal credit procedures whereby we analyze new customers' credit standing before any credit facilities are granted, including third-party appraisals, when available. Credit facilities with customers are checked annually and customers that do not meet our credit criteria may only make purchases against advance or guaranteed payment. These procedures have enabled us to limit our bad debts, even in periods of economic slowdown when it traditionally becomes more difficult to secure payment from customers. We also sell certain trade receivables pursuant to recourse and non-recourse factoring facilities.

- ***Segment Analysis***

We manage our business on a regional basis: Europe, Asia and the Americas, with the region determined by the location of the company recognizing the relevant sale.
Our intra-Group sales primarily include sales of Intermediates from certain Group companies to other Group companies that use those Intermediates in the production of Composites and Specialties and sales of UPR between Group companies for the production of compounds and gelcoat. Intra-Group transactions are conducted on an arm's-length basis and are eliminated in the consolidated results presented herein.

## Results of operations

The consolidated financial statements for the year ending December 31, 2019 have been prepared in accordance with IFRS as endorsed by the European Union ("EU - IFRS") and include the balance sheet and income statement of each company belonging to the Polynt and Reichhold Group, which is comparable with the previous consolidated financial statements for the year ending December 31, 2018.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

For the comparison of the Group's 2019 results in this Director's Report with the Group's 2018 results, the income statement for the prior year was prepared on the following basis:

- the economic data have been reclassified to comply with the management classification and indicators adopted for management accounts. Note that EBITDA and EBIT are group indicators which are not provided for by the EU - IFRS but are based on EU - IFRS values.

The adoption of the new accounting standard IFRS 16 (the recognition, measurement, presentation and disclosure of leases), and its possible impacts are disclosed in the notes to the Consolidated Financial Statements.

The following table summarizes our financial performance for the periods indicated:

| (Euro thousand) | 2019 | 2018 | Var % |
|---|---|---|---|
| **Sales (ton)** | **1,050,093** | **1,077,309** | **(2.5%)** |
| **Revenue** | **2,043,037** | **2,097,070** | **(2.6%)** |
| Variable costs | (1,458,513) | (1,556,075) | (6.3%) |
| Fixed costs | (343,131) | (326,059) | 5.2% |
| **EBITDA** | **241,393** | **214,936** | **12.3%** |
| *EBITDA %* | *11.8%* | *10.2%* | |
| Depreciation & Amortization | (80,029) | (74,050) | 8.1% |
| **EBIT** | **161,364** | **140,886** | **14.5%** |

- ***Sales and Revenue***

Sales and Revenue by geographical segment are detailed as follows:

| (tons) | 2019 | 2018 | Var % |
|---|---|---|---|
| Europe | 516,107 | 528,366 | *(2.3%)* |
| Americas | 407,910 | 418,926 | *(2.6%)* |
| Asia | 126,076 | 130,017 | *(3.0%)* |
| **Sales** | **1,050,093** | **1,077,309** | ***(2.5%)*** |
| (Euro thousand) | | | |
| Europe | 921,003 | 977,455 | *(5.8%)* |
| Americas | 891,712 | 879,623 | *1.4%* |
| Asia | 230,322 | 239,992 | *(4.0%)* |
| **Revenue** | **2,043,037** | **2,097,070** | ***(2.6%)*** |

Revenue decreased by 2.6% to EUR 2,043 million in 2019 from EUR 2,097 million in 2018 while sales volume decreased by 2.5%.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

In Europe, sales volumes decreased 2019 vs 2018 mainly in the Intermediates business driven by the reduced availability of maleic anhydride as a consequence of the accident at the Ravenna plant in February 2019; and by the general slowdown of the European economy that impacted the plasticizers business, although with minimal impact on Composite volumes. The Intermediates business was impacted negatively by the duties imposed by the US on China, as more volumes from competitors flooded into Europe as they were banned from selling into the US. Conversely, our European Composites sales volume had a positive benefit as we exported more of our European produced materials to the US.
Revenues decreased during the year for all the products and businesses driven by the decreasing crude oil prices that generally affected all the Group raw materials.

In the Americas, sales volumes were down 2.6% as the higher volumes from the improving Brazilian economy were offset by lower volumes in the US Coatings and Composite segments. Coatings were lower year over year from the impact of distributor restocking in 2018 while Composites was lower on slower activity in the transportation and construction industries.
Americas revenue was higher by 1.4% as the favorable foreign exchange effect offset the unfavorable impact of the lower sales volumes.

In Asia, sales volumes were below 2018 levels and driven by the stoppage of our Chinese Intermediates site production as mandated by local authorities in Q4 with revenues decreasing accordingly.

- ***Variable costs***

Variable costs include the cost of purchasing raw materials, consumables and supplies, goods for resale, energy costs, selling expenses and the related changes in inventories.
The EUR 97.6 million decrease results from the net decrease in the unit cost of raw materials and utilities.

- ***EBITDA***

EBITDA is a non EU-IFRS measure. EBITDA is computed by adjusting the EU - IFRS Gross operating profit for non-operating, non-recurring and other one-off items.
In evaluating EBITDA, please note that EBITDA is subject to certain limitations. EBITDA is not a measurement of performance under EU - IFRS or any other generally accepted accounting standards and you should not consider EBITDA as an alternative to (a) operating profit or profit (as determined in accordance with EU - IFRS or any other generally accepted accounting principles) as a measure of our operating performance, (b) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under EU - IFRS or any other generally accepted accounting principles.
EBITDA for 2019 was EUR 241.4 million, up EUR 26.5 million from EUR 214.9 million in 2018 (+ 12.3%).

In Europe, EBITDA decreased by 9% in 2019 vs 2018 driven mainly by higher operating and fixed costs related to the Ravenna plant accident, competitive pressure from US – China trade war thanks to the reduced raw material cost, in general all the products increased their unitary margin; with the exception of the products of the Intermediates business where the slowdown of the European demand and the price pressure from Chinese competitors forced the Group to defend our market position by compromising of sale price. It should be noted that a specific negative effect was driven by the Ravenna accident, that increased throughout the year the variable cost for the production of maleic anhydride.
In general, the volumes slowdown effect overcame in the whole year the positive effect of increased unitary margin.
Fixed costs were managed closely but were negatively affected by higher costs associated with the Ravenna accident. The accident forced higher unbudgeted turnaround costs partially offset by insurance proceeds.

In the Americas EBITDA improved year over year. Unit margins were higher on lower raw material inputs and from the favorable foreign exchange impact partially offsetting higher fixed costs. The year over year higher fixed costs resulted from the unfavorable foreign exchange impact, general cost inflation and are net of favorable US and Brazil synergy realization.

In Asia, EBITDA in 2019 was well above 2018 resulting from the higher unit margins and from strict cost control.

We provide below the reconciliation of EBITDA to EU - IFRS Gross operating profit:

| (Euro thousand) | | 2019 | 2018 |
|---|---|---|---|
| **Gross operating profit - IFRS** | **A** | **272,086** | **190,196** |
| **Net non recurring costs/(income)** | **B** | **(30,693)** | **24,740** |
| *- Non-recurring income* | | *(53,710)* | - |
| *- Non-recurring costs* | | *23,018* | *24,740* |
| **EBITDA** | **A + B** | **241,393** | **214,936** |

- ***Non-recurring expense/(income)***

The Group incurred EUR 30.7 million in net non-recurring income during the year ended December 2019, mainly related to the net gain for the sale of distribution business in Canada and insurance proceeds received by Polynt S.p.A..
*"Non-recurring costs"* are mainly related to restructuring costs arising from plant closures in Dubai, Canada, Brazil, Norway, US and Australia and net of the reversal of the US onerous lease as described in the note 22 of the Consolidated Financial Statements.

## Liquidity and Capital Resources

- ***Overview***

The main sources of liquidity available to the Group on an ongoing basis as of December 31, 2019 are as follows:

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

- the operating cash flow;
- the ability to borrow under banking (for the most part unsecured) and factoring bilateral facilities, made available to some entities of the Group in certain jurisdictions, mainly in Europe (with special regard to Italy);
- drawings under a EUR 60.0 million super senior secured multi-currency revolving credit facility (the "Revolving Credit Facility" or "RCF") available to each of the issuers under the Senior Secured Notes and Loans;
- the ability to draw under a USD 58.6 million committed ABL facility (the "US ABL") available to Polynt Composites USA Inc. and secured by trade receivables and inventories.

The Group's ability to generate cash depends on its operating performance which in turn depends on general economic, financial, competitive, legislative, regulatory and other factors, many of which are beyond the Group's control.

Bilateral facilities are available as short and medium term loans, receivables financing and factoring facilities (both *"with"* and *"without recourse"*), letters of credit and overdrafts, extended by both international and local banks with which the Group has longstanding relationships and are used mainly to manage local intra-month or seasonal working capital swings. Bilateral facilities are complemented by a notional cash pool available to certain entities, which enhances the ability of the Group to have each Subsidiary meet its financial requirement. As of December 31, 2019 the availability under bilateral facilities was around 60% of their aggregate amount.
The outstanding borrowings under the RCF as of December 31, 2019 were equal to EUR 37.2 million (EUR 31.8 million as of December 31, 2018).

The outstanding borrowings under the US ABL as of December 31, 2019 were nil.

Based on the current level of operations as reflected in the results of operations for the twelve months ended December 31, 2019 the cash flow from operating activities, cash on hand, the availability of borrowings under bilateral facilities, RCF and US ABL will be sufficient to fund operations, capital expenditures and debt service for the next twelve months.

The ability of subsidiaries to pay dividends and make other payments to their parent companies may be restricted by, among other things, legal prohibitions on such payments or otherwise distributing funds to the Holding Companies, including for the purpose of servicing debt.

- ***Cash Flows***

The following table presents our statement of cash flows for the periods indicated.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

| (Euro thousand) | | 2019 | 2018 |
|---|---|---|---|
| Cash flow from operating activities | | 168,928 | 114,918 |
| Cash flow from investing activities | | 6,305 | (42,391) |
| Cash flow used in financing activities | | (33,006) | (6,433) |
| Effects of movemenet in exchange rates on cash held | | 3,131 | (1,052) |
| **Net change in cash and cash equivalents** | **A** | **145,358** | **65,042** |
| **Opening cash and cash equivalents** | **B** | **157,576** | **92,534** |
| **Closing cash and cash equivalents** | **C=A+B** | **302,934** | **157,576** |

For further details please refer to the Consolidated Statement of cash flows for the year ended December 31, 2019.

- ***Net Financial Indebtedness***

The following table shows the composition of Consolidated net financial indebtedness for the period indicated.

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Cash and cash equivalents | 302,934 | 157,576 |
| Other financial assets | 8,445 | 7,584 |
| Secured Notes and Loans | ( 503,660) | ( 550,532) |
| Borrowings under Revolving Credit Facilities | ( 37,238) | ( 31,874) |
| Others financial loans and interest accrual | ( 72,981) | ( 50,677) |
| IFRS 16 effect on debt | ( 12,162) | - |
| Financial expenses capitalized | 14,617 | 20,062 |
| **Total net financial indebtedness** | **( 300,045)** | **( 447,861)** |

*"Net financial indebtedness"* is the amount of long-term financial indebtedness, plus short-term financial indebtedness, less current financial assets, cash and cash equivalents. We present net financial indebtedness in this MD&A because we understand that certain investors believe that netting cash against debt provides a clearer picture of the financial liability exposure of the Group and other companies may present net financial indebtedness differently. Net financial indebtedness is not a measure of financial performance under EU - IFRS and should not be considered as an alternative to any other measures of performance derived in accordance with EU - IFRS.

- ***Net Working Capital***

The following table summarizes our net working capital as of December 31, 2019:

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Trade receivables | 266,542 | 302,671 |
| Inventories | 239,910 | 245,428 |
| Current tax assets | 8,205 | 10,600 |
| Other current assets | 36,728 | 29,069 |
| **Current assets** | **551,385** | **587,768** |
| Trade payables | 199,782 | 217,132 |
| Current tax liabilities | 11,445 | 9,830 |
| Employee benefits | 29,859 | 25,916 |
| Other current liabilities | 29,942 | 19,024 |
| Current portion of provisions | 14,760 | 16,160 |
| **Total current liabilities** | **285,788** | **288,062** |
| **NET WORKING CAPITAL** | **265,597** | **299,706** |

We define working capital as the difference between current assets and current liabilities adjusted by appropriate balance sheet items (cash and short-term loans). 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 higher 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 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.
Historically, we have financed our working capital requirements out of available cash balances, cash earnings, active working capital management and the sale of certain receivables pursuant to recourse and non-recourse factoring agreements.

- ***Capital Expenditures***

The following table summarizes capital expenditures for the periods indicated.

| *(Euro thousand)* | 2019 | 2018 |
|---|---|---|
| Land and buildings | 2,687 | 1,710 |
| Plant and machinery | 7,175 | 22,179 |
| Industrial and commercial equipment | 629 | 726 |
| Other assets | 306 | 2,656 |
| Assets under construction and payments on account | 37,334 | 14,615 |
| **Investments in property, plant and equipment** | **48,131** | **41,886** |
| Investments in other intangible assets | 2,093 | 3,442 |
| **Total capital expenditure** | **50,224** | **45,328** |

Capital expenditures are primarily related to projects to expand and sustain our manufacturing operations and facilities, improve our cost base, expand our production capacity and develop and manufacture new catalysts and products. We finance our maintenance and expansion capital expenditures primarily from cash flows from operations and, in certain cases, with bank loans and financial lease contracts. We expect that future capital expenditures may increase slightly in the future in order to expand capacity and support our organic growth.

The 2019 expenditures mainly refer to:

- Europe's major capital expenditures included EUR 2.6 million related to the maleic anhydride accident and pre-engineering work for the replacement of the reactor at Polynt S.p.A.'s Ravenna site (Italy); EUR 0.8 million for the catalyst replacement of the phthalic anhydride plant at Polynt S.p.A.'s Scanzorosciate site (Italy); EUR 0.8 million for the catalyst replacement of the maleic anhydride plant and EUR 1.1 million for the TMA plant refurbishment at Polynt S.p.A.'s Scanzorosciate site (Italy); EUR 0.6 million as preliminary step for the conversion of the boiler to natural gas and other improvements at Polynt S.p.A.'s Cavaglià site (Italy); EUR 1.4 million for resin storage expansion and production debottlenecking at Polynt Composites Poland Sp.Zo.o.'s Niepolomice site (Poland); EUR 1.0 million in the Polynt Composites France S.A.'s Drocourt site (France) for the increase of storage capacity in raw materials, so that the increased flexibility can allow access to cheaper supplying sources.
- Americas' major capital expenditures included EUR 11.8 million mainly for Polynt Composites USA's Houston and other sites capabilities updated for reallocated production from closed plants and for Carpentersville, and North Kansas City R&D facilities renovated related to the transfer of R&D activities from Durham; EUR 3.0 million for the upgrade of Reichhold USA's Pensacola and Morris sites capability; EUR 2.9 million for the reactor conversion implementation to expand UPR composite manufacturing capacity at the Reichhold Atlacomulco site in Mexico; EUR 0.5 million for Polynt Composites Canada Inc.'s SAP implementation to support future business growth and harmonize business processes.
- Asia's major capital expenditures included EUR 0.4 million for pre-engineering for an approved third UPR reactor and for ongoing projects in Reichhold India's Pune site; EUR 1.4 million for new offices building at the Polynt Composites Malaysia's site; EUR 1.8 million for new open channels rainwater system built in Polynt Changzhou (China); EUR 0.8 million for a DCS system upgrade at Polynt Korea.
- the remainder of the Capital expenditures relate to small investments at the Group's other sites.

## Off-balance Sheet Arrangements

On a consolidated basis, we have no material off-balance sheet arrangements.

## Description of material contractual arrangements, including certain financing arrangements

In connection with the May 17, 2017 merger and refinancing, the Parent and other Group' affiliates entered into the following agreements:

- A **Facility Agreement** (the *"Agreement"*) with various subsidiaries of the Group as borrowers and guarantors and various financial institutions, all of which were unrelated to the Company, as lenders. The Agreement provided for the issuance of Euro senior loans (the "EUR Loans") totaling EUR 229.9 million and for the issuance of USD senior loans (the "USD Loans") totaling USD 199.2 million. EUR loans bear interest at a rate equal to the 3-month EURIBOR floored to 0.50% plus a margin, with interest

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

reset and payable quarterly. USD loans bear interest at a rate equal to the 3-month LIBOR floored to 1.00% plus a margin, with interest reset and payable quarterly. Both EUR and USD loans mature on May 15, 2024 with annual mandatory prepayments equal to a portion of consolidated excess cash flow, as defined in the Agreement, to occur beginning in 2019. Additionally, voluntary prepayments are allowed. All borrowings under the Agreement are guaranteed by several subsidiaries of the Group incorporated in security jurisdictions and are secured by the equity and certain assets of those subsidiaries. In October 2017 the Group elected to prepay a portion of the loans by entering an ABL Facility in the USA (see below for more details) and applying the proceeds arising from the initial borrowings thereunder to the pro-rata prepayment of an aggregate amount such that the Group's total remaining outstanding loans under the Agreement as of December 31, 2018 were USD 182.6 million and EUR 210 million. In May 2019 the Group made the mandatory ECF prepayment by electing to also make a voluntary ECF prepayment as provided by the Agreement. Pursuant to such ECF prepayments the Group's total remaining outstanding loans under the Agreement as of December 31, 2019 were USD 166.1 million and EUR 191.6 million. The Agreement contains customary affirmative and negative covenants.

- An **Indenture**, with Italian' subsidiaries Polynt S.p.A. and Polimeri Speciali Holding S.p.A. ("PSH") as issuers and guarantors of Euro senior floating rate notes (the "Notes") and several subsidiaries of the Group as guarantors thereof. The Notes were purchased by various financial institutions, all of which were unrelated to the Company. Polynt S.p.A. issued Notes totaling EUR 139.1 million whereas PSH issued Notes totaling EUR 57.9 million. The Notes bear interest at a rate equal to the 3-month EURIBOR floored to 0.50% plus a margin, with interest reset and payable quarterly and mature on May 15, 2024 with annual mandatory prepayments equal to a portion of consolidated excess cash flow, as defined in the Indenture, to occur beginning in 2019. Additionally, voluntary prepayments are allowed. In October 2017 the Group elected to prepay a portion of the Notes by entering an ABL Facility in the USA (see below for more details) and applying the proceeds arising from the initial borrowings thereunder to the pro-rata prepayment of an aggregate amount such that the total remaining outstanding Notes as of December 31, 2018 were EUR 180.5 million. Pursuant to the merger of PSH into Polynt S.p.A. occurred in November the Notes originally issued by the former were assumed by the latter. In May 2019 the Group made the ECF mandatory prepayment by electing to also make a voluntary ECF prepayment as provided by the Indenture. Pursuant to such ECF prepayments the Group's total remaining outstanding Notes as of December 31, 2019 were Euro 164.2 million. The Indenture provides for the same customary affirmative and negative covenants as those provided under the Agreement.
- A **Super Senior Revolving Facility Agreement** with two financial institutions unrelated to the Company provided a Revolving Credit Facility (the "RCF") in the amount of EUR 60 million. The RCF is a multicurrency facility available to various subsidiaries of the Company both as loans and letters of credit. The Group's outstanding borrowings as of December 31, 2019 were exclusively denominated in EUR, with outstanding borrowings being equal to EUR 37.2 million (EUR 31.8 million in 2018). Interest on the RCF borrowings accrues at a rate equal to the relevant EURIBOR rate floored to 0.0%

plus a margin. The RCF terminates on May 17, 2023. All borrowings under the RCF are guaranteed by most of the Group's subsidiaries and are secured by the equity and certain assets of those subsidiaries. The RCF contains customary affirmative and negative covenants. The RCF also contains a "springing financial covenant" requiring the consolidated Group to maintain a net leverage ratio of super senior indebtedness to EBITDA, as defined in the RCF agreement, of 0.75:1 or less. The springing financial covenant is tested only when the aggregate amount of all outstanding loans at the end of the relevant quarter is equal or greater than 35% of the total amount of commitments under the facility and any breach would act as a draw stop to new borrowings only.

On September 29, 2017 some subsidiaries of the Parent incorporated in the USA and Canada entered an ABL Facility (the "ABL") with some financial institutions unrelated to the Company providing for a revolving facility in the amount of USD 58.6 million available as loans and letters of credit to Polynt Composites USA, Inc. and, until November 2019 with a sublimit of USD 20 million, to Polynt Composites Canada, Inc.. The original borrowings under the facility were used to redeem Notes and prepay Loans on a pro-rata basis, as permitted under the Agreement and the Indenture. Interest on the ABL borrowings accrues at a rate equal to the relevant base rate plus a margin. The ABL terminates on September 29, 2022. All borrowings under the ABL are secured by pledges over trade receivables and inventory of the borrower thereunder. As of December 31, 2019 no ABL borrowings were outstanding. The ABL contains customary affirmative and negative covenants. As of December 31, 2019, the parties thereto were in compliance with all covenants of the ABL.

As commented on with respect to the "Significant events after the reporting period" on March 18, 2020 the Group finalized the refinancing of the existing senior indebtedness that was originally incurred in connection with the merger occurred in May 2017.
Such a transaction involved:

- the redemption of the Notes issued under the Indenture totaling EUR 164.2 million,
- the prepayment of the Euro and USD Loans under the Facility Agreement totaling respectively EUR 191.6 million and USD 166.1 million,
- the prepayment of loans outstanding under the Super Senior Revolving Facility Agreement totaling EUR 37.2 million.

**Factoring Facilities**

Substantial factoring facilities are available to certain subsidiaries of the Parent. The main facilities are available in Italy, France, Spain and Poland by various financial institutions unrelated to the Parent. All factoring facilities available in Italy are "without recourse" whereas the facilities available in France and Spain are "with recourse". Borrowings under factoring facilities are incurred mainly to manage local intra-month or seasonal working capital swings.

**Other Bilateral Facilities**

Bilateral facilities available as long or short term loans, receivables financing, overdrafts or letters of credit are granted to many subsidiaries of the Parent, with special reference to

Polynt S.p.A., by various financial institutions either with an international footprint or local, with which the Group has a longstanding relationship. The mix of facilities varies over time, is aimed at realizing the best possible assets and liabilities matching and also depends on the opportunities available from time to time on the market.

**Security and Guarantees**

The obligations under the Agreement, the Indenture and the RCF are guaranteed by several subsidiaries of the Group incorporated in security jurisdictions and are secured by the equity and certain assets of those subsidiaries. The security package provided by each guarantor is consistent with the agreed security principles as set forth by the financing documents.

In accordance with the agreed security principles no member of the Group incorporated outside of Italy, the United States of America, Canada, the United Kingdom, the Netherlands, Norway, the Czech Republic and Germany except for the Reichhold Brazil Companies, Reichhold Mexico, Reichhold Mauritius Limited and Reichhold Inc. has been required to provide guarantees or security.

Moreover, no member of the Group has been required to provide any security in respect of any shares or other ownership interests held in any member of the Group incorporated outside of a Security Jurisdiction.

**Material affiliate transactions**

Transactions with Specialty Chemicals International B.V. and between Group companies are related party transactions.

For a description of related party transactions, see note 36 of the Consolidated financial statements as of and for the year ended December 31, 2019 and December 31, 2018.

**Subsequent events after the reporting period**

Significant events that occurred after the reporting period ended December 31, 2019 are as follow:

- Effective on February 12, 2020 Reichhold Holdings International B.V., Reichhold SAS, Reichhold France SAS and Reichhold AS (the “Foreign Controlled Group Members”) have executed a Settlement Agreement with ACE American Insurance Company, ACE European Group Limited and Lexington (the “Insurance Company”) and a Settlement Agreement with Fountaine Pajot (“FP” ) of EUR 6,000,000 as final settlement of the claim asserted by FP. Pursuant to the Settlement Agreement executed with the Insurance Companies the Foreign Controlled Group Members will be responsible only for paying the difference between EUR 6,000,000 and USD 5,266,093. Such difference has been already paid in March 2020. The involved entities are not expected to bear any residual liability.
- On March 18, 2020 the Group finalized the refinancing of the existing senior indebtedness that was originally incurred in connection with the merger occurred in May 2017. The new indebtedness is under more favorable terms and provides for additional flexibility and a lighter security package.
  Such a transaction involved:

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

- the redemption of the Notes issued under the Indenture totaling EUR 164.2 million,
- the prepayment of the Euro and USD Loans under the Facility Agreement totaling respectively EUR 191.6 million and USD 166.1 million,
- the prepayment of loans outstanding under the Super Senior Revolving Facility Agreement totaling EUR 37.2 million.

In connection therewith, on March 5, 2020 the Parent and other Group's affiliates entered into a Senior Facilities Agreement (the "Agreement") with various subsidiaries of the Group as borrowers and guarantors and various financial institutions as lenders. The Agreement provides for the issuance of a Euro Term Loan B (the "EUR Loan") in the amount of EUR 485.0 million and for the issuance of a USD Term Loan B ("the USD Loan" and together with the Euro Loan "the Loans") in the amount of USD 60.0 million. The Agreement also provides for a Revolving Credit Facility (the "RCF") in the amount of EUR 100.0 million. The EUR Loan, that bears interests at a rate equal to the relevant Euribor rate floored to 0.00% plus a margin, was made to Specialty Chemicals Holding I BV that on-lent the proceeds thereunder to the borrowers under the existing senior indebtedness for the purpose of the prepayment of the relevant tranches thereunder. The USD Loan, that bears interest at a rate equal to the relevant LIBOR floored to 1.00% plus a margin, was made to Specialty Chemicals International Inc. that applied the proceeds thereunder to the prepayment of the relevant existing senior indebtedness. The RCF is a multicurrency facility available to various subsidiaries of the Company both as loans and letters of credit. All borrowings under the Agreement are guaranteed by a few subsidiaries of the Group incorporated in security jurisdictions and are secured by the equity of those subsidiaries. The Loans matures on March 5, 2027. The Agreement contains customary affirmative and negative covenants.

- On March 27, 2020 Zin Man Ho, Gerard Matthijs Verheij and Jürgen Schröder have resigned as managing directors of the Company. On the same date Devi Ajaib Wouter Singh Aujla and Daniel Christopher Vijselaar have been appointed as managing directors.
- On April 1, 2020 the Board of the Company resolved a partial conversion of the Company's share premium into nominal share capital. Such conversion resulted in an increase of the nominal value per share and a decrease of the Company's share premium reserves. The Company has subsequently made a distribution to its shareholder, by way of capital reduction, by decreasing its nominal share capital and repayment to the shareholder for an amount of EUR 120 million.

**Outlook**

For 2020 there is growing evidence that the spreading of the Covid-19 virus may have a temporary impact on the economy. The governments measures in place in the mainly affected countries will significantly slow down the growth of their economies and we expect global economic uncertainty to be very high and that growth will be significantly depressed by the drop-in demand and production outages in connection with this outbreak.

The “stress” on industries will be very strong and the support measures to be implemented by governments in the form of funding, tax relief, facilities will be fundamental.
In a unique context, which has never occurred in the past, and with a narrow view of the consequences as well as of when it will be mitigated, Specialty Chemicals Group as disclosed in this Annual Report, has already in March 2020 successfully completed a full refinancing. The Group believes it has an economic-financial solidity and a Governance able to face this challenge in the best way.

## Quantitative and Qualitative Disclosure of Market Risks

***Commodity Price Risk***
We are partly exposed to commodity price risk since we purchase raw materials, especially crude oil derivatives, including, butane, orthoxylene, benzene, styrene and pseudocumene. Commodity price risk principally relates to movements in the prices of the raw materials we purchase to make our products. In particular, our raw material prices depend on exchange rates and the price development of crude oil and virgin naphtha.
The risk is managed and optimized by both the centralized procurement management function and our policy of using different suppliers all over the world for each type of raw material. We generally acquire raw materials and sell finished products at posted or market-related prices, which are typically set on a quarterly, monthly or more frequent basis in line with industry practice. We seek to minimize reductions in our margins by passing through raw material cost increases to our customers through higher prices for our products. In addition, we manage the timing of our price increases to coincide as closely as possible to increases in the prices of the underlying raw materials. In order to better manage these fluctuations in raw material prices, we increasingly set our prices on a monthly basis.

***Credit Risk***
Credit risk is the risk that a customer or counterparty to a financial instrument may default. It mainly relates to our trade receivables and financial investments.
Our exposure to credit risk principally depends on our customers’ individual characteristics. The demographical variables of our customer base, including the sector and country risk, do not have a significant impact on our credit risk.
We have a specific internal credit management procedure whereby each new customer’s credit standing is analyzed before any credit facilities are granted. These analyses include third party appraisals, when available. Credit facilities are agreed for each customer and they may only be exceeded after the approval of the relevant internal levels depending on the customers’ exposure. The credit facilities are checked annually and customers that do not meet our credit standing criteria may only make purchases against advance or guaranteed payment.
Bad debts are infrequent. Credit risk monitoring procedures are based on grouping customers by credit characteristics, geographical location, sector, aging, due date and the existence of previous financial difficulties. Our trade and other receivables are generally from industrial production companies.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

We have an allowance for impairment, which reflects estimated losses on trade and other loans and receivables and non-current financial assets. It mainly comprises individual impairment losses on significant exposures and collective impairment losses on groups of similar assets on which losses of unknown amounts have already been incurred.

***Credit Risk Exposure***

The carrying amount of financial assets is our maximum exposure to credit risk. Based on previous experience, we have impaired significant trade receivables on an individual basis, when there were indications of objective partial or total non-collection risks. The amount of the impairment losses considers the estimated recoverable flows. A general allowance is set up for receivables not impaired individually or provided for specifically based on losses incurred in the past five years.

***Interest Rate Risk***

We resort to external borrowings and invest available liquidity in money and financial market instruments. Fluctuations in market interest rates affect borrowing costs and returns on the various types of loans and investments, having, therefore, an effect on the amount of our net financial expense, as most of our loans and borrowings bear floating interest rates.

***Currency Risk***

Our exposure to currency risk relates to sales, purchases, current accounts and loans expressed in currencies other than our functional currency (Euro).

In the case of monetary assets and liabilities in foreign currency, we manage our net exposure by purchasing or selling, as the case may be, foreign currency at a spot rate in order to settle the short-term imbalances. When Group companies incur costs in currencies other than those in which they earn revenue, fluctuations in exchange rates may affect their operating profits. We estimate that an increase or decrease of 1% in U.S. dollar currency exposure would affect the profit and loss and equity by approximately EUR 1 million.

To cover the commercial netting (receivables minus payables) we use forward sales to hedge against currency fluctuations (mainly on USD). Despite having been entered into for hedging purposes, these forwards do not meet all conditions required by IFRS 9. Accordingly, the fair value gain has been recognized in the income statement under financial income.

***Liquidity Risk***

Liquidity risk is the risk that we may encounter difficulties in meeting our obligations associated with financial liabilities. Our policy is to ensure that we always have funds available, as far as possible, to meet our obligations when they fall due in both normal and difficult financial conditions, without incurring excessive costs or risk damaging our reputation.

Our treasury units manage liquidity risk on a centralized basis. Maintenance of liquidity balance is systematically ensured on a daily basis. Our ability to meet our obligations on a

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

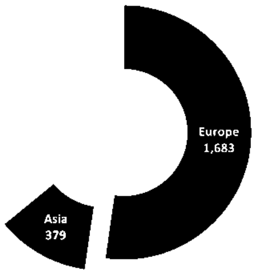
timely and cost-effective basis is ensured through careful reviews of our net financial position and using IT systems that monitor liquidity requirements on an ongoing basis.
We have implemented policies and processes aimed at optimizing resource management, reducing liquidity risks and, specifically: (i) maintaining a suitable level of available liquidity; (ii) diversifying the systems used to obtain financial resources; (iii) being continuously and actively present on the capital markets; (iv) obtaining adequate credit facilities; and (v) monitoring forecast financial conditions in relation to business plans.
Our managers believe that the currently-available funds and credit facilities, as well as the cash flows that will be generated by operating and financing activities, will enable us to meet our requirements arising from our investing activities, working capital management and repayment of payables at their natural expiry date.

## Environmental and personnel-related information

As a member of the chemical industry, the Group faces significant exposure from actual and potential claims and lawsuits involving environmental, product liability and health and safety matters, some of which involve substantial amounts. The effect of the final resolution of environmental matters and the Group's obligations for environmental remediation and compliance could change significantly due to the uncertainty concerning both the amount and timing of future expenditures and due to regulatory or technological changes. Although the Group believes that its provisions are adequate, there can be no assurance that the amount of capital expenditures and other expenses, which will be required relating to remedial actions and compliance with applicable environmental laws, will not exceed the amounts reflected in its provisions or will not have a material adverse effect on the Group's financial position, results of operations or liquidity.

## Personnel and organization

As of December 31, 2019, the Group had a total of 3,218 employees (3,259 as of December 31, 2018).




The European Human Resource team continues to see lower employee turnover and generally in line with the prior year. Resignations are mainly voluntary or for mandatory pension purposes. The Internal or external recruitment process is effective and results in the hiring of quality employees ensuring the company has the necessary skill sets to remain competitive today and in the future. The European HR team also focused on centralizing and standardizing company HR policies and procedures. The HR team continues to work across the businesses to support training for incremental technical, language and management skills. In 2019, special training was given on safety in the workplace and compliance with environmental protection. The training focused on the importance of prevention and constant vigilance of potential workplace dangers. The HR team continues to help build positive relationships with the local Trade Unions and Internal Work Committees.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

The Americas' Regional HR teams achieved consistent and steady recruiting results despite facing challenges in the U.S. to attract R&D, EHS, and operations talent due to a very competitive job market. 2019 turnover continued at higher than normal levels reflecting the low unemployment environment and competitor's efforts to attract experienced workers with higher wages. Younger and mid-career professionals are also leaving at higher than normal levels.
Employee relation issues throughout organization increased due to increased work demands and challenges. Union contract harmonization work continued in 2019. The Americas' HR team also supported the plant closures in the US, Canada and Brazil.

Asia's HR Regional team supported and achieved the Group's targets with no impact on regular activities. The Asia HR team supported synergy projects and updated company censuses and organization charts.
The Asia Regional HR team aligned company policies to assure consistent employment procedures and practices. Employment benefit programs have been standardized among Asian companies. Training programs, such as mandatory occupational skills training, were harmonized and conducted.

**The Management Board composition**
The Company's board of directors consists of four male executive directors. Until 1 January 2020, Dutch corporate legislation was applicable regarding gender diversity and fully recognizes the benefits of diversity in its broader sense, including gender diversity. The Company believes that the composition of its Board has resulted in a broad diversity of experience, expertise, background, and that the backgrounds and qualifications of the board members, considered as a group, provide a significant mix of experience, knowledge, abilities and independence.

**Research and development information**
The research and development function for the Group is fully integrated into the business model with Research and Development Laboratories for product lines as well as Process Development Laboratories dealing with the improvement and development of the chemical processes used in production.
R&D activities have focused on the following areas:
- development and improvement of the product range and its performance to deliver increased profitability. This activity is often carried out together with customers and the Technical Assistance and Marketing departments;
- development and improvement of production processes to decrease their environmental and economic impact. This activity is often carried out together with the Operations and Engineering departments;
- exploration of new products and technologies, in line with the Group's strategy and integrated business model.

The Group's research and development activities are always based on principles of sustainable development and the research for solutions that decrease the environmental impact of its products and processes. For example, ways to achieve lower energy consumption and reduced production waste. The aim is to introduce products with a better eco-toxicological profile, the more effective use of raw materials and the introduction, where possible, of renewable raw materials.

***Europe***

During 2019 the European R&D team continued to focus on ongoing activities including the continuous optimization of existing product lines, supporting our customer's needs for performance optimization of our products in their production processes, supporting Technical Assistance teams in implementing our products into the customers' manufacturing activities and supporting improvements in our internal manufacturing processes; Other R&D activities were as follows:

- Developing next generation technology for fluidized and fixed bed catalysts, including working with leading universities specializing in catalysts for the chemical optimization and the study of the fluid dynamic behavior of the catalyst.
- Developing new plasticizers, esters and resins with improved technical performances, gaining food and pharma approvals and with a better life cycle and recyclability profile.
- Developing new solutions for e-mobility, with a special focus on battery covers and fire-resistant material according to transportation standards.
- Studying the life cycle of our composite products, including the best ways for recycling the final articles.
- Reduce environmental impact of resins by substituting and reducing the content of styrene and other additives like cobalt.

***Americas***

The Americas R&D team is dedicated to servicing existing and new customers in the Americas region with the latest in technology by leveraging the knowledge and expertise of the Group worldwide and adapting it to local customer requirements. We participate, and in some cases lead, Global Technology Teams to deliver our clients the best in class products, service, and processes. Through global collaboration, the Americas R&D Team has been selected to lead a portion of the initiatives in future technologies to help support our customers and drive future growth for the Americas and the Group. Resources are dedicated to new chemistries for Gel Coat, UPR, and Coatings resins to provide our customers with products that last longer, are easier to work with and are more environmentally friendly to help them drive future growth. The Americas R&D team has established Polynt as a leading player in the development of thermosets for additive manufacturing of large parts.
2019 initiatives included:

- Consolidating R&D activities in the US into state of the art Centers of Excellence for Composites and Coatings.
- Dedicating resources to higher margin cutting edge technologies such as Additive Manufacturing, Carbon Fiber and Fiberglass Sizing, and UV/Corrosion resistant resins for coatings and gel coat.
- Working with commercial and technical support teams and customers to provide client focused solutions.

- Working with operations to improve quality, reduce cycle time, and transfer production of products to alternate manufacturing sites to optimize production efficiency.
- Working with purchasing department to rationalize and approve key raw materials suppliers to increase raw material savings.

***Asia***

The Asian R&D team completed the following activities:

- Worked with commercial and technical business teams to support, advise and provide customer solutions.
- Focused on aligning and standardizing R&D process in the region.
- Continued efforts to rational and improve existing products and technology.
- Worked with purchasing function to rationalize and approve key raw materials and new suppliers.
- Implemented a regional laboratory in support of a key global customer

**Information regarding social aspects of operating business**

The Group is committed to be the preferred and responsible supplier of both conventional and specialty products to an increasingly diverse group of global customers. To serve these global customers, the Group has expanded into rapidly growing markets.

The Group is dedicated to providing customers with the most innovative, highest quality value-added products and services possible. This is achieved by offering the broadest global manufacturing presence. With technical and research facilities located around the world, innovation is combined with manufacturing facilities and a sales and distribution network that is far reaching.

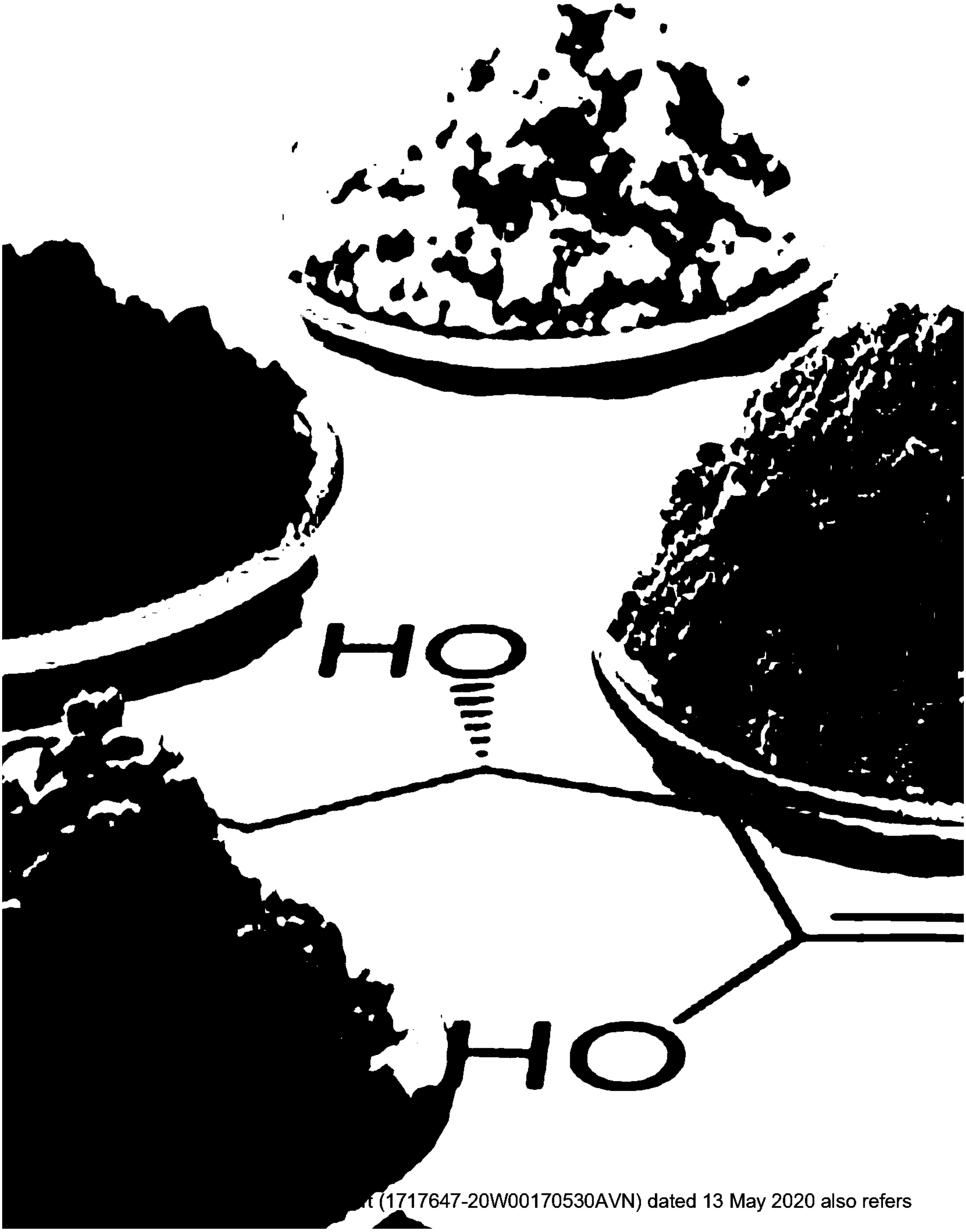
The Group's treatment of customers, suppliers and employees highlights the group's belief in these simple values:

- <u>Operate Ethically and Legally:</u>
  Ensuring that a company and its representatives operate in a legal and ethical fashion should be a given value, but we choose to highlight the importance of both in an era when some companies try to draw sharp distinctions between what is legal and what is ethical.
  The Group does not tolerate unethical or illegal conduct by its employees. We put ethics ahead of short-term financial gains, which we believe will create loyalty when customers are treated fairly and equitably.
- <u>Create Value for Our Customers:</u>
  The Group achieves success only when our customers succeed. We strive to create value for customers through innovative products, unmatched customer service and value-added services which all combine to give our customers the tools they need for success in the markets they serve.

Rotterdam May 13, 2020.
On behalf of the Board of Directors

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers


financial statements
Document to which the KPMG repor




t (1717647-20W00170530AVN) dated 13 May 2020 also refers

# Consolidated Statement of Financial Position as of 31 December 2019

**(Before profit appropriation)**

| (Euro thousand) | Notes | 31-Dec-19 | 31-Dec-18 |
|---|---|---|---|
| Cash and cash equivalents | 23 | 302,934 | 157,576 |
| Trade receivables | 7 | 266,542 | 302,671 |
| Inventories | 8 | 239,910 | 245,428 |
| Current tax assets | 9 | 8,205 | 10,600 |
| Other current assets | 10 | 36,728 | 29,069 |
| Assets held for sale | 11 | 4,513 | - |
| **Total current assets** | | **858,832** | **745,344** |
| | | | |
| Property, plant and equipment | 11 | 533,407 | 531,469 |
| Goodwill | 12 | 67,269 | 66,770 |
| Other intangible assets | 13 | 59,098 | 75,852 |
| Other financial assets | 14-23 | 8,445 | 7,584 |
| Deferred tax assets | 15 | 16,358 | 11,731 |
| Other non-current assets | 16 | 11,938 | 14,493 |
| **Total non current assets** | | **696,515** | **707,899** |
| **Total assets** | | **1,555,347** | **1,453,243** |
| | | | |
| Loan and borrowings | 23 | 74,784 | 65,213 |
| Trade payables | 17 | 199,782 | 217,132 |
| Current tax liabilities | 18 | 11,445 | 9,830 |
| Employee benefits | 20 | 29,859 | 25,916 |
| Other current liabilities | 19 | 29,942 | 19,024 |
| Current portion of provisions | 22 | 14,760 | 16,160 |
| **Total current liabilities** | | **360,572** | **353,275** |
| | | | |
| Loan and borrowings | 23 | 536,640 | 547,808 |
| Employee benefits | 20 | 22,395 | 19,043 |
| Deferred tax liabilities | 21 | 75,831 | 84,526 |
| Non-current portion of provisions | 22 | 23,113 | 38,128 |
| **Total non-current liabilities** | | **657,979** | **689,505** |
| **Total liabilities** | | **1,018,551** | **1,042,780** |
| | | | |
| Share Capital | 24 | - | - |
| Share premium | 24 | 389,672 | 391,172 |
| Reserves | 24 | ( 4,022) | ( 8,290) |
| Retained earnings | 24 | 151,146 | 27,581 |
| **Total equity attributable to the owners of the parent** | | **536,796** | **410,463** |
| **Total equity** | | **536,796** | **410,463** |
| **Total liabilities and equity** | | **1,555,347** | **1,453,243** |

The notes on pages 40 to 97 form an integral part of these consolidated financial statements.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

# Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019

| (Euro thousand) | Notes | 2019 | 2018 |
|---|---|---|---|
| **Revenue** | 26 | **2,043,037** | **2,097,070** |
| Variation in work in progress, semi-finished goods and finished products | | ( 2,642) | 17,612 |
| Raw materials, consumables and supplies | 27 | ( 1,317,427) | ( 1,428,674) |
| Internal work capitalised under non-current assets | 28 | 909 | 1,075 |
| Cost of services: | | | |
| - energy | 29 | ( 61,704) | ( 66,515) |
| - other services | 29 | ( 191,495) | ( 195,644) |
| Personnel expense | 30 | ( 231,825) | ( 220,996) |
| Other income/operating expenses: | | | |
| - other income | 31 | 55,578 | 7,644 |
| - other operating expenses | 31 | ( 29,813) | ( 25,792) |
| - insurance compensation | 31 | 7,468 | 4,416 |
| ***Gross operating profit*** | | **272,086** | **190,196** |
| Depreciation, amortisation and impairment losses | 32 | ( 80,029) | ( 74,050) |
| ***Operating profit*** | | **192,057** | **116,146** |
| Financial income | 33 | 15,491 | 16,421 |
| Financial expense | 34 | ( 75,158) | ( 69,835) |
| ***Net financial expense*** | | **( 59,667)** | **( 53,414)** |
| ***Profit/(loss) before tax*** | | **132,390** | **62,732** |
| Income taxes | 35 | ( 24,990) | ( 27,973) |
| ***Profit/(loss) for the year (A)*** | | **107,400** | **34,759** |
| **Attributable to:** | | - | - |
| Owners of the parent | | 107,400 | 34,759 |
| | | | |
| ***Items that will never be reclassified to profit or loss for the year :*** | | | |
| Net actuarial gains(losses) on defined benefit plans | 20 | ( 2,091) | 483 |
| Income tax relating to defined benefit plans | | 304 | ( 9) |
| **Total items that will never be reclassified to profit or loss for the year (B1)** | | **( 1,787)** | **474** |
| | | | |
| ***Items that may be reclassified to profit or loss for the year:*** | | | |
| Gains/(losses) on cash flow hedges | | - | - |
| Exchange differences on translating foreign operations | | 6,055 | ( 8,377) |
| Income tax relating to components of other comprehensive income | | - | - |
| **Total items that may be reclassified to profit or loss for the year (B2)** | | **6,055** | **( 8,377)** |
| **Other comprehensive income, net of tax (B1)+(B2)** | | **4,268** | **( 7,903)** |
| | | | |
| **COMPREHENSIVE INCOME, net of tax (A)+(B1)+(B2)** | | **111,668** | **26,856** |
| **Comprehensive income attributable to:** | | | |
| Owners of the parent | | 111,668 | 26,856 |

The notes on pages 40 to 97 form an integral part of these consolidated financial statements.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

# Consolidated Statement of cash flows for the year ended 31 December 2019

| (Euro thousand) | Notes | 2019 | 2018 |
|---|---|---|---|
| **Profit/(Loss) for the period** | | **107,400** | **34,759** |
| Adjustment for: | | | |
| - Tax expense | 35 | 24,990 | 27,973 |
| - Amortisation and Depreciation | 32 | 78,015 | 70,440 |
| - Amortized financial expenses | | 9,641 | |
| - Impairment losses on Property, plant and equipment | 32 | 2,014 | 3,610 |
| - Income tax paid | | ( 34,191) | ( 21,233) |
| - Net finance costs | 33-34 | 47,398 | 50,497 |
| - Interest paid | | ( 45,333) | ( 48,289) |
| - Gain on sale of property, plant and equipment | | ( 37,910) | ( 4) |
| ***Cash flows before changes in net working capital and provisions*** | | ***152,024*** | ***117,753*** |
| Changes in: | | | |
| - Inventories | 8 | 559 | ( 20,584) |
| - Trade and other receivables | 7 | 28,318 | 12,025 |
| - Trade and other payables | 17 | ( 16,705) | 4,578 |
| - Other current assets and liabilities | 10-19 | 20,635 | ( 1,779) |
| - Provisions | 22 | ( 17,217) | 2,151 |
| - Employee Benefits | 20 | 1,314 | 774 |
| **Cash flows from operating activities** | | **168,928** | **114,918** |
| Acquisition of property, plant and equipment | 11-13 | ( 53,648) | ( 48,778) |
| Changes in other non current financial assets | 14 | 1,694 | 5,155 |
| Disposal of tangible and intangible assets | 11-13 | 58,259 | 1,232 |
| Acquisition of subsidiaries, net of cash acquired | | - | - |
| **Cash flow from investing activities** | | **6,305** | **( 42,391)** |
| Change in financial liabilities | | ( 16,647) | ( 13,620) |
| Increase of loan and borrowings | | 54,491 | 10,424 |
| Repayment of borrowing | | ( 71,423) | ( 6,024) |
| Dividends paid | | ( 1,500) | - |
| Increase/Decrease in share capital and reserves | 24 | 2,073 | 2,787 |
| **Cash flow used in financing activities** | | **( 33,006)** | **( 6,433)** |
| Effects of movemenet in exchange rates on cash held | | 3,131 | ( 1,052) |
| | | | |
| **Net change in cash and cash equivalents** | A | **145,358** | **65,042** |
| **Opening cash and cash equivalents** | B | **157,576** | **92,534** |
| **Closing cash and cash equivalents** | C=A+B | **302,934** | **157,576** |

The notes on pages 40 to 97 form an integral part of these consolidated financial statements.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

# Consolidated Statement of changes in equity

| (Euro thousand) | Balances at 1 January 2018 | Share premium contribution | Change in combination scope | Other changes | Profit for the year | Other comprehensive income/(expense) | Balances at 31 Dec 2018 |
|---|---|---|---|---|---|---|---|
| **Share capital** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Share premium reserve | 388,385 | 2,787 | - | - | - | - | 391,172 |
| Translation reserve | (2,120) | - | - | - | - | (8,377) | (10,497) |
| Other reserves | 1,733 | - | - | - | - | 474 | 2,207 |
| **Total comprehensive income** | **387,998** | **2,787** | **-** | **-** | **-** | **(7,903)** | **382,882** |
| Transaction with owners | - | - | - | - | - | - | - |
| Retained earnings | (8,691) | - | - | 1,513 | 34,759 | - | 27,581 |
| **Total reserves** | **379,307** | **2,787** | **-** | **1,513** | **34,759** | **(7,903)** | **410,463** |
| **Total equity attributable to the owners of the parent** | **379,307** | **2,787** | **-** | **1,513** | **34,759** | **(7,903)** | **410,463** |
| Non-controlling interests | - | - | - | - | - | - | - |
| **Total equity** | **379,307** | **2,787** | **-** | **1,513** | **34,759** | **(7,903)** | **410,463** |

| (Euro thousand) | Balances at 1 January 2019 | Dividends | Change in combination scope | Other changes | Profit for the year | Other comprehensive income/(expense) | Balances at 31 Dec 2019 |
|---|---|---|---|---|---|---|---|
| **Share capital** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Share premium reserve | 391,172 | (1,500) | - | - | - | - | 389,672 |
| Translation reserve | (10,497) | - | - | - | - | 6,055 | (4,442) |
| Other reserves | 2,207 | - | - | - | - | (1,787) | 420 |
| **Total comprehensive income** | **382,882** | **(1,500)** | **-** | - | **-** | **4,268** | **385,650** |
| Transaction with owners | - | - | - | 14,510 | - | - | 14,510 |
| Retained earnings | 27,581 | - | - | 1,655 | 107,400 | - | 136,636 |
| **Total reserves** | **410,463** | **(1,500)** | **-** | **16,165** | **107,400** | **4,268** | **536,796** |
| **Total equity attributable to the owners of the parent** | **410,463** | **(1,500)** | **-** | **16,165** | **107,400** | **4,268** | **536,796** |
| Non-controlling interests | - | - | - | - | - | - | - |
| **Total equity** | **410,463** | **(1,500)** | **-** | **16,165** | **107,400** | **4,268** | **536,796** |

The notes on pages 40 to 97 form an integral part of these consolidated financial statements.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

# Notes to the Consolidated Financial Statements as of and for the year ended 31 December 2019

## 1. Reporting entity

Specialty Chemicals International B.V. (hereafter "Parent" or the "Company") is a company registered (under kvk number 65782607) in Amsterdam, the Netherlands. These consolidated financial statements comprise the Company and its subsidiaries (collectively the 'Group' and individually 'Group companies'). The Group is active in the production and sale of organic anhydrides, composite, coatings and their derivatives.

The Parent's shareholder is Speciality Chemicals International Ltd. (hereafter "SCIL").

## 2. Basis of preparation

Statement of compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and with Section 2:362(9) of the Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Board of Directors of Specialty Chemicals International B.V. on May 13, 2020.

The Group has prepared these financial statements in accordance with EU - IFRS. The Group has not early adopted any new IFRS requirements that are not yet effective in 2019.

This is the first set of the Group's annual financial statements in which IFRS 16 Lease has been applied. Changes to significant accounting policies are described in Note 5.

With reference to the Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Company, use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

These financial statements have been prepared on the basis of the going concern assumption.

Basis of measurement

Financial statements have been adapted, if necessary, to comply with the EU - IFRS and classification criteria used by the Group.
The consolidated financial statements have been prepared on the historical cost basis, except for derivative instruments, which have been measured at fair value. The carrying amounts of hedged assets and liabilities are adjusted to reflect gains or losses in fair value in relation to the hedged risks.

The Group presents the consolidated financial statements as follows:

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

- current and non-current assets and current and non-current liabilities are presented separately in the consolidated statement of financial position. Current assets, which include cash and cash equivalents, are expected to be realized, transferred or used in the Group's normal operating cycle and, in any case, within one year of the reporting date. Current liabilities are expected to be settled during the Group's normal operating cycle and, in any case, within one year of the reporting date;
- costs are analyzed by nature in the consolidated statement of profit or loss and other comprehensive income;
- the indirect method is used for the consolidated statement of cash flows;
- equity is disclosed using the format that shows changes in each caption *("Consolidated statement of changes in equity")*.

Functional and presentation currency

These consolidated financial statements are presented in Euro thousand, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Use of accounting estimates and judgement

The preparation of the consolidated financial statements in accordance with the EU - IFRS requires the Group to make estimates and assumptions which influence the carrying amounts of assets and liabilities in the consolidated financial statements and the disclosure concerning potential contingent assets and liabilities. The results which will be reported in the final balance could differ from such estimates. The estimates are used to recognize the allowances for impairment, the provisions for the write-down of inventories, amortization/depreciation, impairment of assets, employee benefits, taxes, restructuring provisions and other provisions. The estimates and assumptions are reviewed periodically and the effects for each change are recognized immediately in profit or loss.
Some measurement processes, in particular those related to impairment of non-current assets, are generally performed annually, except in the cases where there are indicators which require an immediate measurement of possible impairments.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

## 3. Basis of consolidation

The consolidated financial statements include the financial statements of the relevant group companies under control. All the group companies included in the consolidated financial statements are under common control of Specialty Chemicals International B.V. The financial statements of the subsidiaries are consolidated from the date the Group gains control until the date such control ceases to exist. Non-controlling interests in equity and profit or loss for the year, if any, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.
The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The reporting date of all the group companies is December 31, 2019.

The companies included in the consolidation scope as of December 31, 2019 and as of December 31, 2018 together with the related percentage of interest are listed below:

| Company | | Currency | investment % 2019 | investment % 2018 | Consolidation method |
|---|---|---|---|---|---|
| Specialty Chemicals International B.V. | | EUR | | | Line-by-line |
| Specialty Chemicals Holding I B.V. | | EUR | 100% | 100% | Line-by-line |
| Specialty Chemicals Holding II B.V. | | EUR | 100% | 100% | Line-by-line |
| Specialty Chemicals International Inc. | Polynt Group | USD | 100% | 100% | Line-by-line |
| Polynt S.p.A. | Polynt Group | EUR | 100% | 100% | Line-by-line |
| Polynt Composites Germany GmbH | Polynt Group | EUR | 100% | 100% | Line-by-line |
| Polynt Composites Poland Sp.Zo.o. | Polynt Group | PLN | 100% | 100% | Line-by-line |
| Polynt Chemical (Changzhou) Co. Ltd. | Polynt Group | CNY | 100% | 100% | Line-by-line |
| Polynt Hong Kong Co. Ltd. | Polynt Group | USD | 100% | 100% | Line-by-line |
| Polynt UK Ltd. | Polynt Group | GBP | 100% | 100% | Line-by-line |
| Polynt Composites Norway A.S. | Polynt Group | NOK | 100% | 100% | Line-by-line |
| Polynt Composites USA Inc. | Polynt Group | USD | 100% | 100% | Line-by-line |
| PCCR USA Holdings Inc. | Polynt Group | USD | 100% | 100% | Line-by-line |
| Polynt Composites Holding Australia Pty Ltd. | Polynt Group | AUD | 100% | 100% | Line-by-line |
| Polynt Composites Australia Pty Ltd. | Polynt Group | AUD | 100% | 100% | Line-by-line |
| Polynt Composites Malaysia Sdn. Bhd. | Polynt Group | MYR | 100% | 100% | Line-by-line |
| Polynt Composites France S.A. | Polynt Group | EUR | 100% | 100% | Line-by-line |
| Polynt Composites Spain S.L. | Polynt Group | EUR | 100% | 100% | Line-by-line |
| Polynt Composites Holding UK Ltd. | Polynt Group | GBP | 100% | 100% | Line-by-line |
| Polynt Composites UK Ltd. | Polynt Group | GBP | 100% | 100% | Line-by-line |
| Polynt Composites Korea Co. Ltd. | Polynt Group | KRW | 100% | 100% | Line-by-line |
| Polynt Composites Brazil Ltda. | Polynt Group | BRL | 100% | 100% | Line-by-line |
| Polynt Composites Canada Inc. | Polynt Group | CAD | 100% | 100% | Line-by-line |
| Polynt Composites II, LLC | Polynt Group | USD | 100% | 100% | Line-by-line |
| Cooperatie Reichhold Holdings Netherlands | Reichhold Group | USD | 100% | 100% | Line-by-line |
| Reichhold Norway AS | Reichhold Group | NOK | 100% | 100% | Line-by-line |
| Reichhold AS | Reichhold Group | NOK | 100% | 100% | Line-by-line |
| Reichhold Denmark AS | Reichhold Group | DKK | 100% | 100% | Line-by-line |
| Reichhold Industries Limited | Reichhold Group | CAD | 100% | 100% | Line-by-line |
| Reichhold LLC2 | Reichhold Group | USD | 100% | 100% | Line-by-line |
| Reichhold Polymers (Tianjin) Ltd. | Reichhold Group | CNY | 100% | 100% | Line-by-line |
| Reichhold Trading (Beijing) Ltd. | Reichhold Group | CNY | 100% | 100% | Line-by-line |
| Reichhold SAS | Reichhold Group | EUR | 100% | 100% | Line-by-line |
| Reichhold France SAS | Reichhold Group | USD | 100% | 100% | Line-by-line |
| Reichhold GmbH | Reichhold Group | EUR | 100% | 100% | Line-by-line |
| Reichhold Holding Hong Kong Limited | Reichhold Group | USD | 99.9% | 99.9% | Line-by-line |
| Reichhold CZ s.r.o. | Reichhold Group | CZK | 100% | 100% | Line-by-line |
| Reichhold Mauritius Ltd | Reichhold Group | USD | 100% | 100% | Line-by-line |
| Reichhold UK Ltd. | Reichhold Group | GBP | 100% | 100% | Line-by-line |
| Reichhold Srl | Reichhold Group | EUR | 100% | 100% | Line-by-line |
| Reichhold BV | Reichhold Group | EUR | 100% | 100% | Line-by-line |
| Reichhold Holdings International BV | Reichhold Group | USD | 100% | 100% | Line-by-line |
| Reichhold Inc. | Reichhold Group | AED | 100% | 100% | Line-by-line |
| Reichhold India Private Limited | Reichhold Group | INR | 100% | 100% | Line-by-line |
| Reichhold Quimica de Mexico | Reichhold Group | MXN | 100% | 100% | Line-by-line |
| Reichhold do Brasil Ltda | Reichhold Group | BRL | 100% | 100% | Line-by-line |
| Reichhold Investimentos Ltda | Reichhold Group | BRL | 100% | 100% | Line-by-line |
| Reichhold Resinas Sinteticas Ltda | Reichhold Group | BRL | 100% | 100% | Line-by-line |
| Reichhold Finance BV | Reichhold Group | EUR | 100% | 100% | Line-by-line |

There were no changes to the Group's companies completed during 2019.

**Subsidiaries**

Subsidiaries are entities controlled directly or indirectly by the Parent. The Parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

**Non-controlling interests**

Non-controlling interests (if applicable) are measured at their proportionate share of the parties' identifiable net assets at the date of acquisition.
Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**Loss of control**

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss.

**Consolidation procedures**

The following consolidation procedures are applied in the preparation of the consolidated financial statements:

- the financial statements of the consolidated entities are prepared for each reporting period using the same accounting policies as those of the Group;
- the assets and liabilities and revenue and expense of consolidated companies are fully recognized in the consolidated financial statements;
- intragroup balances, transactions, revenue and expense are fully eliminated;
- all intragroup profits not yet realized deriving from third party transactions are eliminated;
- the carrying amount of investments held is eliminated against the investee's equity. The portions of equity and profits or losses attributable to non-controlling interests are shown separately in equity and profit or loss;
- when the acquisition cost of an investment exceeds the carrying amount of the portion of the investee's equity at the acquisition date, this excess is allocated to specific asset and liability captions up to their fair value at that date. Any residual excess is then recognized as *"Goodwill"* and is not amortized but tested annually for impairment to verify that the amount is still recoverable, using the methods described in the paragraph on *"Impairment losses on assets"*. When the acquisition cost of an investment is less than the carrying amount of the investee's equity at the acquisition date, the difference is taken to profit or loss;
- dividends distributed by consolidated companies are eliminated from the consolidated profit or loss;
- for transactions under common control, assets and liabilities are maintained at their historical value, and the excess between the consideration and the carrying amount is recognized under equity reserves;
- the assets and liabilities of foreign operations are translated into Euro at the closing rate, while income and expenses of foreign operations are converted at the average exchange rate of the year. Exchange rate gains or losses arising from translation are recognized in the *"Translation reserve"* in equity. If the investment is sold, any accumulated exchange rate gains or losses are reclassified to profit or loss.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

## 4. Significant accounting policies

**Consolidated statement of financial position**

Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at FVTPL, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.
The Group classifies non-derivative financial liabilities into the following categories: financial liabilities at FVTPL and other financial liabilities.

Cash and cash equivalents

Cash and cash equivalents include deposits with banks and cash on hand measured at fair value and call deposits with maturities of three months or less from the acquisition date. The definition of cash and cash equivalents for the consolidated statement of cash flows and for the consolidated statement of financial position is the same.

Trade receivables

Trade receivables from customers are initially recognised at fair value, increased by transaction costs. After initial recognition, trade receivables are stated at their estimated realizable value. The adjustment to the estimated realizable value is obtained by adjusting the nominal value of the receivables, to take account of losses due to uncollectability. Provisions for doubtful accounts are always valued at an amount equal to the expected losses over the entire life of the receivable. When the collection of trade receivables is deferred beyond twelve months and the transaction is in fact a financial transaction, the fair value of the consideration is determined by discounting all future income, using a notional interest rate.
The category of trade receivables includes trade receivables. The initial valuation of trade receivables is made at fair value on the trade date, i.e. at the value of the consideration due, net of directly attributable transaction costs.

Loans and receivables

The Group initially recognizes loans and receivables and debt securities issued on the date when they are originated. Trade receivables are initially recognized at the fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.
The impairment of receivables is estimated on the basis of the present value of estimated future cash flows.

Derecognition of financial assets and financial liabilities

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and

rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.
The Group enters into factoring transactions whereby it transfers assets recognized on its statement of financial position, especially trade receivables.
Trade receivables are not derecognized from the consolidated statement of financial position, if the Group, in a factoring transaction, retains substantially all of the risks and rewards.
The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in profit or loss.
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

<u>Other non-derivative financial assets</u>
Financial assets are initially measured at acquisition cost which is equal to fair value plus any directly attributable transaction costs.
Assets held to maturity are classified as current financial assets if their maturity is within one year, and they are classified as non-current if it is after one year. They are subsequently measured at amortized cost, which is determined using the effective interest rate method, considering any discounts or premiums at the acquisition date and recognizing them over the entire term up to maturity, less any impairment losses.
Financial assets classified as available for sale are measured at fair value and classified as current assets. Gains or losses arising from fair value measurement are recognized in a separate component of equity until the assets are sold or recovered or in any case discontinued, or until they are impaired, in which case any accumulated gains or losses recognized in equity up to that date are taken to profit or loss.

<u>Foreign currency transactions</u>
Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions.
Monetary assets and liabilities in foreign currency are translated into the reporting currency at the exchange rate in force at the reporting date.
Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the reporting currency at the exchange rate in force when the fair value was determined. Non-monetary assets and liabilities that are measured at cost in a foreign currency are translated at the exchange rate in force at the transaction date. Translation differences are generally recognized in profit or loss.
However, translation differences arising from the translation of the following items are recognized in other comprehensive income (“OCI”):
- an investment in equity securities designated as at FVOCI (except on impairment, in which case translation differences that have been recognized in OCI are reclassified to profit or loss);

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective;
- qualifying cash flow hedges to the extent that the hedges are effective.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated into euros at the exchange rates at the dates of the transactions.
Foreign currency differences are recognized in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.
When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

The exchange rates used to translate foreign operations into Euro are as follows:

| | | Average | | Closing date | |
|---|---|---|---|---|---|
| Currency | | 2019 | 2018 | 31-Dec-19 | 31-Dec-18 |
| USD | U.S. Dollar | 1.12 | 1.18 | 1.12 | 1.15 |
| AUD | Australian Dollar | 1.61 | 1.58 | 1.60 | 1.62 |
| BRL | Real | 4.41 | 4.31 | 4.52 | 4.44 |
| CAD | Canadian Dollar | 1.49 | 1.53 | 1.46 | 1.56 |
| CNY | Renminbi | 7.74 | 7.81 | 7.82 | 7.88 |
| CZK | Czech crown | 25.67 | 25.65 | 25.41 | 25.72 |
| DKK | Danish krone | 7.47 | 7.45 | 7.47 | 7.47 |
| HKD | Hong Kong Dollar | 8.77 | 9.26 | 8.75 | 8.97 |
| INR | Indian Rupia | 78.84 | 80.73 | 80.19 | 79.73 |
| JPY | Japanese Yen | 122.01 | 130.40 | 121.94 | 125.85 |
| KRW | South Korean Won | 1,305.32 | 1,299.07 | 1,296.28 | 1,277.93 |
| MYR | Ringgit | 4.64 | 4.76 | 4.60 | 4.73 |
| MXN | Peso Mexican | 21.56 | 22.71 | 21.22 | 22.49 |
| NOK | Norwegian krone | 9.85 | 9.60 | 9.86 | 9.95 |
| PLN | Zloty | 4.30 | 4.26 | 4.26 | 4.30 |
| SGD | Singapore Dollar | 1.53 | 1.59 | 1.51 | 1.56 |
| SEK | Swedish krone | 10.59 | 10.26 | 10.45 | 10.25 |
| AED | Dirham | 4.11 | 4.34 | 4.13 | 4.21 |
| GBP | Pound Sterling | 0.88 | 0.88 | 0.85 | 0.89 |
| CHF | Swiss Franc | 1.11 | 1.16 | 1.09 | 1.13 |

Derivative financial instruments

A derivative financial instrument refers to any financial contract with the following characteristics:

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

1. its value changes in relation to the change in an interest rate, a price of a financial instrument, commodity prices, a foreign currency exchange rate, a price or rate index, a credit rating or other predetermined underlying variable;
2. it does not require a net initial investment or, if requested, this is lower than the investment that would be requested for other types of contracts from which a similar response would be expected to a change in market factors;
3. it will be settled at a future date.

The derivative financial instrument is designated as hedging or trading, depending on its nature. All derivatives are initially recognized in the consolidated statement of financial position at cost that represents their fair value. Any directly attributable transaction costs are recognized in profit or loss as incurred. All derivatives are subsequently measured at fair value.

The changes in fair value are recognized in profit or loss in the case of derivatives which are not hedging instruments.

Hedging derivatives are classified as follows:

- fair value hedges, if they hedge the risk of changes in the market value of the underlying asset or liability;
- cash flow hedges, if they hedge the risk of cash flow changes generated by existing assets and liabilities or by a future transaction.

Both the changes in the fair value of fair value hedge derivatives and the fair value changes in the underlying item are recognized in profit or loss.

In the case of cash flow hedges of, for example, the risks related to non-current floating-rate loans, changes in the fair value are recognized in other comprehensive income statement for the part which highly effective way risk to which they were put in place, while recorded in profit or loss any part that proves ineffective.

The part attributed to other components of comprehensive income is reclassified to profit or loss when the assets and liabilities hedged impacts the costs and revenue of the period.

It is important to note that the Group has adopted a specific procedure to manage financial instruments that is part of an overall risk management policy.

Inventories

Inventories are measured at the lower of their purchase and/or production cost determined using the weighted average cost method and their net realizable value based on the estimated selling price less any estimated sales costs.

In the case of internally produced inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

In the case of finished goods, this value corresponds to the estimated sales price in normal business conditions, net of the estimated costs to complete the sale.

The net realizable value for raw materials, supplies and consumables is represented by the weighted average replacement cost.

The purchase cost includes ancillary costs; the production cost includes directly attributable costs and a portion of indirect costs, reasonably chargeable to the products.

Work in progress is measured on the basis of the actual average cost for the period, based on the percentage of completion.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

Obsolete or slow-moving inventories are written down in relation to their presumed future possibility of use or realizable value, through the inclusion of a specific provision for the write-down of inventories.
The write-down is reversed if in subsequent years the reasons for the write-down no longer exist.

Property, plant and equipment

Property, plant and equipment are measured at cost, including directly attributable ancillary costs necessary for the use of the asset.
If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.
They are shown net of the respective accumulated depreciation and any impairment is determined in accordance with the methods described in the *"Impairment of assets"* paragraph. The cost of items of property, plant and equipment is depreciated using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. The Group annually reviews the useful lives of assets and any necessary changes are reflected on a prospective basis. Any changes, if necessary, are applied prospectively.
Depreciation is calculated and accounted for on the date which the items of property, plant and equipment become available for use. Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives.
Leased assets are depreciated over the shorter of the lease term or their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.
Land, whether free of constructions or annexed to civil and industrial buildings, is recognized separately and is not depreciated as it has an unlimited useful life. Assets are presented at cost under "Assets under construction" until the construction is completed; at the date of completion, the related cost is classified in the corresponding property, plant and equipment category and is depreciated.
Specific spare parts are allocated to the plants to which they refer and depreciated in accordance with the estimated useful life of the plant concerned.
Maintenance and repair expenses, which do not enhance and/or prolong the asset's remaining useful life, are recognized in profit or loss in the period in which they were incurred, otherwise they are capitalized.
The annual depreciation rates applied are as follows:

- Buildings 2.5% - 10%
- Light constructions 7% - 11%
- Generic plant 4% - 15%
- Specific plant 5% - 20%
- Sundry equipment 30% - 40%
- Furniture and office machines 12%
- Electronic office machines 20%
- Registered vehicles 20%

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

- Transport vehicles 25%

At the date of disposal or when the future economic benefits are no longer expected from its use, an asset is derecognized. Any gain or loss (calculated as the difference between the sale value and the carrying amount) is recognized in profit or loss of the year.

Intangible assets and Goodwill

Goodwill is the result of accounting for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Goodwill is tested annually for impairment determined using the methods described in the *"Impairment of assets"* paragraph.

Research and development

The expenses incurred for development, which envisage applying the results of the research to a plan or to a project for the production of new or significantly enhanced products or processes are only capitalized when the product or the process is feasible in technical and commercial terms, when the Group intends and has sufficient resources to complete the development project, when the costs sustained for the project are determined reliably and when the respective products can generate future economic benefits. The capitalized expenses include the costs for the materials, direct labor and an appropriate quota of production overheads. These expenses are amortized on the basis of their estimated useful life of 5 years (20%). Subsequent to initial recognition, development costs are measured at cost less accumulated amortization and any accumulated impairment losses. The other development expenses are recognized in profit or loss in the period in which they are incurred.

Other intangible assets

Other intangible assets are recognized at cost, determined in accordance with the same methods indicated for property, plant and equipment.

Other intangible assets, with a definite useful life, are recognized net of their accumulated amortization and any impairment, determined using the methods indicated in the *"Impairment of assets"* note.

Their useful life is reviewed annually and any necessary changes are reflected on a prospective basis.

The annual amortization rates are as follows:

- Patent rights and trademarks 10% - 25%
- Surface rights 2% - 5%
- Know-how 33.3%
- Technology 20.0%
- Other 20% - 33.3%

Any gain or loss generated on disposal is determined as the difference between the sale value and the carrying amount of the asset concerned and is recognized in profit or loss at the disposal date.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

Asset held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

Financial liabilities

Loans and the other financial liabilities are initially recognized at cost, equal to their fair value, net of directly attributable transaction costs. After initial recognition, the financial liabilities are measured at amortized cost using the effective interest method.

This account also includes financial payables for existing leasing contracts. The initial recognition of these payables, as well as the valuation subsequent to the initial recognition, follow the treatment illustrated for financial leasing in the account financial leases in the non-current assets section.

The current portions of finance lease payables are reclassified to current financial liabilities to third parties.

Trade payables

Trade payables are recognized at fair value and subsequently measured at amortized cost using the effective interest method. Trade payables are not discounted if they are due within one year.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be reasonably estimated.

Long-term employee benefits

Post-employment benefits are considered a defined benefit plan in accordance with IAS 19 "Employee Benefits". Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes

restructuring costs. If the benefits are not expected to be settled wholly within one year of the reporting date, then they are discounted.
The benefits guaranteed to employees in the form of the employee severance indemnity are paid when the employment relationship is terminated and are recognized over the period in which the right vests. The liability for benefits to be paid at the end of the employment relationship is determined based on actuarial assumptions and is recognized on an accrual's basis consistent with the service necessary to obtain the benefits; the obligation is determined by independent actuaries.
Gains and losses arising from the actuarial calculation are recognized in other components of profit/loss of comprehensive income. Actuarial losses arising on the calculation of the present value of the liability to pay the benefits are recognized in the financial expenses. All other costs covered by the provision for defined benefit plans are recognized in profit or loss under personnel expense.

Provisions

Provisions are recognized when the Group:

- has a legal or constructive obligation in relation to third parties;
- it is probable that a cash outflow from the Group will be required;
- a reasonable estimate of the amount of the obligation can be made.

Changes in the estimate of the provisions are reflected in profit or loss for the period in which the change occurred.
Provisions are recognized as the best estimate of the expenditure required to settle the obligation.
If the impact of discounting the time value of money is significant, the provision is determined by discounting expected future cash flows using a discount rate that reflects the current market assessment of the time value of money. When the cost is discounted, the increase of the provision due to the passage of time is recognized as an interest expense.

Impairment of assets

The Group verifies at least once a year if there is any indication that an asset may be impaired.
If such an indication exists, the asset's recoverable amount is calculated in order to identify the extent of any impairment. This recoverable amount equals the higher of the value in use and the fair value less costs to sell. Goodwill is tested annually for impairment.
For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units or "CGUs" or "CGU". Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.
The value in use of the CGU to which the asset belongs is determined when the value in use of an individual asset cannot be estimated. The value in use of a given asset is calculated as the present value of the estimated future cash flows, before taxes, by applying a pre-tax discount rate that reflects the market assessment of the time value of money and of the asset's specific risks.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

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.
An impairment loss is recognized in profit or loss if the recoverable amount determined is less than the asset's carrying amount for that cash generating unit (CGU).
The impairment of a CGU is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the other assets of the CGU on a pro rata basis.
An impaired asset is reversed when there is an indication that the impairment no longer applies or when there has been a change in the measurements used to determine the recoverable amount, except for those related to goodwill and property, plant and equipment with finite lives which are never reversed.
The reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization) if the impairment had not been recognized. The reversal is recognized immediately in profit or loss.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.
Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.
Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.
The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.
Deferred tax assets and liabilities are offset only if certain criteria are met.

Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

***Policy applicable from January 1, 2019.***

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

<u>As a lessee</u>

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an

index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.
When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets
The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor
At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.
When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.
To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.
When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.
The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other income".

Emission trading
At present there is no accounting standard or interpretation that deals specifically with the accounting for emission allowances or renewable energy certificates. Companies must therefore apply judgment and determine an accounting method based on the general principles of EU - IFRS.
The Group uses the net liability approach to recognize emission allowances or renewable energy certificates.
According to this approach, allowances are recorded at nominal value (zero). This is in line with the general provisions in place for recognizing and measuring financial assets under EU - IFRS and takes into account the absence of acquisition costs for allowances.

**Consolidated statement of profit or loss and other comprehensive income**

Revenue and costs

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

In 2018, the Group adopted IFRS 15 and based on the Groups' review, the impact of applying this new standard does not have a material impact on these financial statements.

Government grants

The Group recognizes an unconditional government grant for operating expenses in profit or loss as other income when the grant becomes receivable.

Other government grants related to assets are initially recognized as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses are recognized.

Financial income and financial expense

Financial income and expense are recognized in profit/loss for the year on an accrual basis according to the interest accrued on the net value of the respective financial assets and liabilities using the effective interest rate.

All financial expenses are recognized in profit or loss for the period, except those that meet the requirements of IAS 23 for capitalization. Loan costs are recognised in the income statement using the effective interest method.

Income taxes

Tax expense of the period includes current and deferred tax.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for taxation purposes.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and a valuation allowance provided to the extent that it is no longer probable that the related tax benefit will be realized; such valuation allowance are reversed when the probability that such unrecognized deferred tax assets will be realized from future taxable profit or other management actions.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

## 5. Standards and interpretations that became applicable in 2019

The Group initially applied IFRS 16 Leases from January 1, 2019. A number of other new standards are also effective from January 1, 2019 but they do not have a material effect on the Group's financial statements.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee

As a lessee, the Group leases many assets including property, production equipment and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term.

<u>As a lessor</u>

The Group leases out its investment property, including own property and right-of-use assets. The Group has classified these leases as operating leases.

<u>Impact on transition</u>

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarized below.

| | Historical cost at 31 Dec 2018 | Right of Use Asset 01 Jan 2019 | Initial Adjustment 01 Jan 2019 | Increases | Decreases | Exchang rate gain/losses | Historical cost at 31 Dec 2019 | Carrying amount at 31 Dec 2019 |
|---|---|---|---|---|---|---|---|---|
| Building (IFRS 16) | - | 4,724 | 4,724 | 247 | ( 3,728) | 139 | 1,382 | 1,116 |
| **Land and Building (IFRS 16)** | **-** | **4,724** | **4,724** | **247** | **( 3,728)** | **139** | **1,382** | **1,116** |
| Generic Plant (IFRS 16) | - | 25 | 25 | 51 | - | 2 | 78 | 52 |
| Specific Plant (IFRS 16) | - | 5,202 | 5,202 | 550 | ( 32) | 84 | 5,803 | 4,894 |
| **Plant and Machinery (IFRS 16)** | **-** | **5,227** | **5,227** | **601** | **( 32)** | **85** | **5,882** | **4,946** |
| Industrial and commercial equipments (IFRS 16) | - | 2,909 | 2,909 | 1,160 | ( 7) | 45 | 4,107 | 3,050 |
| **Industrial and commercial equipments (IFRS 16)** | **-** | **2,909** | **2,909** | **1,160** | **( 7)** | **45** | **4,107** | **3,050** |
| Elettronic office equipments (IFRS 16) | - | 1,151 | 1,151 | 160 | ( 5) | 2 | 1,308 | 740 |
| Vehicles for internal transport (IFRS 16) | - | 347 | 347 | 330 | ( 132) | 12 | 558 | 460 |
| Transport motor vehicles registered (IFRS 16) | - | 2,159 | 2,159 | 926 | ( 393) | 55 | 2,746 | 1,748 |
| **Total other tangible assets (IFRS 16)** | **-** | **3,656** | **3,656** | **1,416** | **( 529)** | **68** | **4,611** | **2,948** |
| **Total property, plant and equipment** | **-** | **16,517** | **16,517** | **3,424** | **( 4,297)** | **337** | **15,982** | **12,059** |

| | Accumulated depreciation at 31 Dec 2018 | Right of Use Asset 01 Jan 2019 | Initial Adjustment 01 Jan 2019 | Increases | Decreases | Exchang rate gain/losses | Accumulated depreciation at 31 Dec 2019 |
|---|---|---|---|---|---|---|---|
| Building (IFRS 16) | - | - | - | 869 | ( 602) | - | 266 |
| **Land and Building (IFRS 16)** | **-** | **-** | **-** | **869** | **( 602)** | **-** | **266** |
| Generic Plant (IFRS 16) | - | - | - | 26 | - | - | 26 |
| Specific Plant (IFRS 16) | - | - | - | 913 | - | ( 3) | 910 |
| **Plant and Machinery (IFRS 16)** | **-** | **-** | **-** | **939** | **-** | **( 3)** | **936** |
| Industrial and commercial equipments (IFRS 16) | - | - | - | 1,056 | ( 3) | 4 | 1,057 |
| **Industrial and commercial equipments (IFRS 16)** | **-** | **-** | **-** | **1,056** | **( 3)** | **4** | **1,057** |
| Elettronic office equipments (IFRS 16) | - | - | - | 573 | ( 5) | - | 568 |
| Vehicles for internal transport (IFRS 16) | - | - | - | 100 | ( 3) | - | 98 |
| Transport motor vehicles registered (IFRS 16) | - | - | - | 1,018 | ( 24) | 4 | 998 |
| **Total other tangible assets (IFRS 16)** | **-** | **-** | **-** | **1,691** | **( 32)** | **4** | **1,664** |
| **Total property, plant and equipment** | **-** | **-** | **-** | **4,555** | **( 637)** | **5** | **3,923** |

The initial adjustment on financial liabilities was EUR 16,5 million, while the final effect on debt as at December 31, 2019 was EUR 12,2 million.

The impact on the P&L is summarized below:

| (Euro thousand) | 2019 |
|---|---|
| Raw materials, consumables and supplies | 3 |
| *Cost of services:* | |
| - Energy costs | 641 |
| - Other services | 4,192 |
| Personnel expenses | 11 |
| *Altri operating income/(expenses):* | |
| - other income | 1 |
| Depreciation | ( 4,554) |
| Net financial expenses | ( 400) |
| **Total** | **( 106)** |

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019.

## 6. Standards and interpretations soon to become applicable

A number of new standards are effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

## Consolidated Statement of Financial position
## ASSETS

## 7. Trade receivables

Trade receivables by geographical segment are composed as follows:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| European | 130,197 | 155,040 |
| Non-European | 149,744 | 160,380 |
| **Gross balance** | **279,941** | **315,420** |
| Allowance for impairment | ( 13,399) | ( 12,749) |
| **Net balance** | **266,542** | **302,671** |

At December 31, 2019, there were EUR 621 thousand of trade receivables factored without recourse (EUR 0 thousand on December 31, 2018).

The Group sold with recourse trade receivables to a bank for cash proceeds. These trade receivables have not been derecognised from the statement of financial position, because the Group retains substantially all of the risks and rewards and primary credit risk. The

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

amount received on transfer has been recognised as a secured bank loan (see note 23). The arrangement with the bank is such that the customers remit cash directly to the Group and the Group transfers the collected amounts to the bank.

Changes in the allowance for impairment are shown below:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| **Opening balance** | 12,749 | 12,759 |
| Accruals | 1,494 | 2,355 |
| Utilisations | ( 813) | ( 1,900) |
| Translation rate differences | ( 31) | ( 465) |
| **Closing balance** | **13,399** | **12,749** |

The Group has impaired specific trade receivables based on objective indications of the partial or total non-collection risk. The impairment losses are net of estimated recoverable amounts. A general allowance is established for receivables that are not impaired individually or provided for specifically based on losses incurred over the past five years.

Note 37 gives information about the Group's exposure to credit risk, currency risk and interest rate risk in relation to trade receivables.

## 8. Inventories

Inventories are broken down as follows:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Raw materials, consumables and supplies | 110,490 | 110,599 |
| Allowance for write-down of inventory | (3,709) | (3,663) |
| **Total** | **106,781** | **106,936** |
| Work in progress and semi-finished products | 16,536 | 15,145 |
| Allowance for write-down of inventory | (109) | (105) |
| **Total** | **16,427** | **15,040** |
| Finished products | 111,945 | 119,995 |
| Allowance for write-down of inventory | (3,247) | (4,334) |
| **Total** | **108,698** | **115,661** |
| Generic spare parts | 11,827 | 11,226 |
| Allowance for write-down of inventory | (3,823) | (3,435) |
| **Total** | **8,004** | **7,791** |
| **Total inventories** | **239,910** | **245,428** |

The provision for obsolescence is established to cover risks related to the net estimated realizable value of obsolete or slow-moving items. The Group uses specific identification and statistical methods based on aging and inventory category when computing the obsolescence provision.

## 9. Current tax assets

Current tax assets are composed as follows:

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Current tax assets | 5,564 | 8,281 |
| Taxes for which reimbursement has been claimed | 2,641 | 2,319 |
| **Total** | **8,205** | **10,600** |

Current tax assets mainly include a net receivable related to the offsetting of tax prepayments by US legal entities part of the same controlled group for tax purposes.

"*Taxes for which reimbursement has been claimed*" includes the reimbursement claimed by Polynt S.p.A. for the deductibility of personnel expense from 2007 to 2011 in the calculation of Italian corporate income tax.

## 10. Other current assets

Other current assets are composed as follows:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| VAT receivable | 7,279 | 7,589 |
| Advances to social security institutions | 37 | 32 |
| Sundry advances | 255 | 1,213 |
| Prepayments: | | |
| - Insurance premiums | 1,439 | 1,518 |
| - Maintenance instalments | 834 | 1,128 |
| - Others | 24,835 | 11,734 |
| Other receivables | 2,049 | 5,855 |
| **Total** | **36,728** | **29,069** |

In 2019 and 2018, *"Prepayments - others"* include Reichhold LLC2's insurance receivable for EUR 8.800 thousand. Refer to note 22 for further information.
In 2019, *"Prepayments -others"* for EUR 12.437 thousand relate to Reichhold Holdings International receivable for Pension Benefit Guaranty Corporation obligation. Refer to note 22 for further information.

## 11. Property, plant and equipment

Changes in Property, plant and equipment for the two years ended December 31, 2019 and December 31, 2018 are detailed in the following tables:

| (Euro thousand) | Historical cost at 01-Jan-19 | Right of Use Asset 01-Jan-19 | Initial Adjustment 01-Jan-19 | Reclassifications assets held for sale | Reclassifications | Increases | Decreases | Impairment loss | Translation difference | Historical cost at 31-Dec-19 | Carrying amount at 31-Dec-19 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Buildings | 135,527 | - | 135,527 | - | 2,484 | 1,666 | (1,446) | (2,076) | 1,419 | 137,574 | 80,005 |
| Building (IFRS 16) | - | 4,724 | 4,724 | - | - | 247 | (3,728) | - | 139 | 1,382 | 1,115 |
| Land | 133,933 | - | 133,933 | (4,513) | 94 | 717 | (2,772) | - | 1,340 | 128,799 | 128,656 |
| Light constructions | 12,022 | - | 12,022 | - | 529 | 304 | (96) | 129 | 158 | 13,046 | 7,679 |
| **Land and buildings** | **281,482** | **4,724** | **286,206** | **(4,513)** | **3,107** | **2,934** | **(8,042)** | **(1,947)** | **3,056** | **280,801** | **217,455** |
| Generic plant | 330,659 | - | 330,659 | - | 14,589 | 2,998 | (3,173) | (1,029) | 2,945 | 346,989 | 183,529 |
| Generic Plant (IFRS 16) | - | 25 | 25 | - | - | 51 | - | - | 2 | 78 | 52 |
| Specific plant | 366,926 | - | 366,926 | - | 2,663 | 4,177 | (411) | - | 894 | 374,249 | 70,644 |
| Specific Plant (IFRS 16) | - | 5,202 | 5,202 | - | - | 550 | (32) | - | 84 | 5,804 | 4,894 |
| **Plant and equipment** | **697,585** | **5,227** | **702,812** | **-** | **17,252** | **7,776** | **(3,616)** | **(1,029)** | **3,925** | **727,120** | **259,119** |
| Sundry equipment | 31,378 | - | 31,378 | - | 432 | 629 | (2,744) | (255) | 161 | 29,601 | 4,948 |
| Industrial and commercial equipments (IFRS : | - | 2,909 | 2,909 | - | - | 1,160 | (7) | - | 45 | 4,107 | 3,050 |
| **Industrial and commercial equipment** | **31,378** | **2,909** | **34,287** | **-** | **432** | **1,789** | **(2,751)** | **(255)** | **206** | **33,708** | **7,998** |
| Furniture and office machines | 6,609 | - | 6,609 | - | (2) | 167 | (204) | 5 | 71 | 6,646 | 2,352 |
| Electronic office machines | 16,638 | - | 16,638 | - | 1,345 | 302 | (104) | (1,709) | 238 | 16,710 | 4,297 |
| Elettronic office equipments (IFRS 16) | - | 1,151 | 1,151 | - | - | 160 | (5) | - | 2 | 1,308 | 740 |
| Registered vehicles | 1,652 | - | 1,652 | - | - | (451) | (218) | (31) | 37 | 989 | (19) |
| Transport motor vehicles registered (IFRS 16) | - | 2,159 | 2,159 | - | - | 926 | (393) | - | 55 | 2,747 | 1,748 |
| Transport vehicles | 933 | - | 933 | - | - | 288 | (159) | - | 2 | 1,064 | 502 |
| Vehicles for internal transport (IFRS 16) | - | 347 | 347 | - | - | 330 | (132) | - | 12 | 557 | 460 |
| **Other assets** | **25,832** | **3,657** | **29,489** | **-** | **1,343** | **1,722** | **(1,215)** | **(1,735)** | **417** | **30,021** | **10,080** |
| Assets under construction | 23,251 | - | 23,251 | - | (21,941) | 37,274 | - | - | 242 | 38,826 | 38,826 |
| Advances to suppliers for plant | 58 | - | 58 | - | (192) | 60 | - | - | 3 | (71) | (71) |
| **Assets under construction and advances** | **23,309** | **-** | **23,309** | **-** | **(22,134)** | **37,334** | **-** | **-** | **244** | **38,755** | **38,755** |
| **Total** | **1,059,586** | **16,517** | **1,076,103** | **(4,513)** | **-** | **51,555** | **(15,624)** | **(4,966)** | **7,848** | **1,110,405** | **533,407** |

| (Euro thousand) | Accumulated depreciation at 01-Jan-19 | Right of Use Asset 01-Jan-19 | Initial Adjustment 01-Jan-19 | Reclassifications | Increases | Decreases | Impairment loss | Translation difference | Accumulated depreciation at 31-Dec-19 |
|---|---|---|---|---|---|---|---|---|---|
| Buildings | 52,058 | - | 52,058 | - | 6,968 | (1,196) | (627) | 366 | 57,569 |
| Building (IFRS 16) | - | - | - | - | 869 | (602) | - | - | 267 |
| Land | 142 | - | 142 | - | - | - | - | 1 | 143 |
| Light constructions | 5,160 | - | 5,160 | - | 560 | (558) | 135 | 70 | 5,367 |
| **Land and buildings** | **57,360** | **-** | **57,360** | **-** | **8,397** | **(2,356)** | **(492)** | **437** | **63,346** |
| Generic plant | 145,252 | - | 145,252 | - | 21,829 | (4,304) | (343) | 1,026 | 163,460 |
| Generic Plant (IFRS 16) | - | - | - | - | 26 | - | - | - | 26 |
| Specific plant | 282,505 | - | 282,505 | - | 20,949 | (258) | 28 | 381 | 303,605 |
| Assets under construction | - | - | - | - | 913 | - | - | (3) | 910 |
| **Plant and equipment** | **427,757** | **-** | **427,757** | **-** | **43,717** | **(4,562)** | **(315)** | **1,404** | **468,001** |
| Sundry equipment | 24,833 | - | 24,833 | - | 1,500 | (1,498) | (263) | 81 | 24,653 |
| Industrial and commercial equipments (IFRS : | - | - | - | - | 1,056 | (3) | - | 4 | 1,057 |
| **Industrial and commercial equipment** | **24,833** | **-** | **24,833** | **-** | **2,556** | **(1,501)** | **(263)** | **85** | **25,710** |
| Furniture and office machines | 3,768 | - | 3,768 | - | 564 | (71) | 6 | 27 | 4,294 |
| Electronic office machines | 12,768 | - | 12,768 | - | 1,591 | (510) | (1,610) | 174 | 12,413 |
| Elettronic office equipments (IFRS 16) | - | - | - | - | 573 | (5) | - | - | 568 |
| Registered vehicles | 1,099 | - | 1,099 | - | 106 | (207) | (12) | 22 | 1,008 |
| Transport motor vehicles registered (IFRS 16) | - | - | - | - | 1,018 | (24) | - | 5 | 999 |
| Transport vehicles | 532 | - | 532 | - | 150 | (120) | - | - | 562 |
| Vehicles for internal transport (IFRS 16) | - | - | - | - | 100 | (3) | - | - | 97 |
| **Other assets** | **18,167** | **-** | **18,167** | **-** | **4,102** | **(940)** | **(1,616)** | **228** | **19,941** |
| **Total** | **528,117** | **-** | **528,117** | **-** | **58,772** | **(9,359)** | **(2,686)** | **2,154** | **576,998** |

| (Euro thousand) | Historical cost at 01-Jan-18 | Reclassifications | Increases | Decreases | Impairment loss | Translation difference | Historical cost at 31-Dec-18 | Carrying amount at 31-Dec-18 |
|---|---|---|---|---|---|---|---|---|
| Buildings | 128,550 | 4,543 | 1,588 | (8) | - | 854 | 135,527 | 83,469 |
| Land | 133,725 | (9) | - | (5) | - | 222 | 133,933 | 133,791 |
| Light constructions | 14,413 | (2,582) | 122 | - | - | 69 | 12,022 | 6,862 |
| **Land and buildings** | **276,688** | **1,952** | **1,710** | **(13)** | **-** | **1,145** | **281,482** | **224,122** |
| Generic plant | 304,449 | 12,381 | 12,418 | (1,441) | - | 2,852 | 330,659 | 185,407 |
| Specific plant | 355,978 | 7,064 | 9,961 | (4,410) | (807) | (860) | 366,926 | 84,421 |
| **Plant and equipment** | **660,427** | **19,445** | **22,379** | **(5,851)** | **(807)** | **1,992** | **697,585** | **269,828** |
| Sundry equipment | 31,085 | 391 | 726 | (862) | - | 38 | 31,378 | 6,545 |
| **Industrial and commercial equipment** | **31,085** | **391** | **726** | **(862)** | **-** | **38** | **31,378** | **6,545** |
| Furniture and office machines | 802 | 5,139 | 718 | - | - | (50) | 6,609 | 2,841 |
| Electronic office machines | 16,285 | (2,151) | 1,890 | - | - | 614 | 16,638 | 3,870 |
| Registered vehicles | 1,224 | 462 | 11 | (42) | - | (3) | 1,652 | 553 |
| Transport vehicles | 927 | - | 37 | (38) | - | 7 | 933 | 401 |
| **Other assets** | **19,238** | **3,450** | **2,656** | **(80)** | **-** | **568** | **25,832** | **7,665** |
| Assets under construction | 33,923 | (25,238) | 14,615 | (240) | - | 191 | 23,251 | 23,251 |
| Advances to suppliers for plant | 49 | - | - | (1) | - | 10 | 58 | 58 |
| **Assets under construction and advances** | **33,972** | **(25,238)** | **14,615** | **(241)** | **-** | **201** | **23,309** | **23,309** |
| **Total** | **1,021,410** | **-** | **42,086** | **(7,047)** | **(807)** | **3,944** | **1,059,586** | **531,469** |

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

| (Euro thousand) | Accumulated depreciation at 01-Jan-18 | Reclassifications | Increases | Decreases | Impairment loss | Translation difference | Accumulated depreciation at 31-Dec-18 |
|---|---|---|---|---|---|---|---|
| Buildings | 42,755 | 1,364 | 7,153 | (19) | 681 | 124 | 52,058 |
| Land | 146 | - | - | - | - | (4) | 142 |
| Light constructions | 7,954 | (1,287) | (2,296) | (11) | 727 | 73 | 5,160 |
| **Land and buildings** | **50,855** | **77** | **4,857** | **(30)** | **1,408** | **193** | **57,360** |
| Generic plant | 126,243 | (4,395) | 22,521 | (1,622) | 1,120 | 1,385 | 145,252 |
| Specific plant | 265,538 | 1,472 | 19,257 | (3,339) | - | (423) | 282,505 |
| **Plant and equipment** | **391,781** | **(2,923)** | **41,778** | **(4,961)** | **1,120** | **962** | **427,757** |
| Sundry equipment | 23,901 | (70) | 1,598 | (714) | 93 | 25 | 24,833 |
| **Industrial and commercial equipment** | **23,901** | **(70)** | **1,598** | **(714)** | **93** | **25** | **24,833** |
| Furniture and office machines | (2,390) | 4,844 | 1,068 | - | 136 | 110 | 3,768 |
| Electronic office machines | 12,060 | (1,835) | 1,851 | - | 46 | 646 | 12,768 |
| Registered vehicles | 1,583 | (93) | 142 | (34) | - | (499) | 1,099 |
| Transport vehicles | 413 | - | 153 | (37) | - | 3 | 532 |
| **Other assets** | **11,666** | **2,916** | **3,214** | **(71)** | **182** | **260** | **18,167** |
| **Total** | **478,203** | **-** | **51,447** | **(5,776)** | **2,803** | **1,440** | **528,117** |

Several Group subsidiaries have granted securities in accordance with certain agreed security principles and in the forms prescribed under the applicable local law over fixed assets and real estate in support of the secured obligations under the Indenture, the Facility Agreement and the Super Senior Security Agreement.

The increases of property, plant and equipment mainly refer to:

- EUR 11.8 million mainly for Polynt Composites USA's Houston and other sites capabilities updated for relocated production from closed plants and for Carpentersville and North Kansas City R&D facilities renovated related to the transfer of R&D activities from North Carolina;
- EUR 3.0 million for Reichhold USA's Pensacola and Morris site capability upgrades underway;
- EUR 2.9 million for Reichhold Mexico, in Atlacomulco, for a reactor conversion project to expand UPR composites manufacturing capacity;
- EUR 2.6 million related to the maleic anhydride accident, as preliminary steps for the substitution of the reactor at Polynt S.p.A.'s Ravenna site (Italy);
- EUR 1.8 million for new open channels rainwater system built in Polynt Changzhou (China);
- EUR 1.4 million for resin storage expansion and production debottlenecking at Polynt Composites Poland Sp.Zo.o.'s Niepolomice site (Poland);
- EUR 1.4 million for new offices building at Polynt Composites Malaysia's site;
- EUR 1.1 million for the TMA plant refurbishment at Polynt S.p.A.'s Scanzorosciate site (Italy);
- EUR 1.0 million in the Polynt Composites France S.A.'s Drocourt site (France) for the increase of storage capacity in raw materials, so that the increased flexibility can allow access to cheaper supplying sources;
- EUR 0.8 million for DCS system upgrade finished at Polynt Korea;
- EUR 0.8 million for the catalyst replacement of the phthalic anhydride plant at Polynt S.p.A.'s Scanzorosciate site (Italy);
- EUR 0.8 million for the catalyst replacement of the maleic anhydride plant at Polynt S.p.A. Scanzorosciate site (Italy);
- EUR 0.6 million as preliminary step for the conversion of the boiler to natural gas and other improvements at Polynt S.p.A.'s Cavaglià site (Italy);

- EUR 0.4 million for 3rd UPR reactor approved and an ongoing project in Reichhold India's Pune site;
- the remaining amounts represents minor investments at the various Group's sites.

The increases of property, plant and equipment also includes the effects of new IFRS 16 leases for those contracts starting during the year 2019 for an amount of EUR 4,3 million.

In June 2019, management committed to sell the Lynwood plant. The closing shall occur during the Q3 2020.
At 31 December 2019 the disposal assets were stated at his carrying amount and comprised the following assets. No liabilities associated to the disposal assets.

| (Euro thousand) | 31-Dec-19 |
|---|---|
| Land | 4,513 |
| **Total Assets held for sale** | 4,513 |

## 12. Goodwill

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Goodwill | **67,269** | **66,770** |

Goodwill refers to the combination of the Polynt and Reichhold businesses that occurred in May, 2017. After the allocation of the excess acquisition price to identifiable assets and related computation of deferred tax, a residual Goodwill of EUR 67.3 million was recorded. The Goodwill was allocated to the regional CGUs: Europe, Americas, Asia.
The change in Goodwill amount with respect to 31 Dec 2018 is related to the effect of exchange rate, mainly attributable to the US components.

As at December 31, 2019 and 2018, the carrying value of goodwill by regional CGU is as follow:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Europe | 37,219 | 37,105 |
| Americas | 24,111 | 23,652 |
| Asia | 5,939 | 6,013 |
| **Total** | **67,269** | **66,770** |

Goodwill is not amortized but tested annually for impairment.

Goodwill was tested for impairment at December 31, 2019 as required by IAS 36 - Impairment of assets. The recoverable amount is higher than the carrying value. The impairment test was based on expected cash flows over a five-year period.
The recoverable amount is determined by calculating the value in use, which is the present value of forecast cash flows using a discount rate that reflects the specific risks of the individual cash generating units at the measurement date. The forecast cash flows used in the impairment test are based on projections approved by the board of directors.

For 2020 the budget approved by the Board of Directors of SCIL on February 26, 2020 was used in the impairment test. Results are expected to increase slightly in subsequent years compared to 2020.

Sales volumes are expected to grow on average 2.0%, in 2020 with continued growth across all regions from 2021. Margins are assumed to be approximately stable and fixed costs broadly in line with the volume growth from 2021 onwards, net of synergy savings.

The discount rate used was calculated by using the WACC (weighted average cost of capital) method, namely, by weighting the rate of return expected from investing equity in a similar business and the cost of borrowing. The calculation considered the changes in the economic scenario during the years under analysis and the subsequent implications in terms of interest rates.

The cash flows derived from the forecast plan were discounted using the WACC rate of 8.9% for Europe, 9.6% for America and 10.8% for Asia, for the various assumptions considering the characteristics of the chemical sector and the Group's specific region, structure and financial risks.

The discount rate is the rate of return on ten-year government bonds in the reference market in the same currency as the cash flows adjusted to reflect the higher risk of investing in equities and the systematic risk of the Group's specific segments.

The estimated recoverable amount, which is based on its value in use, exceeds the carrying amount of each geographic segment as follows:

| (€ million) | **Value in Use** | **Carrying Amount** | **Headroom/ (Impairment loss)** |
|---|---|---|---|
| Europe | 618 | 457 | 161 |
| Americas | 760 | 312 | 448 |
| Asia | 240 | 116 | 124 |

The cash flows were stated net of the normal return on assets with their capitalized amount compared to the goodwill's carrying amount.

The following table outlines the change in the discount rates required for the regional carrying amount to equal the recoverable amount:

| Change required for carrying amount to equal the recoverable amount | **Europe** | **Americas** | **Asia** |
|---|---|---|---|
| Discount rate | 2% | 12% | 9% |

The following table outlines the impact on value in use with a +1/-1% change in discount rate.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

| (€ million) | Value in Use | Value in Use (+1% discount rate) | Value in Use (-1% discount rate) |
|---|---|---|---|
| Europe | 618 | 540 | 718 |
| Americas | 760 | 680 | 862 |
| Asia | 240 | 216 | 269 |

## 13. Other intangible assets

Changes in other intangible assets at December 31, 2019 and December 31, 2018 are detailed in the following tables:

| (Euro thousand) | Historical cost at 01-Jan-19 | Reclassifications | Increases | Decreases | Impairment loss | Translation difference | Historical cost at 31-Dec-19 | Carrying amount at 31-Dec-19 |
|---|---|---|---|---|---|---|---|---|
| Software and patents | 17,714 | 1,577 | 235 | (1,322) | 266 | 83 | 18,553 | 5,944 |
| Research and development | - | - | - | - | | - | - | - |
| **Patents** | **17,714** | **1,577** | **235** | **(1,322)** | **266** | **83** | **18,553** | **5,944** |
| EDP programs | 9,242 | 684 | 462 | (18) | - | - | 10,370 | 1,541 |
| Know How | 43,550 | - | - | - | - | - | 43,550 | 1,911 |
| Technology | 50,332 | - | - | - | - | - | 50,332 | 23,088 |
| Others | 42,039 | - | - | (2,143) | - | 470 | 40,366 | 24,377 |
| **Other** | **145,163** | **684** | **462** | **(2,161)** | - | **470** | **144,618** | **50,917** |
| Assets under developement | 3,118 | (2,261) | 1,396 | (28) | - | 33 | 2,258 | 2,237 |
| **Total** | **165,995** | - | **2,093** | **(3,511)** | **266** | **586** | **165,429** | **59,098** |

| (Euro thousand) | Accumulated amortisation at 01-Jan-19 | Reclassifications | Increases | Decreases | Translation difference | Accumulated amortisation at 31-Dec-19 |
|---|---|---|---|---|---|---|
| Software and patents | 11,376 | 39 | 1,929 | (787) | 52 | 12,609 |
| Research and development | - | - | | - | | - |
| **Patents** | **11,376** | **39** | **1,929** | **(787)** | **52** | **12,609** |
| EDP programs | 8,444 | (39) | 442 | (18) | - | 8,829 |
| Know How | 41,129 | - | 510 | - | - | 41,639 |
| Technology | 16,698 | - | 10,546 | - | - | 27,244 |
| Others | 12,496 | - | 5,795 | (2,478) | 176 | 15,989 |
| **Other** | **78,767** | **(39)** | **17,293** | **(2,496)** | **176** | **93,701** |
| Assets under developement | - | - | 21 | - | - | 21 |
| **Total** | **90,143** | **-** | **19,243** | **(3,283)** | **228** | **106,331** |

| (Euro thousand) | Historical cost at 01-Jan-18 | Reclassifications | Increases | Decreases | Impairment loss | Translation difference | Historical cost at 31-Dec-18 | Carrying amount at 31-Dec-18 |
|---|---|---|---|---|---|---|---|---|
| Software and patents | 16,904 | 437 | 674 | (288) | - | (13) | 17,714 | 6,338 |
| Research and development | - | - | - | - | | - | - | - |
| **Patents** | **16,904** | **437** | **674** | **(288)** | **-** | **(13)** | **17,714** | **6,338** |
| EDP programs | 8,751 | 389 | 194 | (92) | - | - | 9,242 | 798 |
| Know How | 41,000 | - | 2,550 | - | - | - | 43,550 | 2,421 |
| Technology | 50,332 | - | - | - | - | - | 50,332 | 33,634 |
| Others | 41,076 | - | 700 | (22) | - | 285 | 42,039 | 29,543 |
| **Other** | **141,159** | **389** | **3,444** | **(114)** | **-** | **285** | **145,163** | **66,396** |
| Assets under developement | 1,384 | (826) | 2,574 | (10) | - | (4) | 3,118 | 3,118 |
| **Total** | **159,447** | **-** | **6,692** | **(412)** | **-** | **268** | **165,995** | **75,852** |

| (Euro thousand) | Accumulated amortisation at 01-Jan-18 | Reclassifications | Increases | Decreases | Translation difference | Accumulated amortisation at 31-Dec-18 |
|---|---|---|---|---|---|---|
| Software and patents | 9,947 | 47 | 1,762 | (395) | 15 | 11,376 |
| Research and development | - | - | | - | | - |
| **Patents** | **9,947** | **47** | **1,762** | **(395)** | **15** | **11,376** |
| EDP programs | 8,269 | (47) | 282 | (60) | - | 8,444 |
| Know How | 41,000 | - | 129 | - | - | 41,129 |
| Technology | 6,152 | - | 10,546 | - | - | 16,698 |
| Others | 6,125 | - | 6,274 | - | 97 | 12,496 |
| **Other** | **61,546** | **(47)** | **17,231** | **(60)** | **97** | **78,767** |
| Assets under developement | - | - | - | - | - | - |
| **Total** | **71,493** | **-** | **18,993** | **(455)** | **112** | **90,143** |

The increase in intangible assets in 2019 is primarily driven by SAP implementation costs to support the future growth of the business and harmonize business processes, expenditure for REACH activities carried out in 2019 and costs for patents, software licenses and other software implementations.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

## 14. Other financial assets

Other financial assets are as follows:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Forwards Contract | 44 | 273 |
| Other financial assets | 8,401 | 7,311 |
| **Total** | **8,445** | **7,584** |

Other financial assets relate primarily to Reichhold LLC2's financial receivables from Speciality Chemicals International Ltd. ("SCIL", the direct parent company). During 2015-2017 Reichhold LLC2 paid legal and professional fees related to May 17, 2017 merger. Prior to May 2017, Reichhold LLC2 recorded the fees as a current receivable from its previous parent company. However, in connection with the merger, the receivable for the fees was assigned from the previous parent company to SCIL, and Reichhold LLC2 reclassified the receivable from current assets to non-current financial assets. A settlement date for the receivable has not been established.

## 15. Deferred tax assets

The Group principally focused on the following considerations when calculating its deferred tax assets:

- the tax regulations of the various countries in which it operates and their impact on temporary differences and any tax benefits arising from the use of carry forward tax losses considering the years they can be realized;
- the profits expected to be earned by each group company in the medium term and the financial and tax impacts of the business plan mentioned in note 12.

On this basis, the Group is expected to earn future taxable profits and, hence, the recovery of the deferred tax assets recognized at the reporting date is reasonably certain.

Changes in deferred tax assets ("DTA") are as follows:

| (Euro thousand) | 31-Dec-2018 | Increase | Decrease | Exchange rate difference | 31-Dec-2019 |
|---|---|---|---|---|---|
| Tax losses carry forward | 2.228 | 3.263 | (837) | (47) | 4.607 |
| Exchange rate adjustments | 1.154 | 588 | (73) | 18 | 1.687 |
| Provisions for bad debts | 1.132 | 703 | (6) | (15) | 1.814 |
| PPE | 1.993 | 351 | (1.359) | 19 | 1.004 |
| Provisions for environmental risks | 995 | 446 | (24) | (10) | 1.407 |
| Provision for lay-off costs | 930 | 715 | (91) | (12) | 1.542 |
| Provision for sundry risk | 900 | 271 | (44) | 2 | 1.129 |
| Non deducted interest | 104 | 389 | (281) | 1 | 213 |
| Other differences | 1.771 | 834 | (548) | 11 | 2.068 |
| Inventories | 235 | 186 | - | (6) | 415 |
| Others | 289 | 632 | (451) | 2 | 472 |
| **Total** | **11.731** | **8.378** | **(3.714)** | **(37)** | **16.358** |

Unrecognized deferred tax assets

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Unrecognized deferred tax assets on tax losses carried forward | 28,243 | 27,896 |
| **Total** | **28,243** | **27,896** |

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

Certain deferred tax assets have not been recognized because it is not probable that future taxable profits will be available against which the Group can use the benefit therefrom.

The most significant impacts of unrecognized deferred tax asset for tax loss carry forwards are mainly due to the following components: Cooperatie Reichhold Holdings Netherlands (EUR 15.3 million) with an expiry date between 2024-2027, Reichhold SAS (EUR 8.9 million) with no expiry date, Reichhold France SAS (EUR 1.8 million) with no expiry date and Polynt Composites France S.A. (EUR 2.0 million) with no expiry date.

## 16. Other non-current assets

The breakdown for other non-current assets is as follows:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Sundry guarantee deposits | 1,149 | 3,031 |
| Others: | | |
| Due from Momentive for environmental remediation | 6,434 | 6,010 |
| Due from non current VAT | 1,337 | 2,479 |
| Due from others | 3,018 | 2,973 |
| **Total** | **11,938** | **14,493** |

The amount *"Due from Momentive for environmental remediation"* refers to Polynt Composites USA Inc.'s indemnification for certain environmental remediation costs. Refer to note 22 for further details.
The amount *"Due from non-current VAT"* refers to Reichhold India Private Limited's VAT receivables.

## LIABILITIES

## 17. Trade payables

Trade payables by region are showed in the following table:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Europe | 115,130 | 126,001 |
| Americas | 57,659 | 58,825 |
| Asia | 26,993 | 32,306 |
| **Total trade payables** | **199,782** | **217,132** |

Refer to note 37 for the Group's exposure to credit, exchange rate and interest rate risk analysis in respect of trade payables.

## 18. Current tax liabilities

Current tax liabilities are as follows:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Corporate tax | 11,445 | 9,830 |
| **Total** | **11,445** | **9,830** |

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

## 19. Other current liabilities

Other current liabilities are as follows:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Social security charges | 4,098 | 3,641 |
| Withholdings on employees/self-employers | 2,387 | 2,075 |
| Payables to supplementary funds | 2,847 | 2,521 |
| Accrued expenses and deferred income | 1,119 | 3,723 |
| VAT payable | 4,089 | 4,654 |
| Other payable | 15,402 | 2,410 |
| **Total** | **29,942** | **19,024** |

The caption *"Social security charges"* includes all the social contributions due and not yet paid at the reporting date.
*"Accrued expenses and deferred income"* include costs for 2019 which will be paid in the subsequent year.
Other payables include EUR 12.437 thousand for the remaining six annual installments for Pension Benefit Guaranty Corporation (PBGC) obligation. Refer to note 22 for further information.

## 20. Employee benefits

Current portion of employee benefits

| (Euro thousand) | 31-dic-19 | 31-dic-18 |
|---|---|---|
| Wages and salaries payables | 480 | 466 |
| Other personnel expenses | 4,865 | 5,049 |
| Employee benefits | 24,514 | 20,401 |
| **Total** | **29,859** | **25,916** |

Employee benefits comprise amounts accrued by employees at the reporting date and not yet paid (remuneration, bonus for incentive plans and vacation accrued but not yet taken).

Non-current portion of employee benefits
Liabilities for employee benefits relates to the provisions set up by mainly Polynt Composites Germany GmbH, Polynt Composites France S.A., Polynt Composites Korea Co. Ltd., Polynt Composites Norway A.S., Reichhold S.r.l., Reichhold UK Ltd. And post-employment benefits accrued by Polynt S.p.A. determined using actuarial assumptions and recognized on an accrual basis over the related vesting period.

During the 2018 financial year, the Group granted to some Directors and employees a long-term incentive plan ("Phantom Share Option Plan") which allows them to receive extra compensation if both of the following situations occur: a) that certain events occur by December 31, 2026 (i.e. change of control of the ownership of the group, listing on a regulated market, disbursement of an extraordinary maxi dividend); b) revaluation in addition to a certain threshold of the shares of the Parent Company Specialty Chemicals

International Ltd. compared to the reference value per share indicated in the agreements. The related costs were recorded in the personnel expenses.

The changes during the year are as follows:

| (Euro thousand) | 31-dic-19 | 31-dic-18 |
|---|---|---|
| **Opening balance** | 19,043 | 18,959 |
| Accruals | 2,732 | 3,025 |
| Interest costs | 180 | 205 |
| Exchange rate gain/(loss) | ( 117) | 19 |
| Actuarial (gain)/loss | 1,975 | ( 787) |
| Utilisations | ( 1,418) | ( 2,378) |
| **Total** | **22,395** | **19,043** |

Independent actuaries calculated the Group's post-employment benefits.
Below we disclose the assumptions for the significant plans in place for the Group.

The actuarial valuation was based on the changes made to Italian post-employment benefits by Italian Law no. 296 of December 27, 2006 (the 2007 Finance Act) and subsequent decrees and regulations issued in early 2007.
The main actuarial assumptions applied at the reporting date for the measurement of the Group's liability for post-employment benefits are: inflation rate of 1.5%; annual employee turnover rate of 2.92%; annual probability of requests for advances of 4.0%.
The discount rate applied in 2019 was 0.57%, which is the reporting-date rate of return of high-quality bonds with maturity dates approximating those of the Group's obligations and which are expressed in the same currency as that in which the benefits are expected to be paid. The discount rate is the weighted average rate of the Eur Composite AA curve at year end.

The main actuarial assumptions applied at the reporting date for the measurement of Polynt Composites France S.A.'s liability for post-employment benefits are: discount rate of 0.5%; future salary growth rate of 2.7%.
The main actuarial assumptions applied at the reporting date for the measurement of Polynt Composites Korea Co. Ltd.'s liability for post-employment benefits are: discount rate of 2.56%; future salary growth rate of 4.0%.

The movements in net defined benefit (asset) liability are as follow:

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

| | Defined Benefit Obligation | Fair value of plan assets | Net defined benefit liability (asset) |
|---|---|---|---|
| | 2019 | 2019 | 2019 |
| **Balance - beginning of the year** | **38.813** | **19.770** | **19.043** |
| Included in Profit or Loss | | | |
| Current Service costs | 387 | 52 | 335 |
| Past Service costs | - | - | - |
| Interest costs | 360 | 515 | (155) |
| **Total** | **747** | **567** | **180** |
| | | | |
| **Included in Other comprehensive income** | | | |
| Remesaurment loss (gain) | | | |
| Actuarial loss (gain) arising from: | | | |
| - Demographic assumptions | ( 640) | ( 457) | (183) |
| - Financial assumptions | 2.870 | ( 36) | 2.906 |
| - Experience adjustment | - | - | - |
| Return on plan assets excluding interest income | ( 3) | 745 | (748) |
| Effect of movements in exchange rates | 605 | 722 | (117) |
| **Total** | **2.832** | **974** | **1.858** |
| | | | |
| **Other** | | | |
| Employer contributions | 2.488 | ( 247) | 2.735 |
| Plan participants' contributions | ( 17) | ( 14) | (3) |
| Benefits paid | ( 1.107) | 311 | (1.418) |
| **Balance End of year** | **43.756** | **21.361** | **22.395** |

## 21. Deferred tax liabilities

Deferred tax liabilities ("DTL") on property, plant and equipment are mainly due to the larger carrying amounts reported for financial reporting purposes versus the tax carrying value. Deferred tax liabilities on purchase price allocation ("PPA") are related to the fair value adjustment made for property, plant and equipment as a result of the May, 2017 business combination transaction.

The changes during the year are as follows:

| (Euro thousand) | 31-Dec-2018 | Increases | Decreases | Exchange rate | 31-Dec-2019 |
|---|---|---|---|---|---|
| PPE and other difference | 84.526 | 5.096 | (14.222) | 431 | 75.831 |
| **TOTAL** | **84.526** | **5.096** | **(14.222)** | **431** | **75.831** |

## 22. Current and non-current provisions

The changes in current provisions were as follows:

| (Euro thousand) | 31-Dec-18 | Increase | Decrease | Exchange rate difference | 31-Dec-19 |
|---|---|---|---|---|---|
| Provision for ecological clean-up | 1.135 | 561 | ( 147) | 1 | 1.550 |
| Provision for Product Liability Claim | 8.800 | - | - | - | 8.800 |
| Provision for sundry risk | 1.959 | 3.662 | ( 2.696) | 16 | 2.941 |
| Provision for tax litigation | - | 159 | - | 1 | 160 |
| Provision for customer litigation | - | 146 | - | 1 | 147 |
| Provision for Lay Off Costs | 4.266 | 831 | ( 4.156) | 221 | 1.162 |
| **Total** | **16.160** | **5.359** | **( 6.999)** | **240** | **14.760** |

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

The changes in non-current provisions were as follows:

| (Euro thousand) | 31-Dec-18 | Increase | Decrease | Exchange rate difference | 31-Dec-19 |
|---|---|---|---|---|---|
| Provision for ecological clean-up | 18.347 | 1.654 | ( 1.978) | 203 | 18.226 |
| Provision for agent risks | 419 | 12 | ( 70) | - | 361 |
| Provision for local property tax litigation | 295 | - | - | - | 295 |
| Provision for sundry risk | 17.550 | 498 | ( 15.173) | 336 | 3.211 |
| Provision for tax litigation | 773 | 282 | ( 495) | ( 1) | 559 |
| Provision for Lay Off Costs | 744 | 200 | ( 475) | ( 8) | 461 |
| **Total** | **38.128** | **2.646** | **( 18.191)** | **530** | **23.113** |

"Provision for Product Liability Claim" refers to a claim brought against the Reichhold SAS (France) in 2005 by a former customer ("FP"). The claimant is a French boat manufacturer who claims damages resulting from an osmosis problem with boats built using resin supplied by Reichhold SAS. Since the initial onset of the 2005 claim, three expert surveyors have been appointed by the Commercial Court of La Rochelle and the Poitiers Court of Appeals to conduct a forensic analysis in order to apportion liability between the claimant and Reichhold SAS.
Effective on February 12, 2020 Reichhold Holdings International B.V., Reichhold SAS, Reichhold France SAS and Reichhold AS (the "Foreign Controlled Group Members") have executed a Settlement Agreement with ACE American Insurance Company, ACE European Group Limited and Lexington (the "Insurance Company") and a Settlement Agreement with FP totaling EUR 6.0 million as final settlement of the claim asserted by FP .
Pursuant to the Settlement Agreement executed with the Insurance Companies the Foreign Controlled Group Members will be responsible only for paying the difference between EUR 6,000,000 and USD 5,266,093. Such difference has been already paid. The involved entities are not expected to bear any residual liability.

*"Provision for Lay Off costs (current)"* mainly refers to Reichhold LLC2 for EUR 164 for plant shutdown costs and for severance costs and to Reichhold Inc. (Dubai) for EUR 921 for severance costs.
"*Provision for Lay Off costs (non-current)"* refers to Polynt Composites Brazil Ltda. for EUR 165 and to Polynt Composites France S.A. for EUR 296 thousand and results from the reorganization process.

The *"Provision for ecological clean-ups"* is broken down as follows:

- EUR 6,410 thousand relating to Polynt Composites USA, Inc., which assumed certain environmental liabilities of Momentive subject to limitations. The expenditures result from known environmental remediation actions at the subsidiary's locations in California, Georgia and Illinois. The total estimated cost is principally for operating, maintaining, monitoring and analyzing soil and groundwater wells, soil remediation, project management and related environmental reporting to various state agencies, costs to expand soil groundwater wells and any other necessary actions required under various governmental orders. Polynt Composites USA Inc. engaged an environmental consultant to review the remediation plans. The provision is based upon the present value of the estimated future cash outflows necessary to complete the remediation. The discounted amount is expected to be paid over the life of the project. Polynt Composites USA Inc. was responsible for the first USD 2 million of environmental remediation costs. Momentive indemnified Polynt Composites USA Inc. for 75% of the environmental remediation costs in excess of USD 2 million and less than USD 5 million. According to the agreement with Momentive and their liability to cover the excess expenditure, Polynt Composites USA Inc. has recognized in non-current assets at 31 December 2019 a receivable of USD 7,228 thousand (EUR 6,434 thousand) (USD 6,881 thousand equal to EUR 6,010 thousand at December 31, 2018). The Group considered the credit worthiness of Momentive in assessing the collectability of this receivable;

- EUR 1,714 thousand relating to Polynt Composites USA Inc. environmental remediation costs associated with the U.S. site acquired as part of the CCP Composite acquisition from Total SA in December 2014.
- EUR 3,280 thousand relating to the subsoil remediation at the Scanzorosciate, Cavaglià and San Giovanni Valdarno (Italy) sites owned by Polynt S.p.A.. These forecast costs for the soil and subsoil remediation were made on the basis of Italian Legislative decree no. 152/06, as amended by Italian Legislative decree no. 4/08 and Italian Legislative decree no. 128/10;
- EUR 2,985 thousand relating to environmental remediation costs estimated for the U.S. sites of Reichhold LLC 2;
- EUR 1,726 thousand relating to environmental remediation costs estimated for the Taboao site of Polynt Composites Brazil Ltda.;
- EUR 1,282 thousand relating to environmental remediation costs estimated for the Mogi de Cruzes and Bahia sites of Reichhold do Brazil Ltda.;
- EUR 378 thousand for remediation at the Leek site of Polynt UK Ltd.. An insurance policy covering the remediation risk had been agreed for this site. It expired in 2013 and was not renewed as it is no longer necessary. The specific accrual in the consolidated financial statements is the best estimate of any extra costs;
- EUR 470 thousand relating to environmental remediation costs estimated for the Canadian sites of Reichhold Industries Inc.;
- EUR 200 thousand for asbestos disposal costs at Polynt S.p.A sites, which does not use asbestos or its derivatives in production activities. However, asbestos is present in the covers and certain conductors. To this end, the company engaged a third-party expert to map out the asbestos at its production sites. This mainly covers the industrial plants in Scanzorosciate, since there is only an immaterial amount, if any, of asbestos at the other sites;
- other provisions in relation to other minor amounts related to other Group Companies.

Based on information available at the reporting date, it is not known when these costs will be incurred. Accordingly, the Group cannot calculate the effect of the time value of money thereon.

The "*Provision for agent risks*" includes the accruals made for contingent liabilities arising from the termination of current agency contracts, determined based on the ruling legislation for such contracts.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

The "*Provision for local property tax litigation*" refers to Polynt S.p.A.'s ongoing tax litigation on local property tax (ICI/IMU) for San Giovanni Valdarno area.

The *"Provision for sundry risks"* included, as at 31 December 2018, EUR 9,170 thousand related to Reichhold Holdings International B.V. (thereafter "RHI") and represented management's best estimate of the Company's ultimate obligation related to the Pension Benefit Guaranty Corporation ("PBGC") claim. In March 2015, the PBGC asserted claims against most of the non-US Reichhold subsidiaries totaling USD 118,798 thousand resulting from the termination of the Reichhold, Inc. pension plan and alleged pension plan liabilities. Reichhold, Inc. was the predecessor US operating company in the Reichhold group that filed Chapter 11 reorganization proceedings on September 30, 2014. On April 1, 2015 the operating assets of Reichhold, Inc. were purchased by the Reichhold group but the obligation for the pension plan was not assumed by the Reichhold group. The pension plan was terminated by agreement between the PBGC and Reichhold, Inc. dated February 25, 2015, making the PBGC the statutory trustee of the pension plan. In connection with its claim, the PBGC filed liens in the District of Columbia in the amount of USD 22,560 thousand against the assets of certain of RHI's subsidiaries.
In November 2019, PBGC, on one side, and Reichhold Holdings International B.V., Reichhold do Brasil Ltda., Reichhold Investimentos Ltda., Reichhold Resinas Sinteticas Ltda., Reichhold Industries Ltd., Reichhold Trading (Beijing) Ltd., Reichhold Polymers (Tianjin) Ltd., Reichhold CZ s.r.o., Reichhold Danmark A/S, Reichhold SAS, Reichhold France SAS, Reichhold GmbH, Reichhold Holding Hong Kong Limited, Reichhold India Private Limited, Reichhold S.r.l., Reichhold Mauritius Ltd., Reichhold Quimica S.A. de C.V., Reichhold Finance B.V., Reichhold AS, Reichhold Norway AS, Reichhold Inc. (Panama), Reichhold UK Limited, and Reichhold BV (collectively, the "Foreign Controlled Group Members" or "Reichhold entities") have entered into a settlement agreement pursuant to which the parties have settled the matter by payment to PBGC of an overall amount of USD 16,300,000 in seven annual installments plus interest. The first installment was paid in December 2019. Speciality Chemical International Limited has confirmed to the Reichhold entities which signed the agreement that such liability is covered by one of the shareholders. The Reichhold entities are not expected to bear any residual liability. The provision for sundry risks for EUR 9,170 thousand related to Reichhold Holdings International B.V. was reversed during 2019.

Included in the *"Provision for sundry risks"* as at 31 December 2018 there was a charge for an onerous lease associated with the former Reichhold U.S. headquarters site totaling EUR 5,586 thousand. This onerous lease associated with the former Reichhold U.S. headquarters was terminated in 2019 and the 31 December 2018 provision was reversed.

The "*Provision for tax litigation*" mainly refers to Polynt Composites Spain S.L., Reichhold do Brasil Ltda., Polynt Composites Malaysia Sdn. Bhd. and Polynt S.p.A. accruals for ongoing tax litigations.

## 23. Net financial indebtedness

Net financial indebtedness is detailed in the table below:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Cash and cash equivalents | 302,934 | 157,576 |
| Other financial assets | 8,445 | 7,584 |
| Current financial indebtedness | ( 74,784) | ( 65,213) |
| **Net short term financial indebtedness** | **236,595** | **99,947** |
| Long-term financial indebtedness | ( 536,640) | ( 547,808) |
| **Total net financial indebtedness** | **( 300,045)** | **( 447,861)** |

The current financial indebtedness refers to:

- ordinary bank current account overdrafts of EUR 11,098 thousand (EUR 21,843 thousand at December 31, 2018);
- loans of EUR 63,686 thousand (EUR 43,370 thousand at December 31, 2018).

Total short-term financial indebtedness is detailed as follows (amounts below refer to the amounts outstanding at the relevant date):

| (Euro thousand) | | 31-Dec-19 €'000 | 31-Dec-19 expiry date | 31-Dec-18 €'000 | 31-Dec-18 expiry date |
|---|---|---|---|---|---|
| RCF Loan (Euro part) | | 37,238 | | 31,874 | |
| Banca Popolare di Sondrio | Polynt S.p.A. | 2,518 | 31/12/20 | 2,491 | 31/12/19 |
| Banca Popolare di Sondrio | Polynt S.p.A. | 1,726 | 01/12/20 | - | |
| Kotak Mahindra Bank Ltd | Reichhold India private limited | 2,245 | 28/02/20 | 2,071 | 28/02/19 |
| Cariparma | Polynt S.p.A. | 2,250 | 31/10/20 | 2,000 | 31/10/19 |
| Creval | Polynt S.p.A. | 2,453 | 05/10/20 | - | |
| UBI | Polynt S.p.A. | 6,622 | 11/12/20 | - | |
| Banco Desio | Polynt S.p.A. | 1,000 | 10/10/20 | 992 | 10/10/19 |
| Banco Desio | Polynt S.p.A. | 987 | 10/12/20 | - | |
| Others financial debts (leasing) | Polynt S.p.A. | 400 | 01/12/20 | 400 | 01/12/19 |
| Fidi Toscana | Polynt S.p.A. | 186 | 31/10/20 | 186 | 31/10/19 |
| Medio Credito Centrale | Polynt S.p.A. | 134 | 03/12/20 | 133 | 03/12/19 |
| ICBC | Polynt Chemical (Changzhou) Co. Ltd. | - | | 437 | 05/05/19 |
| ICBC | Polynt Chemical (Changzhou) Co. Ltd. | - | | 567 | 24/01/19 |
| Financing leases | Reichhold LLC2 | - | | 11 | |
| Others financial debts (IFRS 16) | | 3,862 | | - | |
| GSO Italian Notes - accrued interest | | 686 | | 702 | |
| GSO Loan (Euro part) - accrued interest | | 723 | | 772 | |
| GSO Loan (USD part) - accrued interest | | 656 | | 734 | |
| **Total** | | **63,686** | | **43,370** | |
| Bank current overdrafts | | 11,098 | | 21,843 | |
| **Total short term financial indebtedness** | | **74,784** | | **65,213** | |

The existing Super Senior Revolving Facility Agreement provides for a Revolving Credit Facility (the "RCF") up to the amount of EUR 60 million. The RCF is a multicurrency facility available to various subsidiaries of the Company both as loans and letters of credit. The Group's outstanding borrowings as of December 31, 2019 were exclusively denominated both in EUR, with outstanding borrowings equal to EUR 37.2 million. Interest on the RCF borrowings accrues at a rate equal to the relevant EURIBOR or LIBOR rate floored to 0.0% plus a margin. The RCF terminates on May 17, 2023. All borrowings under the RCF are guaranteed by most of the Company's subsidiaries and are secured by the equity and certain assets of those subsidiaries. The RCF contains customary affirmative and negative covenants. The RCF also contains a "springing financial covenant" requiring the

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

consolidated Group to maintain a net leverage ratio of super senior indebtedness to EBITDA, as defined in the RCF agreement, of 0.75:1 or less. The springing financial covenant is tested only when the aggregate amount of all outstanding loans at the end of the relevant quarter is equal to or greater than 35% of the total amount of commitments under the facility and any breach would act as a draw stop to new borrowings only.
On September 29, 2017 an ABL Facility (the "ABL") in the amount of USD 58.6 million was entered into with Wells Fargo. The line was available as loans and letters of credit to Polynt Composites USA, Inc. and, until November 2019 with a sublimit of USD 20 million, to Polynt Composites Canada, Inc.. The original borrowings thereunder were used to redeem Notes and prepay Loans on a pro rata basis, as permitted under the Agreement and the Indenture. Interest on the ABL borrowings accrues at a rate equal to the relevant base rate plus a margin. The ABL terminates on September 29, 2022. All borrowings under the ABL are secured by pledges over trade receivables and inventory of the borrower thereunder. As of December 31, 2019 no ABL borrowings were outstanding The ABL contains customary affirmative and negative covenants. As of December 31, 2019, the parties thereto were in compliance with all covenants of the ABL.

Non-current financial indebtedness relates to non-current loans as follows:

| | | 31-Dec-19 | | 31-Dec-18 | |
|---|---|---|---|---|---|
| (Euro thousand) | | €'000 | expiry date | €'000 | expiry date |
| GSO Loan (Euro part) | | 188,007 | 15/05/24 | 205,745 | 15/05/24 |
| FV embedded derivative on Loan (Euro part) | | 5,913 | | 5,041 | |
| Financial expenses capitalized on Loan (Euro part) | | ( 3,569) | | ( 4,760) | |
| GSO Italian Notes | | 161,146 | 15/05/24 | 176,351 | 15/05/24 |
| FV embedded derivative on Italian Notes | | 5,068 | | 4,320 | |
| Financial expenses capitalized on Italian Notes | | ( 3,847) | | ( 5,195) | |
| GSO Loan (USD part) | | 147,837 | 15/05/24 | 159,430 | 15/05/24 |
| Financial expenses capitalized on Loan (USD part) | | ( 7,201) | | ( 10,107) | |
| Cariparma | Polynt S.p.A. | 5,250 | 26/04/22 | 7,500 | 26/04/22 |
| Banca Popolare di Sondrio | Polynt S.p.A. | 2,120 | 31/10/21 | 4,638 | 31/10/21 |
| Banca Popolare di Sondrio | Polynt S.p.A. | 4,421 | 01/06/23 | - | |
| Creval | Polynt S.p.A. | 6,939 | 05/07/23 | - | |
| UBI | Polynt S.p.A. | 10,100 | 21/06/22 | - | |
| Banco Desio | Polynt S.p.A. | 2,023 | 10/10/22 | 3,022 | 10/10/22 |
| Banco Desio | Polynt S.p.A. | 3,013 | 10/12/23 | - | |
| Medio Credito Centrale | Polynt S.p.A. | 406 | 03/12/23 | 540 | 03/12/23 |
| Others financial debts (leasing) | Polynt S.p.A. | - | | 400 | 01/12/20 |
| Fidi Toscana Spa | Polynt S.p.A. | 186 | 31/10/21 | 372 | 31/10/21 |
| Others financial debts (leasing) | Reichhold LLC2 | - | | 19 | |
| Others financial debts (IFRS 16) | | 8,300 | | - | |
| Others financial debts | | 528 | | 492 | |
| **Total long term financial indebtedness** | | **536,640** | | **547,808** | |

In connection with the May 17, 2017 merger and refinancing, the Company and other affiliates entered into, inter alios, the following agreements:

- A Facility Agreement (the "Agreement") with various subsidiaries of the Group as borrowers and guarantors and various financial institutions, all of which were unrelated to the Company, as lenders. The Agreement provided for the issuance of EUR senior loans (the "GSO Loan - EUR part") totaling EUR 229.9 million and for the issuance of USD senior loans (the "GSO Loan - USD part") totaling USD 199.2 million. EUR loans bear interest at a rate equal to the 3-month EURIBOR floored to 0.50% plus a margin, with interest reset and payable quarterly. USD loans bear interest at a rate

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

equal to the 3-month LIBOR floored to 1.00% plus a margin, with interest reset and payable quarterly.

Due to the EURIBOR and LIBOR rates being floored, management has determined the existence of an embedded derivative whose value has been assessed and separated from the host loan agreement in order for it to be accounted for separately, as if it was a stand-alone derivative. Changes over time in the value of the embedded derivative are recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The fair value of the embedded interest rate floor as of December 31, 2019 was equal to EUR 5.9 million. The negative change in the fair value that occurred in 2019 equals EUR 0.9 million and is recognized in the Profit and Loss as a financial loss. The up-front one-off borrowing costs incurred upon the issuance of EUR and USD Loans have been capitalized and are amortized over the life of the loans with the amortization of such capitalized costs recognized in the Profit and Loss as a financial expense.

Both the EUR and the USD loans mature on May 15, 2024 with annual mandatory prepayments equal to a portion of consolidated excess cash flow (the "ECF") as defined in the Agreement to occur beginning in 2019. Additionally, voluntary prepayments are allowed, provided that all loans outstanding under the Agreement are prepaid on a pro-rata basis. In October 2017 the Group elected to prepay a portion of the loans by entering an ABL Facility in the USA and applying the proceeds arising from the initial borrowings thereunder to the pro-rata prepayment of an aggregate amount such that the Group's total remaining outstanding loans under the Agreement as of December 31, 2018 was USD 182.6 million and EUR 210.6 million. In May 2019 the Group made the mandatory ECF prepayment by electing to also make a voluntary ECF prepayment as provided by the Agreement. Pursuant to such ECF prepayments the Group's total remaining outstanding loans under the Agreement as of December 31, 2019 were USD 166.1 million and EUR 191.6 million. The Agreement contains customary affirmative and negative covenants.

- An Indenture, with Polynt S.p.A. and Polimeri Speciali Holding S.p.A. ("PSH") as issuers and guarantors of EUR senior floating rate notes (the "GSO Italian Notes") and several subsidiaries of the Group as guarantors thereof. The Notes were purchased by various financial institutions, all of which were unrelated to the Company. Polynt S.p.A. issued Notes totaling EUR 139.1 million whereas PSH issued Notes totaling EUR 57.9 million. The Notes bear interest at a rate equal to the 3-month EURIBOR floored to 0.50% plus a margin, with interest reset and payable quarterly.

As commented on with respect to EUR Loans, due to the EURIBOR rate being floored, management has determined the existence of an embedded derivative whose value has been assessed and separated from the host indenture in order for it to be accounted for separately, as if it was a stand-alone derivative. The fair value of the embedded interest rate floor as of December 31, 2018 was equal to EUR 4.3 million. The fair value of the embedded interest rate floor as of December 31, 2019 was equal to EUR 5.0 million. The change in the fair value occurred 2019, equal to EUR 0.7 million and is recognized in the Profit and Loss as a financial loss. The up-front one-off borrowing costs incurred upon the issuance of Notes have been capitalized and are amortized over the life of the loans with the amortization of such capitalized costs recognized in the Profit and Loss as a financial expense.

The Notes mature on May 15, 2024 with annual mandatory prepayments equal to a portion of ECF, as defined in the Indenture, beginning in 2019. Additionally, voluntary prepayments are allowed, provided that the Notes outstanding are prepaid on a pro rata basis between themselves and with the outstanding loans under the Agreement. In October 2017 the Group elected to prepay a portion of the loans by entering an ABL Facility in the USA (described above) and applying the proceeds arising from the initial borrowings thereunder to the pro-rata prepayment of an aggregate amount such that the total remaining outstanding Notes as of December 31, 2017 was EUR 180.5 million. Pursuant to the merger of PSH into Polynt S.p.A. in November 2018 the Notes originally issued by the former were assumed by the latter. In May 2019 the Group made the ECF mandatory prepayment by electing to also make a voluntary ECF prepayment as provided by the Indenture. Pursuant to such ECF prepayments the Group's total remaining outstanding Notes as of December 31, 2019 were Euro 164.2 million. The Indenture provides for the same customary affirmative and negative covenants as those provided under the Agreement.

As commented on with respect to the "Significant events after the reporting period" on March 18, 2020 the Group finalized the refinancing of the existing senior indebtedness that was originally incurred in connection with the merger occurred in May 2017.
Such a transaction involved:

- the redemption of the Notes issued under the Indenture totaling EUR 164.2 million,
- the prepayment of the Euro and USD Loans under the Facility Agreement totaling respectively EUR 191.6 million and USD 166.1 million,
- the prepayment of loans outstanding under the Super Senior Revolving Facility Agreement totaling EUR 37.2 million.

Note 37 gives information about the Group's exposure to credit risk, currency risk and interest rate risk in respect of other financial assets and liabilities.

Cash and cash equivalents are as follows:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Cash on hand | 46 | 42 |
| Bank and postal accounts | 302,888 | 157,534 |
| **Total** | **302,934** | **157,576** |

Note 37 gives information about the Group's exposure to credit risk, currency risk and interest rate risk related to trade payables.

## 24. Equity

Share capital

Share capital is composed of the share capital of Specialty Chemicals International B.V.; it consists of 104 shares of USD 0.01 each (fully paid).

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

Reserves

Reserves are as follows:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Translation Reserve | ( 4,442) | ( 10,497) |
| Share Premiums Reserve | 389,672 | 391,172 |
| Retained earnings | 151,146 | 27,581 |
| Other Reserve | 420 | 2,207 |
| **Total** | **536,796** | **410,463** |

## 25. Commitments and guarantees

The breakdown of commitments is as follows:

| *Sureties and guarantees given to third parties in the Group's interest* | **31-Dec-19** | **31-Dec-18** |
|---|---|---|
| - the Region of Lombardia for waste incinerators | 635 | 635 |
| - the Municipal Authorities of Scanzorosciate | 250 | 250 |
| - suppliers | 716 | 49 |
| - the Municipal Authorities of San Giovanni | 22 | 22 |
| - customs authorities | 1,000 | 1,000 |
| Others | 223 | 543 |
| **Total** | **2,846** | **2,499** |

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

# Consolidated Statement of profit or loss and other comprehensive income

## 26. Revenue

Revenues by regional segment are as follows:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Europe | 921,003 | 977,455 |
| Americas | 891,712 | 879,623 |
| Asia | 230,322 | 239,992 |
| **Total** | **2,043,037** | **2,097,070** |

## 27. Raw materials, consumables and supplies

Costs of raw materials, consumables and supplies are as follows:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Raw materials | 1,188,684 | 1,301,174 |
| Consumables and supplies | 80,940 | 70,585 |
| Finished products for resale | 34,419 | 44,995 |
| Products for maintenance | 10,831 | 9,592 |
| Others | 2,553 | 2,328 |
| **Total** | **1,317,427** | **1,428,674** |

Raw materials mostly consist of oil derivatives used to produce the Group companies' goods.
Finished products for resale relate to purchases of products from third parties, which are held for resale without any additional processing. The Group purchases these products to meet temporary peaks in customer demand exceeding its available production capacity.

## 28. Internal work capitalized under non-current assets

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Manpower and materials | 909 | 1,075 |
| **Total** | **909** | **1,075** |

These are the costs associated with internally capitalized projects including: REACH regulation-related activities, the design of new plants, improvements to existing plants, and projects that create other intangible assets.

## 29. Cost of services

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Energy | 61,704 | 66,515 |
| Other services | 191,495 | 195,644 |
| **Total** | **253,199** | **262,159** |

*"Energy"* includes the purchase of energy resources (e.g. electrical energy, steam, water and natural gas).

Other service costs are detailed as follows:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Product transport | 91,512 | 87,884 |
| Production services | 19,395 | 23,425 |
| Maintenance services | 24,757 | 22,655 |
| Consultancy, audit and legal fees | 8,922 | 13,262 |
| Loading and disposing of waste | 14,967 | 12,057 |
| Insurance premiums | 8,733 | 8,819 |
| Rentals | 6,905 | 6,615 |
| External IT services | 4,845 | 5,653 |
| Building leases | 1,374 | 3,185 |
| Hardware and sofware rental | 1,667 | 2,825 |
| Commissions | 2,400 | 2,407 |
| Technical services and consultancy | 1,447 | 1,254 |
| Advertising | 626 | 994 |
| Third party processing | 482 | 362 |
| Others | 3,463 | 4,247 |
| **Total** | **191,495** | **195,644** |

Product transport and commission costs are related to the sale and shipment of the Group's products.
Production and maintenance service costs represent costs for subcontracted production, maintenance of production equipment and handling of materials.
The caption "*Others*" refers to Polynt Chemical (Changzhou) Co. Ltd. non recoverable VAT costs.

During 2019 the Group spent approximately EUR 6.3 million (EUR 6.5 million during 2018) for research activities. These research costs include personnel and service costs that were not capitalized as they do not meet the criteria of IAS 38.

## 30. Personnel expense

Personnel expense includes all expenses incurred during the year to compensate employees and for the Group company's directors' fees, as shown in the following table:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Wages and salaries | 173,536 | 165,867 |
| Social security contributions | 32,880 | 31,813 |
| Accruals for long term benefit | 4,982 | 5,195 |
| Board of directors' fees | 2,462 | 1,883 |
| Other personnel expenses | 17,965 | 16,238 |
| **Total** | **231,825** | **220,996** |

Other personnel expense is as follows:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Training | 923 | 658 |
| Company canteens | 1,313 | 1,375 |
| Temporary employment | 4,095 | 3,936 |
| Medical care | 662 | 577 |
| Healthcare contributions | 9,424 | 8,079 |
| National holiday employee pay | 99 | 113 |
| Sundry expenses | 1,449 | 1,500 |
| **Total** | **17,965** | **16,238** |

The workforce, broken up by regional segment, is as follows:

| | 2019 year end | 2019 average | 2018 year end | 2018 average |
|---|---|---|---|---|
| Europe | 1,683 | 1,666 | 1,636 | 1,655 |
| Americas | 1,156 | 1,188 | 1,233 | 1,260 |
| Asia | 379 | 384 | 390 | 406 |
| **Total** | **3,218** | **3,238** | **3,259** | **3,321** |

## 31. Other operating income/expenses

The breakdown of other operating income is as follows:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Third party damage reimbursements | 364 | 1,184 |
| Gain on the disposal of Property, plant and equipment | 53 | 100 |
| Grants | 58 | 422 |
| Prior year cost recoveries | 700 | 1,569 |
| Release provisions | 20 | 1,140 |
| Others | 54,383 | 3,229 |
| **Total other income** | **55,578** | **7,644** |
| Insurance compensation | 7,468 | 4,416 |
| **Total** | **63,046** | **12,060** |

*"Prior year cost recoveries"* includes adjustments for minor costs incurred in the current year compared to the accruals recognized in the prior year.

In 2019 an accident occurred at Polynt S.p.A. Maleic Anhydride Ravenna Plant (Italy) causing damage to the catalyst reaction. The occurrence was covered by the insurance policy, including for the future loss of margins due to lower performance of the plant subsequent to the accident.
In order to restore the performance of the plant and to reduce the risk of future accidents, the company scheduled a replacement of both the reactor and the catalyst in Q3 2021.
In light of the ongoing discussion with the Insurer, both parties agreed to settle the insurance refund in July 2019.
Polynt S.p.A. received insurance proceeds of EUR 16.5 million in 2019.
This company recorded only EUR 5.0 million out the total 16.5 million under Insurance proceeds heading as according to the scheduled reactor and catalyst replacement only that portion covers the 2019 losses due to the lower efficiency of the plant.
The remaining portion of the insurance proceeds was included under the "*Others*" income heading.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

The remaining part of the caption "*Others*" mainly includes the net gain for the sale of the Polynt Composites Canada Inc.'s Canadian distribution business, as the positive result is more than the carrying values of the assets sold.

*"Insurance compensation"* also includes the insurance compensation for the TMA plant accident (EUR 1,353 thousand) in Polynt Chemical (Changzhou).

Other operating expenses are as follows:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Non recurring items | 11,794 | 6,997 |
| Property tax | 5,841 | 5,790 |
| Provisions for risks and charges | 6,547 | 2,220 |
| Bad debts | 1,304 | 1,567 |
| Industrial association contributions and membership fee | 528 | 571 |
| Other membership fees | 351 | 383 |
| Tax on the consumption of electricity | 265 | 265 |
| Losses on Property, plant and equipment | 197 | 96 |
| Compensation for damages | 277 | 62 |
| Certificates and visas | 12 | 14 |
| Other changes | 2,697 | 7,827 |
| **Total** | **29,813** | **25,792** |

*"Non-recurring items"* are mainly related to restructuring costs arising from plant closures in Dubai, Canada, Brazil, Norway, US and Australia and net of the reversal of the US onerous lease.

*"Other changes"* includes expenses incurred by Polynt S.p.A. for the renewal of patents and trademarks and tax and duty expenses incurred by the various Group companies.

## 32. Amortization, depreciation and impairment losses

The breakdown is as follow:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Depreciation | 58,772 | 51,447 |
| Amortization | 19,243 | 18,993 |
| Impairment losses | 2,014 | 3,610 |
| **Total** | **80,029** | **74,050** |

Reference should be made to notes 11 and 13 on "*Property, plant and equipment*" and "*Other intangible assets*", respectively, for a specific analysis of depreciation, amortization and impairment losses.

The "impairment losses" mainly refers to the closures of certain plants of the Group.

## 33. Financial income

Financial income includes the following:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Foreign currency exchange gains | 11,485 | 13,361 |
| Bank and other interest | 3,348 | 2,244 |
| Cash discount from suppliers | 482 | 610 |
| Others | 176 | 206 |
| **Total** | **15,491** | **16,421** |

The foreign currency exchange gains mainly refer to exchange rate effect on "GSO Loan (Euro part)" of Specialty Chemicals International Inc. and the revaluation of foreign currency trade receivables and trade payables at the closing date.

## 34. Financial expense

Financial expenses are as follows:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Bank interest | 48,347 | 49,972 |
| Foreign currency exchange losses | 8,157 | 5,970 |
| Cash discounts to customers | 5,952 | 5,090 |
| Amortization capitalized financial expenses | 8,030 | 5,444 |
| Financial expenses on Fair Value derivatives | 1,619 | 384 |
| Interest expenses (IFRS 16) | 478 | - |
| Others | 2,575 | 2,975 |
| **Total** | **75,158** | **69,835** |

"*Bank interest*" includes interest expenses accrued and/or paid on the current and non-current loans (see note 23).
The foreign currency exchange losses refer to exchange rate effect on outstanding loans of some Group subsidiaries and the revaluation of foreign currency trade receivables and trade payables at the closing date.

## 35. Income taxes

Income taxes are as follows:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Income taxes | ( 41,710) | ( 29,530) |
| Deferred tax expense | 14,810 | ( 2,168) |
| Deferred tax income | ( 202) | 4,561 |
| Prior year taxes | 2,112 | ( 836) |
| **Total** | **( 24,990)** | **( 27,973)** |

Reference should be made to the notes to *"Deferred tax assets"* (note 15) and *"Deferred tax liabilities"* (note 21) for details about changes in deferred tax assets and liabilities.

The reconciliation between the taxes recognized in the combined financial statements and the theoretical tax charge, determined according to the theoretical tax rate, is as follow:

| (Euro thousand) | | 2019 | | 2018 |
|---|---|---|---|---|
| **Profit/(loss) before tax** | | **132,390** | | **62,732** |
| Theoretical tax charge using Parent's tax rate | 25.0% | ( 33,098) | 25.0% | ( 15,683) |
| Effect of tax rates in foreign jurisdictions and income tax aoounted by components | | ( 8,613) | | ( 13,847) |
| Net tax effect for permanent differences | | 14,608 | | 2,393 |
| Changes in estimates related to prior years | | 2,112 | | ( 836) |
| **Income taxes** | 18.9% | **( 24,990)** | 44.6% | **( 27,973)** |

## 36. Related party transactions

During the year dividend totaling EUR 1,500 thousand was made by Specialty Chemicals International B.V. to the parent company Speciality Chemicals International Limited.

Other significant transactions with the parent Speciality Chemicals International Ltd. at December 31, 2019 are as follow:

- Other financial assets EUR 7,367 thousand for financial receivables from Speciality Chemicals International Ltd. (in Reichhold LLC2), as described in note 14 (EUR 7,228 thousand at December 31, 2018);
- Other non-current assets EUR 2,942 thousand for financial receivables from Speciality Chemicals International Ltd. (in Reichhold LLC2), as described in note 16 (EUR 2,886 thousand at December 31, 2018).
- Other current assets EUR 12,437 thousand for financial receivables from Speciality Chemicals International Ltd. (in Reichhold Holdings International B.V.), as described in notes 10 and 22 (EUR 0,0 thousand at December 31, 2018).

Compensation, including pension costs as referred to in Section 2:383(1) of the Netherlands Civil Code, charged in the financial year to the company, its subsidiaries and consolidated other companies amounted to EUR 4,891 thousand for top executives of the Group (EUR 4,936 thousand for 2018).

## 37. Financial risks managements

The Group is exposed to the following risks arising from the use of financial instruments:

- credit risk, in relation to both normal trading transactions with customers and financing activities;
- liquidity risk, with particular reference to the availability of financial resources and access to the credit market and financial instruments in general;
- market risk (mainly with respect to interest and currency rates), since the Group operates worldwide in countries with different currencies and uses financial instruments that accrue interest.

This section describes the Group’s exposure to each of the above risks, its objectives, policies and procedures for managing those risks and the related measurement methods. It also comments on the Group’s capital management. The consolidated financial statements disclose additional quantitative information.

The policies in place to manage those risks aim to identify and analyze the risks to which the Group is exposed, establish suitable limits and controls and monitor compliance with such limits. These policies and the related controls are revised regularly to reflect any

changes in market conditions or the Group's business activities. Through training sessions, standards and management policies, the Group is developing a regulated and constructive control environment, in which its employees are aware of their roles and responsibilities.
The internal audit unit supervises management's methods for monitoring compliance with risk management policies and procedures and checks the adequacy of the risk management system in relation to the risks to which the Group is exposed. The internal audit unit regularly checks risk management controls and procedures based on its audit plan, reporting the results to the relevant bodies.

**Credit risk**

Credit risk is the risk that a customer or counterparty to a financial instrument may default. It mainly relates to the Group's trade receivables and financial investments.

Trade receivables and other receivables

The Group's exposure to credit risk principally depends on its customers' individual characteristics. The demographical variables of its customer base, including the sector and country risk, do not have a significant impact on the Group's credit risk.
It has a specific internal credit management procedure whereby each new customer's credit standing is analyzed before any credit facilities are granted. These analyzes include third party appraisals, when available. Credit facilities are agreed for each customer and they may only be exceeded after the approval of the relevant internal bodies depending on the customers' exposure. The credit facilities are checked annually and customers that do not meet the Group's credit standing criteria may only make purchases against advance or guaranteed payment.
The Group has worked with the majority of its customers for more than four years and the non-collection of receivables is infrequent. Credit risk monitoring procedures are based on grouping customers by credit characteristics, geographical location, sector, ageing, due date and the existence of previous financial difficulties. The Group's trade and other receivables are generally from industrial production companies.
The Group has an allowance for impairment, which reflects estimated losses on trade and other loans and receivables and non-current financial assets. It mainly comprises individual impairment losses on significant exposures and collective impairment losses on groups of similar assets on which losses of unknown amounts have already been incurred.

Guarantees (guarantees not recognized in the statement of financial position)

The obligations under the Agreement, the Indenture and the RCF are guaranteed by several subsidiaries of the Group incorporated in security jurisdictions and are secured by the equity and certain assets of those subsidiaries. The security package provided by each guarantor is consistent with the agreed security principles as set forth by the financing documents.
In accordance with agreed security principles no member of the Group incorporated outside of Italy, the United States of America, Canada, the United Kingdom, the Netherlands, Norway, the Czech Republic and Germany, except for the Reichhold Brazil Companies, Reichhold Mexico, Reichhold Mauritius Limited and Reichhold Inc., has been required to provide guarantees or security.

Moreover, no member of the Group has been required to provide any security in respect of any shares or other ownership interests held in any member of the Group incorporated outside of a Security Jurisdiction.
Security Jurisdictions are Italy, the United States of America, Canada, the United Kingdom, the Netherlands, Norway, Germany, Brazil (with respect to the Reichhold Brazil Companies only), Mexico (with respect to Reichhold Mexico only), Mauritius (with respect to Reichhold Mauritius Limited only), Panama (with respect to Reichhold Inc. only) and the Czech Republic (with respect to Reichhold CZ s.r.o. only).

Credit risk exposure

The carrying amount of financial assets is the Group's maximum exposure to credit risk, which is as follows at year end:

| (Euro thousand) | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Cash and cash equivalents | 302,934 | 157,576 |
| Trade receivables | 266,542 | 302,671 |
| Other Current Assets | 36,728 | 29,069 |
| Other Financial assets | 8,445 | 7,584 |

An analysis of the trade receivables by due date at year end is as follows:

**December 31, 2019**

| (Euro thousand) | Total amount | Not past due | Total past due | Past due 0-30 | Past due 30-60 | Past due 60-90 | Past due > 90 | Past due > 12 months |
|---|---|---|---|---|---|---|---|---|
| Trade receivables | 279,941 | 198,255 | 81,686 | 52,759 | 2,202 | 1,443 | 2,540 | 22,742 |
| Bad debt provision | ( 13,399) | ( 1,125) | ( 12,274) | ( 1,292) | ( 443) | ( 348) | ( 477) | ( 9,714) |
| **Trade receivables net** | **266,542** | **197,130** | **69,412** | **51,467** | **1,759** | **1,095** | **2,063** | **13,028** |

**December 31, 2018**

| (Euro thousand) | Total amount | Not past due | Total past due | Past due 0-30 | Past due 30-60 | Past due 60-90 | Past due > 90 | Past due > 12 months |
|---|---|---|---|---|---|---|---|---|
| Trade receivables | 315,420 | 226,988 | 88,432 | 54,101 | 3,146 | 1,413 | 5,379 | 24,393 |
| Bad debt provision | ( 12,749) | ( 107) | ( 12,642) | ( 935) | ( 263) | ( 100) | ( 1,125) | ( 10,219) |
| **Trade receivables net** | **302,671** | **226,881** | **75,790** | **53,166** | **2,883** | **1,313** | **4,254** | **14,174** |

Changes in the allowance for impairment on trade receivables during the year are set out below:

| (Euro thousand) | 31-Dec-19 |
|---|---|
| **Opening balance** | 12,749 |
| Accruals | 1,494 |
| Utilisations | ( 813) |
| Translation rate differences | ( 31) |
| **Closing balance** | **13,399** |

Based on previous experience, the Group has impaired a specific part of trade receivables on an individual basis because there were objective indications of the risk of a partial or total non-collection. The impairment losses are net of estimated recoverable amounts. A

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

general allowance is established for receivables that are not impaired individually or provided for specifically based on losses incurred over the past five years.

**Liquidity risk**

Liquidity risk is the risk that the Group may encounter difficulties in meeting its obligations associated with financial liabilities. Its policy is to ensure that it always has funds available, as far as possible, to meet its obligations when they fall due in both normal and difficult financial conditions, without incurring excessive costs or risk damaging its reputation.

The Group's treasury units manage liquidity risk on a centralized basis. Maintenance of liquidity balance is systematically ensured on a daily basis. The Group's ability to meet its obligations on a timely and cost-effective basis is ensured through the careful checks of its net financial position, using IT systems that monitor liquidity requirements on an ongoing basis.

The Group has implemented policies and processes aimed at optimizing management of its resources, reducing liquidity risks and, specifically:

- maintaining a suitable level of available liquidity;
- diversifying the systems used to obtain financial resources;
- being continuously and actively present in the capital markets;
- obtaining adequate credit facilities;
- monitoring forecasted financial conditions in relation to its business plans.

The Group believe that the currently-available funds and credit facilities, as well as the cash flows that will be generated by operating and financing activities, will enable the Group to meet its requirements arising from its investing activities, working capital management and repayment of payables at their natural maturity dates.

The contractual maturity dates for the financial liabilities, including the interest to be paid, are shown in the table below:

| (Euro thousand) | | Carrying Amount | Contractual cash flow | 6 months or less | 6-12 mths | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| **Non derivative financial liabilities** | **Company** | | | | | | | |
| GSO Loan (EURO part) | | 188,730 | 260,277 | 7,792 | 7,792 | 15,541 | 229,152 | |
| GSO Italian Notes | | 161,832 | 223,091 | 6,679 | 6,679 | 13,320 | 196,413 | - |
| GSO Loan (USD part) | | 148,493 | 211,274 | 7,197 | 7,197 | 14,355 | 182,525 | |
| RCF Loan (Euro part) | | 37,238 | 37,238 | 37,238 | - | - | - | - |
| Cariparma | Polynt S.p.A. | 7,500 | 7,604 | 1,030 | 1,277 | 2,787 | 2,510 | - |
| Banca Popolare di Sondrio | Polynt S.p.A. | 10,785 | 10,992 | 2,179 | 2,180 | 3,932 | 2,701 | - |
| Banco Desio | Polynt S.p.A. | 7,023 | 7,132 | 1,019 | 1,019 | 2,038 | 3,056 | - |
| Creval | Polynt S.p.A. | 9,392 | 9,677 | 1,290 | 1,290 | 2,581 | 4,516 | |
| UBI | Polynt S.p.A. | 16,722 | 17,011 | 3,399 | 3,401 | 6,806 | 3,405 | |
| Kotak Mahindra Bank Ltd. | Reichhold India Private Limited | 2,245 | 2,245 | 2,245 | - | - | - | - |
| Financing leases | Polynt S.p.A. | 400 | 419 | 215 | 204 | - | - | - |
| Medio Credito Centrale | Polynt S.p.A. | 540 | 547 | - | 137 | 137 | 273 | - |
| Fidi Toscana Spa | Polynt S.p.A. | 372 | 372 | 93 | 93 | 186 | - | - |
| Others financial local debts | | 528 | 528 | - | - | 528 | - | - |
| Trade payables | | 199,782 | 199,782 | 99,891 | 99,891 | - | | |
| **Total** | | **791,582** | **988,189** | **170,267** | **131,160** | **62,211** | **624,551** | **-** |

The above contractual cash flows are the sum of the repayments expected at the different dates plus interest calculated on the basis of the forecast interest rates in the different periods.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

The Group's credit facilities at year end are as follows (the figures below refer to available amounts):

| Banks | Company | Credit lines 31 Dec 2019 | *of which financial lines (*)* | Credit lines 31 Dec 2018 | *of which financial lines (*)* |
|---|---|---|---|---|---|
| RCF Loan | RCF Borrowers | 60,000 | 60,000 | 60,000 | 60,000 |
| Kotak Mahindra Bank Ltd | Reichhold India Private Ltd | 2,806 | 2,806 | 2,822 | 2,822 |
| Wells Fargo | Polynt Composites USA Inc. | 52,163 | - | 51,179 | - |
| IFITALIA | Polynt S.p.A. | 12,000 | - | 12,000 | - |
| Banca popolare di Milano | Polynt S.p.A. | 10,200 | 10,200 | 10,200 | 10,200 |
| Unicredit Banca d'Impresa | Polynt S.p.A. | 9,000 | 9,000 | 9,000 | 9,000 |
| Banca IFIS | Polynt S.p.A. | 3,000 | 3,000 | 3,000 | 3,000 |
| Banca IFIS Factoring | Polynt S.p.A. | 13,850 | - | 13,850 | - |
| Banco Desio | Polynt S.p.A. | 8,172 | 8,172 | 9,165 | 7,165 |
| Banca popolare di Sondrio | Polynt S.p.A. | 18,284 | 11,284 | 14,629 | 7,629 |
| Cariparma | Polynt S.p.A. | 17,500 | 12,500 | 19,500 | 14,500 |
| Claris Factor | Polynt S.p.A. | 5,000 | - | 5,000 | - |
| Factorit | Polynt S.p.A. | 9,000 | - | 9,000 | - |
| Medio Credito Centrale | Polynt S.p.A. | 540 | 540 | 673 | 673 |
| Fidi Toscana Spa | Polynt S.p.A. | 372 | 372 | 558 | 558 |
| Banca Nazionale del Lavoro | Polynt S.p.A. | 250 | 250 | 250 | 250 |
| Intesa Sanpaolo | Polynt S.p.A. | 3,230 | 230 | 3,230 | 230 |
| Creval | Polynt S.p.A. | 14,392 | 14,392 | - | |
| UBI | Polynt S.p.A. | 16,723 | 16,723 | - | |
| Others financial debts (leasing) | Polynt S.p.A. | 400 | 400 | 800 | 800 |
| ICBC | Polynt Chemical (Changzhou) Co. Ltd. | 6,138 | 6,138 | 6,095 | 6,095 |
| Intesa Sanpaolo | Polynt Chemical (Changzhou) Co. Ltd. | 6,393 | 6,393 | 6,349 | 6,349 |
| Intesa Sanpaolo | Polynt Composites Germany GmbH | 1,000 | - | 1,000 | - |
| Volksbank | Polynt Composites Germany GmbH | 300 | 300 | 300 | 300 |
| Intesa Sanpaolo | Polynt Composites Poland Sp.Zo.o. | 3,000 | 3,000 | 3,000 | 3,000 |
| Millenium Bank | Polynt Composites Poland Sp.Zo.o. | 3,000 | 3,000 | 3,000 | 3,000 |
| Millenium Bank (factoring) | Polynt Composites Poland Sp.Zo.o. | 1,500 | - | 1,500 | - |
| Intesa Sanpaolo | Polynt UK Ltd. | 941 | 941 | 894 | 894 |
| HSBC | Polynt UK Ltd. | 353 | 353 | 335 | 335 |
| BNP Paribas Draft Facility | Polynt Composites France S.A. | 300 | 300 | - | - |
| BNP Paribas Factor | Polynt Composites France S.A. | 19,000 | - | 19,000 | - |
| BNP Paribas Factor | Polynt Composites Spain S.A. | 11,000 | - | 11,000 | - |
| BBVA | Polynt Composites Spain S.A. | 1,000 | 1,000 | 1,000 | 1,000 |
| Citibank | Polynt Composites Korea Co. Ltd. | 3,857 | - | 3,913 | - |
| Keb Hana Bank | Polynt Composites Korea Co. Ltd. | 3,086 | - | 3,130 | - |

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, due to fluctuations in interest rates, exchange rates or equity instrument prices. The objective of market risk management is to manage and control the Group's exposure thereto, containing it within acceptable levels, while concurrently optimizing returns on investments.

During its ordinary business activities, the Group enters into derivatives and assumes financial liabilities to manage market risk, in compliance with Group guidelines. The Group carries out hedging transactions to manage profit volatility.

Currency risk

The Group's exposure to currency risk relates to sales, purchases, current accounts and loans expressed in currencies other than its functional currency (Euro).
With respect to monetary assets and liabilities in foreign currency, the Group ensures that its net exposure is maintained at an acceptable level, by purchasing or selling, as the case may be, foreign currency at a spot rate in order to settle the short-term imbalances. When

Group companies incur costs in currencies other than those in which they earn revenue, fluctuations in exchange rates may affect their operating profits.

Currency risk exposures

The Group's exposure to currency risk is set out below based on the notional amount (in Euro thousand):

**December 31, 2019**

| 31-dic-19 | Financial asset | Short term loan | Long term loan | Gross exposure for currency | Financial asset (EUR) | Short term loan (EUR) | Long Term loan (EUR) | Gross exposure for |
|---|---|---|---|---|---|---|---|---|
| Euro | 32 | ( 66,899) | ( 390,628) | ( 457,495) | 32 | ( 66,899) | ( 390,628) | ( 457,495) |
| USD | 1,134 | - | ( 166,080) | ( 164,946) | 1,009 | - | ( 147,837) | ( 146,828) |
| KRW | 45,852 | - | ( 45,327) | 525 | 35 | - | ( 35) | - |
| INR | - | ( 180,048) | - | ( 180,048) | - | ( 2,245) | - | ( 2,245) |
| BRL | - | - | ( 663) | ( 663) | - | - | ( 147) | ( 147) |

**December 31, 2019**

| 31-dic-19 | Trade receivables | Trade payables | Gross exposure for currency | Trade receivables (EUR) | Trade payables (EUR) | Gross exposure for currency (EUR) |
|---|---|---|---|---|---|---|
| Euro | 117,959 | ( 110,308) | 7,651 | 117,959 | ( 110,308) | 7,651 |
| USD | 81,822 | ( 63,100) | 18,722 | 72,834 | ( 56,169) | 16,665 |
| PLN | 4,650 | ( 5,692) | ( 1,042) | 1,092 | ( 1,337) | ( 245) |
| CNY | 167,637 | ( 78,033) | 89,604 | 21,436 | ( 9,978) | 11,458 |
| GBP | 5,917 | ( 350) | 5,567 | 6,955 | ( 411) | 6,544 |
| JPY | 25,520 | - | 25,520 | 209 | - | 209 |
| SEK | 8,516 | 21 | 8,537 | 815 | 2 | 817 |
| AUD | 4,827 | ( 258) | 4,569 | 3,018 | ( 161) | 2,857 |
| KRW | 17,467,885 | ( 12,202,402) | 5,265,483 | 13,475 | ( 9,413) | 4,062 |
| NOK | 17,098 | ( 19,510) | ( 2,412) | 1,733 | ( 1,978) | ( 245) |
| CAD | 8,305 | ( 1,325) | 6,980 | 5,689 | ( 908) | 4,781 |
| CZK | 852 | ( 549) | 303 | 34 | ( 22) | 12 |
| MYR | 6,651 | ( 8,104) | ( 1,453) | 1,447 | ( 1,764) | ( 317) |
| INR | 885,509 | ( 121,431) | 764,078 | 11,043 | ( 1,514) | 9,529 |
| BRL | 66,422 | ( 18,976) | 47,446 | 14,709 | ( 4,202) | 10,507 |
| MXN | 143,869 | ( 34,644) | 109,225 | 6,780 | ( 1,633) | 5,147 |
| DKK | 3,399 | 279 | 3,678 | 455 | 37 | 492 |
| SGD | 9 | - | 9 | 6 | - | 6 |
| AED | 1,035 | ( 97) | 938 | 251 | ( 24) | 227 |

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

**December 31, 2018**

| 31-dic-18 | Trade receivables | Trade payables | Gross exposure for currency | Trade receivables (EUR) | Trade payables (EUR) | Gross exposure for currency (EUR) |
|---|---|---|---|---|---|---|
| Euro | 136,970 | ( 120,736) | 16,234 | 136,970 | ( 120,736) | 16,234 |
| USD | 99,604 | ( 71,373) | 28,231 | 86,991 | ( 62,334) | 24,657 |
| PLN | 6,016 | ( 3,754) | 2,262 | 1,399 | ( 873) | 526 |
| CNY | 170,751 | ( 98,421) | 72,330 | 21,683 | ( 12,498) | 9,185 |
| GBP | 8,302 | ( 3,170) | 5,132 | 9,281 | ( 3,544) | 5,737 |
| JPY | 17,664 | ( 0) | 17,664 | 140 | - | 140 |
| SEK | 2,109 | 19 | 2,128 | 206 | 2 | 208 |
| AUD | 7,064 | ( 178) | 6,886 | 4,355 | ( 110) | 4,245 |
| KRW | 18,117,843 | ( 13,546,118) | 4,571,725 | 14,178 | ( 10,600) | 3,578 |
| NOK | 12,074 | ( 44,114) | ( 32,040) | 1,214 | ( 4,434) | ( 3,220) |
| CAD | 4,444 | 4,930 | 9,374 | 2,848 | 3,159 | 6,007 |
| CZK | 852 | ( 1,482) | ( 630) | 33 | ( 58) | ( 25) |
| MYR | 7,031 | ( 6,910) | 121 | 1,486 | ( 1,460) | 26 |
| INR | 773,491 | 108,776 | 882,267 | 9,701 | 1,364 | 11,065 |
| BRL | 72,932 | ( 11,554) | 61,378 | 16,411 | ( 2,600) | 13,811 |
| MXN | 158,106 | ( 48,415) | 109,691 | 7,029 | ( 2,152) | 4,877 |
| DKK | 8,186 | 113 | 8,299 | 1,096 | 15 | 1,111 |
| SGD | 70 | - | 70 | 45 | - | 45 |
| AED | 1,488 | ( 1,147) | 341 | 354 | ( 273) | 81 |

At December 31, 2019, an increase or decrease of 10% in USD currency exposure would impact profit or loss and equity by (EUR 1,515) thousand and EUR 1,852 thousand, respectively.
At December 31, 2019, an increase or decrease of 10% in BRL currency exposure would impact profit or loss and equity by (EUR 955) thousand and EUR 1,167 thousand, respectively.
At December 31, 2019, an increase or decrease of 10% in CNY currency exposure would impact profit or loss and equity by (EUR 1,042) thousand and EUR 1,273 thousand, respectively.

The main exchange rates applied to translate the items expressed in a foreign currency into Euro in 2019 and 2018 are detailed below:

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

| | | Average | | Closing date | |
|---|---|---|---|---|---|
| Currency | | 2019 | 2018 | 31-Dec-19 | 31-Dec-18 |
| USD | U.S. Dollar | 1.12 | 1.18 | 1.12 | 1.15 |
| AUD | Australian Dollar | 1.61 | 1.58 | 1.60 | 1.62 |
| BRL | Real | 4.41 | 4.31 | 4.52 | 4.44 |
| CAD | Canadian Dollar | 1.49 | 1.53 | 1.46 | 1.56 |
| CNY | Renminbi | 7.74 | 7.81 | 7.82 | 7.88 |
| CZK | Czech crown | 25.67 | 25.65 | 25.41 | 25.72 |
| DKK | Danish krone | 7.47 | 7.45 | 7.47 | 7.47 |
| HKD | Hong Kong Dollar | 8.77 | 9.26 | 8.75 | 8.97 |
| INR | Indian Rupia | 78.84 | 80.73 | 80.19 | 79.73 |
| JPY | Japanese Yen | 122.01 | 130.40 | 121.94 | 125.85 |
| KRW | South Korean Won | 1,305.32 | 1,299.07 | 1,296.28 | 1,277.93 |
| MYR | Ringgit | 4.64 | 4.76 | 4.60 | 4.73 |
| MXN | Peso Mexican | 21.56 | 22.71 | 21.22 | 22.49 |
| NOK | Norwegian krone | 9.85 | 9.60 | 9.86 | 9.95 |
| PLN | Zloty | 4.30 | 4.26 | 4.26 | 4.30 |
| SGD | Singapore Dollar | 1.53 | 1.59 | 1.51 | 1.56 |
| SEK | Swedish krone | 10.59 | 10.26 | 10.45 | 10.25 |
| AED | Dirham | 4.11 | 4.34 | 4.13 | 4.21 |
| GBP | Pound Sterling | 0.88 | 0.88 | 0.85 | 0.89 |
| CHF | Swiss Franc | 1.11 | 1.16 | 1.09 | 1.13 |

The Group has forward contracts in place at the reporting date to hedge its USD currency risk. These contracts provide for the sale of US dollars against Euros at fixed exchange rates and at established monthly dates. Despite having been entered into for hedging purposes, these forwards do not meet all conditions required by IFRS 9 to qualify for hedge accounting. Accordingly, the fair value gain has been recognized in profit or loss under financial income.

Interest rate risk

The Group borrows with third parties and invests available liquidity in money and financial market instruments. Fluctuations in market interest rates affect borrowing costs and returns on the various types of loans and investments having therefore an effect on the amount of the Group's net financial expense as most of its loans and borrowings bear floating interest rates.

The bank loans with terms and conditions at December 31, 2019 and 2018 are illustrated in the table below:

| | | 31-Dec-19 | | | | 31-Dec-18 | | | |
|---|---|---|---|---|---|---|---|---|---|
| (Euro thousand) | | Currency | Year of maturity | Face Value | Carrying amount | Currency | Year of maturity | Face Value | Carrying amount |
| GSO Loan (EURO part) | | EUR | 2024 | 191,598 | 188,730 | EUR | 2024 | 211,367 | 206,517 |
| GSO Italian Notes | | EUR | 2024 | 164,225 | 161,832 | EUR | 2024 | 181,210 | 177,053 |
| GSO Loan (USD part) | | EUR | 2024 | 147,837 | 148,493 | EUR | 2024 | 160,164 | 160,164 |
| RCF Loan (EURO part) | | EUR | 2020 | 37,238 | 37,238 | EUR | 2019 | 31,874 | 31,874 |
| Cariparma | Polynt S.p.A. | EUR | 2020-2022 | 7,500 | 7,500 | EUR | 2019-2022 | 9,500 | 9,500 |
| Banca Popolare di Sondrio | Polynt S.p.A. | EUR | 2020-2023 | 10,785 | 10,785 | EUR | 2019-2021 | 7,129 | 7,129 |
| Banco Desio | Polynt S.p.A. | EUR | 2020-2023 | 7,023 | 7,023 | EUR | 2019-2022 | 4,014 | 4,014 |
| Kotak Mahindra Bank Ltd. | Reichhold India Private Limited | EUR | 2020 | 2,245 | 2,245 | EUR | 2019 | 2,071 | 2,071 |
| ICBC | Polynt Chemical (Changzhou) Co. Ltd. | | | - | - | EUR | 2019 | 1,004 | 1,004 |
| Others financial debts (leasing) | Polynt S.p.A. | EUR | 2020 | 400 | 400 | EUR | 2019-2020 | 800 | 800 |
| Medio Credito Centrale | Polynt S.p.A. | EUR | 2020-2023 | 540 | 540 | EUR | 2019-2023 | 673 | 673 |
| Fidi Toscana Spa | Polynt S.p.A. | EUR | 2020-2021 | 372 | 372 | EUR | 2019-2021 | 558 | 558 |
| Creval | Polynt S.p.A. | EUR | 2020-2023 | 9,392 | 9,392 | | | - | - |
| UBI | Polynt S.p.A. | EUR | 2020-2022 | 16,722 | 16,722 | | | - | - |
| Others financial debts | | EUR | | 528 | 528 | EUR | | 492 | 492 |
| Others financial debts (leasing) | Reichhold LLC2 | | | - | - | EUR | | 30 | 30 |
| **Total financial indebtedness** | | | | | 591,800 | | | | 601,879 |

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

Price risk
The Group is partly exposed to other price risk since it purchases oil derivative commodity raw materials subject to prices fluctuations. Examples include butane, orthoxylene, benzene, styrene and pseudocumene.
The price risk is managed and optimized by the Group centralized procurement function and policy of having multiple global and regional suppliers for critical raw material.

Capital management
The board's policy is to maintain a strong capital base in order to ensure investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, reserves and retained earnings. The board of directors monitors return on capital as well as the level of dividends paid to ordinary shareholders.
The board of directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

## 38. Hierarchy levels to measure fair value

IFRS 13 introduces a fair value hierarchy which classifies the inputs used to measure fair value into three levels. This hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets and liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.
The three levels are:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- Level 3: inputs are unobservable inputs for the asset or liability.

The carrying amounts of the Group's financial assets and liabilities at the reporting dates approximate their fair values.

The following table shows the carrying amounts with their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

| *31 December 2019* | Carrying amount | | | | | Fair value | | |
|---|---|---|---|---|---|---|---|---|
| (Euro thousand) | Financial assets at amortized cost | Financial liabilities at amortized cost | Fair Value - hedging instrument at P&L | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 |
| **Financial assets at amortized cost** | | | | | | | | |
| Trade and other receivables | 266,542 | - | - | - | 266,542 | | | |
| Cash and cash equivalents | 302,934 | - | - | - | 302,934 | | | |
| **Total - Financial Assets at amortized cost** | **569,476** | **-** | **-** | **-** | **569,476** | | | |
| **Financial liabilities at amortized cost** | | | | | | | | |
| Long term loans (GSO) | - | (482,373) | - | - | (482,373) | | (513,934) | |
| Other long term Loans | - | (43,286) | - | - | (43,286) | | | |
| **Total - Financial liabilities at amortized cost** | **-** | **(525,659)** | **-** | **-** | **(525,659)** | | | |
| **Fair Value - hedging instrument at P&L** | | | | | | | | |
| FV embedded derivative on Loan | - | - | (10,981) | - | (10,981) | | (10,981) | |
| **Total - Fair Value - hedging instrument at P&L** | **-** | - | **(10,981)** | - | **(10,981)** | | | |
| **Other financial Liabilities** | | | | | | | | |
| Bank overdrafts | - | - | - | (11,098) | (11,098) | | | |
| Short term bank loans | - | - | - | (64,086) | (64,086) | | | |
| Finance lease liabilities | - | - | - | (400) | (400) | | | |
| Trade payables to suppliers | - | - | - | (199,782) | (199,782) | | | |
| **Total - Other financial liabilities** | **-** | **-** | **-** | **(275,366)** | **(275,366)** | | | |

## 39. Auditor's fee

The Group's auditor's fees are detailed as follows:

| (Euro thousand) | 2019 | 2018 |
|---|---|---|
| Audit of financial statements of subsidiaries of the company | 2,232 | 2,415 |
| **Total** | **2,232** | **2,415** |

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

## Significant events of the reporting period ended 31 December 2019

Significant events that occurred during the reporting period ended December 31, 2019 are as follow:

- On April 29, 2019 the Board of Specialty Chemicals International B.V. adopted a resolution to distribute a cash dividend in the amount of EUR 1.5 million to Speciality Chemicals International Ltd..
- Under the terms of the 2014 CCP acquisition, effective July 1, 2019, Polynt Composites UK Ltd acquired the asset (formerly owned by Arkema Coating Resins Ltd) located in Stallingborough. The assets in the transaction include land, buildings, equipment, 23 employees and certain contracts.
- effective November 1, 2019 (i) Reichhold Holdings International B.V., Reichhold do Brasil Ltda., Reichhold Investimentos Ltda., Reichhold Resinas Sinteticas Ltda., Reichhold Industries Ltd., Reichhold Trading (Beijing) Ltd., Reichhold Polymers (Tianjin) Ltd., Reichhold CZ s.r.o., Reichhold Danmark A/S, Reichhold SAS, Reichhold France SAS, Reichhold GmbH, Reichhold Holding Hong Kong Limited, Reichhold India Private Limited, Reichhold S.r.l., Reichhold Mauritius Ltd., Reichhold Quimica S.A. de C.V., Adhesivos Swift de Mexico S.A. de C.V., Reichhold Finance B.V., Reichhold AS, Reichhold Norway AS, Reichhold Inc. (Panama), Reichhold UK Limited, and Reichhold BV (the " Foreign Controlled Group Members ") and (ii) the Pension Benefit Guaranty Corporation ( "PBGC") have executed a settlement agreement pursuant to which the Foreign Controlled Group Members shall pay to PBGC the principal amount of USD 16,300,000 to be paid in seven annual installments of USD 2,328,571.43 plus interests that will accrue thereon.

  The foregoing agreement settles the claim asserted by the PBGC in March 2015 against the non-US Reichhold subsidiaries. The PBGC had assumed the pension obligations of Reichhold Inc as part of the Reichhold, Inc bankruptcy process.
- On December 2, 2019 Polynt Composites Canada Inc. sold its Canadian distribution business with annual revenues of approximately EUR 39 million.
- On December 14, 2018, the tax audit of the Italian subsidiary Polynt S.p.A. was closed. The tax audit started on June 6, 2018 and was carried out by officers of the local tax inspection unit ("Guardia di Finanza") and was completed with the notification of the "Processo Verbale di Constatazione" (the "PVC"). The tax audit covered tax year 2016 and, limited to some matters, tax years 2014, 2015 and 2017. The PVC identified two main findings: one challenging the royalty rate charged by Polynt S.p.A. to related parties in connection with the trademark "Polynt", as the basis of a total adjustment to the taxable income of EUR 41.5 million over the period covered by the tax audit. The second finding is that a portion of certain costs borne by Polynt S.p.A. was not recharged/rebilled to the proper related party as they should have been, such expenses being allegedly for the benefit of the whole Group. Based on this presumption the PVC provides for a total adjustment of EUR 3.3 million to the taxable income for the tax years 2015 and 2016. On December 23 and December 27, 2019, the Italian Tax agency bureau formally notified the tax assessment ("Avviso di Accertamento") for the 2014 tax period, for both IRAP and IRES purposes and for a total of around Euro 1.2 million plus interest. The tax assessment contains the same findings of the "PVC", confirming, among other things, the judgment of "suitability" of the National Documentation

exhibited by the Polynt S.p.A. for such tax period. On January 21, 2020, although there were well-founded reasons for supporting the illegitimacy and unfoundedness of the tax claim, Polynt S.p.A. filed for the settlement in compliance with the tax assessments notified for the 2014 tax period. Subsequent to that, the adversarial proceeding with the revenue agency was initiated, and it is still ongoing at the date of drafting these Financial Statements. Since the settlement procedure relating to the assessments notified to the Company for the 2014 tax period is still ongoing, it is currently not possible to provide a precise quantification of the potential liabilities that could arise at the end of the settlement procedure or from a possible litigation and/or mutual agreement procedure ("procedura amichevole").These potential liabilities originating from the findings on transfer pricing matters and contained in the tax assessment notices for the 2014 tax period and in the aforementioned PVC can qualify as "possible", but not quantifiable.

## Significant events after the reporting period

Significant events that occurred after the reporting period ended December 31, 2019 are as follow:

- Effective on February 12, 2020 Reichhold Holdings International B.V., Reichhold SAS, Reichhold France SAS and Reichhold AS (the "Foreign Controlled Group Members") have executed a Settlement Agreement with ACE American Insurance Company, ACE European Group Limited and Lexington (the "Insurance Company") and a Settlement Agreement with Fountaine Pajot ("FP" ) of EUR 6,000,000 as final settlement of the claim asserted by FP. Pursuant to the Settlement Agreement executed with the Insurance Companies the Foreign Controlled Group Members will be responsible only for paying the difference between EUR 6,000,000 and USD 5,266,093. Such difference has been already paid in March 2020. The involved entities are not expected to bear any residual liability.
- On March 18, 2020 the Group finalized the refinancing of the existing senior indebtedness that was originally incurred in connection with the merger occurred in May 2017. The new indebtedness is under more favorable terms and provides for additional flexibility and a lighter security package.

  Such a transaction involved:
  - the redemption of the Notes issued under the Indenture totaling EUR 164.2 million,
  - the prepayment of the Euro and USD Loans under the Facility Agreement totaling respectively EUR 191.6 million and USD 166.1 million,
  - the prepayment of loans outstanding under the Super Senior Revolving Facility Agreement totaling EUR 37.2 million.

  In connection therewith, on March 5, 2020 the Parent and other Group's affiliates entered into a Senior Facilities Agreement (the "Agreement") with various subsidiaries of the Group as borrowers and guarantors and various financial institutions as lenders. The Agreement provides for the issuance of a Euro Term Loan B (the "EUR Loan") in the amount of EUR 485.0 million and for the issuance of a USD Term Loan B ("the USD Loan" and together with the Euro Loan "the Loans") in the amount of USD 60.0 million. The Agreement also provides for a Revolving

Credit Facility (the "RCF") in the amount of EUR 100.0 million. The EUR Loan, that bears interests at a rate equal to the relevant Euribor rate floored to 0.00% plus a margin, was made to Specialty Chemicals Holding I BV that on-lent the proceeds thereunder to the borrowers under the existing senior indebtedness for the purpose of the prepayment of the relevant tranches thereunder. The USD Loan, that bears interest at a rate equal to the relevant LIBOR floored to 1.00% plus a margin, was made to Specialty Chemicals International Inc. that applied the proceeds thereunder to the prepayment of the relevant existing senior indebtedness. The RCF is a multicurrency facility available to various subsidiaries of the Company both as loans and letters of credit. All borrowings under the Agreement are guaranteed by a few subsidiaries of the Group incorporated in security jurisdictions and are secured by the equity of those subsidiaries. The Loans matures on March 5, 2027. The Agreement contains customary affirmative and negative covenants.

- On March 27, 2020 Zin Man Ho, Gerard Matthijs Verheij and Jürgen Schröder have resigned as managing directors of the Company. On the same date Devi Ajaib Wouter Singh Aujla and Daniel Christopher Vijselaar have been appointed as managing directors.
- On April 1, 2020 the Board of the Company resolved a partial conversion of the Company's share premium into nominal share capital. Such conversion resulted in an increase of the nominal value per share and a decrease of the Company's share premium reserves. The Company has subsequently made a distribution to its shareholder, by way of capital reduction, by decreasing its nominal share capital and repayment to the shareholder for an amount of EUR 120 million.
- For 2020 there is growing evidence that the spreading of the Covid-19 virus may have a temporary impact on the economy. The governments measures in place in the mainly affected countries will significantly slow down the growth of their economies and we expect global economic uncertainty to be very high and that growth will be significantly depressed by the drop-in demand and production outages in connection with this outbreak. The "stress" on industries will be very strong and the support measures to be implemented by governments in the form of funding, tax relief, facilities will be fundamental.

  In a unique context, which has never occurred in the past, and with a narrow view of the consequences as well as of when it will be mitigated, Specialty Chemicals Group as disclosed in this Annual Report, has already in March 2020 successfully completed a full refinancing. The Group believes it has an economic-financial solidity and a Governance able to face this challenge in the best way.

Rotterdam May 13, 2020.

On behalf of the Board of Directors

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

# Separate financial statements

*prepared in accordance with title 9 BW 2 applying the accounting principles on recognition and measurement as applied in the consolidated financial statements*


Polynt
REICHHOLD
Polynt REICHHOLD
Polynt REICHHOLD
Manufacturing & Tech Centers
Across The Globe
HUNTSMAN

# Separate statement of financial position as at 31 December 2019

**(Before profit appropriation)**

| EURO'000 | Notes | 2019 | 2018 |
|---|---|---|---|
| **Fixed assets** | | | |
| Financial fixed assets | 1 | 536,825 | 410,302 |
| **Total fixed assets** | **1** | **536,825** | **410,302** |
| **Current assets** | | | |
| Cash and cash equivalents | | 259 | 306 |
| Other current assets | | 16 | 16 |
| **Total current assets** | | **275** | **322** |
| **Total assets** | | **537,100** | **410,624** |
| | | | |
| **Shareholders' equity** | | | |
| Share premium | 2 | 389,672 | 391,172 |
| Legal reserve | 2 | 9,910 | 8,873 |
| Revaluation reserve | 2 | 420 | 2,207 |
| Translation reserve | 2 | ( 4,442) | ( 10,497) |
| Other reserve | | 14,510 | - |
| Retained earnings | 2 | 19,326 | ( 16,051) |
| Result of the year | 2 | 107,400 | 34,759 |
| **Total equity** | **2** | **536,796** | **410,463** |
| **Current liabilities** | **3** | **304** | **161** |
| **Total equity and liabilities** | | **537,100** | **410,624** |

The notes on pages 100 to 105 are an integral part of these separate financial statements.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

# Separate income statement for the year ended 31 December 2019

| EURO'000 | Notes | 2019 | 2018 |
|---|---|---|---|
| Share in results from participating interests, after | 5 | 106,090 | 37,311 |
| Other income and expenses, after taxation | 4 | 1,310 | ( 2,552) |
| **Net result** | | **107,400** | **34,759** |

The notes on pages 100 to 105 are an integral part of these separate financial statements.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

# Notes to the separate financial statements for the year ended 31 December 2019

The separate financial statements are part of the 2019 financial statements of Specialty Chemicals International B.V. (the 'Company').

With reference to the income statement of the company, use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

## Basis of preparation

The separate financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code. For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its separate financial statements, the Company makes use of the option provided in section 2:362(8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the separate financial statements of the Company are the same as those applied for the consolidated EU-IFRS financial statements. See Note 4 for a description of these principles.

## Participating interests in group companies

Participating interests in group companies are accounted for in the separate financial statements according to the equity method. Refer to the basis of consolidation accounting policy in the consolidated financial statements.

## Share of result of participating interests

The share in the result of participating interests consists of the share of the Company in the result of these participating interests. Results on transactions involving the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are eliminated to the extent that they can be considered as not realized.

## Notes to the balance sheet as at 31 December 2019

### 1. Fixed assets

#### Financial fixed assets

| EURO'000 | | 31-Dec-18 | 31-Dec-18 |
|---|---|---|---|
| Participating interests in group companies | **Specialty Chemicals Holding I B.V.** | 536,825 | 410,302 |
| **Total** | | **536,825** | **410,302** |

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

The Company holds 100% (2018: 100%) of the shares of Specialty Chemicals Holding I B.V., Amsterdam, the Netherlands.

Movements in financial fixed assets were as follows:

| EURO'000 | Participating interests in group companies |
|---|---|
| **Balance at 1 January 2018** | 379,381 |
| Share in result of participating interests | 37,311 |
| Other changes in equity | 1,987 |
| Exchange differences | ( 8,377) |
| **Balance at 31 December 2018** | **410,302** |

| EURO'000 | Participating interests in group companies |
|---|---|
| **Balance at 1 January 2019** | 410,302 |
| Share in result of participating interests | 106,090 |
| Other changes in equity | 14,378 |
| Exchange differences | 6,055 |
| **Balance at 31 December 2019** | **536,825** |

## 2. Shareholders' equity

### Reconciliation of movements in capital and reserves

| EURO'000 | Issued Share capital | Share premium | Legal reserve | Other resources | Revaluation reserve | Translation reserve | Retained earnings | Result of the year | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2018** | **-** | **388,385** | **6,333** | **-** | **1,733** | **( 2,120)** | **( 6,411)** | ( 8,613) | 379,307 |
| Shareholders contributions | - | 2,787 | - | | - | - | - | - | 2,787 |
| Allocation of legal reserve of acquired companies | - | - | 2,540 | | - | - | ( 2,540) | - | - |
| Appropriation of result | - | - | - | | - | - | ( 8,613) | 8,613 | - |
| Other changes | - | - | - | | - | - | 1,513 | - | 1,513 |
| Result of the year | - | - | - | | - | - | - | 34,759 | 34,759 |
| Translation differences | - | - | - | | - | ( 8,377) | - | - | ( 8,377) |
| - Result of the year | - | - | - | | 474 | - | - | - | 474 |
| **Balance at 31 December 2018** | **-** | **391,172** | **8,873** | **-** | **2,207** | **( 10,497)** | **( 16,051)** | **34,759** | **410,463** |

| EURO'000 | Issued Share capital | Dividends | Legal reserve | Other resources | Revaluation reserve | Translation reserve | Retained earnings | Result of the year | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **-** | **391,172** | **8,873** | | **2,207** | **( 10,497)** | **( 16,051)** | **34,759** | **410,463** |
| Shareholders contributions | - | ( 1,500) | - | | - | - | - | - | ( 1,500) |
| Allocation of legal reserve of acquired companies | - | - | 1,038 | | - | - | ( 1,038) | - | - |
| Appropriation of result | - | - | - | | - | - | 34,759 | ( 34,759) | - |
| Other changes | - | - | - | 14,510 | - | - | 1,655 | - | 16,165 |
| Result of the year | - | - | - | | - | - | - | 107,400 | 107,400 |
| Translation differences | - | - | - | | - | 6,055 | - | - | 6,055 |
| - Result of the year | - | - | - | | ( 1,787) | - | - | - | ( 1,787) |
| **Balance at 31 December 2019** | **-** | **389,672** | **9,910** | **14,510** | **420** | **( 4,442)** | **19,326** | **107,400** | **536,796** |

### Share capital

The issued share capital consists of 104 shares of USD 0.01 each as at 31 December 2019 (USD 0.01 each as at 31 December 2018).

### Share premium

The share premium concerns the income from the issuing of shares in so far as this exceeds the nominal value of the shares (above par income).

**Revaluation reserve**
The revaluation reserve represents the accumulated remeasurements of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), which are recognized immediately in OCI.

**Legal reserve**
The legal reserve for participating interests, which amounts to EUR 9,910 thousand (2018: EUR 8,873), pertains to participating interests that are measured at net asset value. The reserve is equal to the share in the results and direct changes in equity (both calculated on the basis of the company's accounting policies) of the participating interests since the first measurement at net asset value, less the distributions that the company has been entitled to since the first measurement at net asset value, and less distributions that the company may effect without restrictions. As to the latter share, this takes into account any profits that may not be distributable by participating interests. The legal reserve is determined on an individual basis.

**Translation reserve**
The legal translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

**Result of the year**
The Board of the Directors proposes to the General meeting to appropriate the result after tax to retained earnings.

## 3. Current liabilities

| EURO'000 | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Trade creditors | 303 | 161 |
| Other liabilites and accrued expenses | 1 | - |
| **Total** | **304** | **161** |

## Financial instruments

**General**
The Group has exposure to the following risks from its use of financial instruments:
- credit risk;
- liquidity risk;
- market risk.

In the notes to the consolidated financial statements information is included the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

These risks, objectives, policies and processes for measuring and managing risk, and the management of capital apply also to the separate financial statements of Specialty Chemicals International B.V..
Further quantitative disclosures are included below:

**Fair value**
The fair values of most of the financial instruments recognized on the statement of financial position, including accounts receivable, cash at bank and in hand and current liabilities, is approximately equal to their carrying amounts.

## Notes to the profit and losses account for the year ende d 31 December 2019

### 4. Other income and expenses

| EURO'000 | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| Other income | - | - |
| Office expenses | ( 311) | ( 419) |
| General expenses | ( 52) | ( 2,767) |
| Financial income | 1,800 | 875 |
| Financial expenses | ( 127) | ( 241) |
| **Other income and expenses** | **1,310** | **( 2,552)** |

General expenses in 2018 included some M&A consultancy costs.

Financial income caption refers to the dividend income from Specialty Chemicals Holding I B.V..

### 5. Share in results from participating interests after tax

An amount of EUR 106,090 thousand (2018: EUR 37,311 thousand) of share in results from participating interests relates to group companies.

## Off-balance sheet assets and liabilities

**Several liability and guarantees**
As disclosed in Notes to the Consolidated Financial Statements as of and for the year ended December 31, 2017, in connection with the May 17, 2017 merger and refinancing of the Polynt Reichhold Group, Specialty Chemicals International B.V. has provided security and guaranteed borrowings by certain Polynt Reichhold Group entities under a Facility Agreement, an Indenture and a Revolving Credit Facility Agreement.
For the details relating to the indebtedness and the relevant guarantees please refer to note 23 in the consolidated financial statements.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

## Auditor's fee

The following fees were charged by KPMG Accountants N.V. to Specialty Chemicals International B.V., as referred to in Section 2:382a (1) and (2) of the Netherlands Civil Code.

| EURO'000 | KPMG Accountants N.V. | Other KPMG network and others | Total |
|---|---|---|---|
| | 2019 | 2019 | |
| Audit of the financial statements | 194 | 2,038 | 2,232 |
| Other audit engagements | - | - | - |
| Other non-audit services | - | - | - |
| **Total** | **194** | **2,038** | **2,232** |

The fees mentioned in the table for the audit of the financial statements 2019 relate to the total fees for the audit of the financial statements 2019, irrespective of whether the activities have been performed during the financial year 2019.
In addition, for the fees charged by KPMG Accountants N.V. to company's subsidiaries and other consolidated companies refers to Notes 39 to the Consolidated Financial Statements as of and for the year ended 31 December 2019.

## Directors remuneration

The emoluments, including pension costs as referred to in Section 2:383(1) of the Netherlands Civil Code, charged in the financial year to the company, its subsidiaries and consolidated other companies amounted to EUR 4,891 thousand for top executives of the Group (EUR 4,936 thousand for the period ended December 31, 2018).

## Employee benefits and number of employees

During the 2019 financial year, the average number of staff employed by the company, converted into full-time equivalents, amounted to nil people (2018: 0 people).

## Related parties

During the year dividend totaling EUR 1,500 thousand was made by Specialty Chemicals International B.V. to the parent company Speciality Chemicals International Limited.

The balances outstanding with the related parties at December 31, 2019 are detailed below:

- EUR 1,800 thousand for dividend income from Specialty Chemicals Holding I B.V. (EUR 875 thousand at December 31, 2018).

The terms and conditions of these transactions were no more favorable than those available, or which might reasonably be expected to be available, in similar transactions with non-related parties on an arm's length basis.

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

## Other information

### Provisions in the Articles of Association governing the appropriation of profit

Under article 14 of the Company's Articles of Association, the profit is at the disposal of the General Meeting of Shareholders, which can allocate said profit either wholly or partly to the formation of – or addition to – one or more general or special reserve funds.

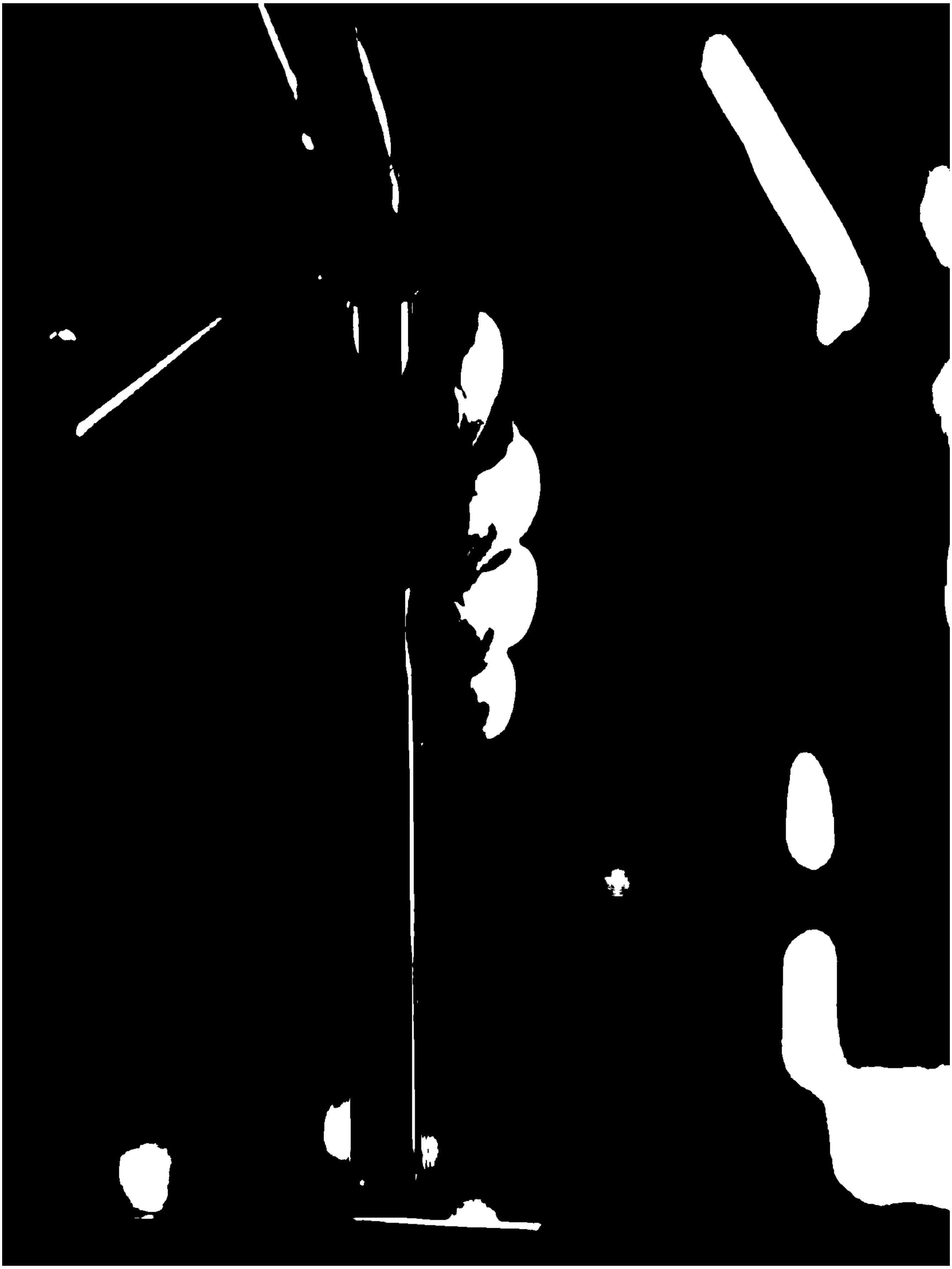
### Auditor's report

The auditor's report with respect to the financial statements is set out on page 106.

Rotterdam May 13, 2020.

On behalf of the Board of Directors

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers



Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

Document to which the KPMG report (1717647-20W00170530AVN) dated 13 May 2020 also refers

KPMG

## Independent auditor's report

To: the General Meeting of Specialty Chemicals International B.V.

### Report on the accompanying financial statements

#### *Our opinion*

We have audited the financial statements for the year ended 31 December 2019 of Specialty Chemicals International B.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

— the accompanying consolidated financial statements give a true and fair view of the financial position of Specialty Chemicals International B.V. as at 31 December 2019 and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;

— the accompanying company financial statements give a true and fair view of the financial position of Specialty Chemicals International B.V. as at 31 December 2019 and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1 the consolidated statement of financial position as at 31 December 2019;

2 the following consolidated statements for 2019: the income statement, the statements of comprehensive income, changes in equity and cash flows; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1 the company balance sheet as at 31 December 2019;

2 the company profit and loss account for 2019; and

3 the notes comprising a summary of the accounting policies and other explanatory information.

### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Specialty Chemicals International B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

### *Report on the other information included in the annual report*

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

— director's report;

— other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

— is consistent with the financial statements and does not contain material misstatements;

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the director's report, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

## Description of the responsibilities for the financial statements

### *Responsibilities of the Board of Directors for the financial statements*

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company’s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company’s ability to continue as a going concern in the financial statements.

### *Our responsibilities for the audit of the financial statements*

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

— identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

— evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

— concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;

— evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and

— evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amstelveen, 13 May 2020

KPMG Accountants N.V.

L.M.A. van Opzeeland RA

1717647-20W00170530AVN

Skatteetaten

Vår dato 16.12.2019
Din/Deres dato 18.10.2019
Saksbehandler Vibeke Horne
800 80 000
Skatteetaten.no
Din/Deres referanse AR340348270
Telefon 32212250
Org.nr 974761076
Vår referanse 2019/6626316
Postadresse Postboks 9200 Grønland 0134 OSLO

REICHHOLD NORWAY AS
Lilleborggata 4
1630 GAMLE FREDRIKSTAD

Att. Marianne Nerlie

## Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk

Vi viser til deres brev av 18. oktober 2019 der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk for følgende selskap:

| | |
|---|---|
| **Reichhold Norway AS** | **org.nr. 978 680 860** |
| **Reichhold AS** | **org.nr. 939 378 103** |

Søknaden ble sendt til Skattedirektoratet. Skattedirektoratets myndighet til å treffe enkeltvedtak etter regnskapsloven § 3-4 tredje ledd ble delegert til skattekontoret med virkning fra 1. juni 2019.

Skattekontoret gir på bakgrunn av en konkret helhetsvurdering de overnevnte selskaper dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk, jf. regnskapsloven § 3-4 tredje ledd. Dispensasjonen gjelder så lenge opplysningene som danner grunnlaget for vedtaket ikke endres vesentlig.

Kopi av dette brevet må sendes til Regnskapsregisteret i Brønnøysund sammen med årsregnskapet. Den regnskapspliktige må selv dokumentere ved dette brev at tillatelse er gitt.

### Bakgrunn
Reichhold AS er et heleid datterselskap av Reichhold Norway AS. Reichhold Norway AS er heleid av et utenlandsk selskap som er en del av et multinasjonalt konsern med hovedkontor i England. Selskapene driver virksomhet knyttet til utvikling, produksjon og salg av umettet polyester, gelcoat og relaterte produkter til komposittindustrien i Europa og Midtøsten. Kundene er norske og utenlandske profesjonelle aktører. Konsernets arbeidsspråk er engelsk, og flere av styremedlemmene er utenlandske.

### Skattekontorets vurdering
Etter regnskapsloven § 3-4 tredje ledd skal "årsregnskapet og årsberetningen [...] være på norsk. Departementet kan ved [...] enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk."

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap mv., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

> "Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon."

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til "informative regnskaper for ulike grupper av regnskapsbrukere". Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

Det er etter Skattekontorets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk kan gis, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Det er særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har skattekontoret lagt særlig vekt på at selskapene er i et internasjonalt konsern. Videre er det vektlagt at alle sentrale aktører og samarbeidspartnere behersker og benytter engelsk.

Vennligst oppgi vår referanse ved henvendelse i saken.

Med hilsen

Vibeke Horne
rådgiver
Brukerdialog, brukerkontakt
Skatteetaten

*Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer.*

KPMG

**KPMG AS**
Sørkedalsveien 6
Postboks 7000 Majorstuen
0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the General Meeting of Reichhold Norway AS

# Independent auditor's report

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Reichhold Norway AS showing a loss of NOK 9 579 184. The financial statements comprise the balance sheet as at 31 December 2019, the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

### Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on Other Legal and Regulatory Requirements

Opinion on Registration and Documentation
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 28. July 2020
KPMG AS

Thomas Sørhaug

John Thomas Sørhaug
State Authorised Public Accountant

## Reichhold Norway AS

# MANAGEMENT REPORT 2019

### The nature of the business and its operating

Reichhold Norway AS is a holding company with subsidiaries that develop, manufacture and sell unsaturated polyester resins, gelcoats and related product to the composite industry. The group has a production site in Fredrikstad, which is managed by the subsidiary Reichhold AS. The Company's business address is Fredrikstad.

Since December 31, 1997 the Company has been a wholly owned subsidiary of Reichhold Holdings International BV (RHI BV), Rotterdam, the Netherlands. Reichhold Industries, Inc. was the ultimate owner of Reichhold Norway AS up till April 1, 2015. On this date, Coöperatie Reichhold Holdings Netherlands U.A. acquired RHI BV, the shareholder of Reichhold Norway AS.

On May 17, 2017, the Reichhold Group completed a business combination with the Polynt Group (Polynt). The new Polynt-Reichhold Group is a global company in the Intermediates, Coating and Composite Resins, Thermoset Compounds, Gel-coats and niche Specialties with revenues of more than 2 billion euros. Prior to the combination, Polynt was wholly owned by funds managed by Investindustrial. Black Diamond funds and Investindustrial funds are equal investors in the newly combined company (the "Polynt-Reichhold Group") and, collectively, majority stakeholders. Speciality Chemicals International Limited is the ultimate owner as of May 17, 2017.

### Legal overview of development and results

The Board of Directors believes that the financial statements present fairly the Company's assets and liability, financial position and result. To date, no incidents which might be of importance for assessing the company's position, have occurred after the closing of the accounting year.

The Company's operating result ended with a loss of TNOK -9 579, against a profit of TNOK 933 in 2018. The loss is mainly due to write-downs of investments in subsidiaries.

Total capital at year-end was TNOK 261 294 against TNOK 270 819 in 2018. The equity ratio was 99.9 %, unchanged from 2018. Cash flow from operating activities was TNOK 381 against TNOK 849 in 2018.

Reichhold Norway AS does not prepare group accounts since the company is included in the consolidated financial statements of Specialty Chemical International B.V., registered in The Netherlands.

### Key risks and uncertainty factors

The European market for UPR (Unsaturated Polyester Resin) continued to grow through 2019 and the Polynt-Reichhold Group expanded its market share and achieved increased sales volumes. However, early 2020 saw the beginning of the Coronavirus pandemic, which has had a negative effect on our customers and the world market in general. In mid of March 2020 the Norwegian government implemented regulation to reduce the consequences of Covid-19. The management is monitoring the situation closely and has taken necessary actions to reduce infections among employees to maintain the business.

## Reichhold Norway AS

At the date of the accounts, its subsidiaries have experienced decline in sales. On the other side, the commodity prices have shown a downward trend due to Covid-19. The coming 12-month period looks uncertain and the operations and financial consequences of the Pandemic outbreak is difficult to assess, though there are early, but possibly temporary signs of recovery. It cannot be ruled out that the Covid-19 outbreak will not have a material negative operational and financial impact on the company. The Company's risk is mainly related to the development of the subsidiaries. The liquidity risk is considered low and the company is not exposed to credit risk.

**Personell**

The company has no employees. The Group aims to be a workplace with equal opportunities across cultural, ethnic and gender divides

**External environment**

The company's subsidiary with production site in Fredrikstad is subject to permits regarding industrial emisions to water and air. This is further mentioned in the management report of Reichhold AS.

**Continued operation**

In accordance with Section 4-5 of the Norwegian Financial Reporting Act, the Board of Directors finds that conditions are present for a going concern and the accounts for 2019 are rendered on this assumption.

**Net income and profit and loss allocation**

The company has for 2019 a loss of NOK 9 579 184. The Board of Reichhold Norway AS proposes the loss covered by:

Loss brought forward: NOK 9 579 184

Fredrikstad, 30.06.2020

Rosario Valido
Chaiman of the board

Paolo Carugati
Board Member

Alberto Carpani
Board member

Marianne Nerlie
Board member

# Annual Report 2019
# Reichhold Norway AS

Revenue statement
Balance sheet
Cash flows
Notes to the Accounts

Org.no.: 978 680 860

## Revenue statement

Reichhold Norway AS

| Operating income and operating expenses | Note | 2019 | 2018 |
|---|---|---|---|
| Other operating expenses | 2 | 165 453 | 54 019 |
| **Total operating expenses** | | **165 453** | **54 019** |
| **Operating profit / loss (-)** | | **-165 453** | **-54 019** |
| **Financial income and expenses** | | | |
| Other interest income | | 329 834 | 256 517 |
| Other financial income | 6 | 9 200 192 | 730 962 |
| Write-downs of long-term investments | | 18 943 757 | 0 |
| **Net financial items** | | **-9 413 732** | **987 479** |
| Operating result before tax | | -9 579 184 | 933 460 |
| Tax on ordinary result | 5 | 0 | 0 |
| **Annual net profit / loss (-)** | | **-9 579 184** | **933 460** |
| **Allocations and distributions** | | | |
| Profit / Loss brought forward | | 9 579 184 | -933 460 |
| **Net brought forward** | | **-9 579 184** | **933 460** |

# Balance sheet

Reichhold Norway AS

| Assets | Note | 2019 | 2018 |
|---|---|---|---|
| **Financial fixed assets** | | | |
| Investments in other group companies | 3 | 238 511 000 | 257 454 757 |
| **Total financial fixed assets** | | **238 511 000** | **257 454 757** |
| **Total fixed assets** | | **238 511 000** | **257 454 757** |
| **Current assets** | | | |
| **Debtors** | | | |
| Other short-term receivables | | 6 000 | 27 507 |
| Receivables from group companies | 6 | 22 763 190 | 13 206 740 |
| **Total receivables** | | **22 769 190** | **13 234 247** |
| Cash and bank deposits | | 14 106 | 129 821 |
| **Total current assets** | | **22 783 296** | **13 364 068** |
| **Total assets** | | **261 294 296** | **270 818 825** |

## Balance sheet

Reichhold Norway AS

| Equity and liabilities | Note | 2019 | 2018 |
|---|---|---|---|
| **Paid-up equity** | | | |
| Share capital | | 228 762 000 | 228 762 000 |
| Share premium reserve | | 38 033 394 | 38 033 393 |
| **Total paid-up equity** | | **266 795 394** | **266 795 393** |
| **Retained earnings** | | | |
| Other equity | | -5 563 859 | 4 015 325 |
| **Total retained earnings** | | **-5 563 859** | **4 015 325** |
| **Total equity** | **4** | **261 231 534** | **270 810 719** |
| **Liabilities** | | | |
| **Current debt** | | | |
| Other current debt | | 62 762 | 8 106 |
| **Total current debt** | | **62 762** | **8 106** |
| **Total liabilities** | | **62 762** | **8 106** |
| **Total equity and liabilities** | | **261 294 296** | **270 818 825** |

Fredrikstad, 30.06.2020
The board of Reichhold Norway AS

Rosario Valido
chairman of the board

Paolo Carugati
member of the board

Alberto Carpani
member of the board

Marianne Nerlie
member of the board

## Indirect cash flow

Reichhold Norway AS

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/loss before tax | | -9 579 184 | 933 460 |
| Impairment of fixed assets | 3 | 18 943 757 | 0 |
| Received intra-group contribution | | -9 059 325 | 0 |
| Change in other accrual items | | 76 162 | -84 280 |
| **Net cash flows from operating activities** | | **381 410** | **849 180** |
| | | | |
| **Cash flows from financing activities** | | | |
| Changes in cash-pool | | -497 125 | -733 762 |
| **Net cash flows from financing activities** | | **-497 125** | **-733 762** |
| | | | |
| Net change in cash and cash equivalents | | -115 715 | 115 418 |
| Cash and cash equivalents at the start of the period | | 129 821 | 14 403 |
| **Cash and cash equivalents at the end of the period** | | **14 106** | **129 821** |

Reichhold Norway AS

## Note 1 Accounting principles

The financial statements are prepared in accordance with The Norwegian Accounting Act of 1998.

**Valuation and classification of assets and liabilities**
Assets meant for permanent ownership or use in the business are classified as fixed assets. Other assets are classified as current assets. Accounts receivables due within one year are classified as current assets. The classification of current and long term liabilities is based on the same criteria.
Current assets are valued at the lower of historical cost and fair value. Current liabilities and other long-term liabilities

**Foreign Currency**
All balance sheet items denominated in foreign currencies are translated into NOK at market rates at year-end.

**Investments in subsidiaries**
Shares in subsidiaries are valued at acquisition cost. These investments will be depreciated to fair value if a decline in the value is expected to be perpetual. Dividends received and other surplus distributions from these companies are recognized as financial income.

**Accounts Receivables**
Account receivables and other receivables are carried at face value less provision for expected loss. An estimate is made for doubtful debtors based on a review of all outstanding amounts at the year end.

**Bank deposits, cash in hand, etc.**
Cash and cash equivalents include cash, bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase.

**Costs**
Costs are recorded in the same period as the related income. In those cases where there is no clear connection between cost and income, costs are recorded when occurred. Other exceptions from the matching principle are defined where relevant.

**Income Taxes**
Tax expenses are matched with ordinary income before tax. Tax related to equity transactions, e.g. group contribution, is posted directly to equity. The tax expense consists of current income tax expense and change in net deferred tax. Deferred tax liabilities and deferred tax assets are not presented in the balance sheet for precautionary.

**Group**
Reichhold Norway AS does not prepare any group accounts since the company is included in the consolidated financial statements of Specialty Chemical International BV, The Netherlands. The consolidated accounts can be obtained by request to address: Lichtenaulerlaan 102, 3062 ME Rotterdam.

Reichhold Norway AS

## Note 2 Remuneration

Fees to KPMG AS, exclusive VAT, are comprised of the following:

| | 2019 | 2018 |
|---|---|---|
| Audit according to law | 51 200 | 29 000 |
| Other services | 8 000 | 42 949 |

No fee has been paid to the board of directors.
There are no employees in the company.

## Note 3 Investment in subsidiaries

Amount presented in 1.000

| Company | Time of acquisition | Registred office | Votes and shares | Local currency | Equity 31.12.2019 | Net profit (loss) 2019 |
|---|---|---|---|---|---|---|
| Reichhold AS | 11.07.1997 | Sandefjord | 100 % | NOK | 237 108 | 12 142 |
| Reichhold Danmark AS | 01.09.1997 | København | 100 % | DKK | 36 119 | -1 077 |
| Reichhold GmbH | 01.09.1997 | Hamburg | 100 % | EUR | 2 895 | -44 |
| Reichhold BV | 01.09.1997 | Rotterdam | 100 % | EUR | -760 | 17 |

As of 31.12.19 the booked value of Reichhold GmbH and Reichhold BV has been written down as a result of impairment. The total write down is 18,9MNOK.

## Note 4 Equity and shareholders

The share capital in the company as of 31.12.2019 consists of one class of capital stock:

| | Numbers | Face value | Book value |
|---|---|---|---|
| Ordinary shares | 228 762 | 1 000 | 228 762 000 |
| **Total share capital** | **228 762** | | **228 762 000** |

**Owner structure**

All the shares are owned by Reichhold Holdings International BV, The Netherlands. There is no regulation in the Articles of Association regarding limitation in voting rights. Each share carries one vote.

| | Share capital | Share premium reserve | Other equity | Total |
|---|---|---|---|---|
| **Equity 1. Jan** | **228 762 000** | **38 033 393** | **4 015 325** | **270 810 719** |
| Net profit / loss | 0 | | -9 579 184 | -9 579 184 |
| **Equity 31. Dec** | **228 762 000** | **38 033 394** | **-5 563 859** | **261 231 534** |

Reichhold Norway AS

Note 5 Tax

| **This year's tax expense** | **2019** | **2018** |
|---|---|---|
| Entered tax on ordinary profit/loss: | | |
| **Payable tax** | **0** | **0** |
| Changes in deffered tax assets | 0 | 0 |
| **Tax expense on ordinary profit/loss** | **0** | **0** |

Taxable income:

| | | |
|---|---|---|
| **Ordinary result before tax** | **-9 579 184** | **933 460** |
| Permanent differences | 18 943 757 | 0 |
| Changes in temporary differences | 32 092 | -8 330 |
| Allocation of loss to be brought forward | -9 396 665 | -925 130 |
| **Taxable income** | **0** | **0** |

Payable tax in the balance:

| | | |
|---|---|---|
| **Payable tax on this year's result** | **-1 993 052** | **0** |
| Payable tax on received Group contribution | 1 993 052 | 0 |
| **Total payable tax in the balance** | **0** | **0** |

The tax effect of temporary differences and loss for to be carried forward that has formed the basis for deferred tax and deferred tax advantages, specified on type of temporary differences:

| | **2019** | **2018** | **Difference** |
|---|---|---|---|
| Allocations and more | -62 762 | -30 670 | 32 092 |
| **Total** | **-62 762** | **-30 670** | **32 092** |
| | | | |
| Accumulated loss to be brought forward | 0 | -9 396 666 | -9 396 666 |
| Carry-over credit deductions | -22 328 655 | -22 328 655 | 0 |
| Not included in the deferred tax calculation | 22 391 417 | 31 755 991 | 9 364 574 |
| **Basis for deferred tax assets** | **0** | **0** | **0** |
| **Deferred tax assets (22 %)** | **0** | **0** | **0** |
| Effect of change in tax rate | | | |

Deferred tax is not booked to the balance sheet

Reichhold Norway AS

## Note 6 Related party balances

| | 2019 | 2018 |
|---|---|---|
| Reichhold Group cash-pool | 13 703 865 | 13 206 740 |
| Received group contribution | 9 059 325 | 0 |
| Total | 22 763 190 | 13 206 740 |

## Note 7 Subsequent events

In mid of March 2020 the Norwegian government implemented regulation to reduce the consequences of Covid 19. The management is monitoring the situation closely and has taken necessary actions to reduce infections among employees to maintain the business. At the date of the accounts, its subsidiaries has experienced decline in sales. On the other side, the commodity prices have shown a downward trend due to Covid-19. The coming 12-month period looks uncertain and the operations and financial consequeses of the Pandemic outbreak is difficult to assess, though there are early, but possibly temporary signs of recovery. It cannot be ruled out that the Covid-19 outbreak will not have a material negative operational and financial impact on the company.