

**DRAFT OF THE FINANCIAL STATEMENTS  
OF RECORDATI S.p.A.  
AT 31<sup>ST</sup> DECEMBER 2020**

**RECORDATI INDUSTRIA CHIMICA E FARMACEUTICA S.p.A.**  
**Company subject to management and co-ordination by Rossini Holdings Sà.r.L.**

Registered Office: 1 Via Matteo Civitali, Milan

Fully paid up share capital: € 26,140,644.50

Tax identification number and Milan Company Registration No. 00748210150

The Company prepares the consolidated financial statements for the Recordati Group

**BOARD OF DIRECTORS**

Elected by a Shareholders' Meeting on 5<sup>th</sup> February 2019 and integrated by a Shareholders' Meeting on 29<sup>th</sup> April 2020. In office until the date of the Shareholders Meeting held to approve the 2021 Annual Report.

ALFREDO ALTAVILLA

Chairman

GUIDO ANGELO GIOVANNI GUIDI

Vice Chairman

ANDREA RECORDATI

Chief Executive Officer

FRANCESCO BALESTRIERI

SILVIA CANDINI

*Independent*

MICHAELA CASTELLI

*Lead Independent Director*

GIORGIO DE PALMA

JOANNA LE COUILLIARD

*Independent*

GIAMPIERO MAZZA

PIERGIOORGIO PELUSO

*Independent*

CATHRIN PETTY

FRITZ SQUINDO

Group General Manager

**BOARD OF STATUTORY AUDITORS**

Elected by a Shareholders' Meeting of 29<sup>th</sup> April 2020, in office until the date of the Shareholders' Meeting held to approve the 2022 Annual Report.

ANTONIO SANTI

Chairman

EZIO SIMONELLI

LIVIA AMIDANI ALIBERTI

Statutory Auditors

PATRIZIA PALEOLOGO ORIUNDI

ANDREA BALELLI

Alternate Auditors

**INDEPENDENT AUDITORS**

Ernst & Young S.p.A. Engaged by a Shareholders' Meeting of 29<sup>th</sup> April 2020 for the financial years 2020-2028

## Review of operations

To our Shareholders,

The Separate Annual Report of the Company for the year ended 31<sup>st</sup> December 2020, which we submit to you for your approval, reports net income of € 234,664 thousand.

The review of operations in the consolidated annual report may be consulted for further information on operations and growth strategies.

The items in the reclassified income statement which shows costs by function are given below with the relative percentage of revenue<sup>(1)</sup> and the change compared with the previous year:

€ (thousands)	2020	% of revenue	2019	% of revenue	Change 2020/2019	%
<b>Revenue (1)</b>	<b>449,421</b>	<b>100.0</b>	<b>441,095</b>	<b>100.0</b>	<b>8,326</b>	<b>1.9</b>
Cost of sales	(178,807)	(39.8)	(177,262)	(40.2)	(1,545)	0.9
<b>Gross profit</b>	<b>270,614</b>	<b>60.2</b>	<b>263,833</b>	<b>59.8</b>	<b>6,781</b>	<b>2.6</b>
Selling expenses	(45,944)	(10.2)	(55,705)	(12.6)	9,761	(17.5)
R&D expenses	(38,824)	(8.6)	(44,480)	(10.1)	5,656	(12.7)
G&A expenses	(29,590)	(6.6)	(32,459)	(7.4)	2,869	(8.8)
Other income (expense), net	(3,655)	(0.8)	876	0.2	(4,531)	n.s.
<b>Operating income</b>	<b>152,601</b>	<b>34.0</b>	<b>132,065</b>	<b>29.9</b>	<b>20,536</b>	<b>15.5</b>
Dividends	132,785	29.5	128,138	29.1	4,647	3.6
Write-down of investments	(2,539)	(0.5)	(2,244)	(0.5)	(295)	13.1
Financial income (expense), net	(13,308)	(3.0)	(17,178)	(3.9)	3,870	(22.5)
<b>Pre-tax income</b>	<b>269,539</b>	<b>60.0</b>	<b>240,781</b>	<b>54.6</b>	<b>28,758</b>	<b>11.9</b>
Taxes*	(34,875)	(7.8)	311	0.1	(35,186)	n.s.
<b>Net income</b>	<b>234,664</b>	<b>52.2</b>	<b>241,092</b>	<b>54.7</b>	<b>(6,428)</b>	<b>(2.7)</b>

(1) The revenue in the reclassified income statement includes other income of € 45 thousand (€ 177 thousand in 2019), relating in particular to training grants and rents, which in the statutory balance sheet are classified under Note 4 as Other revenue and income.

\* Taxes on income for 2019 included non-recurring "patent box" tax relief of € 26,994 thousand relating to prior years.

Revenue came to € 449.4 million, up € 8.3 million on 2019, due above all to greater sales to foreign subsidiaries.

As concerns the sales performance of specialty pharmaceuticals in Italy, we report the negative impact of the expiry of the Urorec® (silodosin) patent, which occurred in February, and also competition from generic versions of Peptazol® (pantoprazole) and Lovinacor® (lovastatin). We underline the good performance for sales of Cardicor® (bisoprolol) and Reagila® (cariprazine).

We also report a fall in self-medication consumer products during the health emergency and growth in the collyrium products Imidazyl® and Eumill®.

Revenue from pharmaceutical chemicals, consisting of the active ingredients produced at the Campoverde di Aprilia plant, amounting to € 48.9 million, were up € 2.8 million compared with 2019.

Gross profit, which came to € 270.6 million, was up € 6.8 million compared with 2019, amounting to 60.2% of revenue, an improvement compared with 59.8% of sales in the previous year, due to the favourable sales mix and notwithstanding the negative price impact on prescription specialty sales in Italy.

Selling expenses stood at € 45.9 million, amounting to 10.2% of revenue. The fall in expenses of approximately € 9.8 million compared with the previous year is attributable to a significant reduction in promotional activities relating to medical sales representatives subject to anti-infection restrictions imposed by the various lockdowns, both at national and regional level. This situation translated into lower operating expenses because the commercial network was unable to operate at full capacity in the period between March and August 2020. At the same time many activities to update health workers (mainly training courses and congresses) were cancelled for the same social distancing and anti-infection reasons which prohibited organising and holding these with in-person attendance.

R&D costs came to € 38.8 million, amounting to 8.6% of revenue. The reduction of € 5.7 million compared with the year before is attributable in particular to higher costs incurred in 2019 for clinical and preclinical trials for the REC 0438 trials and for projects carried out on the treatment of rare diseases, charged back to the relative subsidiaries on the basis of service agreements.

G&A expenses came to € 29.6 million, amounting to 6.6% of revenue. The reduction of € 2.9 million compared with the year before was attributable in particular to lower provisions made for bonuses relating to the year, lower travel expenses and less activity during the period of the health emergency.

Other net income and expenses amounted to € 3.7 million and included € 3.3 million of costs incurred in relation to the Covid-19 health emergency for donations to hospitals and national health services, and also for rendering workplace environments safe and for the purchase of personal protective equipment. It also included € 0.5 million of costs incurred for the reverse merger operation approved by the Board of Directors of the company on 1<sup>st</sup> October 2020, which involved the merger of the Parent companies Rossini Investimenti S.p.A. and FIMEI S.p.A.. This operation is described in detail in the “related parties” section.

Operating income was € 152.6 million amounting to 34.0% of revenue, an increase of 15.5% compared with the year before due to lower expenses incurred in the Covid-19 emergency period and also to the increase in gross profit.

The write-down of investments, amounting to € 2.5 million, relates to the UK subsidiary Recordati Pharmaceuticals Ltd.

Dividends from subsidiaries amounted to € 132.8 million, up € 4.6 million on the previous year.

Net financial charges amounted to € 13.3 million, down € 3.9 million on the previous year. Greater interest of € 3.8 million on medium to long-term bank loans in relation to a syndicated loan taken out in 2019, originally for € 400 million, was more than offset by the exchange rate effect of closing derivative contracts and by interest income on loans to subsidiaries.

Taxes on income amounted to € 34.9 million, an increase of € 35.2 million compared with the year before, mainly due to the positive impact of “patent box” tax relief in 2019. Following the preliminary agreement signed on 19<sup>th</sup> December 2019 with the Preliminary and Dispute Agreements Office of the tax authority to determine the economic contribution in the event of the direct use of intangible assets with effect for the tax years 2015 to 2019 (which had led to a total benefit in the previous year of € 35.3 million, of which € 27.0 million non-recurring relating to the period 2015-2018 and € 8.3 million relating to 2019), the Company decided, as an alternative to renewing this, to opt for the new optional “self-assessment” regime provided for by Art. 4 of Decree Law No. 34 of 30<sup>th</sup> April 2019. It will therefore calculate the income eligible for the “patent box” tax relief for the current financial year directly in the tax return, continuing to operate with the

criteria agreed with the tax authorities for the previous five-year period. The benefit relating to 2020, recognised as a reduction in taxes, amounted to € 8.1 million.

Net income came to € 234.7 million, a decrease of € 6.4 million compared with 2019, due to the effect of the already mentioned tax benefit resulting from the “patent box” tax relief, which in 2019 had also included the quota relating to the previous period.

A brief summary is given below of the net financial position, while further details are given in item 43 of the notes to the financial statements.

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Cash and cash equivalents and other short term receivables	160,526	164,628	(4.102)
Current debt <sup>(1)</sup>	(651,056)	(453,664)	(197.392)
<b>Net current financial position</b>	<b>(490,530)</b>	<b>(289,036)</b>	<b>(201.494)</b>
Loans and receivables - due after one year	150,693	182,649	(31.956)
Borrowings – due after one year <sup>(2)</sup>	(707,078)	(972,182)	265.104
<b>Net financial position</b>	<b>(1,046,915)</b>	<b>(1,078,569)</b>	<b>31.654</b>

(1) Current debt includes borrowings due within one year, amounts due to banks and other short-term liabilities.

(2) Inclusive of the fair value of derivatives to hedge foreign exchange rate risk (cash flow hedges), classified within asset item 23 and liability item 35 with an overall net positive impact of € 3,852 thousand as at 31<sup>st</sup> December 2020.

The net financial position as at 31<sup>st</sup> December 2020 was debt of € 1,046.9 million compared with debt of € 1,078.6 million as at 31<sup>st</sup> December 2019. During the year treasury stock totalling € 12.2 million, net of sales, was purchased and dividends were distributed for a total of € 212.7 million.

Analysis of the financial position net of the aforementioned effects confirms the Company’s solid generation of cash flows which stood at approximately € 256.6 million.

Expenditure on property, plant and equipment came to € 13.3 million and related to investments made at the Milan headquarters (€ 5.2 million), which included investments in the plant and in pharmaceutical research, as well as in the Campoverde plant (€ 8.1 million).

## R&D

In 2020 the Company’s R&D activities in the Specialty & Primary Care area was focused on a series of activities for the maintenance and support of pharmaceuticals already being marketed and also on preclinical activities on new pharmaceuticals.

## PRODUCTS UNDER DEVELOPMENT

NAME	ORIGIN	INDICATION	DEVELOPMENT STAGE
REAGILA®	Gedeon Richter	Schizophrenia	Post-authorisation paediatric plan

The arrival of new pharmaceuticals both through in-house research programmes and through opportunities to carry out research in collaboration with research companies and institutions outside the Group again represented an important factor in 2020 for enriching the pipeline and ensuring future growth for the Group. At the same time huge efforts were made on the regulatory front aimed at obtaining important authorisations to sell Recordati pharmaceuticals on markets in new geographical areas.

The main R&D activities carried out in 2020 are summarised in the paragraphs below.

#### Cardiology and metabolic diseases

Seloken® / Seloken® ZOK (metoprolol) and Logimax® (metoprolol + felodipine)

In 2020 the primary and secondary packaging for metoprolol and metoprolol + felodipine was transferred to the Casen Recordati manufacturing site at Utebo (presentation in bottles).

#### Psychiatry

Reagila® (cariprazine)

As part of an agreement between Recordati and Gedeon Richter, the paediatric development plan agreed at European level continued in 2020 for cariprazine, a new antipsychotic pharmaceutical for the treatment of schizophrenia and a request for scientific advice was presented to the EMA for the development of a new delayed release formulation for administration once a week. Cariprazine was found to be effective in improving not only the positive symptoms in the adult population but also the negative symptoms of the disease. The pharmaceutical is currently being registered in Tunisia and Turkey.

#### Other areas of treatment

LOMEXIN® (fenticonazol)

Fenticonazole is an antimycotic product for topical use, a product of Recordati research. Various projects have been carried out to support development of the product, in consideration of the growth in its sales and the potential arising from its transition to a medicine for which medical prescriptions are not required in a number of European countries and from the publication of scientific evidence to support the efficacy of the molecule fenticonazol for the treatment of vaginal infections with different aetiologies.

#### Activities involving pharmaceuticals for the treatment of rare diseases

The company carries out support activities for research carried out by other Group companies which is charged back to them on the basis of service agreements.

In fact the Group is increasingly more committed to R&D for the development of treatments for rare diseases and it has many pharmaceuticals in its pipeline for treating these illnesses at different stages of development.

## OTHER INFORMATION

Company is subject to management and co-ordination by Rossini Luxembourg S.à.r.l, in accordance with Art. 2497 and following of the Italian Civil Code.

Essential information from the financial statements for the year ended 31<sup>st</sup> December 2019 approved by the company that exercises management and co-ordination is reported in Attachment 6.

Only one decision was taken by the Board of Directors in 2020 that was considered to constitute a “decision influenced by management and co-ordination activity” and therefore subject to the particular rules provided under Art. 2497-ter of the Italian Civil Code: on 1<sup>st</sup> October 2020 the Board of Directors of Recordati S.p.A. (the “Merging Company”) examined and approved, with the unanimous vote of those present, the reverse merger by absorption of Rossini Investimenti S.p.A. and FIMEI S.p.A. (together the “Merged Companies”) into Recordati (the “Transaction” or the “Merger”) and also the preparatory documentation to implement that merger which included the merger prospectus (the “Merger Prospectus”). We report that Rossini Investimenti S.p.A. and FIMEI S.p.A. are also subject to management and co-ordination by Rossini Luxembourg S.à.r.l.

The Merger, together with the merger agreement, received an opinion in favour from the Recordati Audit, Risk and Sustainability Committee, acting in its capacity as the Related-Party Transactions Committee (the “Committee”) in accordance with Recordati’s related-party transactions regulations, because it was also a

transaction with a related party of major importance. It is underlined that, on the basis, amongst other things, of the Consob (Italian securities market authority) Related-Party Transactions Regulation, the Committee carried out a thorough assessment in terms of considerations involving the direct interest, advantage and substantial regularity for Recordati with regard to the Transaction. Reference is made in this respect to the Binding Opinion on the Transaction with a Related-Party of Major Importance issued by the Committee, which, together with the Merger Prospectus, the Information Document and the Illustrative Reports – to which reference is made more generally for further information on the terms and procedures for the implementation of the Merger – is published on the website [www.recordati.com](http://www.recordati.com) (in the “Shareholders’ Meetings – Reverse Merger into Recordati S.p.A. 2020/2021” section of the “Investors” area) and on the authorised storage facility named “1info” <https://www.1info.it>.

It is underlined that the Company has adopted specific regulations on the management and co-ordination exercised by Rossini Luxembourg S.à.r.l. over Recordati S.p.A. and the lines of reporting from Recordati S.p.A. to Rossini Luxembourg S.à.r.l. Reference is made to the Corporate Governance and Ownership Structure Report for further information.

Treasury stock consisting of 1,283,231 shares was purchased during the year, for consideration of €47.9 million and 1,762,500 shares were sold for consideration of €35.7 million, following the exercise of options and under the 2010-2013, 2014-2018 and 2018-2022 stock option plans.

As at 31<sup>st</sup> December 2020 the Company held 2,829,302 treasury shares in portfolio with a face value of € 0.125 each, accounting for 1.35% of the share capital.

The section “Principal risks and uncertainties” in the review of operations in the consolidated annual report may be consulted for an analysis and description of the principal risks and uncertainties to which the Company is exposed pursuant to paragraphs 1 and 2 of article 2428 of the Italian Civil Code.

The information required under point 6-*bis* of Art. 2428 of the Italian Civil Code concerning the Company’s objectives and policies in respect of financial risk management is reported in note 40 to the financial statements.

In compliance with the requirements contained in Art. 4, paragraph 7 of the Regulation on related-party transactions adopted with Consob Resolution 17221 of 12<sup>th</sup> March 2010 and subsequent amendments and also in Art. 2391-*bis*, paragraph 1 of the Italian Civil Code, the Company reports that it has adopted “Regulations for related-party transactions”, the full text of which is available on the Company website at [www.recordati.it](http://www.recordati.it) (in the “Corporate Governance” section).

For all information on corporate governance, reference is made to the Report on Corporate Governance and Ownership Structure prepared in accordance with Art. 123-*bis* of the Consolidated Finance Law, approved by the Board of Directors at the same time as it approved the Annual Report. Information pursuant to paragraphs 1 and 2 of Art. 123 *bis* of Legislative Decree No. 58/1998 is contained in the separate “Report on Corporate Governance and Ownership Structure”, the full text of which is available on the company’s website [www.recordati.it](http://www.recordati.it) (in the “Corporate governance” section).

Reference is made for “information concerning the environment and personnel” to the Consolidated Non-Financial Statement.

The Company has a secondary headquarters at 4 Via Mediana Cisterna, Campoverde di Aprilia (Latina).

Shares held by directors, statutory auditors, general managers and other key management personnel are reported in the Report on remuneration policies and wages published in accordance with Art. 123-*ter* of the Consolidated Finance Law.

Reference is made to the information given in the Non-Financial Statement for details of the principles governing conduct adopted by the Company.

Reference is made to note 45 to the financial statements for information required by the Consob (Italian securities market authority) communication dated 28<sup>th</sup> July 2006 on “atypical and/or unusual transactions”.

## RELATED-PARTY TRANSACTIONS

As at 31<sup>st</sup> December 2020, intercompany accounts with companies that form the Recordati Group and the Recordati's parent Fimeì S.p.A. showed payables of € 408,132 thousand and receivables of € 285,387 thousand. The most significant items were as follows:

- receivables of € 185,781 thousand for loans granted to Group companies;
- payables of € 13,055 thousand for loans received from Group companies;
- trade receivables of € 49,060 thousand from subsidiaries;
- trade payables to subsidiaries of € 6,143 thousand;
- receivables from subsidiaries for the management of the centralised cash pooling treasury system amounting to € 40,397 thousand;
- payables to subsidiaries for the management of the centralised cash pooling treasury system amounting to € 388,915 thousand;

Sales and services supplied to Group companies in 2020 amounted to € 239,529 thousand.

Dividends were received during the year as follows: € 30,048 thousand from Innova Pharma S.p.A., € 20,000 thousand from Natural Point S.r.l., € 9,940 thousand from Italchimici S.p.A., € 7,700 thousand from Recordati Pharma GmbH, € 15,000 thousand from Bouchara Recordati S.a.s, € 40,000 thousand from Recordati Ireland Ltd, € 3,591 thousand from Recordati Orphan Drugs S.A.S., € 3,899 thousand from Recordati Romania S.R.L. and € 2,607 thousand from Herbacos Recordati S.r.o.

Short and long-term tax receivables include those from the parent company Fimeì S.p.A. amounting to € 9,706 thousand, which relate to the following:

- tax assets for current taxation relating to taxes for the year calculated on the basis of estimated taxable income. Those assets were transferred by Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003;
- the tax credit for obtaining "patent box" tax relief.

The following summary is set out in the table below in compliance with Consob Resolution No. 15519 of 27<sup>th</sup> July 2006:

<b>Percentage of transactions with related parties</b> € (thousands)	<b>Total</b>	<b>Related parties</b>	
		<b>Amount</b>	<b>%</b>
<b>Percentage of transactions or positions in the balance sheet with related parties</b>			
Trade receivables and other	102,211	59,209	57,93
Long-term financial assets	150,692	150,624	99,95
Short-term financial assets	75,554	75,554	100,00
Trade payables and other	60,434	6,161	10,19
Long-term financial liabilities	713,583	0	0,00
Short-term financial liabilities	648,968	401,970	61,94
<b>Percentage of transactions or positions in the income statement with related parties</b>			
Revenue	452,054	239,575	53,00
Income from investments	132,785	132,785	100,00
Costs of purchases and service provision	200,293	20,394	10,18
Financial income (expense), net	(13,308)	1,631	(12,26)

Transactions and positions with related parties as a percentage of cash flows is basically the same as that for the income statement items because the transactions are conducted under normal market conditions. It is



underlined that no direct business was conducted during the year with the company that carries out management and co-ordination activities.

With regard to direct relations during the year with the company that exercises management and co-ordination, we report that some employees of the Recordati Group have been designated as beneficiaries of an incentive scheme, with a vesting period of five years, under which they have purchased shares of Rossini Luxembourg S.à.r.l. at face value, an indirect shareholder of Recordati S.p.A., and they will receive a return at the end of the life of the scheme.

On 1<sup>st</sup> October 2020 the Board of Directors of the Company approved an operation for the reverse merger by absorption of Rossini Investimenti S.p.A. and Fimeì S.p.A. into Recordati S.p.A. (the “Transaction” or the “Merger”) and the documents needed to prepare for the implementation of the Merger itself, which included the relative Merger Prospectus.

This Merger forms part of the broader process for the indirect acquisition of Recordati S.p.A. by Rossini Investimenti S.p.A., carried out by means of the acquisition of the entire share capital of Fimeì S.p.A. (to which it is very closely and intrinsically connected). Its purpose is to shorten the command chain for the Group’s operating companies which will benefit the controlling shareholder and the Group as a whole by simplifying the corporate governance structure, reducing costs for the maintenance of the Merged Companies (Rossini Investimenti S.p.A. and Fimeì S.p.A.), while the Merging Company (Recordati S.p.A.) will be able to benefit from ACE (aid to economic growth – allowance for corporate equity) tax benefits generated by Rossini Investimenti, in relation to which the Company received a positive reply from the tax authorities following the submission of a specific request for an opinion from them.

We report that the Merger will not involve any changes to the Merging Company’s share capital nor is any cash settlement payment envisaged. Furthermore, Recordati S.p.A.’s post merger capital and operating situation will be substantially in line with the Company’s current situation and in particular it will not alter its net financial position and therefore Recordati’s ability to invest, its strategies or its capital allocation policies. Lastly, there will be no recognition of goodwill or intangible assets resulting from the operation in the financial statements of Recordati S.p.A.

The Merger constitutes a “major” transaction with related parties, pursuant to and for the effects of the regulation adopted by the Consob (Italian securities market authority) with Resolution No. 17221 of 12<sup>th</sup> March 2010 and subsequent amendments and of the Procedure to regulate related-party transactions of the Company currently in force. As such, the Transaction, taken as a whole, has received an opinion in favour from Recordati’s Audit, Risk and Sustainability Committee, which acts as the Committee for Related-Party Transactions (the “Committee”) in accordance with the Procedure to regulate the related-party transactions of Recordati.

As concerns the exchange ratio, PricewaterhouseCoopers S.p.A., engaged by the Court of Milan to prepare a fairness report on exchange ratio in accordance with Art. 2501-sexies of the Italian Civil Code, issued (on the assumption that relative necessary conditions, detailed in the Merger Prospectus and the Illustrative Reports, remain unchanged) a positive opinion on the fairness of the Exchange Rate on the 13<sup>th</sup> November 2020.

On the 17<sup>th</sup> December 2020, extraordinary meetings of the shareholders of Rossini Investimenti, Fimeì and Recordati examined and approved the plan for the merger by absorption of Rossini Investimenti and Fimeì into Recordati, without amendments and additions.

It is envisaged that the Merger will be concluded during the first half of 2021 and in any event subsequent to the date of approval of the financial statements of the Merged Companies for the financial year 31<sup>st</sup> December 2020 and their financial position for the period ended 31<sup>st</sup> March 2021.

The companies taking part in the merger will sign the merger deed and file it with the competent company registrars within the technical time strictly necessary immediately after the approval of the aforementioned closing financial statements. The transactions of the merged companies will be recognised in the financial statements of the merging company as of 1<sup>st</sup> April 2021 (the “Date of Effect for Accounting Purposes”).

The merger will take effect for statutory purposes as of the date of the last of the registrations required by Art. 2504 of the Italian Civil Code (the “Date of Effect”). As of that date, the Merging Company will inherit all the legal relationships pertaining to the assets and liabilities of the Merged Companies which at the same time will be extinguished.

For further information on the terms and procedures for implementation of the Merger, reference is made to the Merger Prospectus and the Information Document together with the fairness opinion of the Committee (which in turn attached the fairness opinion on the exchange ratio prepared by *Prof. Pietro Mazzola* in his capacity as the independent financial expert of the Committee) and the Illustrative Reports published on the website [www.recordati.com](http://www.recordati.com) (in the “Shareholders’ Meetings – Reverse Merger into Recordati S.p.A. 2020/2021” section of the “Investors” area) and on the authorised storage facility named “1info” <https://www.1info.it>.

#### NON-EUROPEAN UNION SUBSIDIARIES

In relation to the provisions of articles 15 and 18 of the Markets Regulations concerning the conditions for the listing of the parent companies of companies formed and regulated under the laws of countries that do not belong to the EU and which are of significant importance for the purposes of consolidated financial statements, since 31<sup>st</sup> December 2020 the regulatory provisions of Art. 15 of the Markets Regulations have applied to the subsidiaries Recordati İlaç, Sanayi Ve Ticaret A.Ş. Recordati Rare Diseases Inc., Rusfic LLC and Recordati AG and the conditions laid down in the aforementioned Art. 15 in relation to which the certification is required from the management body, have been satisfied.

#### SIGNIFICANT TRANSACTIONS, EXCEPTION TO DISCLOSURE OBLIGATIONS

The Company decided to take advantage, with effect from 20<sup>th</sup> December 2012, of the right not to comply with obligations to publish the reports required when significant extraordinary operations are performed consisting of mergers, demergers, share capital increases through contributions in kind, acquisitions and disposals, in accordance with Art. 70, paragraph 8 and with Art. 71, paragraph 1-*bis* of the Issuers’ Regulations issued by Consob with Resolution No. 11971/1999 and subsequent amendments.

#### BUSINESS OUTLOOK

The implementation of company policies, operations at the beginning of the current year, the potential of our products, the financial strength of the company and the managerial capacities of our personnel lead us to forecast a positive result again in 2021.

Considering the limited impact of the pandemic on the financial results for 2020, the sector to which the Company belongs and recent operating performance and, in the absence of events which are unforeseeable at present, it is considered that the continuation of the pandemic in 2021 will not have any significant effects on the expected results of the Company, which therefore confirms the value of the assets and liabilities recognised in the balance sheet.

Milan, 18<sup>th</sup> March 2021

For the Board of Directors  
Chief Executive Officer  
Andrea Recordati

RECORDATI S.p.A.

INCOME STATEMENTS FOR THE YEARS ENDED  
31<sup>ST</sup> DECEMBER 2020 AND 31<sup>ST</sup> DECEMBER 2019

## Income Statement

Amounts in euro	Notes	2020	2019
<b>Revenue</b>	3	<b>449,375,943</b>	<b>440,918,589</b>
Other income	4	2,678,247	5,964,192
<b>Total income</b>		<b>452,054,190</b>	<b>446,882,781</b>
Raw materials costs	5	(120,252,649)	(127,098,137)
Personnel costs	6	(80,710,726)	(85,524,132)
Depreciation and amortisation	7	(25,245,221)	(24,439,173)
Other operating expenses	8	(80,040,475)	(85,936,976)
Changes in inventories	9	6,795,537	8,180,143
<b>Operating income</b>		<b>152,600,656</b>	<b>132,064,506</b>
Income from investments	10	132,785,267	128,138,195
Write-down of investments	11	(2,539,000)	(2,244,000)
Financial income (expense), net	12	(13,308,427)	(17,178,097)
<b>Pre-tax income</b>		<b>269,538,496</b>	<b>240,780,604</b>
Taxes*	13	(34,874,582)	311,345
<b>Net income</b>		<b>234,663,914</b>	<b>241,091,949</b>
<b>Earnings per share (in euro)</b>			
Basic		1.140	1.176
Diluted		1.122	1.153

Basic earnings per share is calculated on average shares outstanding in the relative periods, consisting of 205,758,125 shares in 2020 and 204,969,193 in 2019. The figures are calculated net of average treasury stock held, which amounted to 3,367,031 shares in 2020 and 4,165,963 shares in 2019.

Diluted earnings per share is calculated taking into account stock options granted to employees.

\* Taxes on income for 2019 included non-recurring "patent box" tax relief of € 27.0 million relating to prior years.

The explanatory notes form an integral part of these financial statements.

RECORDATI S.p.A.

BALANCE SHEETS as 31<sup>ST</sup> DECEMBER 2020 and as at 31<sup>ST</sup> DECEMBER 2019

## Assets

Amounts in euro	Notes	31 <sup>st</sup> December 2020	31 <sup>st</sup> December 2019
<b>Non-current assets</b>			
Property, plant and equipment	14	67,070,471	61,869,186
Intangible assets	15	226,414,210	235,923,191
Investments	16	1,092,270,697	1,085,275,905
Other non-current assets	17	150,691,686	192,379,763
Deferred tax assets	18	21,500,975	21,872,245
<b>Total non-current assets</b>		<b>1,557,948,039</b>	<b>1,597,320,290</b>
<b>Current assets</b>			
Inventories	19	81,688,962	74,893,425
Trade receivables	20	85,205,885	95,181,737
Other receivables	21	17,005,280	45,815,114
Other current assets	22	2,054,164	1,518,966
Derivatives measured at fair value	23	7,004,443	9,948,918
Other short-term receivables	24	75,553,565	78,719,613
Cash and cash equivalents	25	84,972,264	85,908,328
<b>Total current assets</b>		<b>353,484,563</b>	<b>391,986,101</b>
<b>Total assets</b>		<b>1,911,432,602</b>	<b>1,989,306,391</b>

The explanatory notes form an integral part of these financial statements.

RECORDATI S.p.A.

BALANCE SHEETS as 31<sup>ST</sup> DECEMBER 2020 and as at 31<sup>ST</sup> DECEMBER 2019

## Equity and Liabilities

Amounts in euro	Notes	31 <sup>st</sup> December 2020	31 <sup>st</sup> December 2019
<b>Equity</b>			
Share capital	26	26,140,645	26,140,645
Additional paid-in capital	26	83,718,523	83,718,523
Treasury shares	26	(87,515,607)	(93,479,688)
Statutory reserve	26	5,228,129	5,228,129
Other reserves	26	302,314,749	268,887,583
Revaluation reserve	26	2,602,229	2,602,229
Interim dividend	26	(103,142,677)	(98,763,641)
Net income	26	234,663,914	241,091,949
<b>Total equity</b>		<b>464,009,905</b>	<b>435,425,729</b>
<b>Non-current liabilities</b>			
Borrowings – due after one year	27	713,582,983	979,875,934
Employees benefit obligations	28	7,770,535	8,663,140
Other non-current liabilities	29	0	3,255,646
<b>Total non-current liabilities</b>		<b>721,353,518</b>	<b>991,794,720</b>
<b>Current liabilities</b>			
Trade payables	30	34,971,065	62,650,316
Other current payables	31	22,617,944	25,533,454
Tax liabilities	32	2,845,342	2,349,033
Other current liabilities	33	922,728	1,272,728
Provisions	34	5,151,230	5,829,217
Derivatives measured at fair value	35	8,504,996	10,787,600
Borrowings - due within one year	36	246,997,314	140,297,060
Short-term liabilities to banks	37	2,088,209	2,272,509
Other short-term liabilities	38	401,970,351	311,094,025
<b>Total current liabilities</b>		<b>726,069,179</b>	<b>562,085,942</b>
<b>Total equity and liabilities</b>		<b>1,911,432,602</b>	<b>1,989,306,391</b>

The explanatory notes form an integral part of these financial statements.

RECORDATI S.p.A.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31<sup>ST</sup> DECEMBER 2020 AND 31<sup>ST</sup> DECEMBER 2019

€ (thousands)	2020	2019
<b>Net income</b>	<b>234,664</b>	<b>241,092</b>
Gains/(losses) on cash flow hedges after tax	3,487	2,253
Valuation of employee benefits pursuant to IAS 19, net of tax	(112)	(357)
Adjustment to investments in listed companies, net of tax	6,821	17,388
<b>Other items recognised in equity</b>	<b>10,196</b>	<b>19,284</b>
<b>Comprehensive income</b>	<b>244,860</b>	<b>260,376</b>
<b>Data per share (in euro)</b>		
Basic	1.190	1.270
Diluted	1.171	1.245

The explanatory notes form an integral part of these financial statements.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31<sup>ST</sup> DECEMBER 2020 AND 31<sup>ST</sup> DECEMBER 2019

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Statutory reserve	Other reserves			Revaluation reserves	Interim dividend	Net (loss)/ income for the period	Total
					Sundry reserves	Reserve for derivative instruments	Stock option reserve and/or other IAS reserves				
<b>Balance as at 31st December 2018</b>	<b>26,141</b>	<b>83,718</b>	<b>(145,608)</b>	<b>5,228</b>	<b>124,436</b>	<b>(8,398)</b>	<b>122,370</b>	<b>2,602</b>	<b>(91,761)</b>	<b>217,330</b>	<b>336,058</b>
Allocation of 2018 net income as per shareholders' resolution of 11.04.2019											
Dividends distributed									91,761	(187,844)	(96,083)
Retained earnings					29,486					(29,486)	0
Sales of treasury stock			52,128		(25,942)						26,186
Interim dividends									(98,764)		(98,764)
Comprehensive income						2,253	17,031			241,092	260,376
Stock option valuation reserve							7,653				7,653
<b>Balance as at 31st December 2019</b>	<b>26,141</b>	<b>83,718</b>	<b>-93,480</b>	<b>5,228</b>	<b>127,980</b>	<b>-6,145</b>	<b>147,054</b>	<b>2,602</b>	<b>-98,764</b>	<b>241,092</b>	<b>435,426</b>
Allocation of 2019 net income as per shareholders' resolution of 29.04.2020											
Dividends distributed									98,764	(205,423)	(106,659)
Retained earnings					35,669					(35,669)	0
Sales of treasury stock			53,835		(18,135)						35,700
Repurchase of treasury shares			(47,871)								(47,871)
Dividends expired					13						13
Interim dividends									(103,143)		(103,143)
Comprehensive income						3,487	6,709			234,664	244,860
Stock option valuation reserve							5,684				5,684
<b>Balance as at 31st December 2020</b>	<b>26,141</b>	<b>83,718</b>	<b>-87,516</b>	<b>5,228</b>	<b>145,527</b>	<b>-2,658</b>	<b>159,447</b>	<b>2,602</b>	<b>-103,143</b>	<b>234,664</b>	<b>464,010</b>

The explanatory notes form an integral part of these financial statements.

## RECORDATI S.p.A.

CASH FLOW STATEMENT FOR THE YEARS ENDED 31<sup>ST</sup> DECEMBER 2020 AND 31<sup>ST</sup> DECEMBER 2019

€ (thousands)	2020	2019*
<b>OPERATING ACTIVITIES</b>		
Net income	234,664	241,092
Provision for income taxes	34,875	(311)
Net interest	13,922	13,042
Income from investments	(132,785)	(128,138)
Depreciation of property, plant and equipment	9,507	8,972
Amortisation of intangible assets	15,737	15,467
Write-offs	2,539	2,244
Equity-settled share-based payments transactions	2,184	3,165
Other non-monetary items	2,103	4,299
Changes in other assets and other liabilities	(2,383)	(8,732)
<b>Cash flow from/(used in) operating activities before changes in working capital</b>	<b>180,363</b>	<b>151,100</b>
Change in inventories	(6,796)	(8,180)
Change in trade receivables	9,976	(5,788)
Change in trade payables	(27,679)	13,278
<b>Change in working capital</b>	<b>(24,499)</b>	<b>(690)</b>
Interest received	4,342	492
Interest paid	(17,044)	(16,412)
Income taxes paid	(20)	(57,958)
<b>Cash flow from/(used in) operating activities</b>	<b>143,142</b>	<b>76,532</b>
<b>INVESTING ACTIVITIES</b>		
Investments in property, plant and equipment	(13,910)	(13,965)
Investments in intangible assets	(6,228)	(9,216)
Change in other investments and shares	66	0
Investments in subsidiaries	(1)	(137,137)
Dividends received	132,785	128,138
Loans granted to subsidiaries	27,370	(211,670)
Changes in other short-term receivables	7,830	32,508
<b>Cash flow from/(used in) investment activities</b>	<b>147,912</b>	<b>(211,342)</b>



€ (thousands)	2020	2019*
<b><u>FINANCING ACTIVITIES</u></b>		
Loans granted	40,368	418,747
Repayment of loans	(195,591)	(67,644)
Payment of lease liabilities	(1,218)	(1,511)
Change in short-term liabilities to banks and other lenders	805	(4,376)
Changes in other short-term liabilities	88,535	(18,507)
Dividends paid	(212,718)	(190,916)
Repurchase of treasury stock	(47,871)	0
Sales of treasury stock	35,700	26,187
<b>Cash flow from/(used in) financing activities</b>	<b>(291,990)</b>	<b>161,980</b>
<b>Change in cash and cash equivalents</b>	<b>(936)</b>	<b>27,170</b>
Net cash and cash equivalents at beginning of year	85,908	58,738
Net cash and cash equivalents at end of year	84,972	85,908

\* A new presentation has been adopted for the cash flow statement. The amounts for 2019 have been reclassified for a consistent comparison.

The explanatory notes form an integral part of these financial statements.

RECORDATI S.p.A.

INCOME STATEMENT IN ACCORDANCE WITH CONSOB RESOLUTION No. 15519 OF 27<sup>TH</sup> JULY 2006

## Income Statement

Amounts in euro	2020	of which related parties	2019	of which related parties
<b>Revenue</b>	<b>449,375,943</b>	<b>239,529,313</b>	<b>440,918,589</b>	<b>221,149,760</b>
Other income	2,678,247	45,016	5,964,192	51,200
<b>Total income</b>	<b>452,054,190</b>		<b>446,882,781</b>	
Raw materials costs	(120,252,649)	(15,318,233)	(127,098,137)	(21,037,292)
Personnel costs	(80,710,726)		(85,524,132)	
Depreciation and amortisation	(25,245,221)		(24,439,173)	
Other operating expenses	(80,040,475)	(5,075,431)	(85,936,976)	(2,859,500)
Changes in inventories	6,795,537		8,180,143	
<b>Operating income</b>	<b>152,600,656</b>		<b>132,064,506</b>	
Income from investments	132,785,267	132,785,267	128,138,195	128,138,195
Write-down of investments	(2,539,000)		(2,244,000)	
Financial income (expense), net	(13,308,427)	1,630,887	(17,178,097)	(1,387,059)
<b>Pre-tax income</b>	<b>269,538,496</b>		<b>240,780,604</b>	
Taxes	(34,874,582)		311,345	
<b>Net income</b>	<b>234,663,914</b>		<b>241,091,949</b>	

RECORDATI S.p.A.

BALANCE SHEET IN ACCORDANCE WITH CONSOB RESOLUTION N. 15519 OF 27<sup>TH</sup> JULY 2006

## Assets

Amounts in euro

	31 <sup>st</sup> December 2020	of which related parties	31 <sup>st</sup> December 2019	of which related parties
<b>Non-current assets</b>				
Property, plant and equipment	67,070,471		61,869,186	
Intangible assets	226,414,210		235,923,191	
Investments	1,092,270,697		1,085,275,905	
Other non-current assets	150,691,686	150,624,046	192,379,763	191,008,205
Deferred tax assets	21,500,975		21,872,245	
<b>Total non-current assets</b>	<b>1,557,948,039</b>		<b>1,597,320,290</b>	
<b>Current assets</b>				
Inventories	81,688,962		74,893,425	
Trade receivables	85,205,885	49,059,595	95,181,737	53,953,456
Other receivables	17,005,280	10,149,750	45,815,114	32,776,925
Other current assets	2,054,164		1,518,966	
Derivatives measured at fair value	7,004,443		9,948,918	
Other short-term receivables	75,553,565	75,553,565	78,719,613	78,719,613
Cash and cash equivalents	84,972,264		85,908,328	
<b>Total current assets</b>	<b>353,484,563</b>		<b>391,986,101</b>	
<b>Total assets</b>	<b>1,911,432,602</b>		<b>1,989,306,391</b>	

RECORDATI S.p.A.

BALANCE SHEET IN ACCORDANCE WITH CONSOB RESOLUTION N. 15519 OF 27<sup>TH</sup> JULY 2006

## Equity and Liabilities

Amounts in euro	31 <sup>st</sup> December 2020	of which related parties	31 <sup>st</sup> December 2019	of which related parties
<b>Equity</b>				
Share capital	26,140,645		26,140,645	
Additional paid-in capital	83,718,523		83,718,523	
Treasury stock	(87,515,607)		(93,479,688)	
Statutory reserve	5,228,129		5,228,129	
Other reserves	302,314,749		268,887,583	
Revaluation reserve	2,602,229		2,602,229	
Interim dividend	(103,142,677)		(98,763,641)	
Net income	234,663,914		241,091,949	
<b>Total equity</b>	<b>464,009,905</b>		<b>435,425,729</b>	
<b>Non-current liabilities</b>				
Borrowings – due after one year	713,582,983		979,875,934	62,310,842
Employees benefit obligations	7,770,535		8,663,140	
Other non-current liabilities	0		3,255,646	
<b>Total non-current liabilities</b>	<b>721,353,518</b>		<b>991,794,720</b>	
<b>Current liabilities</b>				
Trade payables	34,971,065	6,143,240	62,650,316	5,888,009
Other current payables	22,617,944	18,216	25,533,454	177,439
Tax liabilities	2,845,342		2,349,033	
Other current liabilities	922,728		1,272,728	
Provisions	5,151,230		5,829,217	
Derivatives measured at fair value	8,504,996		10,787,600	
Borrowings – due within one year	246,997,314		140,297,060	
Short-term liabilities to banks	2,088,209		2,272,509	
Other short-term liabilities	401,970,351	401,970,352	311,094,025	311,094,025
<b>Total current liabilities</b>	<b>726,069,179</b>		<b>562,085,942</b>	
<b>Total equity and liabilities</b>	<b>1,911,432,602</b>		<b>1,989,306,391</b>	

## RECORDATI S.p.A.

# NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>st</sup> December 2020

## 1. GENERAL INFORMATION

These financial statements as at and for the year ended 31<sup>st</sup> December 2020 have been prepared by Recordati Industria Chimica e Farmaceutica S.p.A. (hereinafter the “Company” or “Recordati”), and they were approved by the Board of Directors on 18<sup>th</sup> March 2021, which authorised their publication.

Recordati Industria Chimica e Farmaceutica S.p.A. is a listed joint-stock company registered and with service address in Italy. These financial statements are available at the registered address of the Company at 1, Via Matteo Civitali, Milan.

The Company’s activities consist of the development, production and marketing of pharmaceutical products or of pharmaceutical chemicals. The Company operates in a broad and diverse context which includes general medicine, specialist medicine, self-medication and rare diseases. In addition to being present in the cardiovascular field and in that of hypertension in particular, Recordati is also active in that of urology, with treatments for benign prostatic hyperplasia and male functional disorders, and in psychiatry.

The separate company annual financial statements comprise the income statement, the balance sheet, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and these notes to the financial statements.

The separate annual financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) issued or reviewed by the International Accounting Standards Board (“IASB”) and endorsed by the European Union and also by regulations issued to implement Art. 9 of Legislative Decree No. 38/2005. Details of the accounting standards adopted by the Group are given in note 2 to the financial statements.

The presentation adopted by the Company for the income statement in the separate company annual financial statements classifies revenues and expenses by nature. The distinction between the principle of current and non-current was adopted for the presentation of assets and liabilities in the balance sheet. The indirect method was used to prepare the cash flow statement.

These financial statements are presented in euro (€) and all amounts in the notes to the statements are rounded to the nearest thousand euro unless otherwise stated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In compliance with Legislative Decree No. 38 of 28<sup>th</sup> February 2005 (which implements the options provided for by Art. 5 of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19<sup>th</sup> July 2002 concerning the application of international accounting standards) the separate company financial statements have been prepared by applying the International Financial Reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and endorsed by the European Union and also the regulations issued in implementation of Art. 9 of Legislative Decree No. 38/2005. These separate annual financial statements have been prepared using the same accounting standards as those applied in the last annual financial statements. The Company has not adopted any new standard, interpretation or amendment in advance that has been issued but is not yet in force.

The financial statements have been prepared on a going concern basis, because the Directors have found no cash flow, operational or other indicators to suggest that the company might face difficulties in its ability to meet its obligations in the foreseeable future and in the next twelve months in particular. More specifically,

account has been taken of the impacts, even potential, of the Covid-19 pandemic in making estimates and assumptions when preparing the financial statements. In order to address this emergency, the Company had already taken steps in 2020 to implement all possible measures and initiatives to guarantee both the supply of pharmaceuticals to its patients and the health of its employees. The results achieved demonstrate the effectiveness of the initiatives undertaken. Again in 2021, notwithstanding the continuation of the pandemic emergency, the Company considers that it is able to implement the necessary actions in order to ensure it is a going concern and able to achieve positive results.

### Adoption of new standards

Various amendments and interpretations are applicable for the first time in 2020, but have not had any impact on the financial statements of the Company for the year ended 31<sup>st</sup> December 2020.

#### AMENDMENTS TO IFRS 3: DEFINITION OF BUSINESS

The amendments to IFRS 3 clarify that in order to be considered a business, an integrated set of activities and assets must include at least one input and an underlying process which together contribute significantly to the ability to create an output. Furthermore, it has also been clarified that a business may exist without including inputs and processes necessary to create an output. These amendments have had no impact on the financial statements of the Company.

#### AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF MATERIAL

The amendments provide a new definition of material which state that “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. These amendments have had no impact on the financial statements of the Company, nor is any future impact for the Company expected.

#### ***Conceptual Framework for Financial Reporting issued on 29<sup>th</sup> March 2018***

The Conceptual Framework is not a standard and none of the concepts contained in it take precedence over the concepts or requirements of a standard. The purpose of the Conceptual Framework is to assist the IASB to develop standards, to assist preparers to develop consistent accounting when no existing standard applies in the specific circumstances and to assist all parties involved to understand and interpret standards.

The revised version of the Conceptual Framework includes some new concepts, provides updated definitions and updated criteria for the recognition of assets and liabilities and it also clarifies important concepts. These amendments have had no impact on the separate annual financial statements of the Company.

#### ***Amendment to IFRS 16 Covid-19 Related Rent Concessions***

On 28<sup>th</sup> May 2020 the IASB published an amendment to the standard IFRS 16. The amendment allows a lessee not to apply the requirements of IFRS 16 on the accounting effects of modifications for a reduction in lease payments granted as a concession by lessors which are a direct consequence of the Covid-19 pandemic. The amendment introduces a practical expedient by which a lessee may elect not to assess whether a rent concession represents contract modifications. A lessee that elects to use this expedient shall account for these reductions as if they were not contract modifications within the scope of IFRS 16.

The amendments are applicable to the financial statements for which the reporting period begins on or after

1<sup>st</sup> June 2020. Early adoption is permitted. These amendments have had no impact on the separate annual financial statements of the Company.

### Use of estimates

The preparation of financial statements requires estimates and assumptions to be made by directors based on the best possible assessments that have an impact on the values of revenue, expenses, assets and liabilities in the balance sheet and disclosure of contingent assets and liabilities as at the balance sheet date. If in the future those estimates and assumptions should differ from the actual circumstances, they shall be modified appropriately in accordance with the changes in the circumstances.

A brief description is given below of those items in the financial statements which more than others require greater discretion on the part of directors in making estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on financial data.

- Investments in subsidiaries: in compliance with the accounting standards applied, investments in subsidiaries are subject to impairment testing to ascertain whether a reduction in value has occurred, which is recognised with a write-down, when indicators exist which predict difficulty in realising the relative recoverable amount. Testing whether the aforementioned indicators exist requires the directors to make subjective assessments based on information available within the Company and on the market and on historical experience. Furthermore, if it is found that potential impairment may have occurred, the Company proceeds to measure it by using the measurement techniques considered most appropriate. Accurate identification of indicators of potential impairment and estimates to calculate it depend on factors which may change over time thereby influencing assessments and estimates made by the directors.
- Provisions: in some circumstances the decision as to whether or not a present obligation (legal or constructive) exists is not easy to make. Management assesses these circumstances on a case-by-case basis in combination with an estimate of the funds required to meet the obligation. When Management considers that it is only possible that a liability will arise, then the risks are reported in a special section of the report on commitments and risks without any recognition of a provision.
- Deferred tax assets: recognition must be supported by a plan to recover these assets based on hypotheses and assumptions that Management considers reasonable.
- Inventories: stock that may be obsolete or that has a slow turnover is periodically tested for impairment and is written down where the net realisable value is less than the carrying amount. Write-downs are based on assumptions and estimates resulting from experience and historical results.
- Financial instruments: trade receivables are adjusted by the relative allowances for bad debts to take account of their actual recoverable amount. Calculation of the amount of write-downs requires Management to make subjective assessments with account therefore taken of past events, current conditions and forecasts of future economic conditions.

Generally methods for measuring the fair value of financial instruments for accounting or disclosure purposes are summarised below with reference made to the main categories of financial instruments to which they apply:

- derivative instruments: appropriate pricing models are used based on market values for interest rates;
- loans and borrowings and unlisted financial assets: the discounted cash flow method (based on the present value of expected cash flows in consideration of current interest rates and credit ratings) is used for financial assets with maturities of greater than one year for measurement of the fair value on first-time recognition. Subsequent recognition is carried out using the amortised cost method;
- listed financial instruments: the market price as at the reporting date is used.

IFRS 13 requires the fair value of financial instruments to be measured by classifying them on the basis of a hierarchy of levels laid down by the standard itself, which reflects the degree of

observability of the market inputs used in the calculation of the fair value. The following levels are identified:

- Level 1: unadjusted quotations recorded on active markets for assets or liabilities subject to measurement;
- Level 2: inputs that are not quoted prices as per level 1, but which are observable on the market, either directly (as in the case of prices) or indirectly (i.e. because they are derived from prices);
- Level 3: inputs that are not based on observable market data.

## Balance sheet

*Property, plant and equipment* – Property, plant and equipment is recognised at historic cost net of the relative accumulated depreciation and any accumulated impairment. Subsequent costs are only capitalised when it is probable that the future economic rewards will flow to the Company. The costs for ordinary maintenance and repairs are recognised through profit or loss at the time at which they are incurred.

The carrying amount of property, plant and equipment is subject to impairment testing to measure any loss in value when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on impairment for details).

Depreciation is calculated on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets:

Industrial buildings 2.5% - 5.5%  
Plant & machinery 10% - 17.5%  
Other equipment 12% - 40%

The depreciation of an asset begins when it is installed and is ready for use or, in the case of self-constructed assets, when the assets have been completed and are ready for use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

*Leases* – When the Company signs a contract, it assesses whether it is, or contains, a lease. In other words, it assesses whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### *Accounting model for the lessee*

At the start of a contract or when changes are made to a contract that contains a lease component, the Company allocates the consideration for the contract to each lease and non-lease component on the basis of the relative prices. At the date of inception of a lease contract, the Company recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost inclusive of the amount of the initial lease liability, adjusted for payments due for leasing carried out at the date of or before the date of inception, plus the direct costs incurred and an estimate of the costs that the lessee will have to bear for disassembly and removal of the underlying assets and to restore the underlying assets or the site in which it is located, net of lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the date of inception until the end of the lease contract unless the lease transfers ownership of the underlying asset to the Company at the end of the lease contract or, considering the cost of the right-of-use asset, it is expected that the Company will exercise its purchase option. In this case, the right-of-use asset will be depreciated over the useful life of the underlying asset, calculated on the same basis as that used for property, plant equipment. Furthermore,



standard practice is followed to reduce the value of the right-of-use asset for impairment and it is adjusted to reflect any changes resulting from subsequent measurements of the lease liability.

The Company measures lease liabilities at the present value of the payments due for the lease not paid at the date of inception, discounted using the interest rate implicit in the lease. If it is not possible to calculate that rate easily, the Company uses the incremental borrowing rate. Generally, the Company uses the incremental borrowing rate as the discount rate.

The Company's incremental borrowing rate is calculated on the basis of interest rates obtained from various external sources of financing, which are then adjusted to reflect the terms and conditions of the lease and the type of asset leased.

Payments due for the lease included in the measurement of the lease liability are comprised of:

- fixed payments (including in-substance fixed payments);
- variable lease payments due that depend on an index or a rate, initially measured using an index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees; and
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, the payments due for a lease period where the Company has the option to extend it if the Company is reasonably certain to exercise that option and payments of penalties for terminating the lease in advance, unless the Company is reasonably certain that it will not terminate the lease in advance.

Lease liabilities are measured at amortised cost using the effective interest rate criteria and are measured again: if there is a change in the future payments due for the lease resulting from a change in an index or rate; if there is a change in the amount that the Company expects will be due under residual value guarantees; or if the Company changes its assessment of whether or not it will exercise a purchase, extension or termination option; or if there is a change in the in-substance fixed payments due.

When a lease liability is remeasured, the lessee makes a corresponding change to the relative right-of-use asset. If the carrying amount of a right-of-use asset is reduced to zero, the lessee recognises that change in net income for the year.

The Company recognises right-of-use assets which do not satisfy the requirement to be defined as investment property within the item "Property, plant and equipment" in the balance sheet and lease liabilities within the items "Borrowings – due after one year" and "Borrowings – due within one year."

#### *Short-term leases and low-value leases*

The Company has decided not to recognise right-of-use assets and lease liabilities for assets with low values and for short-term leases, inclusive of IT equipment. The Company recognises the relative payments due for these leases as an expense on a straight-line basis over the lease term.

*Intangible assets* - An intangible asset is recognised only if it can be identified, if it is probable that it will generate future economic rewards and its cost can be measured reliably. Intangible assets are recognised at purchase cost, net of amortisation calculated on a straight-line basis and on the basis of their estimated useful life which, however, cannot exceed 20 years. Patents, licences and know-how are amortised from the year of the first sale of the relative products. Amortisation of distribution and licence rights is generally calculated over the duration of the contract.

*Impairment* - At each balance sheet date, or more frequently if necessary, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of net selling price and value in use. In measuring value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of the money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised. A reversal of an impairment loss is recognised as income immediately.

*Investments in subsidiaries* – Investments in subsidiaries, which are those entities over which the Company holds control, are recognised at cost of purchase adjusted for impairment. Positive differences arising at the time of purchase between the purchase cost and the quota of the equity at present values held in the subsidiary attributable to the Company are therefore included in the carrying amount of the investment.

In compliance with the accounting standards applied, in the presence of specific impairment indicators the value of investments in subsidiaries, measured on the basis of the cost criterion, is subject to impairment testing. More specifically, the value of investments is tested for impairment if the stated value of the investment in the separate financial statements is greater than the carrying amount of the net assets of the investment, with account also taken of the effects of any implicit gains recognised and tested in the consolidated financial statements. For the purposes of impairment testing, the carrying amount of investments is compared with the recoverable amount, defined as the higher of the value in use and the fair value less costs to sell. If the recoverable amount of an investment is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. The reduction constitutes impairment and is recognised through profit and loss.

For the purposes of the impairment testing, the fair value is measured on the basis of the market value of the investment, regardless of the percentage of ownership. For investments in unlisted companies, the fair value is measured on the basis of valuation techniques, including the market-multiples approach.

The value in use on the other hand is measured by applying the “discounted cash flow - equity side” criterion, which consists of calculating the present value of future cash flows which it is estimated will be generated by the subsidiary, inclusive of cash flows from operating activities and the consideration resulting from the final sale of the investment, net of the financial position as at the measurement date.

If the necessary conditions for a previous write-down are reversed, the carrying amount of the investment is also reversed with recognition through profit and loss, up to the limits of the original cost.

According to IFRS 2, stock option plans for the employees of subsidiaries constitute an increase in the value of the relative investments. That increase in value consists of the fair value of the options on the grant date and it is recognised as an increase in the investments at constant rates over the period between the grant and the vesting date, with the balancing entry recognised directly in equity.

#### *Financial instruments*

##### *Recognition and measurement*

Trade receivables and debt securities in issue are recognised at the time they are originated. All other financial assets and liabilities are recognised initially on the date they are traded and that is when the Company becomes a party to the contract underlying the financial instrument. The following are exceptions to this: trade receivables that do not contain a significant financial component, financial assets and liabilities that are initially recognised at more or less fair value or, if lower, at the present value of the minimum payments due for leases. On initial recognition, trade receivables which do not have a significant financial component are recognised at the transaction price.

##### *Classification and subsequent measurement*

###### *Financial assets*

On initial recognition, a financial asset is classified on the basis of its measurement: amortised cost; fair value recognised through the comprehensive income (FVOCI) – debt security; (FVOCI) – equity; or at fair value recognised through profit or loss (FVTPL).

Financial assets are not reclassified after their initial recognition unless the Company modifies its business

model for the management of financial assets. In this case all the financial assets concerned are reclassified on the first day of the financial year after the business model is changed.

A financial asset must be measured at amortised cost if both the following conditions are met and it is not designated as at FVTPL:

- it is held as part of a business model the objective of which is to hold it with the objective of collecting the relative contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding to be repaid.

A financial asset must be measured at FVOCI if both the following conditions are met and it is not designated as at FVTPL:

- it is held as part of a business model the objective of which is achieved both by the collection of the contractual cash flows and by the sale of the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding to be repaid.

On the initial recognition of a security that is not held for trading, the Company may make an irrevocable choice to recognise subsequent changes in fair value through other comprehensive income. The choice is made for each asset.

All financial assets not classified as recognised at amortised cost or at FVOCI are recognised, as stated previously, at FVTPL. They include all derivatives. On initial recognition, the Company may irrevocably designate a financial asset as measured at fair value through profit or loss if by doing so it eliminates or significantly reduces an accounting mismatch which would otherwise result from the measurement of the financial asset at amortised cost or at FVOCI.

#### *Financial assets: subsequent measurement and profits and losses*

- *Financial assets measured at FVTPL*  
These assets are subsequently measured at fair value. Net profits and losses, inclusive of dividends or interest received, are recognised through profit or loss.
- *Financial assets measured at amortised cost*  
These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, gains and losses on foreign exchange rates and impairment are recognised through profit and loss as are any profits or losses resulting from derecognition.
- *Debt securities measured at FVOCI*  
These assets are subsequently measured at fair value. Interest income measured using the effective interest rate method, gains and losses on foreign exchange rates and impairment are recognised through profit or loss. Other net profits and losses are recognised through comprehensive income. On derecognition accumulated gains or losses recognised through other comprehensive income are reclassified as recognised through profit or loss.
- *Equities measured at FVOCI*  
These assets are subsequently measured at fair value. Dividends are recognised through profit or loss unless they clearly represent a recovery in the value of the investment. Other net profits and losses are recognised through other comprehensive income and are never reclassified as recognised through profit or loss.

#### *Financial liabilities: classification, subsequent measurement and profits and losses*

Financial liabilities are classified as recognised at amortised cost or at FVTPL. A financial liability is classified as recognised at FVTPL when it is held for trading, is a derivative or is designated as such on initial recognition. Financial liabilities recognised at FVTPL are measured at fair value and any changes in their value, inclusive of interest expense, are recognised through profit or loss. Other financial liabilities are subsequently recognised at amortised cost using the effective interest method. Interest expense and gains and losses on foreign exchange rates are recognised through profit or loss, as are any profits or losses resulting from derecognition.

### *Derecognition*

#### *Financial assets*

Financial assets are derecognised when the contractual rights to the cash flows from them expire, when the contractual right to receive the cash flows as part of a transaction in which all the risks and rewards of ownership of the financial asset are transferred or when the Company neither transfers nor maintains substantially all the risks and rewards of ownership of the financial asset and does not retain control of the financial asset.

The company is involved in transactions that involve the transfer of assets recognised in its accounts, but retains all or substantially all the risks and rewards arising from the transferred asset. In these cases the assets transferred are not derecognised.

#### *Financial liabilities*

The Company derecognises a financial liability when the obligation specified in the contract is discharged or cancelled or expires. The Company also derecognises a financial liability when there is a change in the terms of the contract and the cash flows of the modified liability are substantially different. In this case a new financial liability is recognised at fair value on the basis of the modified terms of the contract.

The difference between the carrying amount of the financial liability extinguished and the consideration paid (inclusive of assets that do not consist of cash transferred or liabilities taken on) is recognised through profit or loss.

### *Offsetting*

Financial assets and liabilities can be offset and the amount resulting from that offset is recognised if, and only if, at the time the Company has the legal right to offset the amounts and intends either to settle the balance on a net basis or realise the asset and settle the liability at the same time.

### *Derivatives and hedges (hedge accounting)*

The Company uses derivatives to hedge its positions that involve foreign exchange and interest-rate risks.

Derivatives are initially measured at fair value. After initial recognition, derivatives are measured at fair value and the relative changes are usually recognised through profit or loss.

The Company designates some derivatives as hedging instruments to hedge against changes in cash flows relating to highly probable transactions resulting from fluctuations in foreign exchange and interest rates and some derivatives and non-derivative financial liabilities as instruments to hedge against foreign exchange risk on a net investment in a foreign operation. At the start of the designated hedging relationship the Company documents its risk management objectives, the hedging strategy, the economic relationship, the hedging instrument and whether changes in the cash flows of the item hedged and of the hedging instrument are offset against each other.

### *Cash flow hedges*

When a derivative is designated as an instrument to hedge against changes in cash flows, the effective portion of the changes in the fair value of the hedging derivative is recognised through other comprehensive income and stated in the cash flow hedge reserve. The effective portion of the changes in fair value of a hedging derivative that is recognised through other comprehensive income is limited to the cumulative change in fair value of the instrument hedged, at present value, since the inception of the hedge. The ineffective portion of changes in the fair value of the derivative is recognised immediately through profit or loss.

When the hedge ceases to meet the qualifying criteria or the hedging instrument is sold, expires or is exercised then hedge accounting is discontinued prospectively. When cash flow hedge accounting ceases, the amount that has accumulated in the cash flow hedge reserve remains in equity until, for a hedge that involves recognition of a non-financial asset or liability, it is included in the cost of the non-financial asset or liability at the time of initial recognition or, for cash flow hedges, it is recognised through profit or loss in the financial year or in the subsequent financial years in which the expected cash flows hedged have an effect on profit or loss.

If future hedged cash flows are no longer envisaged, the amount must be immediately reclassified from the cash flow hedge reserve and from reserve for hedging costs to profit or loss.

#### *Hedging for net investments*

When a derivative or a non-derivative financial liability is designated as a hedging instrument for a net investment in a foreign operation, for derivatives, the effective portion of the change in the fair value of the derivative or, for a non-derivative instrument, the gains or losses on exchange rates, are recognised through other comprehensive income and are stated in the currency translation reserve in equity. The ineffective portion is recognised immediately through profit or loss. The amount recognised through other comprehensive income is reclassified to profit or loss on the disposal of the following operation.

#### *Inventories* - Inventories are stated at the lower of cost or the net realisable value.

Inventories of raw materials and supplies are measured at their average weighted purchase cost including costs incurred in bringing the inventories to their location and condition at year-end.

Inventories of work-in-process and finished goods are measured at their average weighted manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production, exclusive of general expenses.

Inventories are written down if the net realisable value is lower than cost as described above or in the case of obsolescence resulting from slow moving stocks.

*Cash and cash equivalents* - These consist of cash at banks on sight and readily marketable short-term investments and they are measured at market value.

*Equity* - Equity instruments issued by the Company are recognised at the amount of the proceeds received. All transactions of a capital nature between the Company and parties that exercise their rights and duties in their capacity as shareholders are recognised within that item.

Dividends declared by the Company are recognised as a liability at the time of approval of the resolution to distribute them.

The cost and selling prices of treasury shares are recognised directly in equity and therefore gains and losses on sales are not recognised through profit or loss.

*Provisions for employee benefits* - Employee benefits presented in the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liabilities recognised in the balance sheet for post-employment benefit schemes represent the present value of the defined benefit obligation, as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost. More specifically, the "Projected Unit Credit Method" is used. All actuarial gains and losses are recognised directly through other comprehensive income and stated in equity. Until 31<sup>st</sup> December 2006 the personnel leaving indemnities of Italian companies were considered defined benefit plans. The regulations governing those indemnities were amended by Law 296 of 27<sup>th</sup> December 2006 (2007 Finance Act) and subsequent amendments made in early 2007. In view of those changes and more specifically for companies with at least 50 employees, those benefits are now to be treated as defined benefit plans only for the amounts that accrued prior to 1<sup>st</sup> January 2007 (and not yet paid at the balance sheet date), while subsequent to that date they are treated in the same way as a defined contribution plan.

*Provisions* - Provisions are recognised when the Company has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

*Foreign currencies* - Transactions in currencies other than the euro are translated into the functional currency at the rates of exchange prevailing on the dates of the transactions. Monetary items denominated in such currencies are translated at the rates prevailing on the balance sheet date. Profits and losses arising on translation are included in net profit or loss for the period within Financial income (expense), net. Non-

monetary items, measured at historic cost in foreign currency, are translated using the exchange rate at the date of the transaction.

## Income Statement

The expenses are stated on an aggregate basis in the income statement “by nature”. The choice of this method of presentation is based on the nature of the Company as both a holding and an operating company. The objective is to both optimise and simplify general accounting practices and all the relative compliance activity required by Italian tax regulations.

*Revenue* - Revenue is measured with account taken of the consideration specified in the contract with the customer. It is recognised when control over the goods or services is transferred and it is stated net of returns, discounts and rebates.

Information on the nature and timing of the satisfaction of performance obligations in contracts with customers and the relative policies for recognition of revenues is given below.

Revenue is mainly comprised of the sales of products and income from license agreements. Sales of products are shown by the net amount of the invoice, less the estimated amounts for discounts and returns, and they are recognised when the control of the goods has been transferred to third parties. This usually occurs when ownership passes to the customer, on shipment or on receipt of the goods, depending on the specific conditions of the sale.

Revenue arising from licensing agreements includes income generated by agreements to collaborate on products for which the Company has granted determined rights under licence but in which it retains a significant economic interests, through, for example, the ordinary sale of finished products. The revenue may take the form of up-front payments, profit-sharing and royalties. When control of the right to use intangible assets is transferred at the beginning of an agreement, the revenue is recognised in one single amount. If the substance of an agreement gives the right of access to intangible assets, the revenues are recognised over time, usually on a straight-line basis for the entire term of the contract. If the Company provides services, such as for example the supply of products, the revenue is recognised for the entire period of the service provision. Revenue linked to the achievement of a sales target by a licensee is recognised in one single amount when the target is reached. Revenue for royalties is recognised in one single amount when the right to receive them vests.

*Research and development expenses* – R&D expenses are charged to the income statement in the year in which they are incurred in accordance with IAS 38, except in cases where they are capitalised in accordance with that same standard. More specifically, IAS 38 requires development costs to be capitalised if the technical and commercial feasibility for the sale of the products subject to development has been determined with a high probability of success and if future economic rewards are probable. Those expenses include amounts due under collaboration agreements with third parties.

*Non-reimbursable government grants* - Government grants towards investment in plant are recognised as income over the periods necessary to match them with the related costs and are recognised in the balance sheet as deferred income. Non-reimbursable government grants, including those for research, are recognised through profit and loss on an accrual basis within the item “other revenue”.

*Share based payment transactions* – According to IFRS 2, stock option plans for employees constitute a part of the remuneration of the beneficiaries, the cost of which is given by the fair value of the options on the grant date. It is recognized through profit or loss at constant rates over the period between the grant and the vesting date, with the balancing entry recognised directly in equity.

*Financial income and expense* – These include interest income and expense, foreign exchange gains and losses, both realised and unrealised, and differences arising from the valuation of securities. Interest income



and expense is recognised through profit and loss for the period to which it relates using the effective interest rate method.

*Taxation* - Taxation on income constitutes the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year and tax rates in force at the date of the balance sheet are applied.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be used. Such assets and liabilities are not recognised if the temporary difference arises from goodwill.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is recognised directly through profit or loss, except when it relates to items recognised directly in equity, in which case the deferred tax is also recognised in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

*Earnings per share* - Earnings per share is the net income for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the average weighted number of outstanding shares for the effects of all the potential dilutive ordinary shares.

### 3. REVENUE

Revenue came to € 449,376 thousand in 2020 (€ 440,919 thousand in the same period of 2019) and was composed as follows:

€ (thousands)	2020	2019	Change 2020/2019
Net sales	425,786	411,584	14,202
Royalties and up-front payments	2,391	1,819	572
Revenue from services	21,199	27,516	(6,317)
<b>Total revenue</b>	<b>449,376</b>	<b>440,919</b>	<b>8,457</b>

Net sales revenue is as follows:

€ (thousands)	2020		2019	
	Italy	Abroad	Italy	Abroad
Pharmaceuticals	185,266	191,202	198,283	166,669
Pharmaceutical chemicals	4,014	44,613	2,848	42,970
Other	284	407	376	438
<b>Total revenue for net sales</b>	<b>189,564</b>	<b>236,222</b>	<b>201,507</b>	<b>210,077</b>

Revenue from pharmaceuticals in Italy was € 185,266 thousand, down € 13,017 thousand on the previous year. We report, with regard to sales performance of prescription products in Italy, the expiry of the Urorec® patent (which occurred in February) and also competition from generic versions of Rextat® and Peptazol® and lower sales of Isocef®. The positive trend for sales of Cardicor® and Reagila® should also be mentioned.

We also report a fall in self-medication consumer products during the health emergency, while growth in the collyrium products Imidazyl®, Eumill® and Proctolyn® is underlined.

Sales abroad in the pharmaceutical sector increased by € 24,533 thousand compared with the previous year, attributable in particular to greater sales of metoprolol based products, of Reagila® (cariprazine) and of lercanidipine intermediates, net of lower sales of flavoxate.

Sales of pharmaceutical chemicals increased both in Italy and abroad by a total of € 2,809 thousand, due in particular to greater sales of tribenoside, manidipine and papaverine, net of lower sales of verapamil and dimenhydrinate.

Revenue from net sales by geographical area were as follows:

€ (thousands)	2020	2019	Change 2020/2019
Europe	418,843	410,027	8,816
<i>of which Italy</i>	<i>192,724</i>	<i>205,781</i>	<i>(13,057)</i>
Australasia	17,617	15,013	2,604
America	11,404	14,656	(3,252)
Africa	1,512	1,223	289
<b>Total</b>	<b>449,376</b>	<b>440,919</b>	<b>8,457</b>

In 2020, as also in 2019, no concentrations of revenue of greater than 10% were recorded for a single customer outside the Group.

Net sales revenues included € 216,291 thousand (€ 192,190 thousand in 2019) for sales of products to subsidiaries:



€ (thousands)	2020	2019	Change 2020/2019
Recordati Ireland Ltd.	101,489	102,289	(800)
Innova Pharma S.p.A.	25,089	25,521	(432)
Laboratoires Bouchara Recordati S.a.s.	19,769	16,918	2,851
Casen Recordati S.L.	5,147	1,434	3,713
Jaba Recordati S.A.	4,284	3,251	1,033
Recordati Pharma GmbH	25,484	17,540	7,944
Recordati İlaç	476	504	(28)
Recordati Rare Diseases S.a.r.l.	3,884	4,147	(263)
Opalia Pharma S.A.	11	30	(19)
Recordati Hellas Pharmaceuticals S.A.	1,508	1,072	436
Herbacos Recordati s.r.o.	10,481	6,789	3,692
Recordati Romania S.r.l.	4,467	3,615	852
Recordati Polska Sp. z o.o.	9,198	4,694	4,504
Recordati AG	4,489	3,413	1,076
Recordati BV	150	193	(43)
Recordati AB	365	284	81
Recordati Pharmaceuticals Ltd.	0	399	(399)
Recordati Rare Diseases Inc.	0	97	(97)
<b>Total</b>	<b>216,291</b>	<b>192,190</b>	<b>24,101</b>

All commercial transactions with subsidiaries took place under normal market conditions.

Revenue for royalties, up-front payments and services were composed as follows:

€ (thousands)	2020	2019	Change 2020/2019
Services and royalties to subsidiaries:			
Recordati Rare Diseases Italy S.r.l.	40	40	0
Innova Pharma S.p.A.	818	797	21
Recordati Ireland Ltd.	12,282	13,576	(1,294)
Laboratoires Bouchara Recordati S.a.s.	468	675	(207)
Recordati Pharma GmbH	1,089	1,240	(151)
Casen Recordati S.L.	645	366	279
Jaba Recordati S.A.	263	225	38
Recordati İlaç	322	309	13
Recordati Hellas Pharmaceuticals S.A.	93	91	2
Herbacos Recordati sro	106	101	5
Recordati Romania S.r.l.	96	86	10
Recordati Rare Diseases Sarl	1,407	2,114	(707)
Recordati Rare Diseases Inc.	1,119	2,429	(1,310)
Rusfic LLC	70	59	11
Recordati Polska Sp. z o.o.	148	129	19
Italchimici S.p.A.	1,296	2,537	(1,241)
Natural Point S.r.l.	694	565	129
Recordati AG	1,882	3,362	(1,480)
Recordati BV	124	70	54
Recordati AB	212	158	54
Recordati Pharmaceuticals Ltd.	57	20	37
Recordati Ukraine LLC	8	10	(2)
<b>Total services and royalties to subsidiaries</b>	<b>23,239</b>	<b>28,959</b>	<b>(5,720)</b>
Services and royalties to third parties			
<i>Royalties and up-front payments</i>	351	375	(24)
<b>Total services and royalties to third parties</b>	<b>351</b>	<b>375</b>	<b>(24)</b>
<b>Total revenue from services and royalties</b>	<b>23,590</b>	<b>29,334</b>	<b>(5,744)</b>

The revenue from royalties and services to subsidiaries related principally to the “Group Service Agreement” for services performed on behalf of subsidiaries during the year.

Revenues from Recordati Ireland Ltd. included € 11,467 thousand (€ 12,674 thousand in 2019) for adjustments to intercompany transfer prices made on the basis of the same criteria defined by the tax authorities for prior years and incorporated in a “Commercial and Management Service Agreement”.

Sales to Recordati Rare Diseases Sarl and to Recordati Rare Diseases Inc. were attributable in particular to R&D work carried out on behalf of those subsidiaries, in addition to the “Commercial and Management Service Agreement”.

Sales to Italchimici S.p.A. related above all to the continuation of co-promotion carried out on behalf of the subsidiary as well as to a service contract.

Sales to Recordati AG related in particular to R&D work carried out on behalf of that subsidiary on the products Signifor® and Isturisa®.

Services and royalties to third parties, which amounted to € 351 thousand, included € 350 thousand in relation to the quota for the year of up-front payments resulting from licence and distribution contracts received in prior years.

#### 4. OTHER REVENUE AND INCOME

Other revenue and income came to € 2,678 thousand in 2020, compared with € 5,964 thousand in 2019. It included charges to employees for the use of hired cars, other indemnities, non-recurring income, prior year income and gains on the sale of non-current assets.

There were also the charges passed on to licensees for the “1.83% discount” due on request from AIFA (Italian Medicines Agency) from the holder of the AIC (marketing authorisation).

Details of grants received for investments recognised in the income statement are given below for the last five years.

€ (thousands)	
2016	6
2017	1
2018	0
2019	0
2020	0
<b>Total</b>	<b>7</b>

The item also included € 45 thousand of income from property investments relating to the rent of premises at the Milan site to Innova Pharma S.p.A. amounting to € 12 thousand and also the rent of part of the offices in via Marostica in Milan to Recordati Rare Diseases Italy S.r.l. for € 33 thousand.

## 5. RAW MATERIALS COSTS

These were composed as follows:

€ (thousands)	2020	2019	Change 2020/2019
Raw materials and goods:			
from licensing-in agreements	47,188	41,940	5,248
from other	57,820	71,020	(13,200)
	105,008	112,960	(7,952)
Goods for resale	1,000	1,295	(295)
Packaging materials	7,621	7,194	427
Others and consumables	6,624	5,649	975
<b>Total</b>	<b>120,253</b>	<b>127,098</b>	<b>(6,845)</b>

The change in purchases of raw materials, goods and other materials correlates with the changes in the sales mix for each product.

Costs from others include purchases of metoprolol for € 10,691 thousand and raw materials from Recordati Ireland Ltd for € 8,008 thousand, from Innova Pharma S.p.A. for € 2,819 thousand, from Casen Recordati S.L. for € 3,422 thousand and from Italcimici S.p.A. for € 1,070 thousand.

## 6. PERSONNEL COSTS

Personnel costs were composed as follows:

€ (thousands)	2020	2019	Change 2020/2019
Wages and salaries	55,381	58,287	(2,906)
Social security payments	17,988	18,761	(773)
Salary resulting from stock option plans	2,184	3,166	(982)
Other costs	5,158	5,310	(152)
<b>Total personnel costs</b>	<b>80,711</b>	<b>85,524</b>	<b>(4,813)</b>

The reduction in the item wages and salaries compared with the year before was attributable in particular to lower provisions made for bonuses relating to the year, in addition to ordinary state temporary redundancy benefits for medical sales representatives for two months between April and June.

The expenses for stock option plans relate to the application of IFRS 2, which requires the measurement of those options as a component of the wages of the beneficiaries.

Other costs include the portions for the year of the leaving indemnity charges destined to pension funds in accordance with the legislation introduced by Law 296 of 27<sup>th</sup> December 2006.

Average workforce figures for the Company are shown in the table below:

	2020	2019	Change 2020/2019
Executives	73	69	4
Office workers	589	594	(5)
Manual workers	376	385	(9)
<b>Total</b>	<b>1,038</b>	<b>1,048</b>	<b>(10)</b>

## 7. DEPRECIATION AND AMORTISATION

This is composed as follows:

### Amortisation of intangible assets

€ (thousands)	2020	2019	Change 2020/2019
Patent rights and marketing authorisations	9,887	10,064	(177)
Distribution, licences, trademark and similar rights	5,851	5,403	448
<b>Total</b>	<b>15,738</b>	<b>15,467</b>	<b>271</b>

### Depreciation of property, plant and equipment

€ (thousands)	2020	2019	Change 2020/2019
Industrial buildings	1,232	1,233	(1)
General plant	646	604	42
Accelerated depreciation machinery	3,033	2,776	257
Normal depreciation machinery	1,593	1,343	250
Miscellaneous laboratory equipment	1,169	985	184
Office furnishings and machines	91	66	25
Electronic equipment	507	425	82
Vehicles for internal transport	8	9	(1)
Rights of use (IFRS 16)	1,228	1,531	(303)
<b>Total</b>	<b>9,507</b>	<b>8,972</b>	<b>535</b>

## 8. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

€ (thousands)	2020	2019	Change 2020/2019
Payback and discount of 1.83%	2,312	6,069	(3,757)
Meetings and scientific publications, market surveys and expenses for medical and scientific communications and advertising	8,433	10,339	(1,906)
Pharmacological clinical trials	914	4,694	(3,780)
Commissions on sales paid to agents and logistics commissions	5,080	5,275	(195)
Recordati Rare Diseases Inc. commissions	62	80	(18)
Transport and storage	3,067	2,438	629
Utilities and similar (motor fuel, gas, water, etc.)	5,008	5,628	(620)
Destruction of industrial waste, cleaning and sanitisation	4,541	2,845	1,696
Innova Pharma S.p.A. co-promotion service	818	1,861	(1,043)
Maintenance	4,027	3,979	48
Insurance premiums	499	493	6
Professional consulting services	3,556	4,297	(741)
Directors' fees	2,498	2,939	(441)
Statutory auditors' fees	150	141	9
Sundry personnel costs	1,692	3,563	(1,871)
Legal, judiciary and notary expenses	348	383	(35)
Sundry services and expenses charged back to subsidiaries	5,270	8,505	(3,235)
Postal and telecommunications expenses	356	321	35
External processing	12,060	9,373	2,687
External processing by Casen Recordati S.L.	2,337	0	2,337
External processing by Lab. Bouchara Recordati S.a.s.	1,134	684	450
Royalties payable	5,637	4,662	975
Innova Pharma S.p.A. royalties payable	553	0	553
Recordati Ireland Ltd. royalties payable	84	71	13
Natural Point S.r.l. Royalties payable	11	24	(13)
Rent payable	33	394	(361)
Natural Point S.r.l. rent payable	76	0	76
Car hire services and hire of third-party vehicles	1,630	930	700
Membership fees	289	301	(12)
Prior year expenses	73	90	(17)
Sundry taxation and product registration taxes	1,294	1,621	(327)
Bad debt allowances	110	22	88
Provisions for sundry risks	72	272	(200)
Provisions for agent customer indemnities	161	66	95
Company and product acquisition costs	0	72	(72)
Service expenses and charges made by subsidiaries	0	139	(139)
IT system services and IT connections	3,296	2,203	1,093
Costs and services for the reverse merger into the Parent Company	507	0	507
Covid-19 emergency donations	1,220	0	1,220
Other operating expenses	832	1,163	(331)
<b>Total</b>	<b>80,040</b>	<b>85,937</b>	<b>(5,897)</b>

The payback cost totalling € 2,312 thousand relates in particular to the 1.83% discount.

The reduction in costs compared with 2019 for the second item in the table is attributable to regulatory restrictions imposed on carrying out the relative activities during the various phases of the emergency.

The higher costs compared with 2019 for the item “Destruction of industrial waste, cleaning and sanitisation” are due to expenses incurred for the purchase of personal protective equipment and for the sanitisation of environments in order to reduce the risk of infection during the pandemic.

Expenses for the Innova Pharma S.p.A. co-promotion service related to services carried out by the sales network of that company on behalf of the Parent Company.

Details are given in the relevant parts of the Remuneration Report (published in accordance with Art. 123-ter of the Consolidated Finance Law) of the following: the remuneration of directors, statutory auditors, general managers and other key management personnel; the shares held in the Company by those persons; the stock option rights granted to them.

Lower personnel expenses compared with 2019 are due above all to lower travel expenses, to the canteen service due to smart working and to reduced training expenses during the health emergency.

Sundry services and charge backs to subsidiaries included, amongst other things, R&D costs incurred on behalf of Recordati Rare Diseases Sarl and Recordati Rare Diseases Inc. and then charged back to the subsidiaries.

In addition to the service costs the cost of external processing also includes the raw materials. The increase compared with 2019 is attributable in particular to a change in the production of metoprolol-based products which changed from purchasing finished products to outsourcing the processing to third parties.

The increase in royalties paid compared with 2019 relates above all to sales on the market of Reagila® (cariprazine).

The Innova Pharma S.p.A. royalties payable relate to the contract for sales of Transact Lat®.

Expenses for sundry services included the auditors’ fees.

Details of that remuneration are provided in attachment 7 in compliance with Art. 149-duodecies of the Consob Issuers’ Regulations.

The item “sundry taxation” amounting to € 1,294 thousand (€ 1,621 thousand in 2019) relates to the following:

€ (thousands)	2020	2019	Change 2020/2019
Contribution under Decree Law No. 269/2003	228	182	46
Government licence tax	260	588	(328)
Municipal property and service taxes	310	310	0
Stamp duties and similar	14	12	2
Non-deductible taxes	35	47	(12)
Sundry taxes	447	482	(35)
<b>Total</b>	<b>1,294</b>	<b>1,621</b>	<b>(327)</b>

In compliance with Decree Law 269 of 30<sup>th</sup> September 2003 converted into Law 326 of 24<sup>th</sup> November 2003, a contribution was paid in April amounting to 5% of the expenses incurred in the previous year for advertising activities, self-certified by the Company within the legal time limits. Taxes for government licences were attributable to the maintenance of and changes to registrations for ethical and self-medication products and to the registrations of new products. Sundry taxes include Tari (refuse tax), convention and congress registration taxes and Campoverde duties.

## 9. CHANGES IN INVENTORIES

Details of changes in inventories are as follows:

€ (thousands)	2020	2019	Change 2020/2019
Raw materials, ancillary materials, consumables and supplies	1,545	3,417	(1,872)
Intermediates and work-in-process	863	5,461	(4,598)
Finished products and goods	4,388	(698)	5,086
<b>Total</b>	<b>6,796</b>	<b>8,180</b>	<b>(1,384)</b>

## 10. INCOME FROM INVESTMENTS

Income from investments amounted to € 132,785 thousand (€ 128,138 thousand in 2019) and related to dividends from subsidiaries.

This income consisted of dividends declared and distributed by Bouchara Recordati S.A.S. (€ 15,000 thousand), Recordati Ireland Ltd. (€ 40,000 thousand), Recordati Orphan Drug S.A.S (€ 3,591 thousand), Recordati Pharma GmbH (€ 7,700 thousand), Herbacos Recordati s.r.o. (€ 2,607 thousand), Recordati Romania S.r.l. (€ 3,899 thousand) Innova Pharma S.p.A. (€ 30,048 thousand), Italcimici S.p.A. (€ 9,940) thousand) and Natural Point S.r.l. (€ 20,000 thousand).

## 11. WRITE-DOWN OF INVESTMENTS

The write-down of investments, amounting to € 2,539 thousand (€ 2,244 thousand in 2019) relates to the investment in Recordati Pharmaceuticals Ltd., as commented on in note 16.

## 12. FINANCIAL INCOME (EXPENSE), NET

Financial items recorded net expense of € 13,308 thousand in 2020 (€ 17,178 thousand in 2019). The main items are summarised in the table below.

€ (thousands)	2020	2019	Change 2020/2019
Foreign exchange gains (losses)	421	(2,419)	2,840
Interest income from subsidiaries	4,460	1,288	3,172
Interest expense payable to subsidiaries	(2,829)	(2,675)	(154)
Interest expense on loans	(9,004)	(5,722)	(3,282)
Interest expense on bond debt	(5,431)	(5,540)	109
Net interest on short-term financial positions	1,077	(590)	1,667
Bank charges	(1,901)	(1,356)	(545)
Interest cost in respect of defined benefit	(36)	(107)	71

plans (IAS 19)			
Interest expense on lease liabilities (IFRS 16)	(65)	(57)	(8)
<b>Total</b>	<b>(13,308)</b>	<b>(17,178)</b>	<b>3,870</b>

The balance on foreign exchange differences represented a gain € 421 thousand for 2020 compared with a cost of € 2,419 thousand in 2019. More specifically, the gain for the year consisted of € 507 thousand for the positive differences in exchange rates realised during the year and of a loss of € 86 thousand from the valuation as at 31<sup>st</sup> December 2020 of assets and liabilities in foreign currency. Art. 2426, point 8-bis is therefore not applicable to that income, by which, if a net gain arises from the foreign exchange translation performed at the end of the year, that amount is allocated to a special reserve that is not distributable until the gain is actually realised.

Interest income from subsidiaries was as follows:

€ (thousands)	2020	2019	Change 2020/2019
Italchimici S.p.A.	5	48	(43)
Recordati AG	4,115	772	3,343
Recordati Rare Diseases Australia Pty Ltd.	1	3	(2)
Recordati Polska Sp. z.o.o.	0	4	(4)
Casen Recordati S.L.	41	220	(179)
Recordati Pharma GmbH	1	0	1
Herbacos Recordati s.r.o.	2	0	2
Recordati Rare Diseases SA de C.V.	10	13	(3)
Recordati Ireland Ltd.	159	132	27
Laboratoires Bouchara Recordati S.a.s.	100	67	33
Bouchara Recordati S.a.s.	1	14	(13)
Recordati Rare Diseases Brazil	1	0	1
Recordati AB	24	11	13
Recordati Rare Diseases Japan K.K.	0	4	(4)
<b>Total</b>	<b>4,460</b>	<b>1,288</b>	<b>3,172</b>

Interest income relates to loans granted to subsidiaries during the year (€ 4,170) thousand) and to the centralised cash pooling treasury system in operation at the Parent Company since 2007 on the basis of which monthly interest receivable and payable is recognised at market rates (€ 290 thousand).

Short-term loans were outstanding as at 31<sup>st</sup> December to Recordati Rare Diseases SA de C.V. (MXN 3,000,000), to Recordati Rare Diseases Brazil (€ 300 thousand) and Herbacos Recordati s.r.o. (€ 1,050 thousand) and long-term loans were outstanding to Recordati AG (CHF 198,129,291).



Interest expense paid to subsidiaries was as follows:

€ (thousands)	2020	2019	Change 2020/2019
Casen Recordati S.L.	556	80	476
Laboratoires Bouchara Recordati S.a.s.	9	0	9
Fic Medical S.a.r.l.	3	1	2
Innova Pharma S.p.A.	96	40	56
Jaba Recordati S.A.	43	6	37
Recordati Ireland Ltd.	13	2	11
Recordati Rare Diseases Spain S.L.	43	5	38
Recordati Rare Diseases Sarl	395	30	365
Recordati Pharma GmbH	65	25	40
Recordati Rare Diseases Inc.	715	2,133	(1,418)
Recordati AG	0	7	(7)
Recordati Hellas Pharmaceuticals S.A.	30	4	26
Recordati Rare Diseases Germany GmbH	44	13	31
Recordati Romania S.r.l.	79	18	61
Recordati Rare Diseases Italy S.r.l.	124	20	104
Recordati BV	15	2	13
Bouchara Recordati S.a.s.	16	6	10
Rusfic LLC	161	198	(37)
Recordati Rare Diseases Middle East FZ LLC	31	11	20
Recordati Orphan Drugs S.a.S.	271	52	219
Italchimici S.p.A.	11	0	11
Tonipharm	40	0	40
Herbacos Recordati s.r.o.	6	0	6
Natural Point S.r.l.	63	22	41
<b>Total</b>	<b>2,829</b>	<b>2,675</b>	<b>154</b>

Interest expense relates to loans granted by subsidiaries during the year (€ 831 thousand) and to the centralised cash pooling treasury system amounting to € 1,998 thousand.

As at 31<sup>st</sup> December short-term loans were outstanding from the company Recordati Rare Diseases Middle East FZ LLC amounting to € 10,500 thousand and from Recordati Romania S.r.l. amounting to RON 5,500,000.

### 13. TAXES

Taxes on income recognised in the income statement were composed as follows:

€ (thousands)	2020	2019	Change 2020/2019
Current taxation:			
IRES (corporate income tax)	30,629	24,967	5,662
IRAP (regional tax on production)	7,333	5,714	1,619
“Patent box” tax relief	(2,707)	(35,348)	32,641
Prior year taxation	397	(816)	1,213
<b>Total current taxation</b>	<b>35,652</b>	<b>(5,483)</b>	<b>41,135</b>
Deferred taxation:			
Movement in deferred tax assets/liabilities, net	(505)	(504)	(1)
Use of prior year deferred tax assets/liabilities	5,142	5,676	(534)
Benefit from future instalments of “patent box” tax relief	(5,414)	0	(5,414)
<b>Total deferred tax liabilities</b>	<b>(777)</b>	<b>5,172</b>	<b>(5,949)</b>
<b>Total</b>	<b>34,875</b>	<b>(311)</b>	<b>(35,186)</b>

Provisions for taxes were made on the basis of estimated taxable income.

Following the preliminary agreement effective for the tax years from 2015 to 2019 between Recordati S.p.A. and the Preliminary and Dispute Agreements Office of the tax authority to determine the economic contribution in the event of the direct use of intangible assets, for the current tax year the Company decided to opt for the new “self-assessment” regime, provided for by law as an alternative to the ruling, continuing to operate with the criteria agreed with the tax authorities for the previous five-year period.

For the financial year 2020, the benefit relating to that year from income usable for the exploitation of intangible assets (know-how) for the purposes of “patent box” tax relief amounted to € 8.1 million. Nevertheless, the use of the benefit is distributed over three years and as a consequence € 2.7 million will be directly usable in the income tax return for the current financial year and the remaining € 5.4 million will be usable over the next two financial years.

The provision for deferred tax (assets)/liabilities of € 505 thousand is composed as follows:

	2020		2019	
	Temporary differences	Tax Effect	Temporary differences	Tax Effect
<b>DEFERRED TAX ASSETS</b>				
- Provisions	(1,276)	(306)	(1,365)	(328)
- Costs relating to future years	(826)	(199)	(214)	(51)
- Write-down of inventories	0	0	(522)	(125)
<b>TOTAL</b>	<b>(2,102)</b>	<b>(505)</b>	<b>(2,101)</b>	<b>(504)</b>
<b>DEFERRED TAX ASSETS/LIABILITIES, NET</b>		<b>(505)</b>		<b>(504)</b>

The reconciliation between the current tax rate for income tax levied on the Company and the actual tax rate incurred is as follows:

	2020 %	2019 %
Tax rate applicable for IRES (corporate income tax)	24	24
Dividends from subsidiaries	(11.2)	(12.1)
Write down of equity investment	0.2	0.2
Contributions to congresses	0	0.2
Sundry items	(0.2)	(0.1)
<b>Effective tax rate for IRES</b>	<b>12.8</b>	<b>12.2</b>
IRAP (regional tax on production)	2.9	2.7
"Patent box" tax relief	(3.0)	(14.7)
Prior year taxes	0.2	(0.3)
<b>Tax rate on pretax net income</b>	<b>12.9</b>	<b>(0.1)</b>

IRAP as a percentage of pretax profit was 2.9% because the tax is calculated on a different tax basis which includes interest and some extraordinary items.

#### 14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, as at 31<sup>st</sup> December 2020 and 2019 amounted to € 67,071 thousand and € 61,869 thousand respectively (€ 51,855 thousand as at 31<sup>st</sup> December 2018) and it included the value of right-of-use assets for assets that are leased. Movements in this item are given below.

€ (thousands)	Land and buildings	Plant and machinery	Other fixtures	Construction in progress	Total
<b>Cost of acquisition</b>					
<b>Balance as at 1<sup>st</sup> January 2019</b>	<b>41,464</b>	<b>165,245</b>	<b>40,737</b>	<b>11,743</b>	<b>259,189</b>
Additions	95	1,141	1,954	11,858	15,048
Disposals	(53)	(532)	(1,375)	0	(1,960)
Reclassifications	215	3,371	1,124	(4,710)	0
<b>Balance as at 31<sup>st</sup> December 2019</b>	<b>41,721</b>	<b>169,225</b>	<b>42,440</b>	<b>18,891</b>	<b>272,277</b>
Additions	733	1,913	1,497	11,527	15,670
Disposals	(1,211)	(295)	(620)	0	(2,126)
Reclassifications	276	7,660	1,847	(9,783)	0
<b>Balance as at 31<sup>st</sup> December 2020</b>	<b>41,519</b>	<b>178,503</b>	<b>45,164</b>	<b>20,635</b>	<b>285,821</b>
<b>Accumulated depreciation</b>					
<b>Balance as at 1<sup>st</sup> January 2019</b>	<b>31,269</b>	<b>139,749</b>	<b>32,377</b>	<b>0</b>	<b>203,395</b>
Depreciation for the year	1,483	4,924	2,565	0	8,972
Disposals	(53)	(532)	(1,374)	0	(1,959)
<b>Balance as at 31<sup>st</sup> December 2019</b>	<b>32,699</b>	<b>144,141</b>	<b>33,568</b>	<b>0</b>	<b>210,408</b>
Depreciation for the year	1,290	5,453	2,764	0	9,507
Disposals	(250)	(296)	(619)	0	(1,165)
<b>Balance as at 31<sup>st</sup> December 2020</b>	<b>33,739</b>	<b>149,298</b>	<b>35,713</b>	<b>0</b>	<b>218,750</b>
<b>Carrying amount</b>					
<b>31<sup>st</sup> December 2020</b>	<b>7,780</b>	<b>29,205</b>	<b>9,451</b>	<b>20,635</b>	<b>67,071</b>
31 <sup>st</sup> December 2019	9,022	25,084	8,872	18,891	61,869
1 <sup>st</sup> January 2019	10,195	25,496	8,360	11,743	55,794

In 2020 additions amounted to € 15,670 thousand (of which € 2,398 thousand due to the application of the accounting standard IFRS 16, and related mainly to investments of € 5,169 thousand in the Milan plant and headquarters and to work done on the Campoverde di Aprilia plant amounting to € 8,103 thousand).

Depreciation for the year amounted to € 9,507 thousand and was calculated on all depreciable assets using rates which are held to be representative of the estimated useful life of the assets.

The table below shows the amounts for right-of-use lease assets determined according to the accounting standard IFRS 16.

€ (thousands)	Land and buildings	Plant and machinery	Other fixtures	Total
<b>Cost of acquisition</b>				
<b>Balance as at 1<sup>st</sup> January 2019</b>	<b>1,211</b>	<b>267</b>	<b>2,461</b>	<b>3,939</b>
Additions	0	0	1,083	1,083
Disposals	0	0	(188)	(188)
Reclassifications	0	0	0	0
<b>Balance as at 31<sup>st</sup> December 2019</b>	<b>1,211</b>	<b>267</b>	<b>3,356</b>	<b>4,834</b>
Additions	701	858	839	2,398
Disposals	(1,211)	(267)	(383)	(1,861)
Reclassifications	0	0	0	0
<b>Balance as at 31<sup>st</sup> December 2020</b>	<b>701</b>	<b>858</b>	<b>3,812</b>	<b>5,371</b>
<b>Accumulated depreciation</b>				
<b>Balance as at 1<sup>st</sup> January 2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Depreciation for the year	250	200	1,080	1,530
Disposals	0	0	(188)	(188)
Reclassifications	0	0	0	0
<b>Balance as at 31<sup>st</sup> December 2019</b>	<b>250</b>	<b>200</b>	<b>892</b>	<b>1,342</b>
Depreciation for the year	58	181	989	1,228
Disposals	(250)	(267)	(383)	(900)
Reclassifications	0	0	0	0
<b>Balance as at 31<sup>st</sup> December 2020</b>	<b>58</b>	<b>114</b>	<b>1,498</b>	<b>1,670</b>
<b>Carrying amount</b>				
<b>31<sup>st</sup> December 2020</b>	<b>643</b>	<b>744</b>	<b>2,314</b>	<b>3,701</b>
31 <sup>st</sup> December 2019	961	67	2,464	3,492
1 <sup>st</sup> January 2019	1,211	267	2,461	3,939

The rights of use for finance lease assets relate mainly to motor vehicles used by pharmaceutical sales representatives who work in local areas.

We report that no restrictions exist on title, and property, plant and equipment pledged as security for liabilities.

## 15. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortisation, as at 31<sup>st</sup> December 2020 and 2019 amounted to € 226,414 thousand and € 235,923 thousand respectively (€ 242,174 thousand as at 31<sup>st</sup> December 2018). Movements in this item are given below.

€ (thousands)	Patent rights and marketing authorisations	Distribution, licences, trademark and similar rights	Other	Assets under construction and advances	Total
<b>Cost of acquisition</b>					
<b>Balance as at 1<sup>st</sup> January 2019</b>	<b>212,280</b>	<b>90,734</b>	<b>13,234</b>	<b>10,495</b>	<b>326,743</b>
Additions	0	2,822	0	6,394	9,216
Reclassifications	0	7,435	0	(7,435)	0
<b>Balance as at 31<sup>st</sup> December 2019</b>	<b>212,280</b>	<b>100,991</b>	<b>13,234</b>	<b>9,454</b>	<b>335,959</b>
Additions	0	435	0	5,794	6,229
Reclassifications	0	2,608	0	(2,608)	0
<b>Balance as at 31<sup>st</sup> December 2020</b>	<b>212,280</b>	<b>104,034</b>	<b>13,234</b>	<b>12,640</b>	<b>342,188</b>
<b>Accumulated amortisation</b>					
<b>Balance as at 1<sup>st</sup> January 2019</b>	<b>42,105</b>	<b>29,230</b>	<b>13,234</b>	<b>0</b>	<b>84,569</b>
Amortisation for the year	10,064	5,403	0	0	15,467
<b>Balance as at 31<sup>st</sup> December 2019</b>	<b>52,169</b>	<b>34,633</b>	<b>13,234</b>	<b>0</b>	<b>100,036</b>
Amortisation for the year	9,887	5,851	0	0	15,738
<b>Balance as at 31<sup>st</sup> December 2020</b>	<b>62,056</b>	<b>40,484</b>	<b>13,234</b>	<b>0</b>	<b>115,774</b>
<b>Carrying amount</b>					
<b>31<sup>st</sup> December 2020</b>	<b>150,224</b>	<b>63,550</b>	<b>0</b>	<b>12,640</b>	<b>226,414</b>
31 <sup>st</sup> December 2019	160,111	66,358	0	9,454	235,923
1 <sup>st</sup> January 2019	170,175	61,504	0	10,495	242,174

The additions to intangible assets amounting to € 6,229 thousand relate particularly to the licensing agreement with Gedeon Richter for the rights on Reagila® (cariprazine).

All intangible assets have a finite useful life and are amortised over a period not exceeding 20 years.

Industrial patent rights consist mainly of the rights on metoprolol acquired in 2017 from AstraZeneca.

The item distribution, licence and trademark rights is composed mainly of the remaining amount of €23,588 thousand resulting from the acquisition in December 2017 of three products from Bayer Consumer Health for the French market: Transipeg®, TransipegLib® and Colopeg® and an additional € 22,590 relating to the Gedeon Richter licensing agreement for the rights on Reagila® (cariprazine) both amortised over 20 years.

## 16. INVESTMENTS

Investments amounted to € 1,092,270 thousand as at 31<sup>st</sup> December 2020, an increase of € 6,994 thousand on 2019.

Investments in subsidiaries as at 31<sup>st</sup> December 2020 amounted to € 1,049,754 thousand and the remaining € 42,516 thousand relate to other investments and shares held by the Company as reported in the table in Attachment 1.

The percentage of ownership and the number of shares or quotas possessed are reported in Attachment 2.

A comparison between the carrying amount of investments in subsidiaries and their valuation using the equity method, in accordance with Art. 2426 of the Italian Civil Code, is reported in Attachment 3.

In compliance with the accounting standards applied, in the presence of specific impairment indicators the value of investments in subsidiaries, measured on the basis of the cost criterion, is subject to impairment testing. More specifically, the value of investments is tested for impairment if the stated value of the investment in the separate financial statements is greater than the carrying amount of the net assets of the investment, with account also taken of the effects of any implicit gains recognised and tested in the consolidated financial statements. For the purposes of impairment testing, the carrying amount of investments is compared with the recoverable amount, defined as the higher of the value in use and the fair value less costs to sell.

The table below reports the discount rates used for carrying out impairment tests for each of the investments subject to testing:

<i>Investment</i>	<i>Discount rate</i>
Recordati Pharmaceuticals Ltd.	4.34%
Recordati Polska S.p.z.o.o.	5.21%
Natural Point S.r.l.	4.98%
Accent LLC	11.24%

Forecasts of operational cash flows for the specific period (2021-2023) used for the calculation were taken from the 2021 budget approved by the Board of Directors of the Company on 17<sup>th</sup> December 2020 and, for the years 2022 and 2023, from specific forecasts for the investments subject to impairment tests, approved by the Board of Directors on 18<sup>th</sup> March 2021.

With regard to the impairment test carried out on the subsidiary Recordati Pharmaceuticals Ltd., the comparison between the recoverable amount of the investment and the carrying amount for the Company resulted in the need to write down its value by € 2,539 thousand to the limit of its fair value calculated as its worth using the equity method.

The remaining investments in subsidiaries, with the movements in them reported in Attachment 2, recorded an increase in value of € 2,695 thousand following the stock option plans existing as at the 31<sup>st</sup> December 2020.

According to IFRS 2, stock option plans for the employees of subsidiaries constitute an increase in the value of the relative investments. That increase in value consists of the fair value of the options on the grant date and it is recognised as an increase in the investments at constant rates over the period between the grant and the vesting date, with the balancing entry recognised directly in equity. The cost of the stock options granted to employees of foreign companies was recognised as an increase in the value of the relative investments amounting to € 2,694 thousand.

The value of the investments in other undertakings relates to that in the English Company PureTech Health plc, specialised in start-up companies dedicated to innovative therapies, medical devices and new research technologies. The shares of this company have been admitted for listing on the London

stock market since 19<sup>th</sup> June 2015 and the total fair value as at 31<sup>st</sup> December 2020 of the 9,554,140 shares held was € 42,509 thousand. The value of the investment was consequently increased by € 6,911 thousand, compared with that recognised as at 31<sup>st</sup> December 2019 with the balancing entry, net of tax, recognised in other comprehensive income (in equity) in line with the accounting treatment in previous years.

We also report that shares were sold during the year of the United States company Codexis Inc. for consideration of € 66 thousand.

A detailed summary of both directly and indirectly controlled subsidiaries is given in Attachment 4 with the sales revenue and net income for each company.

All the investments reported regard share capital with voting rights.

The relative part of the consolidated report may be consulted for further information on investments.

## 17. OTHER NON-CURRENT ASSETS

Loans and receivables due after one year are classified within this item. As at 31<sup>st</sup> December 2020 they amounted to € 150,692 thousand, (€ 192,380 thousand as at 31<sup>st</sup> December 2019) and related mainly to the non-current portion of the loan granted to Recordati AG (€ 150,624 thousand due in 2024).

That the loan was granted under normal market conditions.

## 18. DEFERRED TAX ASSETS

As at 31<sup>st</sup> December 2020 these amounted to € 21,501 thousand (€ 21,872 thousand as at 31<sup>st</sup> December 2019), a decrease of € 371 thousand.

The overall movements in deferred tax assets and those in the main types are shown in the following two tables:

€ (thousands)	2020	2019
<b>Balance as at 1<sup>st</sup> January</b>	<b>21,872</b>	<b>27,854</b>
Increases	5,919	504
Uses	(6,290)	(6,486)
<b>Balance as at 31<sup>st</sup> December</b>	<b>21,501</b>	<b>21,872</b>

€ (thousands)	Balance as at 31/12/2019	Provision	Use	Balance as at 31/12/2020
Adoption of IFRS 15	355		(98)	257
Relief on goodwill	17,758		(4,439)	13,319
Valuation of derivative instruments	1,941		(1,102)	839
Provisions for risks	1,830	306	(436)	1,700
Write-down of inventories	183		(85)	98
Valuation of investments	(264)		(82)	(346)
Benefit from future "patent"	0	5,414		5,414



box" tax relief				
Other	69	199	(48)	220
<b>Total</b>	<b>21,872</b>	<b>5,919</b>	<b>(6,290)</b>	<b>21,501</b>

The item includes deferred tax assets relating to components of profits and losses recognised in equity amounting to €1,148 thousand as at 31<sup>st</sup> December 2020 (€ 810 thousand as at 31<sup>st</sup> December 2019).

## 19. INVENTORIES

Net inventories as at 31<sup>st</sup> December 2020 and 2019 amounted to € 81,689 thousand and € 74.893 thousand respectively, as shown in the following table:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Raw materials, ancillary materials, consumables and supplies	19,389	17,844	1,545
Intermediates and work-in-process	21,202	20,339	863
Finished products and goods	41,098	36,710	4,388
<b>Total</b>	<b>81,689</b>	<b>74,893</b>	<b>6,796</b>

Inventories increased by € 6,796 thousand of which €4,388 thousand relating to finished products and goods to meet future expected requirements.

## 20. TRADE RECEIVABLES

Trade receivables as at 31<sup>st</sup> December 2020 and 2019 amounted to € 85,206 thousand and € 95,182 thousand respectively, as shown below.

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Trade receivables from subsidiaries	49,060	53,953	(4,893)
Trade receivables from others:			
Italy	29,327	32,868	(3,541)
Abroad	7,926	9,508	(1,582)
	<b>86,313</b>	<b>96,329</b>	<b>(10,016)</b>
less:			
Allowance for doubtful accounts	(1,107)	(1,147)	40
<b>Total trade receivables</b>	<b>85,206</b>	<b>95,182</b>	<b>(9,976)</b>

The exposure calculated on receivables from others stood at 63 days outstanding as at 31<sup>st</sup> December 2020, in line with a year earlier.

The adjustment of receivables in non-euro currencies resulted in the recognition of negative exchange rate differences of € 113 thousand. The receivables are recognised inclusive of those adjustments.

Trade receivables from Group companies arose from the supply of goods and services and are composed as follows:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Innova Pharma S.p.A.	5,330	4,599	731
Recordati Ireland Ltd.	22,174	25,216	(3,042)
Laboratoires Bouchara Recordati S.a.s.	1,410	2,418	(1,008)
Jaba Recordati S.A.	986	487	499
Recordati Pharma GmbH	4,285	2,123	2,162
Casen Recordati S.L.	533	309	224
Recordati Ilaç	445	330	115
Recordati Rare Diseases Italy S.r.l.	22	23	(1)
Recordati Hellas Pharmaceuticals S.A	325	138	187
Herbacos Recordati s.r.o.	1,793	63	1,730
Recordati Rare Diseases Sarl	1,880	4,027	(2,147)
Recordati Romania S.r.l.	1,626	792	834
Recordati Polska S.p. z.o.o.	3,730	371	3,359
Recordati Rare Diseases Inc.	996	2,452	(1,456)
Recordati Pharmaceuticals Ltd.	0	10	(10)
Recordati Ukraine Ltd.	9	12	(3)
Recordati Rare Diseases SA de C.V.	0	11	(11)
Opalia Pharma S.A.	0	6	(6)
Rusfic LLC	76	73	3
Italchimici S.p.A.	1,196	2,711	(1,515)
Recordati AB	56	66	(10)
Recordati AG	1,502	6,822	(5,320)
Recordati BV	67	34	33
Natural Point S.r.l.	619	860	(241)
<b>Total</b>	<b>49,060</b>	<b>53,953</b>	<b>(4,893)</b>

The trade receivables from Recordati Ireland Ltd. include the amounts charged back under a Commercial and Management Service Agreement amounting to € 11,467 thousand (€12,674 thousand in 2019).

Trade receivables from Recordati AG are due to the charge back of costs incurred for the acquisition of the products Signifor® and osilodrostat and to the charge back of commissions for the relative services provided by the Company.

Trade receivables from Recordati Rare Diseases Inc. are due to a service contract and for charging back the costs of the regional manager.

Other changes are attributable to automated netting procedures for outstanding intercompany positions, by which intragroup items are automatically offset against each other each month and the relative balances settled.

Changes in the allowance for doubtful accounts are as follows:

€ (thousands)	2020	2019
Balance as at 1 <sup>st</sup> January	1,147	1,173
Use for losses on receivables	(150)	(48)
Addition for the year	110	22
<b>Balance as at 31<sup>st</sup> December</b>	<b>1,107</b>	<b>1,147</b>

The Company uses a matrix to measure losses on trade receivables from individual customers, which is composed of a very high number of small balances. Losses on receivables are estimated by using a method based on the probability of the deterioration of the receivables through the different stages of default. It considers exposures in different categories based on the credit risk characteristics they hold in common, such as for example geographical area and duration of the relationship with the customer. The following table provides information on exposure to credit risk for trade receivables from third parties as at 31<sup>st</sup> December 2020.

€ (thousands)	Gross receivables
Current (not past due)	36,760
1-30 days past due	643
31-60 days past due	229
61-90 days past due	(441)
90 days past due	62
<b>Total trade receivables, gross</b>	<b>37,253</b>

The allowance is considered appropriate in relation to potential risks of insolvency.

The composition of the principal receivables in foreign currency is as follows:

	31.12.2020		31.12.2019	
	Currency(000)	€(000)	Currency(000)	€(000)
Receivables in US\$	3,543	2,992	6,457	5,822
Receivables in CHF	0	0	1,068	980
Receivables in RON	7,698	1,580	3,536	740
Receivables in CZK	37,848	1,418	0	0
Receivables in PLN	16,630	3,678	0	0

## 21. OTHER RECEIVABLES

Other receivables amounted to € 17,005 thousand (€ 45,815 thousand as at 31<sup>st</sup> December 2019). The composition is given in the table below.

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Tax income	12,635	41,519	(28,884)
From parent companies	24	26	(2)
From subsidiaries	419	648	(229)
Advances to employees and agents	1,330	1,602	(272)
Other	2,597	2,020	577
<b>Total other receivables</b>	<b>17,005</b>	<b>45,815</b>	<b>(28,810)</b>

Tax receivables as at 31<sup>st</sup> December 2020 amounted to € 12,635 thousand (€ 41,519 thousand in 2019) and they were composed as follows:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Receivables from Fimeì S.p.A. for current taxes (IRES – corporate income tax)	7,509	11,311	(3,802)
Receivables from Fimeì S.p.A. for “patent box” tax relief (IRES)	2,197	20,792	(18,595)
Receivables for current taxes IRAP (regional tax on production)	603	2,112	(1,509)
Receivables for “patent box” tax relief (IRAP)	510	4,825	(4,315)
Refund requested from tax authorities	43	43	0
VAT	1,271	2,279	(1,008)
Receivables from foreign VAT tax authorities	111	144	(33)
Tax credit for research	376	0	376
Sundry receivables	15	13	2
<b>Total tax receivables</b>	<b>12,635</b>	<b>41,519</b>	<b>(28,884)</b>

The receivables from the parent company Fimeì S.p.A. for current taxation relate to taxes for the year calculated on the basis of estimated taxable income which were found to be lower than the amounts paid on account. Those assets were transferred by Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.

Tax receivables from Fimeì for the “patent box” tax relief constitute the current quota of the “patent box” tax relief, as commented on in note 13.

A tax credit refund was received during the year requested relating to an application for an IRES (corporate income tax) tax refund because it had not made an expense based deduction from IRAP (regional tax on production) relating to personnel expense for employees for the years 2007 until 2011 in accordance with Art. 2, paragraph 1-*quater* of Decree Law 201 of 2011;

Receivables from subsidiaries amounted to € 419 thousand (€ 648 thousand in 2019) and related to VAT transferred under Group procedures from the company Innova Pharma S.p.A..

Advances to employees and agents as at 31<sup>st</sup> December 2020 and 2019 came to € 1,330 thousand and € 1,602 thousand respectively. They consisted of advances to employees, expense accounts for medical representatives and loans granted to employees who exercised stock option rights amounting to € 1,175 thousand for the purchase of 57,000 shares resulting from the options granted on 13<sup>th</sup> April 2016 and 3<sup>rd</sup> August 2018.

Receivables from others as at 31<sup>st</sup> December 2020 amounted to € 2,597 thousand (€ 2,020 thousand as at 31<sup>st</sup> December 2019) and included, amongst other things, advances to suppliers.

## 22. OTHER CURRENT ASSETS

Other current assets amounted to € 2,054 thousand (€ 1,519 thousand as at 31<sup>st</sup> December 2019) and related mainly to prepaid expenses. These were advance instalments on periodic services covering two financial years.

## 23. FAIR VALUE OF HEDGING DERIVATIVES (current assets)

These amounted to € 7,004 thousand (€ 9,949 thousand as at 31<sup>st</sup> December 2019).

The market value (fair value) as at 31<sup>st</sup> December 2020 of the currency swaps entered into by the Company to hedge a bond issued for \$ 75 million on 30<sup>th</sup> September 2014 gave rise to assets totalling € 7,004 thousand. That value represents the potential benefit resulting from a lower value of the future cash flows in United States dollars in terms of principal and interest, due to an appreciation of the foreign currency with respect to the time of finalising the loan and acquiring the hedge instruments. More specifically, the fair value of the derivative to hedge the \$ 50 million tranche of the loan granted by Mediobanca was positive by € 4,655 thousand, while that of the instrument to hedge the \$ 25 million tranche of the loan granted by Unicredit was positive by € 2,349 thousand.

The fair value of these hedging derivatives is measured at level 2 of the hierarchy set out in financial reporting standard IFRS 13 (see note 2). The fair value is equal to the present value of the estimated future cash flows. The estimated future cash flows at a floating interest rate are based on listed interest-rate swaps, futures prices and interbank rates. The estimated cash flows are discounted using a yield curve obtained from similar sources to those that reflect the reference interbank rate applied by market participants for the measurement of interest-rate swaps.

## 24. OTHER SHORT-TERM RECEIVABLES

Other short-term receivables all consist of amounts due from subsidiaries as follows:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Casen Recordati S.L.	0	3,004	(3,004)
Bouchara Recordati S.a.s.	0	586	(586)
Laboratoires Bouchara Recordati S.a.s.	18,994	67	18,927
Recordati AB	2,134	3,421	(1,287)
Recordati Ireland Ltd.	19,269	42,081	(22,812)
Recordati Rare Diseases SA de C.V.	130	152	(22)
Italchimici S.p.A.	0	47	(47)
Recordati AG	33,676	29,130	4,546
Recordati Rare Diseases Australia Pty Ltd.	0	191	(191)
Herbacos Recordati s.r.o.	1,050	0	1,050
Recordati Rare Diseases Brasil	301	0	301
Tonipharm S.A.S.	0	40	(40)
<b>Total</b>	<b>75,554</b>	<b>78,719</b>	<b>(3,165)</b>

The receivables above are due from the cash pooling treasury system in operation at the Parent Company amounting to € 40,397 thousand, the portions due within one year of the loan granted to Recordati AG (CHF 198,129,291) and the short-term loans to Recordati Rare Diseases SA de C.V. (MXN 3,000,000), to Recordati Rare Diseases Brazil (€ 300 thousand) and to Herbacos Recordati s.r.o. (€ 1,050 thousand).

Interest is paid on these receivables at market rates.

## 25. CASH AND CASH EQUIVALENTS

These are composed as shown in the following table.

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Deposits in bank current accounts	84,304	85,077	(773)
Cash on hand	2	3	(1)
Proceeds from derivative instruments	666	828	(162)
<b>Total</b>	<b>84,972</b>	<b>85,908</b>	<b>(936)</b>

Cash and cash equivalents as at 31<sup>st</sup> December 2020, consisted of current accounts and short-term bank deposits.

## 26. EQUITY

A summary of the changes in the shareholders' equity accounts is reported in the relative statement. Following the entry into force of Legislative Decree 6/2003, which amended the Italian Civil Code, the table contained in Attachment 5 was introduced, which gives the composition of reserves on the basis of availability for use and distribution.

*Share capital* - The share capital as at 31<sup>st</sup> December 2020 amounting to € 26,140,645, is fully paid up and consists of 209,125,156 ordinary shares with a par value of € 0.125 each. It remained unchanged over the course of 2020.

### *Additional paid-in capital*

Additional paid-in capital as at 31<sup>st</sup> December 2020 amounted to € 83,718 thousand and was unchanged compared with 31<sup>st</sup> December 2019.

The adoption of international accounting standards resulted in the elimination of revaluation reserves amounting to € 68,644 thousand. The tax obligation on these (untaxed – taxation suspended) was transferred to the additional paid-in capital reserve.

### *Treasury shares*

As at 31<sup>st</sup> December 2020 this amounted to € 87,516 thousand, consisting of 2,829,302 treasury shares held in portfolio.

The net change was € 5,964 thousand and was due to the sale of 1,762,500 shares for € 53,835 thousand at the service of the 2010-2013, 2014-2018 and 2018-2022 stock option plans and to the purchase of 1,283,231 shares for € 47,871 thousand.

### *Statutory reserve*

This amounted to € 5,228 thousand and was unchanged compared to 31<sup>st</sup> December 2019 because the limit set by Art. 2430 of the Italian Civil Code had been reached.

### *Other reserves*

Other reserves totalled € 302,315 thousand. Details are as follows:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Gain on merger	29,813	29,813	0
Extraordinary reserve	94,277	76,729	17,548
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	99	0
Extraordinary VAT concession reserve	517	517	0
Research and investment grants	17,191	17,191	0
Non-distributable reserve for investments in southern Italy	3,632	3,632	0
International accounting standards reserve	159,445	147,052	12,393
<b>Total</b>	<b>304,974</b>	<b>275,033</b>	<b>29,941</b>
Reserve for derivative instruments	(2,659)	(6,145)	3,486
<b>Total other reserves</b>	<b>302,315</b>	<b>268,888</b>	<b>33,427</b>

- *Gain on merger*  
This amounted to € 29,813 thousand (unchanged compared with 2019) and it relates to the merger gain generated in 2017 following the merger of the former subsidiary Recordati S.A. Chemical and Pharmaceutical Company into the Company.
- *Extraordinary reserve*  
This amounted to € 94,277 thousand and € 76,729 thousand respectively as at 31<sup>st</sup> December 2020 and 31<sup>st</sup> December 2019. That reserve increased by a total of € 17,548 thousand as result of the following:
  - allocation of part of net income for the year amounting to € 35,669 thousand in accordance with a shareholders' resolution dated 29<sup>th</sup> April 2020;
  - the difference between the amount paid by Group employees who exercised options as part of stock option plans and the carrying amount of the treasury stock recognised in the balance sheet amounting to € 18,134 thousand, which was charged as a decrease to the extraordinary reserve in accordance with international accounting standards.
  - the allocation of dividends not paid and expired amounting to € 13 thousand;
- *Reserve under Art. 13, paragraph 6 of Legislative Decree 124/1993*  
This amounted to € 99 thousand as at 31<sup>st</sup> December 2020 and remained unchanged compared with the previous year.
- *Extraordinary VAT concession reserve*  
This reserve (Laws 675/1977, 526/1982, 130/1983 and 64/1986), amounting to € 517 thousand, relates to special VAT allowances on investments and is unchanged compared with the previous year.
- *Research and investment grants*  
These amounted to € 17,191 thousand and were unchanged compared with the previous year. The grants are subject to taxation if they are used for purposes other than to cover losses, which, however, is not planned by the Company. The assets corresponding to the grants received from the Ministry of Industry and Commerce (formerly Asmez) have been mainly fully depreciated.
- *Non-distributable reserve for investments in southern Italy*  
This amounted to € 3,632 thousand and is unchanged compared with the previous year.
- *Stock option reserve and other IAS reserves*  
This amounted to € 159,445 thousand (€ 147,052 thousand as at 31<sup>st</sup> December 2019) and is composed as follows:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Reversal of fixed asset revaluations	40,479	40,479	0
Revaluation of investments	43,054	43,054	0
Inventories	463	463	0
Employee benefit obligations	(746)	(634)	(112)
Stock options	22,205	20,020	2,185
Adjustment to investments for stock options	17,896	15,202	2,694
<i>Stock options – Rossini Luxembourg S.à r.l. incentive scheme</i>	1,409	604	805
Reserve to adjust entries for the merged company	24	24	0
Financial instrument adjustment reserve	34,661	27,840	6,821
<b>Total</b>	<b>159,445</b>	<b>147,052</b>	<b>12,393</b>



Changes that occurred in the items in 2020 included the following:

- *Employees benefit obligations*  
The valuation of the employees benefit obligations provision in accordance with IAS 19 generated a reserve as at 31<sup>st</sup> December 2020 amounting to € 746 thousand;
- *Stock options*  
the amount of € 22,205 thousand relates to the personnel expense for stock options issued and granted after 7<sup>th</sup> November 2002 and not yet exercised, valued in accordance with IFRS 2. The amount of € 17,896 thousand relates to the cost for the stock options of employees of subsidiaries, the valuation of which, in agreement with IFRS 2, was recognised as an increase in the value of the investments in the companies in which those employees work;
- *Stock options – Rossini Luxembourg S.à r.l. Incentive scheme*  
the amount of € 1,409 thousand relates to the personnel cost for shares of Rossini Luxembourg S.à r.l., an indirect shareholder of Recordati S.p.A., purchased at face value by some employees of the Company;
- *Financial instrument adjustment reserve*  
this reserve, amounting to € 34,661 thousand, is a result almost entirely of the adjustment as at the value date, net of tax, of the value of the investment in PureTech Health p.l.c..
- *Reserve for derivative instruments*  
In accordance with the provisions of IFRS 9, this reserve is comprised of the following: the balancing entry of the amounts for the assets resulting from measurement at market value of cross currency swaps of a cash flow nature, the balancing entry of the amount recognised through profit or loss to offset movements in the exchange rate at the end of the year relating to a hedged loan in foreign currency and the liabilities resulting from the measurement at the market value of interest rate swap transactions also of a cash flow hedge nature. The amount as at 31<sup>st</sup> December 2020, net of tax, was negative by € 2,659 thousand.

#### *Revaluation reserve*

This amounted to € 2.602 thousand (unchanged compared with 2019) and consisted of revaluation balances within the meaning of Law 413/1991.

Untaxed (suspended taxation) reserves at 31<sup>st</sup> December 2020 amounted to € 87,826 thousand and consisted of € 15,964 thousand of reserves for grants received net of the taxed portion, € 517 thousand of the VAT concession reserve and € 99 thousand of the reserve formed pursuant to the Law regulating pension funds and € 71,246 thousand of the revaluation reserves net of the substitute taxes. Revaluation reserves amounting to € 68,644 thousand were eliminated in compliance with international accounting standards and the non-taxability was transferred to the additional paid-in capital reserve. No deferred tax provisions were recognised in respect of those reserves, because, in accordance with IAS 12, these deferred tax provisions are recognised in the year in which the distribution is declared.

#### *Incentive schemes*

As at 31<sup>st</sup> December 2020 there were two stock option plans in place in favour of certain Group employees: the 2014-2018 plan with options granted on 29<sup>th</sup> July 2014 and 13<sup>th</sup> April 2016 and the 2018-2022 plan, with options granted on 3<sup>rd</sup> August 2018. The exercise price of the options is the average of the company's listed share price during the 30 days prior to the grant date. The options vest over a period of five years and options not exercised within the eighth year of the grant date

expire. Options cannot be exercised if the employee leaves the Company before they are vested.

Details of stock options outstanding as at 31<sup>st</sup> December 2020 are as follows:

	Strike price (€)	Options outstanding as at 1.1.2020	Options granted during 2020	Options exercised during 2020	Options cancelled and expired	Options outstanding as at 31.12.2020
<b>Grant date</b>						
8 <sup>th</sup> May 2012	5.3070	242,500	-	(237,500)	(5,000)	-
17 <sup>th</sup> April 2013	7.1600	25,000	-	(25,000)	-	-
30 <sup>th</sup> October 2013	8.9300	5,000	-	(5,000)	-	-
29 <sup>th</sup> July 2014	12.2900	1,138,500	-	(360,000)	-	778,500
13 <sup>th</sup> April 2016	21.9300	2,218,000	-	(578,000)	(52,500)	1,587,500
3 <sup>rd</sup> August 2018	30.7300	4,578,500	-	(557,000)	(180,500)	3,841,000
<b>Total</b>		<b>8,207,500</b>	<b>-</b>	<b>(1,762,500)</b>	<b>(238,000)</b>	<b>6,207,000</b>

During the course of 2019 some employees of the Recordati Group were designated as beneficiaries of an incentive scheme with a vesting period of five years, on the basis of which they purchased shares of Rossini Luxembourg S.à r.l., an indirect shareholder of Recordati S.p.A., and they will benefit from a return at the end of the life of the plan.

## 27. BORROWINGS – DUE AFTER ONE YEAR

Loans outstanding as at 31<sup>st</sup> December 2020 and 2019 are summarised in the table below.

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Loan granted by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual instalments by 2022	13,637	20,454	(6,817)
Bond subscribed in dollars by the investor Pricoa Capital Group (Prudential)	61,120	66,762	(5,642)
Loan granted by Unicredit at a floating interest rate, repaid in 2020	0	5,000	(5,000)
Loan granted by Ing Bank at a floating interest rate, repaid in 2020	0	3,750	(3,750)
Loan granted by Recordati Rare Diseases at a fixed interest rate, repaid in advance in 2020	0	62,311	(62,311)
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2020 (extended until 2021)	6,250	12,500	(6,250)
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2021	8,333	16,667	(8,334)
Bond subscribed in euro by the investor Pricoa Capital Group (Prudential)	125,000	125,000	0
Loan granted by Mediobanca at a floating interest rate repayable in annual instalments by 2024	43,500	54,000	(10,500)
Loan granted by UBI Banca at a floating interest rate repayable in a single instalment in 2022	50,000	50,000	0
Loan granted by Unicredit at a floating interest rate repayable in a single instalment in 2021	50,000	50,000	0
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2025	53,571	64,286	(10,715)
Loan granted by Banca Passadore at a floating interest rate repayable in annual instalments by 2022	10,000	15,000	(5,000)
Loan granted by Banca del Mezzogiorno - Mediocredito Centrale at a fixed and floating interest rate repayable in semi-annual instalments by 2021.	1,718	3,002	(1,284)
Loan granted by Mediobanca at a floating interest rate repayable in semi-annual instalments by 2023	128,571	150,000	(21,429)
Loan granted by a pool of banks with Mediobanca as the agent at a floating interest rate repayable in semi-annual instalments by 2024	346,200	400,000	(53,800)
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual instalments by 2024	22,500	22,500	0
Loan granted by UBI Banca at a fixed interest rate repayable in a single instalment in 2021.	40,000	0	40,000
<b>Total amortised cost of loans</b>	<b>960,400</b>	<b>1,121,232</b>	<b>(160,832)</b>
Portion due within one year	(245,908)	(139,115)	(106,793)
<b>Portion due after one year</b>	<b>714,492</b>	<b>982,117</b>	<b>(267,625)</b>
Expenses relating to loans	(3,562)	(4,569)	1,007
<b>Total loans due after one year net of costs</b>	<b>710,930</b>	<b>977,548</b>	<b>(266,618)</b>
Long-term lease liabilities (IFRS 16)	2,653	2,328	325
<b>Total</b>	<b>713,583</b>	<b>979,876</b>	<b>(266,293)</b>

This item includes liabilities resulting from the application of the financial reporting standard IFRS 16, which represents an obligation to make payments under existing lease contracts. These liabilities amounted to € 2,653 thousand as at 31<sup>st</sup> December 2020 (€ 2,328 thousand as at 31<sup>st</sup> December 2019).

As at 31<sup>st</sup> December 2020 these loans, inclusive also of the current portions (see note No. 36), amounted to € 960,580 thousand. The net decrease of € 159,593 thousand compared with 31<sup>st</sup> December 2019 was the result of new loans for € 39,954 thousand, of repayments for the period amounting to € 194,136 thousand, an increase in lease liabilities in application of IFRS 16 amounting to € 231 thousand and the effect of the foreign currency translation of the amount for the bond issued in USD to Prudential (a decrease of € 5,642 thousand).

The portions of the loans due after 31<sup>st</sup> December 2020 will be repaid, on the basis of the repayment schedules, in the following years:

€ (thousands)

2022	207,038
2023	164,605
2024	170,582
2025	20,705
2026 and subsequent years	148,000
<b>Total loans</b>	<b>710,930</b>
Long-term lease liabilities (IFRS 16)	2,653
<b>Total</b>	<b>713,583</b>

#### Details of loans outstanding as at 31<sup>st</sup> December 2020

A loan agreement signed by the Company on 30<sup>th</sup> November 2010 with Centrobanca, for a three-year programme of investments in R&D. The loan, which Centrobanca funded through a loan from the European Investment Bank, amounted to € 75.0 million of which € 30.0 million was disbursed in 2010 and € 45.0 million in the first quarter of 2011. The main terms and conditions were a floating interest rate and a life of 12 years with repayment in semi-annual instalments of the principal from June 2012 and through December 2022. The remaining debt as at 31<sup>st</sup> December 2020 was € 13.6 million. In June 2012 the loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate. Measurement of the fair value of the derivative instrument for the hedge as at 31<sup>st</sup> December 2020 was negative by € 341 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives" (see note 35).

The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants subject to measurement on a semi-annual basis are as follows:

- the ratio of consolidated net debt to consolidated shareholders' equity must be less than 0.75 to 1.00;
- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBITDA to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

A bond subscribed by the Company on 30<sup>th</sup> September 2014 for a total of \$ 75 million, divided into two tranches: \$ 50 million at a fixed rate, repayable semi-annually from 30<sup>th</sup> March 2022 and

maturing on 30<sup>th</sup> September 2026 and \$ 25 million again at a fixed rate, repayable semi-annually from 30<sup>th</sup> March 2023 and maturing on 30<sup>th</sup> September 2029. The conversion of the debt as at 31<sup>st</sup> December 2020 determined a decrease in liabilities of € 5,642 thousand compared with 31<sup>st</sup> December 2019, due to an appreciation of the United States dollar against the consolidation accounting currency.

The loan was hedged at the same time by two cross currency swap transactions, which involved transformation of the debt into a total of € 56.0 million, of which € 37.3 million at a lower fixed interest rate for the tranche maturing in 12 years and € 18.7 million again at a lower fixed interest for that maturing in 15 years. The measurement of the hedging instruments at fair value as at 31<sup>st</sup> December 2020 was positive on aggregate by € 7,004 thousand and was recognised directly as an increase in equity and an increase in the asset item "Fair value of hedging derivatives" (see note 23). The bond is subject to covenants and failure to comply with them may result in the immediate call of the bond.

The financial covenants subject to measurement on a quarterly basis are as follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

On 8<sup>th</sup> November 2016, the Company signed a loan agreement with the subsidiary Recordati Rare Diseases, in order to centralise cash generated by the subsidiary, for a total loan of \$ 70.0 million divided into two tranches: \$ 30 million at a fixed rate, repayable in a single instalment initially due on 13<sup>th</sup> June 2023 and \$ 40 million at a fixed rate, again repayable in a single instalment initially due on 13<sup>th</sup> June 2025. The Company extinguished the debt in advance in April 2020.

A loan agreement for € 25.0 million was signed by the Company in December 2016 with Banca Nazionale del Lavoro. The main terms and conditions of the loan were a floating interest rate equal to the 6-month Euribor plus a spread and a life of four years, with semi-annual repayments of the principal by March 2021 September commencing from March 2019 (the Company benefited from a change in the original due date set for September 2020 as part of action taken by the bank designed to ease the financial pressure on companies generated by the Covid-19 epidemic). The remaining debt as at 31<sup>st</sup> December 2020 was € 6.3 million. Following the postponement of the due date, the interest rate swap used as a cash flow hedge, which transformed the debt into a fixed interest rate, was extinguished at a negligible cost.

The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants subject to measurement on a semi-annual basis are as follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

A loan agreement for € 25.0 million was signed by the Company in December 2016 with Intesa Sanpaolo. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread and a life of five years, with semi-annual repayments of the principal by December 2021 commencing from June 2019. The remaining debt as at 31<sup>st</sup> December 2020 was € 8.3 million. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the debt to a fixed interest rate. Measurement of the fair value of the derivative instrument for the

hedge as at 31<sup>st</sup> December 2020 was negative by € 13 thousand and this was recognised directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives” (see note 35).

The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants subject to measurement on an annual basis are as follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

A bond was issued by the Company in May 2017 for a total of € 125.0 million, at a fixed rate, repayable annually from 31<sup>st</sup> May 2025 and maturing on 31<sup>st</sup> May 2032.

The bond is subject to covenants and failure to comply with them may result in the immediate call of the bond.

The financial covenants subject to measurement on a quarterly basis are as follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

A loan agreement for € 75.0 million was signed by the Company in July 2017 with Mediobanca. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread and a life of seven years with annual repayments of the principal commencing in July 2018 and continuing until July 2024. The remaining debt as at 31<sup>st</sup> December 2020 was € 43.5 million. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate. Measurement of the fair value of the derivative instrument for the hedge as at 31<sup>st</sup> December 2020 was negative by € 899 thousand and this was recognised directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives” (see note 35).

The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants subject to measurement on an annual basis are as follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

A loan agreement for € 50.0 million was signed by the Company in July 2017 with UBI Banca. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread, with semi-annual repayments of the interest and repayment of the principal in a single instalment on 7<sup>th</sup> September 2022. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate. Measurement of the fair value of the derivative instrument for the hedge as at 31<sup>st</sup> December 2020 was negative by € 701 thousand and this was recognised directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives” (see note 35).

The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants subject to measurement on an annual basis are as

follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

A loan agreement for € 50.0 million signed by the Company in September 2017 with UniCredit. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread, with semi-annual repayments of the interest and repayment of the principal in a single instalment on 29<sup>th</sup> September 2021. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate. Measurement of the fair value of the derivative instrument for the hedge as at 31<sup>st</sup> December 2020 was negative by € 324 thousand and this was recognised directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives” (see note 35).

The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants subject to measurement on an annual basis are as follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

A loan agreement for € 75.0 million was signed by the Company in October 2017 with Intesa Sanpaolo. The main terms and conditions are a floating interest rate equal to the 6-month Euribor plus a spread, semi-annual payment of interest and a life of 8 years with semi-annual repayments of the principal by June 2025 commencing from June 2019. The remaining debt as at 31<sup>st</sup> December 2020 was € 53.6 million. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate. Measurement of the fair value of the derivative instrument for the hedge as at 31<sup>st</sup> December 2020 was negative by € 1,213 thousand and this was recognised directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives” (see note 35).

The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants subject to measurement on an annual basis are as follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

A loan agreement for € 15.0 million was signed by the Company in November 2017 with Banca Passadore. The main terms and conditions are a floating interest rate equal to the 3-month Euribor plus a spread, quarterly payment of interest and a life of 5 years with annual repayments of the principal from November 2020 and until November 2022. The remaining debt as at 31<sup>st</sup> December 2020 was € 10.0 million.

The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants subject to measurement on an annual basis are as follows:



- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

A loan granted by Banca del Mezzogiorno-Mediocredito Centrale to the Company in July 2018 for € 4.3 million to support investments in research, of which € 3.9 million at a subsidised fixed interest rate to be repaid in six semi-annual instalments from 30<sup>th</sup> June 2019 and by 31<sup>st</sup> December 2021 and € 0.4 million at a floating interest rate equal to the 6-month Euribor plus a fixed spread, to be repaid in two instalments on 30<sup>th</sup> June and 31<sup>st</sup> December 2021. The remaining debt as at 31<sup>st</sup> December 2020 totalled € 1.7 million.

The loan agreement was not subject to compliance with financial covenants.

A loan agreement for € 150.0 million signed by the Company in November 2018 with Mediobanca, at a floating interest rate equal to the 6-month Euribor plus a spread, floating on the basis of a step up mechanism as a function of changes in leverage ratio, with quarterly payments of interest and a life of 5 years with semi-annual repayments of principal starting from November 2020 and until November 2023. The remaining debt as at 31<sup>st</sup> December 2020 totalled € 128.6 million. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate. Measurement of the fair value of the derivative instrument for the hedge as at 31<sup>st</sup> December 2020 was negative by € 1,863 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives" (see note 35).

The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants subject to measurement on an annual basis are as follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

In June 2019 the Company negotiated a loan for € 400.0 million, designed to support the Group's growth strategy. This financing, initially underwritten by Mediobanca, Natixis and Unicredit was subsequently syndicated with the involvement of a pool of national and international banks. The main terms and conditions are a floating interest rate equal to the 6-month Euribor (with a zero floor) plus a spread, floating on the basis of a step up mechanism as a function of changes in the leverage ratio, and a life of five years, with repayments of the principal in semi-annual instalments starting from 30<sup>th</sup> June 2020 and continuing until June 2024. Disbursement, net of up-front commissions, took place on 30<sup>th</sup> July 2019. The remaining debt recognised as at 31<sup>st</sup> December 2020 totalled € 346.2 million. The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants subject to measurement on a semi-annual basis are as follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

In August 2019 the Company signed a loan agreement with Ing Bank for € 22.5 million and a floating



interest equal to the 6-month Euribor plus a spread, floating on the basis of a step up/step down mechanism as a function of changes in the leverage ratio, with semi-annual payments of interest and repayment of the principal, again on a semi-annual basis, starting from 2021 and until December 2024. The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants subject to measurement on a semi-annual basis are as follows:

- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were fulfilled.

In April 2020 the Company signed a loan agreement with UBI Banca for € 40.0 million at a fixed interest rate with quarterly payment of interest and repayment of the principle in a single instalment in October 2021.

The loan agreement was not subject to compliance with financial covenants.

## 28. EMPLOYEES BENEFIT OBLIGATIONS

The balance as at 31<sup>st</sup> December 2020 was € 7,771 thousand (€ 8,663 thousand as at 31<sup>st</sup> December 2019). Changes in the item were as follows:

€ (thousands)	2020	2019
Balance as at 1 <sup>st</sup> January	8,663	9,356
Additions for the year	37	107
Uses during the year	(1,062)	(1,238)
Change in fair value of the employees benefit obligations fund (IAS 19)	133	438
<b>Balance as at 31<sup>st</sup> December</b>	<b>7,771</b>	<b>8,663</b>

The valuation of employees benefit obligations in accordance with IAS 19 generated a liability as at 31<sup>st</sup> December 2020 of € 7,771 thousand. The calculations carried out, which used actuarial parameters updated as at 31<sup>st</sup> December 2020, found a greater liability and resulted in the recognition of an adjustment of € 133 thousand to the fund compared with the figure as at 31<sup>st</sup> December 2019 which was stated, net of tax, in the statement of comprehensive income recognised in equity, as required by the relative accounting standard.

## 29. OTHER NON-CURRENT LIABILITIES

The balance as at 31<sup>st</sup> December 2020 was zero. The balance of € 3,256 as at 31<sup>st</sup> December 2019, relating to the portion of the debt for the acquisition of a further 10% of the interest held in Opalia Pharma S.A. was reclassified to other current liabilities.

## 30. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include end-of-year provisions for invoices to be received, amounted as at 31<sup>st</sup> December 2020 and 2019 to € 34,971 thousand and € 62,650 thousand respectively. Details are as follows:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Suppliers, subsidiaries	6,143	5,888	255
Suppliers, Italy	16,488	28,308	(11,820)
Suppliers, Italy for invoices to be received	6,096	7,237	(1,141)
Suppliers, abroad	4,004	18,161	(14,157)
Suppliers, abroad for invoices to be received	2,240	3,056	(816)
<b>Total trade payables</b>	<b>34,971</b>	<b>62,650</b>	<b>(27,679)</b>

The substantial reduction in trade payables compared with 2019 is attributable to purchase costs down by € 6.8 million (note 5) and operating expenses down by € 5.9 million (note 8). Furthermore, greater attention was paid to the main suppliers to obtain payments by the due date and finally, with regard to metoprolol-based products for the Group, we report that a change was made in the supply chain from the purchase of a finished product to outsourcing the processing, which speeded the arrival of bulk supplies at the pre-production stage.

Details for subsidiaries are as follows:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Recordati Rare Diseases Inc.	725	10	715
Laboratoires Bouchara Recordati S.a.s.	82	226	(144)
Innova Pharma S.p.A.	1,180	3,155	(1,975)
Italchimici S.p.A.	0	634	(634)
Recordati Ireland Ltd.	2,649	1,321	1,328
Casen Recordati S.L.	1,345	475	870
Bouchara Recordati S.a.s	6	0	6
Herbacos Recordati S.r.o.	6	0	6
Recordati Orphan Drugs S.a.s	52	0	52
Recordati Rare Diseases S.A. DE CV Messico	5	0	5
Recordati Rare Diseases Sarl	30	0	30
FIC Medical Sarl	1		1
Jaba Recordati S.A.	39	40	(1)
Recordati BV	3	3	0
Natural Point S.r.l.	20	24	(4)
<b>Total payables to subsidiaries</b>	<b>6,143</b>	<b>5,888</b>	<b>255</b>

There were no concentrations of large debts to a single or a small number of suppliers.

The adjustment of trade payables in non-euro currencies resulted in the recognition of net positive exchange rate differences of € 255 thousand.

The largest trade payables in foreign currency were as follows:

	31.12.2020		31.12.2019	
	Currency(000)	€(000)	Currency(000)	€(000)
Payables in US\$	2,840	2,577	5,693	5,255
Payables in CHF	482	446	78	72
Payables in GBP	89	112	472	561
Payables in SEK	858	83	821	77

### 31. OTHER CURRENT PAYABLES

As at 31<sup>st</sup> December 2020 other current payables amounted to € 22,618 thousand (€ 25,553 thousand as at 31<sup>st</sup> December 2019) and they were composed as follows:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Payables to third parties for the acquisition of Opalia Pharma S.A.	3,910	655	3,255
Employees	7,944	10,194	(2,250)
Social security	6,206	7,154	(948)
Commissions to agents	601	905	(304)
Payables to AIFA (Italian Medicines Agency)	940	984	(44)
Other	3,017	5,641	(2,624)
<b>Total other payables</b>	<b>22,618</b>	<b>25,533</b>	<b>(2,915)</b>

The debt to third parties regards the short-term portion of the debt for the acquisition of the investment in Opalia Pharma S.A., which can be extinguished by 31<sup>st</sup> December 2021.

Amounts due to employees include amounts accrued and not paid, vacations not taken and bonuses for presence and for achieving objectives.

Social security payables not only include contribution expenses for those periods but also the amount due to pension institutes for December.

Amounts payable to agents include € 173 thousand in commissions for foreign agents.

The debt to AIFA relates to the provision for the second half instalment of the payback (1.83 %).

Other payables include those to shareholders for dividends to be paid as at 31<sup>st</sup> December 2020 (€ 1,088 thousand) and those for credit notes to be issued (€ 1,365 thousand). We also report € 18 thousand of payables to Recordati Rare Diseases Italy S.r.l. in relation to VAT transfers within the Group.

### 32. TAX LIABILITIES

Tax liabilities amounted € 2,845 thousand as at 31<sup>st</sup> December 2020 (€ 2,349 thousand as at 31<sup>st</sup> December 2019).

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
VAT liabilities	260	23	237
Liabilities for employee withholding taxes	2,320	2,049	271
Liabilities for self-employed and associate workers	265	277	(12)

withholding taxes			
<b>Total tax liabilities</b>	<b>2,845</b>	<b>2,349</b>	<b>496</b>

Amounts paid on account during the year were greater than the tax provisions set aside on the basis of estimates of taxable income which generated assets rather than liabilities for the relative tax items.

### 33. OTHER CURRENT LIABILITIES

Other current liabilities, amounting to € 923 thousand (€ 1,273 thousand as at 31<sup>st</sup> December 2019) include upfront payments resulting from licence and distribution contracts received in prior years but relating to the following years.

### 34. PROVISIONS

These consist of provisions for agent customer indemnities and of provisions for other risks as shown in the table below.

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
For agent customer indemnities	1,757	1,595	162
Other risks	3,394	4,234	(840)
<b>Total other provisions</b>	<b>5,151</b>	<b>5,829</b>	<b>(678)</b>

The provisions for other risks were recognised to cover personnel litigation risks (€ 512 thousand), returns to Assinde (€ 1,745 thousand), reductions in National Health Service spending (€ 1,118 thousand) and work carried out for the "Buzzi Project" (€ 19 thousand).

### 35. FAIR VALUE OF HEDGING DERIVATIVES (current liabilities)

The balance as at 31<sup>st</sup> December 2020 was € 8,505 thousand (€ 10,788 thousand as at 31<sup>st</sup> December 2019).

The interest rate swaps to hedge the cash flows related to medium and long-term loans measured at fair value as at 31<sup>st</sup> December 2020 gave rise to a € 5,353 thousand liability which represents the unrealised benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans. The fair value measurement relates to interest rate swaps entered into by the Company to hedge interest rates on loans granted by Centrobanca (€ 341 thousand), Unicredit (€ 324 thousand), Intesa Sanpaolo (€ 1,225 thousand), Mediobanca (€ 2,762 thousand) and UBI Banca (€ 701 thousand).

The market value (fair value) as at 31<sup>st</sup> December 2020 of forward contracts entered into to hedge currency risks on loans to the company Recordati AG for CHF 198,129 thousand nominal were negative by € 3,152 thousand, with the balancing entry in the income statement.

The fair value of these hedging derivatives is measured at level 2 of the hierarchy set out in financial reporting standard IFRS 13 (see note 2). The fair value is equal to the present value of the estimated future cash flows. The estimated future cash flows at a floating interest rate are based on listed interest-rate swaps, futures prices and interbank rates. The estimated cash flows are discounted using a yield curve which reflects the reference interbank rate applied by market participants for the measurement of interest-rate swaps.

### 36. BORROWINGS – DUE WITHIN ONE YEAR

The portions of loans as at 31<sup>st</sup> December 2020 and 2019 due within one year were composed as follows:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Loan granted for research by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual instalments by 2022	6,818	6,818	0
Loan granted by Unicredit at a floating interest rate, repaid in 2020	0	4,996	(4,996)
Loan granted by Ing Bank at a floating interest rate, repaid in 2020	0	3,750	(3,750)
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2020 (extended until 2021)	6,250	12,490	(6,240)
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2021	8,319	8,334	(15)
Loan granted by Mediobanca at a floating interest rate repayable in annual instalments by 2024	10,500	10,500	0
Loan granted by Unicredit at a floating interest rate repayable in a single instalment in 2021	49,986	0	49,986
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2025	10,714	10,714	0
Loan granted by Banca Passadore at a floating interest rate repayable in annual instalments by 2022	5,000	5,000	0
Loan granted by Banca del Mezzogiorno - Mediocredito Centrale at a fixed and floating interest rate repayable in semi-annual instalments by 2021	1,715	1,284	431
Loan granted by Mediobanca at a fixed and floating interest rate repayable in semi-annual instalments by 2023	42,857	21,429	21,428
Loan granted by a pool of banks with Mediobanca as the agent at a floating interest rate repayable in semi-annual instalments by 2024	61,900	53,800	8,100
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual instalments by 2024	1,875	0	1,875
Loan granted by UBI Banca at a fixed interest rate repayable in a single instalment in 2021	39,974	0	39,974
<b>Total loans due within one year</b>	<b>245,908</b>	<b>139,115</b>	<b>106,793</b>
Current portion of lease liabilities (IFRS 16)	1,089	1,182	(93)
<b>Total</b>	<b>246,997</b>	<b>140,297</b>	<b>106,700</b>

### 37. SHORT-TERM LIABILITIES TO BANKS

Short-term liabilities to banks as at 31<sup>st</sup> December 2020 and 2019 amounted to € 2,088 thousand and

€ 2,273 thousand respectively.

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Current account overdrafts	6	24	(18)
Expenses on derivative instruments	887	938	(51)
Interest on loans	314	368	(54)
Interest on bond debt	881	943	(62)
<b>Total</b>	<b>2,088</b>	<b>2,273</b>	<b>(185)</b>

### 38. OTHER SHORT-TERM BORROWINGS

The balance on other short-term borrowings consisted entirely of amounts due to subsidiaries and amounted to € 401,970 thousand (€ 311,094 thousand as at 31<sup>st</sup> December 2019).

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Bouchara Recordati S.a.s.	6,103	0	6,103
Casen Recordati S.L.	126,611	97,427	29,184
Fic Médical S.a.r.l.	759	584	175
Herbacos Recordati s.r.o.		1,000	(1,000)
Innova Pharma S.p.A.	9,961	33,536	(23,575)
Italchimici S.p.A.	5,014	4,873	141
Jaba Recordati S.A.	2,600	6,081	(3,481)
Laboratories Bouchara Recordati Sas	0	353	(353)
Natural Point S.r.l.	7,583	22,275	(14,692)
Recordati BV	4,236	2,122	2,114
Recordati Hellas Pharmaceuticals S.A.	6,717	5,141	1,576
Recordati Orphan Drugs	52,205	52,314	(109)
Recordati Pharma GmbH	1,574	12,518	(10,944)
Recordati Rare Diseases Germany GmbH	7,551	17,176	(9,625)
Recordati Rare Diseases Inc.	2	103	(101)
Recordati Rare Diseases Italy Srl	26,796	22,241	4,555
Recordati Rare Diseases Middle East FZ LLC	11,829	11,404	425
Recordati Rare Diseases s.a.r.l.	107,370	11,042	96,328
Recordati Rare Diseases Spain S.L.	10,898	6,595	4,303
Recordati Romania S.R.L.	1,226	3,154	(1,928)
Rusfic LLC	1,864	1,155	709
Tonipharm S.a.S.	11,071	0	11,071
<b>Total</b>	<b>401,970</b>	<b>311,094</b>	<b>90,876</b>

The payables consisted of € 388,915 thousand for the centralised cash pooling system and of € 13,055 thousand for loans from Recordati Rare Diseases Middle East FZ LLC (€ 11,829 thousand) and Recordati Romania S.r.l. (€ 1,226 thousand)

### 39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

As prescribed by IFRS 7, a comparison of the carrying amounts as at 31<sup>st</sup> December 2020 and the fair values of financial assets and liabilities is given below.

€ (thousands)	Carrying amount	Fair value
<b>Financial assets</b>		
Other short-term receivables	75,554	75,554
Cash and cash equivalents and other current assets	87,026	87,026
Trade receivables	85,206	85,206
Other receivables	17,005	17,005
Derivatives measured at fair value	7,004	7,004
<b>Financial liabilities</b>		
Borrowings		
- at fixed interest rates	124,905	133,700
- at fixed rate hedged by cross currency swaps (CCS)	60,938	68,796
- at floating rate hedged with interest rate swaps (IRS)	770,995	770,995
- liability for the application of IFRS 16	3,742	3,742
Trade payables	34,971	34,971
Other current payables and tax liabilities	25,463	25,463
Other current liabilities	923	923
Derivatives measured at fair value	8,505	8,505
Short-term liabilities to banks	2,088	2,088
Other short-term borrowings	401,970	401,970

#### 40. DISCLOSURE OF FINANCIAL RISKS

The Company constantly monitors the financial risks to which it is exposed in order to take immediate mitigation action when necessary.

The company aims to achieve a balanced and prudent financial structure as a fundamental condition for financing internal and external growth, thereby reducing financing costs to a minimum, while maximising returns. Speculative investments in shares, funds or financial assets which might impair the value of companies is not permitted.

The only financial investments admissible are investments in risk free assets and/or funds issued by major financial institutions.

The Company monitors the financial risks to which it is exposed in order to take immediate mitigation action, when necessary, in compliance with the applicable legislation and regulations and it transacts only with banks with a strong credit rating.

On the basis of the above and considering that the related effects would not be significant, no sensitivity analysis has been carried out.

As required by IFRS 7, information is given below on the main financial risks to which the Company is exposed.

##### Credit risk

Credit risk is exposure to potential losses resulting from commercial counterparties failing to meet their obligations, also in relation to the effects of the prolonged period of economic and financial

difficulty. The Company closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system.

As at 31<sup>st</sup> December 2020, the credit exposure was not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable.

More specifically, gross trade receivables, inclusive of those receivable from subsidiaries, amounted to € 86,313 thousand and the relative allowance for doubtful accounts of € 1,107 thousand recognised is considered to be sufficient in relation to the risk of insolvencies.

#### Interest rate risk

The Company raises external funds using debt and invests excess cash in money market funds and other financial instruments. The fluctuation of interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Company's net financial charges.

The Company's policy is to limit the risk arising from interest rate fluctuations by establishing medium to long-term loans at fixed or floating interest rates. Any floating rate loans are promptly hedged by using derivative instruments (e.g. interest rate swaps – IRS), used solely for hedging and not speculative purposes.

This hedging policy allows the company to reduce the risk attaching to fluctuations in interest rates (as illustrated in note 27).

#### Foreign currency risk

The Company is exposed to foreign currency fluctuations which can affect its operating results.

In particular, the Company is exposed to foreign currency fluctuations on its international sales and financing denominated in currencies other than the euro.

The Company also enters into forward contracts for the purchase and sale of currency in order to hedge amounts at risk. It does this for hedging purposes only and not for speculation.

#### Liquidity risk

The liquidity risk to which the Company could be exposed consists of the inability to raise sufficient funds for its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Company's liquidity are, on the one hand, the resources generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions.

The Company has a supply of readily available liquidity and substantial lines of credit available granted by a number of leading Italian and international banks.

The maturities of the Company's financial assets and its debt are reported in notes 24, 26, 34 and 35 to the financial statements which discuss cash and cash equivalents, medium to long-term borrowings and short-term debt from banks and other lenders. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts on their natural due dates.

## 41. SEGMENT INFORMATION

Reporting by business segment, presented in compliance with IFRS 8 – Operating segments – has been performed according to the same accounting policies employed in the presentation of the consolidated financial statements of the Group where, following the acquisition of Orphan Europe (now renamed Recordati Rare Diseases), two main segments have been identified: the Specialty and Primary Care segment and the rare diseases pharmaceuticals segment, which relates to the whole of



Recordati Rare Diseases. Consequently the only business segment that exists for Recordati S.p.A. is the Specialty and Primary Care segment. Furthermore, the pharmaceutical chemicals business is considered an integral part of the specialty and primary care segment because from an organisational and strategic viewpoint it is involved principally in the production of the active ingredients required to produce pharmaceuticals.

#### 42. LITIGATION AND CONTINGENT LIABILITIES

The Company is party to certain minor legal actions, the outcomes of which are not expected to result in any significant liability.

#### 43. NET FINANCIAL POSITION

The following summary is set out in the table below in compliance with Consob Resolution No. 15519 of 27<sup>th</sup> July 2006:

€ (thousands)	31.12.20120	31.12.2019	Change 2020/2019
Deposits in bank current accounts and cash on hand	84,972	85,908	(936)
Short-term loans to Group companies	75,554	78,720	(3,166)
<b>Cash and cash equivalents and current receivables</b>	<b>160,526</b>	<b>164,628</b>	<b>(4,102)</b>
Short-term liabilities to banks	(2,088)	(2,273)	185
Borrowings due within one year	(246,997)	(140,297)	(106,700)
Short-term borrowings from Group companies	(401,971)	(311,094)	(90,877)
<b>Short-term borrowings</b>	<b>(651,056)</b>	<b>(453,664)</b>	<b>(197,392)</b>
<b>Net current financial position</b>	<b>(490,530)</b>	<b>(289,036)</b>	<b>(201,494)</b>
Loans and receivables - due after one year	150,693	182,649	(31,956)
Borrowings – due after one year <sup>(1)</sup>	(707,078)	(972,182)	265,104
<b>Net financial position</b>	<b>(1,046,915)</b>	<b>(1,078,569)</b>	<b>31,654</b>

<sup>(1)</sup> Including the recognition at fair value of derivative instruments to hedge foreign exchange rate risk (cash flow hedges).

#### 44. NON-RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

In compliance with Consob communication of 28<sup>th</sup> July 2006 a summary is given in the table below of the main events, transactions and actions which are non-recurring and which do not repeat frequently in the usual course of business. The overall net impact of these occurrences on the profit and loss, balance sheet and cash flow of the Company was an expense of € 3,260 thousand.

€ (thousands)	2020	2019	Change 2020/2019
“Patent box” tax relief	0	26,994	(26,994)
Covid-19 emergency donations	(3,260)	0	(3,260)
<b>Total non-recurring operating income/(expense)</b>	<b>(3,260)</b>	<b>26,994</b>	<b>(30,254)</b>

#### 45. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In compliance with CONSOB communication of 28<sup>th</sup> July 2006 the Company performed no atypical and/or unusual transactions in 2020 as defined in that same communication, according to which atypical and/or unusual transactions are those which because of their significance or importance, the nature of the counterparties, the content of the transaction, the way in which the transfer price is decided and the timing of the event (close to the end of the financial year) might give rise to doubts concerning: the accuracy and completeness of the information in the financial statements, a conflict of interests, the security of the company's assets, the protection of the interests of minority shareholders.

#### 46. RELATED-PARTY TRANSACTIONS

As at 31<sup>st</sup> December 2020, intercompany accounts with companies that form the Recordati Group and the Recordati's parent Fimeì S.p.A. showed payables of € 408,132 thousand and receivables of € 285,387 thousand. The most significant items were as follows:

- receivables of € 185,781 thousand for loans granted to Group companies;
- payables of € 13,055 thousand for loans received from Group companies;
- trade receivables of € 49,060 thousand from subsidiaries;
- trade payables to subsidiaries of € 6,143 thousand;
- receivables from subsidiaries for the management of the centralised cash pooling treasury system amounting to € 40,397 thousand;
- payables to subsidiaries for the management of the centralised cash pooling treasury system amounting to € 388,915 thousand;

Sales and services supplied to Group companies in 2020 amounted to € 239,529 thousand.

Dividends were received during the year as follows: € 30,048 thousand from Innova Pharma S.p.A., € 20,000 thousand from Natural Point S.r.l., € 9,940 thousand from Italchimici S.p.A., € 7,700 thousand from Recordati Pharma GmbH, € 15,000 thousand from Bouchara Recordati S.a.s., € 40,000 thousand from Recordati Ireland Ltd, € 3,591 thousand from Recordati Orphan Drugs S.A.S, € 3,899 thousand from Recordati Romania S.R.L. and € 2,607 thousand from Herbacos Recordati S.r.o.

Short and long-term tax receivables include those from the parent company Fimeì S.p.A. amounting to € 9,706 thousand, which relate to the following:

- tax assets for current taxation relating to taxes for the year calculated on the basis of estimated taxable income. Those assets were transferred by Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003;
- the tax credit for obtaining "patent box" tax relief.

The following summary is set out in the table below in compliance with Consob Resolution No. 15519 of 27<sup>th</sup> July 2006:

Percentage of transactions with related parties		Related parties	
€ (thousands)	Total	Amount	%
Percentage of transactions or positions in the balance sheet with related parties			
Trade receivables and other	102,211	59,209	57.93

Long-term financial assets	150,692	150,624	99.95
Short-term financial assets	75,554	75,554	100.00
Trade payables and other	60,434	6,161	10.19
Long-term financial liabilities	713,583	0	0.00
Short-term financial liabilities	648,968	401,970	61.94

**Percentage of transactions or positions in the income statement with related parties**

Revenue	452,054	239,575	53.00
Income from investments	132,785	132,785	100.00
Costs of purchases and service provision	200,293	20,394	10.18
Financial income (expense), net	(13,308)	1,631	(12.26)

Transactions and positions with related parties as a percentage of cash flows is basically the same as that for the income statement items because the transactions are conducted under normal market conditions. It is underlined that no direct business was conducted during the year with the company that carries out management and co-ordination activities.

With regard to direct relations during the year with the company that exercises management and co-ordination, we report that some employees of the Recordati Group have been designated as beneficiaries of an incentive scheme, with a vesting period of five years, under which they have purchased shares of Rossini Luxembourg S.à.r.l. at face value, an indirect shareholder of Recordati S.p.A., and they will receive a return at the end of the life of the scheme.

On 1<sup>st</sup> October 2020 the Board of Directors of the Company approved an operation for the reverse merger by absorption of Rossini Investimenti S.p.A. and Fimeì S.p.A. into Recordati S.p.A. (the “Transaction” or the “Merger”) and the documents needed to prepare for the implementation of the Merger itself, which included the relative Merger Prospectus.

This Merger forms part of the broader process for the indirect acquisition of Recordati S.p.A. by Rossini Investimenti S.p.A., carried out by means of the acquisition of the entire share capital of Fimeì S.p.A. (to which it is very closely and intrinsically connected). Its purpose is to shorten the command chain for the Group’s operating companies which will benefit the controlling shareholder and the Group as a whole by simplifying the corporate governance structure, reducing costs for the maintenance of the Merged Companies (Rossini Investimenti S.p.A. and Fimeì S.p.A.), while the Merging Company (Recordati S.p.A.) will be able to benefit from ACE (aid to economic growth – allowance for corporate equity) tax benefits generated by Rossini Investimenti, in relation to which the Company received a positive reply from the tax authorities following the submission of a specific request for an opinion from them.

We report that the Merger will not involve any changes to the Merging Company’s share capital nor is any cash settlement payment envisaged. Furthermore, Recordati S.p.A.’s post merger capital and operating situation will be substantially in line with the Company’s current situation and in particular it will not alter its net financial position and therefore Recordati’s ability to invest, its strategies or its capital allocation policies. Lastly, there will be no recognition of goodwill or intangible assets resulting from the operation in the financial statements of Recordati S.p.A.

The Merger constitutes a “major” transaction with related parties, pursuant to and for the effects of the regulation adopted by the Consob (Italian securities market authority) with Resolution No. 17221 of 12<sup>th</sup> March 2010 and subsequent amendments and of the Procedure to regulate related-party transactions of the Company currently in force. As such, the Transaction, taken as a whole, has received an opinion in favour from Recordati’s Audit, Risk and Sustainability Committee, which acts as the Committee for Related-Party Transactions (the “Committee”) in accordance with the Procedure to regulate the related-party transactions of Recordati.

As concerns the exchange ratio, PricewaterhouseCoopers S.p.A., engaged by the Court of Milan to prepare a fairness report on exchange ratio in accordance with Art. 2501-sexies of the Italian Civil

Code, issued (on the assumption that relative necessary conditions, detailed in the Merger Prospectus and the Illustrative Reports, remain unchanged) a positive opinion on the fairness of the Exchange Rate on the 13<sup>th</sup> November 2020.

On the 17<sup>th</sup> December 2020, extraordinary meetings of the shareholders of Rossini Investimenti, Fimeì and Recordati examined and approved the plan for the merger by absorption of Rossini Investimenti and Fimeì into Recordati, without amendments and additions.

It is envisaged that the Merger will be concluded during the first half of 2021 and in any event subsequent to the date of approval of the financial statements of the Merged Companies for the financial year 31<sup>st</sup> December 2020 and their financial position for the period ended 31<sup>st</sup> March 2021.

The companies taking part in the merger will sign the merger deed and file it with the competent company registrars within the technical time strictly necessary immediately after the approval of the aforementioned closing financial statements. The transactions of the merged companies will be recognised in the financial statements of the merging company as of 1<sup>st</sup> April 2021 (the “Date of Effect for Accounting Purposes”).

The Merger will take effect for statutory purposes as of the date of the last of the registrations required by Art. 2504 of the Italian Civil Code (the “Date of Effect”). As of that date, the Merging Company will inherit all the legal relationships pertaining to the assets and liabilities of the Merged Companies which at the same time will be extinguished.

For further information on the terms and procedures for implementation of the Merger, reference is made to the Merger Prospectus and the Information Document together with the fairness opinion of the Committee (which in turn attached the fairness opinion on the exchange ratio prepared by *Prof. Pietro Mazzola* in his capacity as the independent financial expert of the Committee) and the Illustrative Reports published on the website [www.recordati.com](http://www.recordati.com) (in the “Shareholders’ Meetings – Reverse Merger into Recordati S.p.A. 2020/2021” section of the “Investors” area) and on the authorised storage facility named “1info” <https://www.1info.it>.

In compliance with disclosure obligations set out in Art. 38 of Legislative Decree No. 127/91, we report that fees paid to directors and statutory auditors for carrying out their functions during the course of 2020 amounted to € 2,507 thousand and € 141 thousand respectively.

Details of total remuneration received by directors and key management personnel are given in the table below.

€ (thousands)	2020	2019
Fixed remuneration	4,516	4,100
Non-monetary benefits	131	20
Bonuses and other incentives	942	1,973
Share-based payments	839	1,192
<b>Total</b>	<b>6,428</b>	<b>7,285</b>

The remuneration includes salaries and non-monetary benefits. Key management personnel also participate in stock option plans.

Following extraordinary operations involving the life of the Company in relation to the sale of their controlling interest by the Recordati family to a consortium of investment funds controlled by CVC Capital Partners VII Limited, on 28<sup>th</sup> February 2019 the Board of Directors of the Company, appointed by a Shareholders’ Meeting held on 5<sup>th</sup> February 2019, noted the management and co-ordination exercised by Rossini Luxembourg S.à.r.l. over Recordati S.p.A. pursuant to articles 2497 and following of the Italian Civil Code. We report that Rossini Luxembourg S.à.r.l. was formed on 14/05/2018. Essential information from the financial statements for the year ended 31<sup>st</sup> December 2019 approved by the company that exercises management and co-ordination is reported in Attachment 6.

The direct parent of the Company is FimeI S.p.A.. It has been owned since 2018 by a consortium of investment funds controlled by CVC Capital Partners. FIMEI S.p.A. is located in Milan at 9, via Vecchio Politecnico.

#### 47. IMPORTANT EVENTS AFTER THE REPORTING PERIOD

At the date of preparing the financial statements no corporate events had occurred after the end of the year which might require modifications to be made to the value of assets and liabilities and the amounts in the income statement.

A licensing and supply agreement was signed in January with Tolmar International Ltd. for the marketing of Eligard® (leuprorelin acetate) in Europe, Turkey, Russia and other countries. It is a medicine indicated for the treatment of localised and locally advanced high-risk hormone-dependent prostate cancer in combination with radiotherapy.

This new product, which strengthens the Group's presence in the urology area, is perfectly suited to its geographical coverage and confirms the Company's continued support to patients and doctors in this field. The consideration consists of an upfront payment of € 35 million to Tolmar and further milestones up to a total of € 105 million in addition to royalties on sales.

Except for the above no significant events occurred after the end of the year.

#### 48. PROPOSAL FOR THE ALLOCATION OF NET INCOME FOR THE YEAR

A proposal is made for the net income for the year, amounting to € 234,663,914, to be allocated as follows:

- distribution to the shareholders of a dividend of € 0.55 per share, in full balance of the interim 2020 dividend of € 0.50, to be paid to all shares outstanding at ex-dividend date, excluding those in treasury stock, as from 26 May 2021 (record date 25 May 2021), with ex-dividend on 24 May 2021 (against presentation of coupon no. 27). The full 2020 dividend is therefore of € 1.05 per share (€ 1.00 per share in 2019);
- allocation to the extraordinary reserve of the remaining net income.

RECORDATI S.p.A.  
STATEMENT OF CHANGES IN DIRECT INVESTMENTS

ATTACHMENT 1

€ (thousands)	Balance as at 31 <sup>st</sup> Dec 2019	Share capital sales and redemptions	Mergers	Acquisitions subscriptions	(Write-downs) Write-ups	Fair value measurement	IFRS 2 Stock option valuation	Balance as at 31 <sup>st</sup> Dec 2020
Investments in subsidiaries								
Casen Recordati S.L. – Spain	271,958	-	-	-	-	-	710	272,668
Innova Pharma S.p.A. – Italy	10,566	-	-	-	-	-	-	10,566
Bouchara Recordati S.a.s. – France	57,379	-	-	-	-	-	478	57,857
Recordati Pharmaceuticals Ltd. – United Kingdom	14,175	-	-	-	(2,539)	-	15	11,651
Recordati Hellas Pharmaceuticals S.A. – Greece	4,897	-	-	-	-	-	43	4,940
Herbacos Recordati S.r.o. – Czech Republic	19,785	-	-	-	-	-	61	19,846
Recordati Polska Sp. z o.o. – Poland	19,827	-	-	-	-	-	169	19,996
Italchimici S.p.A. – Italy	106,294	-	-	-	-	-	-	106,294
Natural Point s.r.l. - Italy	83,597	-	-	-	-	-	-	83,597
Recordati AG – Switzerland	153,626	-	-	-	-	-	163	153,789
Recordati Rare Diseases Canada Inc. - Canada	245	-	-	-	-	-	-	245
Recordati Rare Diseases Inc. – United States	2,697	-	-	-	-	-	267	2,964
Recordati Rare Diseases S.A. de C.V. – Mexico	863	-	-	-	-	-	18	881
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	206	-	-	1	-	-	-	207
Recordati Ireland LTD - Ireland	1,246	-	-	-	-	-	168	1,414
Recordati Orphan Drugs S.A.S. - France	53,869	-	-	-	-	-	444	54,313
Opalia Pharma S.A. - Tunisia	19,982	-	-	-	-	-	-	19,982
Recordati Romania Srl - Rumania	1,549	-	-	-	-	-	29	1,578
Recordati Pharma GMBH - Germany	87,468	-	-	-	-	-	129	87,597
Accent LLC – Russian Federation	66,707	-	-	-	-	-	-	66,707
Tonipharm S.A.S. - France	72,636	-	-	-	-	-	-	72,636
Recordati Bulgaria Ltd– Bulgaria	26	-	-	-	-	-	-	26
	<b>1,049,598</b>	-	-	<b>1</b>	<b>(2,539)</b>	-	<b>2,694</b>	<b>1,049,754</b>
Investments in other companies:								
Sifir S.p.A. – Reggio Emilia	-	-	-	-	-	-	-	-
Consorzio Dafne – Reggello (Florence)	2	-	-	-	-	-	-	2
Consorzio Nazionale Imballaggi – Rome	-	-	-	-	-	-	-	-
DGT - United States	-	-	-	-	-	-	-	-
Codexis Inc. - United States	74	(66)	-	-	-	(8)	-	-
Puretech Health p.l.c. - United States	35,598	-	-	-	-	6,911	-	42,509
Fluidigm Corp. - United States	4	-	-	-	-	1	-	5
	<b>35,678</b>	<b>(66)</b>	-	-	-	<b>6,904</b>	-	<b>42,516</b>
<b>TOTAL</b>	<b>1,085,276</b>	<b>(66)</b>	-	<b>1</b>	<b>(2,539)</b>	<b>6,904</b>	<b>2,694</b>	<b>1,092,270</b>

RECORDATI S.p.A.  
SUMMARY STATEMENT OF DIRECT INVESTMENTS

ATTACHMENT 2

€ (thousands)	Balance as at 31 <sup>st</sup> Dec 2020	Percentage ownership	Number of shares or quotas possessed
<b>Investments in subsidiaries</b>			
Casen Recordati S.L. – Spain	272,668	100.00	2,389,660
Innova Pharma S.p.A. – Italy	10,566	100.00	960,000
Bouchara – Recordati S.a.s. – France	57,857	100.00	10,000
Recordati Pharmaceuticals Ltd. – United Kingdom	11,651	100.00	15,000,000
Recordati Hellas Pharmaceuticals S.A. – Greece	4,940	100.00	1,005,000
Herbacos Recordati S.r.o. – Czech Republic	19,846	100.00	2,560
Recordati Polska Sp. z o.o. – Poland	19,996	100.00	90,000
Italchimici S.p.A. – Italy	106,294	100.00	7,646,000
Natural Point s.r.l. - Italy	83,597	100.00	1
Recordati AG - Switzerland	153,789	100.00	150,000
Recordati Rare Diseases Canada Inc. - Canada	245	100.00	1,000
Recordati Rare Diseases Inc. - United States	2,964	100.00	100
Recordati Rare Diseases Ukraine LLC - Ukraine	0	0.01	1
Recordati Rare Diseases S.A. de C.V. – Mexico	881	99.998	49,999
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	207	100.00	166
Recordati Ireland LTD - Ireland	1,414	100.00	200,000
Recordati Orphan Drugs S.A.S. - France	54,313	90.00	51,300
Opalia Pharma S.A. - Tunisia	19,982	90.00	612,000
Recordati Romania Srl - Rumania	1,578	100.00	500,000
Recordati Pharma GMBH - Germany	87,597	55.00	1
Accent LLC – Russian Federation	66,707	100.00	1
Tonipharma S.A.S. - France	72,636	100.00	2,577
Recordati Bulgaria Ltd - Bulgaria	26	100.00	50
	<b>1,049,754</b>		
<b>Investments in other companies:</b>			
Sifir S.p.A. – Reggio Emilia	0	0.04	1,304
Consorzio Dafne – Reggello (Florence)	2	1.16	1
Consorzio Nazionale Imballaggi – Rome	0	n,s,	1
DGT - United States	0	n,s,	n,s,
PureTech Health p.l.c. – United Kingdom	42,509	4.02	9,554,140
Fluidigm Corp. - United States	5	n,s	1,019
	<b>42,516</b>		
<b>TOTAL</b>	<b>1,092,270</b>		





# RECORDATI S.p.A.

## SUMMARY INFORMATION ON SUBSIDIARIES

Subsidiaries	Headquarters	Currency	Share capital	Net income (loss) 2020	Equity as at 31/12/2020	Revenue 2020
INNOVA PHARMA S.p.A. <i>Marketing and sales of pharmaceuticals</i>	Italy	€(000)	1,920	3,181	14,645	45,297
CASEN RECORDATI S.L. <i>Marketing and sales of pharmaceuticals</i>	Spain	€(000)	238,966	29,363	447,893	92,678
BOUCHARA RECORDATI S.A.S. <i>Research, production and sales of pharmaceuticals</i>	France	€(000)	4,600	23,277	35,199	13,679
REC.RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA. <i>Dormant, holds pharmaceutical marketing rights in Brazil</i>	Brazil	BRL(000)	0	868	2,961	6,419
RECORDATI RARE DISEASES Inc. <i>Research, production and sales of pharmaceuticals</i>	U.S.A.	USD(000)	11,979	39,288	271,744	161,272
RECORDATI IRELAND LTD <i>Research, production and sales of pharmaceuticals</i>	Ireland	€(000)	200	58,262	142,420	283,602
LABORATOIRES BOUCHARA RECORDATI S.A.S. <i>Research, production and sales of pharmaceuticals</i>	France	€(000)	14,000	9,316	25,556	171,309
RECORDATI PHARMA GmbH <i>Marketing and sales of pharmaceuticals</i>	Germany	€(000)	600	8,668	103,600	119,669
RECORDATI PHARMACEUTICALS LTD <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	GBP(000)	15,000	(1,241)	11,134	1,403
RECORDATI HELLAS PHARMACEUTICALS S.A. <i>Marketing and sales of pharmaceuticals</i>	Greece	€(000)	10,050	413	5,149	20,214
JABA RECORDATI S.A. <i>Marketing and sales of pharmaceuticals</i>	Portugal	€(000)	2,000	5,174	11,285	41,494
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. <i>Marketing of pharmaceuticals</i>	Portugal	€(000)	50	131	250	810
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. <i>Marketing of pharmaceuticals</i>	Portugal	€(000)	50	420	752	2,287
RECORDATI ORPHAN DRUGS S.A.S. <i>Holding company</i>	France	€(000)	57,000	4,142	101,822	2,269
RECORDATI RARE DISEASES MIDDLE EAST FZ LLC <i>Marketing and sales of pharmaceuticals</i>	United Arab Emirates	€(000)	20	5,970	19,838	11,176
RECORDATI AB <i>Marketing and sales of pharmaceuticals</i>	Sweden	SEK(000)	100	14,101	35,462	175,110
RECORDATI RARE DISEASES S.A.R.L. <i>Research, production and sales of pharmaceuticals</i>	France	€(000)	320	51,086	158,455	121,083
NATURAL POINT S.r.l. <i>Marketing and sales of pharmaceuticals</i>	Italy	€(000)	10	8,640	12,217	17,381
PRO FARMA GmbH <i>Marketing and sales of pharmaceuticals</i>	Austria	€(000)	35	(83)	268	284
TONIPHARM S.A.S <i>Marketing and sales of pharmaceuticals</i>	France	€(000)	258	2,325	24,600	4,159
RECORDATI RARE DISEASES UNITED KINGDOM LTD <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	GBP(000)	50	2,198	2,466	6,157
RECORDATI BULGARIA LTD <i>Marketing and sales of pharmaceuticals</i>	Bulgaria	BGN(000)	50	45	111	1,071

Subsidiaries	Headquarters	Currency	Share capital	Net income (loss) 2020	Equity as at 31/12/2020	Revenue 2020
RECORDATI RARE DISEASES GERMANY GmbH <i>Marketing and sales of pharmaceuticals</i>	Germany	€(000)	26	5,913	6,660	17,569
RECORDATI RARE DISEASES SPAIN S.L. <i>Marketing and sales of pharmaceuticals</i>	Spain	€(000)	1,775	3,171	11,296	10,097
RECORDATI RARE DISEASES ITALY S.R.L. <i>Marketing and sales of pharmaceuticals</i>	Italy	€(000)	40	4,293	27,594	15,281
RECORDATI BV <i>Marketing and sales of pharmaceuticals</i>	Belgium	€(000)	19	2,313	6,879	15,707
FIC MEDICAL S.A.R.L. <i>Marketing of pharmaceuticals</i>	France	€(000)	174	67	1,298	2,019
HERBACOS RECORDATI s.r.o. <i>Research, production and sales of pharmaceuticals</i>	Czech Republic	CZK(000)	25,600	84,943	328,424	748,254
RECORDATI SK s.r.o. <i>Marketing and sales of pharmaceuticals</i>	Slovak Republic	€(000)	33	32	357	1,003
RUSFIC LLC <i>Marketing and sales of pharmaceuticals</i>	Russian Federation	RUB(000)	3,560	1,188,685	3,869,273	6,669,003
RECOFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. <i>Marketing of pharmaceuticals</i>	Turkey	TRY(000)	10	55	125	620
RECORDATI ROMANIA S.R.L. <i>Marketing and sales of pharmaceuticals</i>	Rumania	RON(000)	5,000	16,252	39,189	65,795
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. <i>Research, production and sales of pharmaceuticals</i>	Turkey	TRY(000)	180,000	66,281	460,635	601,862
RECORDATI POLSKA Sp. z o.o <i>Marketing and sales of pharmaceuticals</i>	Poland	PLN(000)	4,500	9,610	35,570	184,280
ACCENT LLC <i>Holds pharmaceutical marketing rights</i>	Russian Federation	RUB(000)	20	2,149	30,548	3,600
RECORDATI UKRAINE LLC <i>Marketing of pharmaceuticals</i>	Ukraine	UAH(000)	1,032	35,597	126,898	364,469
CASEN RECORDATI Portugal Unipessoal Ltd <i>Marketing and sales of pharmaceuticals</i>	Portugal	€(000)	100	103	680	551
OPALIA PHARMA S.A. <i>Research, production and sales of pharmaceuticals</i>	Tunisia	TND(000)	9,656	8,486	58,368	64,579
OPALIA RECORDATI SARL <i>Marketing of pharmaceuticals</i>	Tunisia	TND(000)	20	1,587	4,236	4,153
RECORDATI RARE DISEASE S.A. DE CV <i>Marketing of pharmaceuticals</i>	Mexico	MXN(000)	16,250	16,391	22,922	77,609
RECORDATI RARE DISEASE COLOMBIA S.A.S <i>Marketing of pharmaceuticals</i>	Colombia	COP(000)	150,000	6,679,186	14,745,845	39,662,198
RECORDATI RARE DISEASE CANADA INC. <i>Marketing of pharmaceuticals</i>	Canada	CAD(000)	350	909	687	14,075
RECORDATI RARE DISEASE JAPAN K.K. <i>Marketing of pharmaceuticals</i>	Japan	JPY(000)	10,000	286,054	495,461	2,631,608
RECORDATI RARE DISEASE AUSTRALIA Pty Ltd. <i>Marketing of pharmaceuticals</i>	Australia	AUD(000)	200	(55)	(465)	3,647
ITALCHIMICI S.p.A. <i>Marketing and sales of pharmaceuticals</i>	Italy	€(000)	7,646	11,972	70,974	31,441
RECORDATI AG <i>Marketing and sales of pharmaceuticals</i>	Switzerland	CHF(000)	15,000	27,842	194,745	117,901

## RECORDATI S.p.A.

## ATTACHMENT 5

## DETAILS OF ITEMS IN SHAREHOLDERS' EQUITY

€ (thousands)	Amount	Possibility of use	Amount available	Amount distributable without tax effects	Amount distributable with tax effects	Summary of uses over the preceding three years Replenish ment of losses	Other reasons	Notes
Share capital	26,141							
Additional paid-in capital reserve	83,718	A B C	83,718	15,074	68,644			1
Revaluation reserve	2,602	A B C	2,602	0	2,602			
Statutory reserve	5,228	B	0	0	0			
Treasury stock reserve	(87,516)		(87,516)	(87,516)	0			
Other reserves								
Gain on merger	29,813	A B C	29,813	29,813	0			
Extraordinary reserve	94,277	A B C	94,277	94,277	0	(110,659)		2
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	A B C	99	0	99			
Research and investment grants	17,191	A B C	17,191	1,227	15,964			3
Extraordinary VAT concession reserve	517	A B C	517	0	517			
Southern Italy investment fund	3,632							
IAS reserve	156,787	A B C	156,787	156,787	0			
Interim dividends	(103,143)		(103,143)	(103,143)	0			
Net income (loss) for the period	234,664	A B C	234,664	234,664				
<b>Total shareholders' equity</b>	<b>464,010</b>		<b>429,009</b>	<b>341,183</b>	<b>87,826</b>			

**Legend:**

- A for share capital increase
- B to replenish losses
- C to distribute to shareholders

**Notes:**

- 1 The additional paid-in capital reserve may be distributed when the statutory reserve has reached one fifth of the share capital
- 2 The decrease consists of € 34,280 thousand for the distribution of a dividend approved in 2017 and of € 76,379 as the difference between the amount paid by Group employees who exercised options as part of stock option plans and the carrying amount of the treasury stock recognised in the balance sheet over the last three years.
- 3 The research and investment grant reserve has already been subject to taxation of € 1,227 thousand.

RECORDATI S.p.A.

ATTACHMENT 6

SUMMARY OF THE LAST FINANCIAL STATEMENTS APPROVED BY THE COMPANY THAT EXERCISES MANAGEMENT AND COORDINATION

**Annual Separate financial statements of the company Rossini  
Luxembourg S.à.r.l.**

	amounts in euro <u>31/12/2019</u>	amounts in euro <u>31/12/2018</u>
<b>INCOME STATEMENT</b>		
REVENUE		0
OPERATING EXPENSES	(177,053)	(49.405)
TAXES	<u>(4,815)</u>	<u>0</u>
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<b><u>(181.868)</u></b>	<b><u>(49,405)</u></b>
<b>ASSETS</b>		
NON-CURRENT ASSETS	1.100.028.000	1,021,578,000
CURRENT ASSETS	<u>393,443</u>	<u>821.494</u>
<b>TOTAL ASSETS</b>	<b><u>1,100,421,443</u></b>	<b><u>1.022.399.494</u></b>
<b>EQUITY AND LIABILITIES</b>		
<b>EQUITY</b>		
Share capital	1,108,568	1.030.118
Reserves	1.099.417.178	1.021.045.628
Prior year losses	(49,405)	0
Loss for the year	<u>(181,868)</u>	<u>(49.405)</u>
<b>TOTAL EQUITY</b>	<b><u>1,100,294,473</u></b>	<b><u>1.022.026.341</u></b>
<b>LIABILITIES</b>		
CURRENT LIABILITIES	<u>126,970</u>	<u>373,153</u>
<b>TOTAL LIABILITIES</b>	<b><u>126,970</u></b>	<b><u>373,153</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>1,100,421,443</u></b>	<b><u>1,022,399,494</u></b>

## DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

Amounts in euro		
<i>Type of service</i>	<i>Firm providing the service</i>	<i>Remuneration</i>
Accounting audit	Auditor of the Company	132,790
Certification services	Auditor of the Company	39,970
Due diligence	Auditor of the Company	115,500
Other services	Auditor of the Company	15,400

## CERTIFICATION IN RESPECT OF THE FINANCIAL STATEMENTS UNDER ARTICLE 154-BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Andrea Recordati, in his capacity as Chief Executive Officer, and Luigi La Corte, as the Manager responsible for the preparation of the financial statements of Recordati S.p.A., pursuant to the provisions of article 154-bis, clauses 3 and 4, of Legislative Decree No. 58 of 24<sup>th</sup> February 1998, hereby attest

- the adequacy in relation to the characteristics of the company and
- the effective application,

of the administrative and accounting procedures applied in the preparation of the separate company financial statements during the course of the financial year 2020.

2. Furthermore, it is certified that:

2.1 the financial statements as at 31<sup>st</sup> December 2020:

- have been prepared in accordance with the international accounting standards, recognised by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19<sup>th</sup> July 2002;
- correspond to the amounts shown in the Company's accounts, books and records;
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the issuer.

2.2 The report on operations includes a reliable operating and financial review of the Company as well as a description of the main risks and uncertainties to which it is exposed.

Milan, 18<sup>th</sup> March 2021

Chief Executive Officer

*Andrea Recordati*

Manager responsible for preparing  
the Company's financial reports

*Luigi La Corte*