Consolidated Financial Statements 2020

Thank you to everyone.

RECORDATI

RECORDATI INDUSTRIA CHIMICA E FARMACEUTICA S.p.A.

Company under the management and coordination of Rossini Luxembourg S.àr.l.
Registered office: Via Matteo Civitali, 1 - Milan, Italy
Share capital: € 26,140,644.50 fully paid-in
Tax identification code and registration number in the Milan Business Register: 00748210150

The Company prepares the consolidated financial statements for the Recordati group.

BOARD OF DIRECTORS

Elected by a Shareholders' Meeting on 5th February 2019 and integrated by a Shareholders' Meeting on 29th 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 Director*
MICHAELA CASTELLI	*Lead Independent Director*
GIORGIO DE PALMA	
JOANNA LE COUILLIARD	*Independent Director*
GIAMPIERO MAZZA	
PIERGIORGIO PELUSO	*Independent Director*
CATHRIN PETTY	

FRITZ SQUINDO
Group General Manager

BOARD OF STATUTORY AUDITORS

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

ANTONIO SANTI
Chairman
LIVIA AMIDANI ALIBERTI
EZIO SIMONELLI
Statutory Auditors

ANDREA BALELLI
PATRIZIA PALEOLOGO ORIUNDI
Alternate Auditors

INDEPENDENT AUDITORS

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

RECORDATI

ANNUAL REPORT

The 2020 consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRSs) issued or revised by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as the provisions issued implementing Art. 9 of Italian Legislative Decree 38/2005. The same accounting standards were used in the preparation of the 2019 consolidated financial statements.

This document contains forward-looking statements relating to future events and future operating, economic and financial results of the Recordati group. By their nature, forward-looking statements involve risk and uncertainty because they depend on the occurrence of future events and circumstances. Actual results may therefore differ materially from those forecast as a result of a variety of reasons, most of which are beyond the Recordati group's control. The information on the pharmaceutical specialties and other products of the Recordati group contained in this document is intended solely as information on the Recordati group's activities and therefore, as such, it is not intended as medical scientific indication or recommendation, nor as advertising.

RECORDATI

FINANCIAL HIGHLIGHTS

NET REVENUE

€ (thousands)	2020	%	2019	%	Change 2020/2019	%
TOTAL revenue	**1,448,867**	**100**	**1,481,848**	**100.0**	**(32,981)**	**(2.2)**
Italy	274,588	19.0	287,289	19.4	(12,701)	(4.4)
International	1,174,279	81.0	1,194,559	80.6	(20,280)	(1.7)

KEY CONSOLIDATED P&L DATA

€ (thousands)	2020	% of revenue	2019	% of revenue	Change 2020/2019	%
Net revenue	1,448,867	100.0	1,481,848	100.0	(32,981)	(2.2)
EBITDA[(1)]	569,320	39.3	543,967	36.7	25,353	4.7
Operating income	469,016	32.4	465,266	31.4	3,750	0.8
Net income	355,027	24.5	368,866	24.9	(13,839)	(3.8)
Adjusted net income [(2)]	410,402	28.3	382,413	25.8	27,989	7.3

[(1)] Net income before income taxes, financial income and expenses, depreciation, amortization and write-downs of property, plant and equipment, intangible assets and goodwill, and non-recurring items.
[(2)] Net income excluding amortization and write-downs of intangible assets (except software) and goodwill, and non-recurring items, net of tax effects.

KEY CONSOLIDATED BALANCE SHEET DATA

€ (thousands)	31 December 2020	31 December 2019	Change 2020/2019	%
Net financial position[(3)]	(865,824)	(902,681)	36,857	(4.1)
Shareholders' equity	1,276,260	1,198,811	77,449	6.5

[(3)] Cash and cash equivalents less bank debts and loans, which include the measurement at fair value of hedging derivatives.

PER SHARE DATA

€	2020		2019	Change 2020/2019	%
Net income[(4)]	1.725		1.800	(0.075)	(4.2)
Shareholders' equity[(4)]	6.187		5.825	0.362	6.2
Dividend	1.05	[(5)]	1.00	0.05	5.0
SHARES OUTSTANDING:					
Year average	205,758,125		204,959,193		
At 31 December	206,295,854		205,816,585		

[(4)] Net income per share is based on average shares outstanding during the year net of average treasury shares. Shareholders' equity per share is based on total shares outstanding at year end. Shares outstanding are net of treasury shares, amounting to 2,829,302 shares at 31 December 2020 and 3,308,571 shares at 31 December 2019. Average treasury shares amounted to 3,367,031 shares in 2020 and 4,165,963 shares in 2019.
[(5)] Proposed by the Board of Directors.

LETTER TO OUR SHAREHOLDERS

In 2020, our Group faced and successfully overcame various challenges, some of which were expected, such as losing exclusivity on Urorec® and Livazo® and the entry of a new competitor drug to Panhematin® in the United States, whereas others emerged during the year with the onset of the COVID-19 pandemic. The health emergency affected all the geographic areas where the Group operates, impacting significantly on the global economy and our operating markets, also causing the euro to strengthen against the major international currencies.

Despite these adversities, thanks to actions to control costs and the launch of new products, the Group's economic results were positive, with operating income, EBITDA and net income (adjusted for non recurring tax benefits) up on the previous year.
The Group showed resilience in its business and ability to react in a challenging environment. This was possible thanks to all Group employees who ensured business continuity even in the most acute stages of the emergency. The cover of this Report is dedicated to each and every one of them. The courage, professionalism, dedication and commitment shown by everyone ensured that our pharmaceutical products were consistently available to all patients and that we could continue achieving our results.

While complying with all the measures necessary to ensure the health safety of our personnel, we continued our production and distribution activities without interruption and adopted measures to guarantee the continued availability of our medicinal products on the market. In the case of our office staff, the work that did not require a physical presence in the office continued on a smart-working basis. Our medical-scientific representatives gradually resumed their activities on the ground in the second part of the year—after being temporarily suspended in a number of European countries at the start of the pandemic—while respecting the medical assistance priorities of all health care workers, and supplementing their activity using alternative means of communication. In addition, we allocated and rolled out over the year € 5 million in free contributions to support health care facilities in the areas most affected in their fight against the epidemiological emergency due to COVID-19.

The restrictions imposed in all geographic areas on people's mobility to curb the contagion, combined with the significant devaluation of almost all currencies against the euro, impacted on the major markets where the Group operates. Consolidated net revenue, at € 1,448.9 million, consequently fell slightly by 2.2% compared to the previous year, impacted by currency devaluations for € 38.0 million. At constant exchange rates, Group sales therefore grew by 0.4%. With regard to our Specialty & Primary Care portfolio, which represents 78.0% of revenue, chronic disease medication performed well, in particular Zanidip® and Seloken®, Seloken® ZOK and Logimax®, whereas sales of Urorec® and Livazo® came down due to the competition from generics after the exclusivity on these products expired during the year. Highly significant growth at 27.9% was recorded in the rare diseases treatment area, which represents 22.0% of revenue. This was based on the revenue generated by Signifor® and Signifor® LAR, products already on the market which were acquired in 2019, and the launch of Isturisa® in the United States and Europe.

Despite the drop in revenue, the Group's operating and financial results were largely positive. EBITDA, at € 569.3 million, continued to grow by 4.7% over 2019, 39.3% of revenue, thanks to the improvement in the gross margin and operating expenses coming down due to less activity on the ground as a consequence of the health emergency. Operating income, at € 469.0 million, increased by 0.8% over the previous year, at 32.4% of revenue. Growth was lower than the levels recorded for EBITDA due to increased amortization associated with the new product acquisitions in 2019 and non-recurring costs for € 6.6 million, mainly referring to the aforementioned donations and other costs related to the COVID-19 pandemic. Net income equalled € 355.0 million, at 24.5% of revenue, compared to € 368.9 million in 2019 and, excluding the non-recurring tax benefits component related

to the Patent Box agreements for € 2.0 million in 2020 and € 27.0 million the previous year, net income grew by 3.2% thanks to the increase in operating income and reduction in financial expenses.
Given the increased volume of intangible assets on the Group's balance sheet and their amortization, in order to provide information in line with best practices in the sector and provide a comparison with other operators, a new performance indicator has been introduced as from this year: adjusted net income, which is net income excluding amortizations and write-downs of intangible assets (except software) and goodwill, and non-recurring items, net of tax effects, which was at € 410.4 million in 2020, up by 7.3% on the same indicator calculated on the basis of 2019 results, at 28.3% of revenue.

The Group's financial position remains solid and balanced. The net financial position at 31 December 2020 recorded net debt of € 865.8 million compared to net debt of € 902.7 million at 31 December 2019. During the period, US$90 million (€ 81.6 million) was paid to Novartis following the approval and subsequent marketing of Isturisa® in Europe and the U.S.A., € 15 million was paid to ARS Pharmaceuticals for the ARS-1 licence and € 2.5 million to Helsinn for the Ledaga® license. Treasury shares were purchased for a total disbursement of € 12.2 million, net of disposals for exercise of stock options, and dividends were paid for a total of € 212.7 million. Net of these effects, approximately € 360 million in cash was generated. Shareholders' equity was € 1,276.3 million.

Various initiatives were undertaken during 2020, in line with our ongoing development strategy directed at the Group's continual growth.

In January, the European Commission granted marketing authorisation for the orphan medicinal product Isturisa® (osilodrostat), indicated for the treatment of endogenous Cushing's syndrome (CS) in adults. In March, the Food and Drug Administration (FDA) also approved the marketing authorisation for Isturisa® in the U.S.A. for the treatment of patients with Cushing's disease, when pituitary surgery is not an option or has not been curative. The European Commission and the FDA confirmed its orphan drug status. Also, in March, the Japanese New Drug Application (JNDA) was submitted to the Ministry of Health, Labour and Welfare seeking marketing approval for Isturisa®. Furthermore, the marketing authorisations for Isturisa® were transferred to Recordati Rare Diseases in the United States and in Europe, during March and April respectively. The product was launched with initial sales in the U.S.A., France and Germany.

The active substance in Isturisa® is osilodrostat, a cortisol synthesis inhibitor. Osilodrostat works by inhibiting 11-beta-hydroxylase, an enzyme responsible for the final step of cortisol biosynthesis in the adrenal gland. The benefits of Isturisa® are its ability to control or normalise cortisol levels in adult Cushing's Syndrome patients with a manageable safety profile, making this product a valuable treatment option for patients with Cushing's syndrome. The data generated throughout the clinical program showed that osilodrostat leads to the normalisation of cortisol levels in the majority of patients and improves multiple clinical features of the disease and patient quality of life, thereby providing significant clinical benefits in an area that still requires research into new and adequate treatment solutions.

As part of the agreements signed with Novartis in 2019, the marketing authorisations for Signifor® and Signifor® LAR in the U.S.A. were transferred to Recordati Rare Diseases Inc. in February, and direct marketing of these products on this market has begun.

Consolidated revenue generated by Signifor®, Signifor® LAR and Isturisa® in 2020 was € 79.0 million. The Recordati group has established a dedicated unit in Basel (Switzerland)—called the Recordati AG Rare Diseases Branch—to manage this promising product line worldwide; it is also responsible for marketing Ledaga® in Europe.

In August, the U.S. Food and Drug Administration (FDA) granted approval to market Cystadrops® (cysteamine ophthalmic solution) 0.37% in the U.S.A., which was subsequently launched on the market. Cystadrops® is a new, viscous eye drop solution that depletes corneal cystine crystal deposits in people living with cystinosis.

Cystadrops® has been shown to significantly reduce cystine crystal deposits in the cornea and is the first and only FDA-approved cysteamine drop formulation administered in a practical dosage four times a day. Cystinosis is a rare congenital condition that leads to cystine crystal buildup throughout the body, causing widespread tissue and organ damage and impacting significantly on the eyes.

In September, an exclusive license agreement was signed with ARS Pharmaceuticals, a U.S. based pharmaceutical company, to market, in the European Union, Iceland, Liechtenstein, Norway, Switzerland, the United Kingdom, Russia/CIS, Turkey, the Middle East and in French-speaking African countries, ARS-1, an epinephrine nasal spray in the registration stage with the European Medicines Agency (EMA), for the emergency treatment of severe allergic reactions that can lead to anaphylaxis. The terms of the agreement provide for an upfront payment (€ 10.0 million paid in October) and further milestone payments linked to the regulatory process (of which € 5.0 million was paid in December) and commercial performance. Anaphylaxis is a severe, generalised allergic reaction, characterised by life-threatening breathing or cardiovascular problems, triggered by exogenous events and can be associated with food, insect bites or other allergens. ARS-1 is a liquid formulation of epinephrine associated with Intravail®, an absorption enhancer, contained in a mono-dose nasal spray device. Compared to existing products, this innovative formulation is a new, easy-to-use and needle-free route of administration. If it is used at the first signs of an allergic reaction, it could provide patients and their families with a preventive solution to anaphylactic progression. In November, the European Medicines Agency (EMA) accepted ARS Pharmaceuticals' submission of a marketing authorisation for ARS-1.

In January 2021, the U.S. Food and Drug Administration (FDA) approved a new indication for Carbaglu® (carglumic acid) 200 mg tablets as an adjunctive therapy to the primary treatment of acute hyperammonemia due to propionic acidemia (PA) or methylmalonic acidemia (MMA) in paediatric and adult patients. Carbaglu® is the first and only FDA-approved medication for the treatment of acute hyperammonemia due to PA and MMA.

Also, in January 2021, a License and Supply Agreement was closed with Tolmar International Ltd, to market Eligard® (leuprorelin acetate) in Europe, Turkey, Russia and other countries. Eligard® is a medicinal product for the treatment of advanced hormone-dependent prostate cancer and for the treatment of high-risk localised and locally advanced hormone-dependent prostate cancer, in combination with radiotherapy. This new product provides us with an opportunity to strengthen our presence in the urology area, confirming our ongoing support to patients and doctors in this field, and adapts perfectly to our geographic coverage.

We will continue to develop the business in coming years with the objective of enhancing our presence in selected markets, by growing the existing product portfolio as well as by acquiring products or companies. Developing the rare diseases treatment segment and expanding into new markets will continue to be our priority. Our Group's products are already available through its own organizations throughout Europe, in the Middle East, in the U.S.A., Canada, Mexico, in some South American countries as well as in Japan and Australia. Furthermore, we will continue our commitment to research and development and focus on enhancing our product portfolio by developing and launching pipeline products as well as acquiring new specialties.

Our commitment to sustainability continued during the year with practical implementation ranging from initiatives to reduce our environmental impact with energy efficiency projects and acquiring energy from renewable sources, to initiatives directed at our staff and local communities, focusing especially on the requirements related to the health crisis.
An Environmental, Social & Governance (ESG) function was established to support the integration of social and environmental aspects in business processes, and the Sustainability Plan was drafted, detailing our future commitments. ESG commitments in the Plan are broken down into targets in quality and quantitative terms, referring to four priority areas: responsibility to our patients, people care, environmental protection and responsible sourcing. These strategic sustainability areas are underpinned by a fifth fundamental pillar, ethics and integrity, which serve as the guiding principles for the Group's everyday activities.

Integrating sustainability into the way a business operates is a continual challenge. Our consistent approach to ongoing improvement will ensure that we gradually introduce the measures needed.

Despite the persistent health emergency, we are confident that the rigorous implementation of all the actions undertaken and our strategy will enable us to face the future with optimism. As always, we rely on the entrepreneurship and determination of our management team, the professionalism of our employees and the trust of our shareholders. We would like to express our sincere gratitude to everyone for their loyalty and support during 2020.

DIVIDENDS

Based on the results obtained, we propose a dividend to shareholders of € 0.55 per share, in full balance of the interim 2020 dividend of € 0.50, for all shares outstanding at the ex-dividend date (no. 27), excluding treasury shares in the portfolio at that date (payment on 26 May 2021 and record date 25 May 2021), with ex-dividend on 24 May 2021. The full 2020 dividend is therefore € 1.05 per share (€ 1.00 per share in 2019).

ANDREA RECORDATI
Chief Executive Officer

RECORDATI, AN INTERNATIONAL GROUP

Recordati is a well-established international pharmaceutical group listed on the Italian Stock Exchange since 1984. The Recordati group is based in Milan and is one of Italy's oldest pharmaceutical companies. Since it was founded in 1926, Recordati has grown consistently for more than ninety years thanks to the success of its products and its growth and development strategy based on internationalisation and diversification, implemented on the basis of an ongoing acquisition strategy initiated in the 1990s. The Group is committed to seeking new opportunities and faces the challenges of a constantly changing marketplace with determination. In 2020, revenue of € 1,448.9 million was generated with a staff component of 4,362 employees.

A number of branches are currently operational in Europe and outside Europe. In addition to the countries in Western Europe, the Group also has a direct presence in Central European countries, Russia and the other countries belonging to the Commonwealth of Independent States (C.I.S.), Ukraine, Turkey, Nord Africa, U.S.A., Canada, Mexico, in some South American countries, Japan and Australia. Recordati also sells its products in about 150 markets through license agreements. Alongside its geographic expansion, the Group has developed a significant and increasing global presence in the pharmaceutical segment for the treatment of rare diseases. In addition, the Group constantly enhances its treatment offering by developing new products and forming alliances with research institutes and other pharmaceutical companies.

The Group's most important Specialty and Primary Care products include those in the cardiovascular area, with lercanidipine, a latest-generation calcium channel blocker indicated for the treatment of hypertension, discovered and developed entirely at the Recordati research laboratories, and its combination with enalapril, a widely prescribed ACE inhibitor. The Group's presence in this treatment area also includes the well-established metoprolol-based products, a beta-blocker mainly indicated to control a range of conditions including hypertension, angina pectoris, cardiac rhythm disorders, maintenance treatment after a myocardial infarction, and functional heart disorders with palpitations.

In addition to the cardiovascular segment, the Group's product portfolio covers a range of different treatment areas. More specifically, over the years, Recordati has acquired specific and wide-ranging know-how in the urogenital area, with well-recognized drugs for the treatment of benign prostatic hyperplasia such as silodosin, and of urinary incontinence, such as flavoxate. In the metabolic area, pitavastatin, a latest-generation statin for controlling hypercholesterolemia, is also marketed in a number of countries. Cariprazine, an innovative anti-psychotic drug for the treatment of schizophrenia, was launched in 2019, providing new and effective treatment for this seriously debilitating mental disorder.

Recordati develops, produces and markets drugs for the treatment of rare diseases through Recordati Rare Diseases, a group of companies operating globally and dedicated primarily to rare genetic metabolic illnesses. Recently, this business segment was consolidated with the addition of new products to its portfolio and with the acquisition of additional important products in the area of rare endocrinology diseases.

Recordati has six pharmaceutical production facilities and a packaging and distribution facility dedicated to rare diseases products, all of which operate in full compliance with environmental protection regulations and current Good Manufacturing Practice (cGMP). Recordati also produces a number of active ingredients and intermediates for the pharmaceutical industry at two pharmaceutical chemical plants: one in Campoverde di Aprilia, Italy, and the other in Cork, Ireland.

The broad geographical coverage achieved by the Group, its own efficient network of medical sales representatives, in addition to its well-established experience in regulatory formalities and its expertise in

managing highly specialised products, make the Recordati group an ideal partner to develop and market new products in all the territories where it has a presence with its own sales organizations.

Recordati's proven ability to generate profitable alliances with prominent players in the pharmaceutical sector has underpinned the Group's growth, providing a basis for identifying new partners and implementing new license agreements to develop innovative pharmaceutical products.

Recordati will extend its presence in the international pharmaceutical market and rare diseases segment, working in conjunction with the communities where it operates. Contributing to the well-being of the areas where it operates and dedicating a portion of its resources to solidarity initiatives is not simply a duty for Recordati, but rather the way it conducts its business.

The Group pursues a sustainable growth model, integrating social and environmental aspects into its corporate strategy and process, mindful that there can be no long-term economic development without responsible action.

HEALTH, A GLOBAL OBJECTIVE

The World Health Organisation (WHO) defines health as a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.
To improve health, it is therefore necessary to intervene on a number of determining factors, such as the social, physical and economic conditions in which people are born, live and work, including the health care system. In this context, besides institutions and governments, pharmaceutical companies are also called upon to develop strategies to improve the health care system, in terms of the availability, accessibility and quality of health care structures and the goods and services provided.

The COVID-19 pandemic blocked additional development in the health care and pharmaceutical sectors during 2020, and this will probably continue into 2021. The pharmaceutical sector is taking on a more prominent role and significance in this context. The sector has become a point of reference in the debates focusing increasingly on the issues of health and their importance for entire communities, regarding investments in the research and development of innovative medicines, with a view to creating new and more effective health care models that can maximize benefits for patients, based also on the increased use of technology.

Health care expenditure is a significant indicator of the growing attention on the subject of health. The value of health care expenditure is around 10% of GDP globally.
Global spending on medicines is expected to increase from 2% to 5% annually up until 2024, exceeding US$1.1 trillion net compared to the 4.2% growth rate recorded over the last five years.
There are currently approximately 1.8 trillion daily doses of medicine consumed globally, compared to the 1.6 trillion five years ago. The volume is rising fastest in the drugs used to treat non-communicable diseases, which include cardiovascular disease, diabetes, respiratory disorders, and cancer (https://www.biospace.com/article/iqvia-report-spending-on-drugs-globally-to-exceed-1-1-trillion-by-2024).

Growth determined by the entry of new drugs will be limited by the loss of exclusivity on a number of important products and measures to contain the costs of pharmaceutical spending worldwide. Thanks to the success rates in research and development, it is expected that new product launches will increase on average by 54 new specialty drugs a year over the next five years. Research is shifting its focus towards specialty drugs and medicines to treat rare diseases and oncological conditions. Most of the impact due to the loss of exclusivity occurred in 2019 (source: IQVIA - "Predictions and Areas to Watch in the global pharma market ahead, 2019-2023").

Over the period up to September 2020 (MAT Q3 2020), the over-the-counter (OTC) global market went up by 4.4% to reach US$146 billion (source: *Nicholas Hall's CHC Dashboard*). Despite the contraction due to COVID-19 in certain geographic areas, especially in Europe, and in certain categories, like the respiratory segment, where social distancing and the use of face masks has significantly reduced the incidence of illnesses, forecasts show consistent growth at more moderate rates in both developed and emerging countries. In developed economies, growth drivers are linked mainly to the increasing average age of the population and the related increased propensity to prevention, whereas the reduction in the rate of change from prescription to OTC products and the impact of e-commerce on retail sales have slowed down changes to the market in terms of value. In emerging economies, growth continues to be driven by population growth and improved access to medication, including the development of assistance programs aimed at the middle class (for example, in the main Asian countries, like India).

The trend in the pharmaceutical sector to invest more in the treatment of rare diseases has become consolidated. Although the target population is smaller, it has significant treatment requirements. In 2019, for example, less than half (44%) of new FDA approvals were allocated to orphan drugs. In 2020, US$140 billion (+9% compared to 2019) was assigned to treating rare diseases, with the market growing on average at 11.2% and expected to reach US$217 billion by 2024 and US$255 billion in 2026, to the extent of representing over 18% of the global prescription drug market, excluding generics (source: EvaluatePharma "Orphan Drug Report 2020", "EvaluatePharma World Preview 2020").

In this dynamic and competitive environment, pharmaceutical companies must remain constantly committed on a number of fronts:

- degree of internationalisation, in order to guarantee broader outlet markets for the products sold
- relationships with opinion leaders, fundamental in terms of research and development and the education and training of company medical representatives
- education, training and refresher courses for doctors regarding new pharmaceutical products
- developing relationships with national governments, patient associations and public administrations to improve access to treatment
- developing new pharmaceutical products and technology to deal with emerging health emergencies (influenza pandemic and resistance to antibiotics).

RESEARCH AND DEVELOPMENT

In 2020, research and development activities concentrated primarily on the rare diseases segment. In this regard, progress was made on the pharmaceutical and clinical development of the REC 0559 (treatment of neurotrophic keratitis) and REC 0545 (treatment of leucinosis) projects. New formulation development continued regarding the life cycle management of cysteamine. Pipeline products in the orphan segment saw the clinical trials and marketing authorisation approvals for Isturisa® and Signifor® being transferred from Novartis to Recordati AG, Rare Diseases branch.

The addition of new products—through internal research programs and research and development opportunities in conjunction with external research companies and institutions—was again a significant aspect in 2020 in enriching our pipeline and ensuring the Group's future growth. At the same time, important and intense registration and regulatory formalities were carried out to obtain marketing approvals for Recordati products in new territories.

PRODUCT DEVELOPMENT PIPELINE

NAME	ORIGINATOR	INDICATION	DEVELOPMENT STATUS
ISTURISA®	Novartis	Endogenous Cushing's syndrome/ Cushing's disease	Approved in the USA, Europe and Switzerland Filed in Japan and other countries
CYSTADROPS®	Recordati	Corneal cystine crystal deposits in patients with cystinosis	Approved in the EU and USA Development of new formulations in EU and in USA
REAGILA®	Gedeon Richter	Schizophrenia	Pediatric post-approval development plan
Methadone		Treatment of cancer-related pain in cases of resistance or intolerance to other opioids	Approved in France
CARBAGLU®	(Recordati Rare Diseases)	Hyperammonemia due to NAGS deficiency and to the main organic acidemias	Approved in Canada and the USA for the treatment of organic acidemias
ARS-1	ARS Pharmaceuticals	Emergency treatment of severe allergic reactions, including anaphylaxis	Filed in EU and pediatric development plan in progress
REC 0559	Recordati/MimeTech	Neurotrophic keratitis	Phase 2 in progress
REC 0545	Recordati/AP-HP	Acute decompensation episodes in MSUD	Formulation development and retrospective study in France and Germany

In the Specialty and Primary Care segment, the product pipeline was enhanced with a new epinephrine nasal spray (ARS-1) for the emergency treatment of severe allergic reactions. Maintenance continued in support of marketed products as well as pre-clinical studies involving new drugs. The main research and development activities during 2020 are summarized in the paragraphs below.

ARS-1

The European Medicines Agency (EMA) accepted the Marketing Authorisation Application (MAA) submission from ARS Pharmaceuticals for ARS-1, an epinephrine nasal spray for the emergency treatment of severe allergic reactions, including anaphylaxis. Clinical trials included in the registration application show that the intranasal administration of epinephrine with ARS-1 results in epinephrine plasma levels that are similar to those obtained

with the intramuscular administration of epinephrine. This refers to an innovative formulation making the administration of the drug much easier, even under emergency conditions.

Urorec®/Silodyx®/Silodosin Recordati (silodosin)

The European Medicines Agency (EMA) has approved an alternative source of pregelatinized maize starch (LYCATAB® M or equivalent commercial brands) for centralised registrations of silodosin.

Fortacin™ (lidocaine/prilocaine)

The EMA has approved the over-the-counter use of this topical spray formulation of lidocaine and prilocaine, specifically developed for the treatment of premature ejaculation. This medication has proven to be effective and safe in controlled trials and is available for men who are resistant to seeing a doctor for treatment.

Zanidip®/Zanipress® (lercanidipine/ lercanidipine-enalapril)

In confirmation of the continued clinical interest in lercanidipine, a calcium channel blocker fully developed by Recordati (used in monotherapy or in association with enalapril), the process to update and harmonize the product information contained in the summary of product characteristics and the leaflet has been extended to several non-EU Countries.

The Recordati BV branch has started directly marketing the medicine in monotherapy and in the combination format in Belgium and Luxembourg.

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

During 2020, primary and secondary packaging (bottle format) of metoprolol and metoprolol + felodipine was transferred to the Casen Recordati facility located in Utebo (Spain).

Reagila® (cariprazine)

During 2020, in the scope of the agreement between Recordati and Gedeon Richter, the paediatric clinical development program agreed for Europe continued for cariprazine. This refers to a new anti-psychotic drug approved in Europe in the treatment of schizophrenia. A Scientific Advice application has been submitted to the EMA for the development of a novel cariprazine prolonged-release formulation, to be administered once a week. The use of cariprazine in adults was shown to be effective not only in improving the positive symptoms, but also the negative symptoms associated with the condition. The medication is the process of registration in Tunisia and Turkey.

Methadone

Zoryon® capsules have been launched in France for the treatment of moderate and severe oncological pain in patients who do not respond adequately to other opioids.
Work is continuing on the commitments undertaken with the French Authority at the time that the Zoryon® approval was issued for the treatment of oncological pain. A file is being prepared for the submission of a new registration application based on the mutual recognition procedure in other European countries. The protocol of a phase IV study in real life has been submitted for evaluation by the French Authority. The Environmental risk assessment study is about to start, and the development and validation of an updated analytical procedure for the detection of degradation products is underway.

Lomexin® (fenticonazole)

Fenticonazole is a topical antimycotic drug originated by Recordati. A number of different projects were conducted in support of the development of the product, given its increase in sales and the potential associated with its change of status from prescription to over-the-counter in various European countries as well as the scientific evidence supporting the fenticonazole molecule as a treatment for vaginal infections with different etiology. Regarding the “vaginal capsule” pharmaceutical form, the finished product specifications and analytical

methods for all registrations worldwide were updated. The Danish Authority (RMS) endorsed the work sharing procedure to update and harmonize the safety information in the product specification characteristics and information leaflet in Europe for the different forms of fenticonazole for the gynaecological indication. A change in the prescription-based status to an over-the-counter regime has been authorised in Latvia, Lithuania and Russia for the vaginal capsules and in Ukraine for the dermatological cream. In 2020, the studies required by the Danish regulatory authority have begun on the environmental risk assessment of fenticonazole. The final report will be available during the first quarter of 2022.
The Recordati BV branch has been appointed as local representative and has started distributing the vaginal-use formulation in Belgium, Luxembourg and the Netherlands.
Recordati Ilaç located in Çerkezköy (Turkey) has been added as manufacturing and packaging facility for the cream in Russia.

Livazo® (pitavastatin)

Pitavastatin is indicated for the reduction of elevated total cholesterol (TC) and LDL cholesterol (LDL-C) in adults, adolescents and children aged 6 years or older with primary hypercholesterolemia, including heterozygous familial hypercholesterolemia, and combined (mixed) dyslipidemia, when the response to diet and other non-pharmacological measures is inadequate.
A Scientific Advice application has been submitted to the AEMPS (Spanish Medicines Agency) to develop the fixed-dose combination of pitavastatin 2 mg and fenofibrate 160 mg for the treatment of patients with combined dyslipidemia and suitably controlled LDL-cholesterol levels based on monotherapy with pitavastatin 2 mg/day, but with high triglyceride levels and low HDL-cholesterol levels.

Proctoglyvenol® (tribenoside + lidocaine)

The Recordati Ilaç plant located in Çerkezköy (Turkey) has been added as a cream manufacturing and packaging facility for Europe and Russia.

Treatments of rare diseases

Recordati is expanding its commitment to the discovery and development of treatments for rare diseases and has a number of projects in the pipeline in various phases, from new formulations to phase III and post-approval studies. Furthermore, various collaborations with the best universities worldwide are in place, with the objective of finding new therapeutic uses for the current treatments as well as to promote research and development in the more relevant areas (metabolic diseases, neonatology).

Signifor®/Signifor® LAR (pasireotide) and Isturisa® (osilodrostat)

During 2019, universal rights were acquired from Novartis for Signifor® and Signifor® LAR for the treatment of Cushing's disease and acromegaly in adult patients when surgery is not indicated or when surgery has failed, as well as Isturisa® (osilodrostat), an innovative oral administration treatment that received European approval in January for Cushing's syndrome and U.S. approval in March 2020 for Cushing's disease. During 2020, the transfer of sponsorship from Novartis to Recordati AG was almost completed on a number of global trials involving the above-mentioned products, including:

- an interventional study on a worldwide basis with Signifor® and Signifor® LAR (SOM230B2412)
- and observational study (PASS) with Signifor® (SOM230B2410)
- an interventional study on a worldwide basis with osilodrostat (CLCI699C2X01B)
- a pediatric study with osilodrostat (CLCI699C2203).

The working group, comprising professionals from different companies in the Recordati Group and employees from an international CRO, have liaised with Novartis to finalize the activities needed to transfer these studies, manage the independent studies sponsored by researchers and the requests for compassionate use.
In addition to supporting the studies above, the working group provides support to the process underway to register Isturisa® in other countries and assess extending the current indications.

Carbaglu® (carglumic acid)

This product is an orphan drug approved in the European Union by the European Commission and in the U.S. by the Food and Drug Administration (FDA) for the treatment of hyperammonemia due to N-Acetyl Glutamate Synthase (NAGS) deficiency. NAGS deficiency is an extremely rare inherited metabolic disorder affecting the urea cycle which leads to accumulation of ammonia in the blood. If not adequately and quickly treated, NAGS-D can cause irreversible brain damage, coma, and eventually death. Carbaglu® provides specific treatment for this genetic disorder, treating the patient's lifelong disorder. In 2011, Carbaglu® obtained approval in the European Union to extend its indications to treat hyperammonemia due to the three main organic acidemias (OAs): isovaleric acidemia, methylmalonic acidemia and propionic acidemia. In 2014, Carbaglu® was granted Orphan Drug Designation (ODD) by the FDA for its use in the treatment of OA. Regulatory approval was obtained in Canada in 2020, and in January 2021, the FDA in the United States approved this new indication.

Cystadrops® (cysteamine hydrochloride)

Nephropathic cystinosis is a congenital disorder which affects all the body's organs. Currently, the oral administration of cysteamine (Cystagon®) is the only specific treatment that fights the accumulation of cystine in various organs and tissues. Special focus is given to cystinosis when it affects the eyes. If quick, continuous and proper treatment is not received, cystine crystals accumulate in the cornea causing visual complications such as photophobia (sensitivity to light), retinal damage, ulcerations and degenerative infections that can lead to corneal erosion and consequent blindness. Whereas Cystagon® has a limited effect on the ocular manifestation of the condition due to the absence of corneal vascularization, Cystadrops® are gel-based eye drops containing cysteamine chlorhydrate, developed by Recordati for the specific treatment of this condition. This treatment acts directly on the accumulations of cystine crystals in the eyes and therefore reduces and eventually eliminates the crystals, improving the symptoms. Cystadrops® is marketed in European Union countries and in the U.S.A., where approval has been granted by the FDA.

Currently, new innovative formulations of Cystadrops® are being developed to better meet patients' requirements.

REC 0559

In June 2017, Recordati and Recordati Rare Diseases (formerly Orphan Europe) signed an exclusive license agreement with MimeTech, an Italian development company founded by scientists from the University of Florence, to develop and subsequently market a human nerve growth factor (NGF) peptidomimetic for the treatment of neurotrophic keratitis, on a global level. Neurotrophic keratitis is a rare degenerative corneal disease caused by an impairment of the trigeminal nerve. In its more severe forms, it affects less than one person out of 10,000. The progression of the disease can result in corneal ulcers and perforation with a dramatic impact on the patient's vision. Clinical trials on humans started in 2020.

REC 0545

Maple syrup urine disease (MSUD), also called branched-chain ketoaciduria, is a rare metabolic disorder affecting branched-chain amino acids (leucine, isoleucine and valine) caused by a build-up of these amino acids and the corresponding metabolites. This buildup manifests with severe symptoms, affecting all the organs from the start of a newborn's life which, if not adequately diagnosed and treated, could result in the child's death. Even when chronically treated, patients may be subject to acute metabolic decompensation episodes that manifest with severe neurological symptoms which, if not addressed, can be life-threatening.

Various therapeutic approaches exist, but to date, none is specifically approved to manage the acute phases. Preliminary data show that REC 0545 acts quickly on the built-up amino acids and their metabolites, thus considerably reducing symptoms and the patient mortality rate. In 2019, positive results were obtained in a

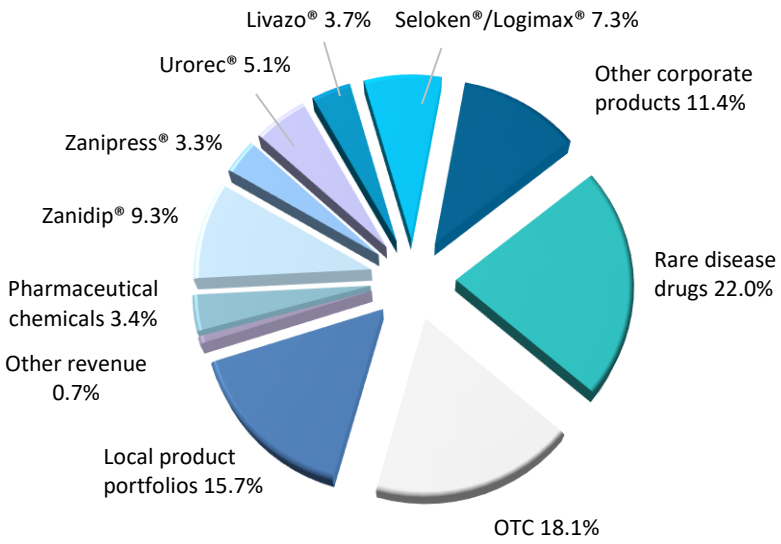
retrospective clinical study on patients suffering from Marple syrup urine disease (MSUD). Formulation development was completed in 2020, and the regulatory approval process requirements are being finalised.

REVIEW OF OPERATIONS

The Group's primary business involves the production and marketing of specialty medicines, which are divided into two categories: Specialty and Primary Care medicines and treatments for rare diseases. Business also includes Pharmaceutical Chemicals, where Recordati produces a number of active ingredients and intermediates for internal use and for other pharmaceutical industries.

The Group's pharmaceutical business, at 96.6% of total revenue, is carried out in the main European markets, including Central and Eastern Europe, Russia and other C.I.S. countries, Ukraine, Turkey, Tunisia and, in so far as our rare disease business is concerned, through our subsidiaries also in the United States of America, Canada, Mexico, in certain South American countries, the Middle East, Japan and Australia. Business in the rest of the world is primarily based on license agreements with leading pharmaceutical companies. Our direct presence in markets where our Specialty and Primary Care portfolio is sold extended progressively with the acquisition of existing marketing organizations, with the aim of adding proprietary products or those obtained under multi-territorial licenses, to local portfolios. Regarding the business segment dedicated to treatments for rare diseases, new Recordati Rare Diseases subsidiaries have been established worldwide.

Breakdown of revenue

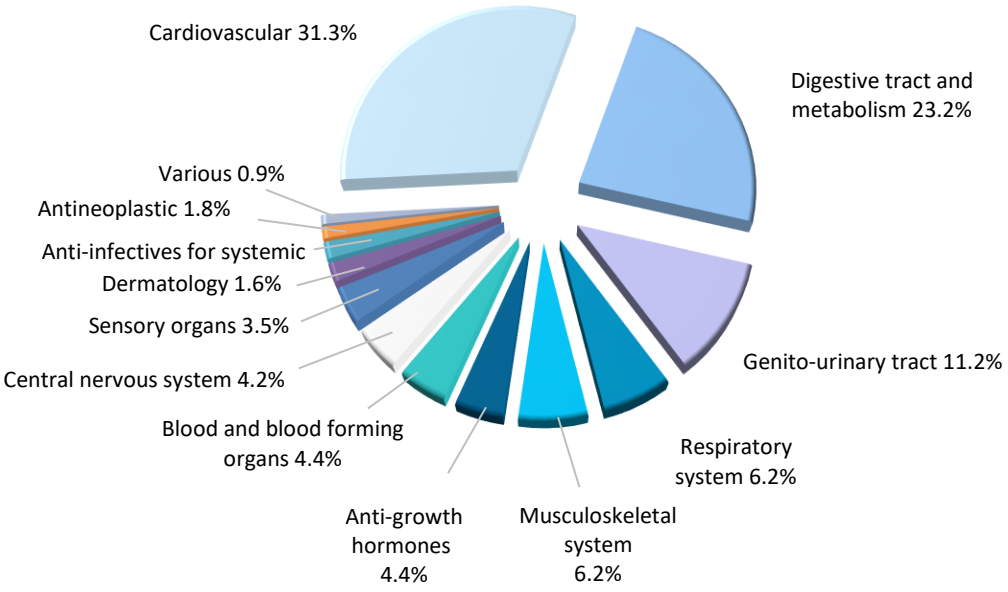


Net revenue in 2020 was € 1,448.9 million, down by 2.2% compared to the previous year. The devaluation of almost all currencies against the euro, which was particularly pronounced in the second half of the year, resulted in a negative currency translation of € 38.0 million, impacting significantly especially on the Turkish lira and Russian ruble. Excluding the foreign currency effect, the group's sales grew slightly (+0.4%). Revenue for the new drugs Signifor® and Signifor® LAR, acquired at the end of 2019, and initial sales of Isturisa® totalled € 79 million. Without the uptake from the contribution of these two products and the effects of the currency devaluations, revenue would have been down by 4.4%, mainly due to the impact on reference markets from the COVID-19 pandemic, loss of exclusivity in February 2020 on Urorec® (silodosin) and in August 2020 on Livazo® (pitavastatin) and the entry of a new product in competition with Panhematin®. International sales, at € 1,174.3 million, were down by 1.7%, representing 81.0% of the total.

The Group's turnover, especially from the second quarter, was affected by the impact of the pandemic on reference markets, which was particularly severe in the Specialty and Primary Care segment, especially for the effect of the reduction of promotional activities on field, due to mobility restrictions. The more consolidated products for the cure of chronic illnesses held up well over the year, as confirmed, for example, by the stability that was seen in sales of Zanidip® (+0.2%) and solid growth in the metoprolol-based products (+7.5%). The main negative impact was caused by the reduction in the procedures conducted in hospitals and clinics, such as endoscopies, which have negatively affected Citrafleet® (colonoscopy preparation) in Spain, the low incidence of certain diseases due to the population's reduced activity, which negatively affected the performance of the anti-infectives Tergynan®, Polydexa® and Isofra® in Russia and in other Central and Eastern European countries and the lower use of OTC products such as vitamins, food supplements and probiotics. Of note is the negative impact on sales of Zanipress®, with the introduction of new measures promoting generic products at the start of the year in France. The rare diseases segment was not affected to the same extent, with the exception of Panhematin®. Sales in the USA of this drug used to treat recurring attacks of acute intermittent porphyria came down because of fewer patient visits to infusion centres due to the COVID-19 situation, which also contributed to greater penetration by a new competing drug.

PHARMACEUTICALS

Pharmaceutical sales by therapeutic area in 2020 are shown below:



Corporate products

The performance of products sold directly in more than one market (corporate products) during 2020 is shown in the table below.

€ (thousands)	2020	2019	Change 2020/2019	%
Zanidip® (lercanidipine)	134,612	134,381	231	0.2
Zanipress® (lercanidipine+enalapril)	48,423	58,938	(10,515)	(17.8)
Urorec® (silodosin)	74,103	107,128	(33,025)	(30.8)
Livazo® (pitavastatin)	52,863	53,807	(944)	(1.8)
Seloken®/Seloken® ZOK/Logimax® (metoprolol/metoprolol + felodipine)	105,699	98,321	7,378	7.5
Other corporate products*	269,469	306,327	(36,858)	(12.0)
Rare disease drugs	319,441	249,850	69,591	27.9

* Include corporate OTC products for a total of € 103.6 million in 2020 and € 113.9 million in 2019 (-9.0%).

Zanidip® (lercanidipine) is an antihypertensive calcium channel blocker discovered and developed entirely in the Recordati research laboratories and is currently available in more than 100 countries. Lercanidipine is effective in gradually lowering blood pressure values to optimal levels, preventing episodes of reflex tachycardia and reducing the risk of cardiovascular events and their related mortality. Its lipophilicity and high selectivity are properties that make lercanidipine effective with a superior tolerability profile. It protects the kidneys and the endothelium of blood vessels. Thanks to this organ protection characteristic and its metabolic neutrality, lercanidipine is well tolerated by patients suffering from other diseases such as diabetes and nephropathy. Our lercanidipine-based products are sold directly to the market by our marketing organizations in Western, Central and -Eastern Europe, Turkey and North Africa. They are sold by our licensees in some countries and on the basis of co-marketing agreements in some of the aforementioned countries.

€ (thousands)	2020	2019	Change 2020/2019	%
Direct sales	77,228	74,587	2,641	3.5
Sales to licensees	57,384	59,794	(2,410)	(4.0)
Total lercanidipine sales	**134,612**	**134,381**	**231**	**0.2**

Direct sales of lercanidipine-based products are up by 3.5%, mainly in Italy, Germany, Poland and Russia. Sales in Nordic and the Benelux countries were carried out by our licensees up until last year and are now carried out directly through our organizations. Sales to licensees, at 42.6% of the total, were down by 4.0%, mainly due to the sales no longer carried out through licensees in the countries where the Group has now undertaken direct sales.

Zanipress® (lercanidipine+enalapril) is a drug developed by Recordati to treat hypertension. It associates lercanidipine, a latest-generation calcium channel blocker, with enalapril, a widely prescribed ACE inhibitor, allowing the simultaneous administration of two active ingredients and increasing treatment compliance by the patient. Combination therapy is considered a first-line treatment for hypertensive patients at high risk for cardiovascular events. The benefits of the combination of these two active ingredients have been confirmed by

the results of a number of clinical trials which have shown its significant antihypertensive efficacy, excellent tolerability in addition to renal and vascular protection from the damage caused by hypertension. This product is successfully marketed directly by Recordati or by its licensees in 30 countries.

€ (thousands)	2020	2019	Change 2020/2019	%
Direct sales	44,152	53,021	(8,869)	(16.7)
Sales to licensees	4,271	5,917	(1,646)	(27.8)
Total lercanidipine+enalapril sales	**48,423**	**58,938**	**(10,515)**	**(17.8)**

Direct sales of Zanipress® in 2020 were down by 16.7% due to the impact of the new measures promoting generic products, introduced in France at the beginning of the year. Sales to licensees, representing 8.8% of the total, were down by 27.8% mainly due to the termination of licenses in France and Belgium.

Urorec® (silodosin) is a drug indicated for the treatment of the symptoms of benign prostatic hyperplasia (BPH, enlargement of the prostate). BPH manifests with problems linked to urination. It frequently occurs in men over the age of fifty, and its symptoms significantly reduce quality of life. This disorder is becoming more prevalent with the ageing of the population. Clinical evidence shows that patients receiving silodosin benefited from a significant reduction in symptoms associated with BPH and an improvement in quality of life within the first week of treatment. Symptom improvement is maintained during long-term treatment. A recent study (Fusco et al, 2020), found that silodosin improves symptoms and quality of life in patients with severe lower urinary tract symptoms related to benign prostatic obstruction.
The safety and tolerability of silodosin has been widely assessed with positive results. The low incidence of orthostatic and vasodilatory side effects makes it a well-tolerated treatment, even in patients taking antihypertensive medication. Silodosin was originally developed by Kissei Pharmaceutical Co. (Japan) and was obtained under license by Recordati for development and marketing in Europe and a further 18 countries in the Middle East and Africa. Currently, the product is successfully marketed in 40 countries, including France, Germany, Italy, Spain, Portugal, the CIS countries, Tunisia and Switzerland. Silodosin based products are sold directly by our subsidiaries under the Urorec® brand and by our licensees under the Silodyx™ brand.
During 2020, sales for € 74.1 million were recorded, down by 30.8%, in line with forecasts, due to competition from the generic version of the product, following the expiry in February 2020 of the exclusivity on marketing, especially in Italy, France, Spain and Germany. Urorec® is performing well in Turkey and Switzerland where there are no generic versions available.

Livazo® (pitavastatin) is a latest-generation statin indicated for the treatment of dyslipidemia, a condition characterised by altered levels of blood cholesterol and other lipids and associated with an increased risk for heart disease and strokes. Controlled clinical trials have shown that pitavastatin induces a reduction in LDL-cholesterol (the “bad” cholesterol that contributes to formation of atherosclerotic plaques) and an increase in HDL-cholesterol (the “good” cholesterol that is removed from the arterial walls). This dual effect is highly significant because it has shown that the risk for cardiovascular complications can be reduced further in this way. Furthermore, pitavastatin presents an excellent safety profile due to the lower risk of drug-drug interactions compared to most other statins. Based on these findings, pitavastatin is regarded as an effective and safe treatment for dyslipidemia. Pitavastatin was licensed by Recordati from the Japanese pharmaceutical company Kowa for the European market, Russia and the other CIS countries and Turkey. The drug is sold by our marketing organizations in Spain, Portugal, Switzerland, Greece, Russia, Ukraine, other CIS countries and Turkey. Sales for € 52.9 million were recorded in 2020, slightly down (-1.8%) mainly due to the loss of exclusivity in August 2020, with the consequent initial marketing of generic versions of the product in certain countries, primarily in Spain and Portugal. The product is performing well in Turkey, Greece and Switzerland where there are no generic versions available.

Seloken®/Seloken® ZOK (metoprolol) are metoprolol-based medicines belonging to the beta blocker class of drugs that are widely used in the treatment of angina pectoris, myocardial infarction and cardiac rhythm disorders, as well as hypertension and functional heart disorders. These drugs have been widely studied in large and important clinical trials such as MAPHY and MERIT-HF and are frequently used in primary care and by cardiologists to treat cardiac disorders and hypertension. Long-term mortality studies (Seloken®/Seloken® ZOK Core Data Sheet) have shown that the use of metoprolol reduces the rates of general mortality, cardiovascular mortality, sudden death and the progression of heart failure. Recordati acquired the marketing rights for the drug in Europe. The product is available under the international Seloken® brands, in 100 and 200 mg dosage forms, and Seloken® ZOK/ Betaloc® ZOK, in 23.75 mg, 47.5 mg, 95 mg and 190 mg forms. Logimax® (metoprolol+felodipine) is a fixed association of metoprolol with felodipine which, over the years, has shown high antihypertensive efficacy. The use of metoprolol together with felodipine reduces possible episodes of reflex tachycardia induced by the calcium channel blocker, while felodipine associated with metoprolol facilitates vasodilation by reducing peripheral vascular resistance. This action mechanism explains why a therapy based on the association of a beta blocker with a calcium channel blocker, administered to patients suffering from hypertension associated with ischemic cardiopathy, is one of the most cited and recommended therapeutic combinations by European ESH/ESC guidelines.
The European marketing rights for Seloken®/Seloken® ZOK (metoprolol) and Logimax® (metoprolol+felodipine), belonging to the class of beta blockers widely used in the treatment of different cardiovascular conditions, were acquired from AstraZeneca in 2017. The products are sold directly in around 20 countries and through distribution agreements in other European countries.
In 2020, sales of € 105.7 million were recorded, up by 7.5% compared to the previous year, attributable mainly to increased sales in Central and Eastern European countries.

Other corporate products include specialties from Recordati's original research, the acquisition of product rights for various markets and through license agreements for multiple territories. The paragraphs below describe their characteristics and the sales generated.

- Procto-Glyvenol® (tribenoside), leader in its class, is a tribenoside-based over-the-counter drug, indicated for the treatment of internal and external haemorrhoids. Recordati markets it in the following countries: Russia, Poland, Turkey, Romania, Ukraine, CIS countries, Czech Republic, Slovakia, Portugal, Baltic countries and Cyprus. Sales of this product in 2020 were at € 31.2 million, up by 2.4%, penalized by the negative currency exchange impacting sales especially in Turkey, Russia and Ukraine.

- Polydexa®, Isofra® and Otofa® are combination products for the treatment of ear, nose and throat infections, sold mainly in Russia and the CIS countries. In 2020, sales of Polydexa® were at € 26.7 million, Isofra® at € 11.7 million, and Otofa® generated sales of € 3.1 million. Overall sales were down on the previous year. The COVID-19 emergency lowered the incidence of certain diseases due to the population's reduced activity, impacting mainly on the performance of these anti-infectives in Russia and other Central and Eastern European countries. Sales were also affected by the negative exchange rate in Turkey and Russia.

- Tergynan® is a fixed combination of different active ingredients with antimicrobial, anti-inflammatory, antiprotozoal and antimycotic activity for the treatment and prevention of gynecological infections. Tergynan® is a leading brand in the class of anti-infective and antiseptic gynecological medicines in the countries where it is marketed, in particular, in Russia, in other countries in the Commonwealth of Independent States, in Ukraine, Mongolia and Romania. Total sales for 2020 were at € 23.9 million, down by 17.9%. Most of the sales for this product were in Russia, which was affected by the negative currency exchange and by similar trends of the anti-infective category.

- CitraFleet® and FosfoSoda® are bowel cleansers used before any diagnostic procedure which requires emptying the intestines, such as a colonoscopy or X-rays These products are sold in around 15 countries, but mainly in Spain and Germany. With the continual process to integrate product portfolios between the Group's subsidiaries, Citrafleet® has been extended to many other subsidiaries including in Poland, France, Portugal and Italy, while FosfoSoda® has been extended mainly to Turkey, the Russian Federation and France. In 2020, sales of CitraFleet® totalled € 23.4 million (-18.0%) and sales of FosfoSoda® € 2.9 million. Their performance was impacted by hospital procedures being suspended due to the COVID-19 emergency.

- With reference to the other main gastrointestinal products, a similar contraction was recorded by Fleet® enema, with sales of € 11.7 million (-7.8%), while Casenlax®, recorded sales of € 14.5 million (+12.6%).

- Lomexin® (fenticonazole), an original Recordati product, is an internationally and widely used broad-spectrum antimycotic indicated for the treatment of dermatological and gynecological infections caused by fungi, mould, yeast and gram-positive bacteria. The brand recently obtained OTC status and was successfully relaunched in various EU countries, providing patients with a new easily accessible self-medication option. Sales of Lomexin® in 2020 were at € 20.3 million, down by 4.8% compared to the previous year, mainly due to sales in Poland.

- The Hexa line of products comprises biclotymol-based antibacterial treatments for the oral cavity sold under the Hexaspray®, Hexalyse® and Hexapneumine® brands, which are in high demand especially in France and North Africa, Russia, the Community of Independent States (CIS), Ukraine and Mongolia.

- The line's main brand is Hexaspray®, a throat spray and leader in its class in France. The product range was recently extended with the launch of Hexatoux®, a spray treatment for coughs available in France and Georgia. Overall sales of this product line in 2020 totalled € 17.6 million, down by 6.8%, and are generated mainly in France, North Africa and Russia, due to the low incidence of some diseases due to the reduced activity of the population.

- The health emergency also resulted in reduced demand for OTC products and dietary supplements, the product lines under license from BioGaia, which include lactobacillus reuteri protectis-based supplements and the Reuflor® brand in Italy and Casenbiotic®, Bioralsuero®, Reuteri® and Gastrus® brands in Spain and Portugal. Sales of these products in 2020 totalled € 17.4 million.

  Reagila® (cariprazine) is a new drug for the treatment of schizophrenia, a third-generation antipsychotic, which, thanks to its specific pharmacological nature, can be considered unique in the panorama of this therapeutic class. It not only acts on the "positive" symptoms of the disease, such as delirium, hallucinations, thought dissociation, etc., but also on the "negative" component such as apathy, anhedonia and antisocial behaviour. Cariprazine has the added advantage of reducing neurological and metabolic side effects and has a low cardiovascular impact. Extending the treatment spectrum for schizophrenia has a positive effect on the functional recovery of patients. It comes in a once daily administration form, with a long half-life. Its clinical efficacy has been shown by a number of clinical studies involving over 2,000 patients. Reagila® was originated by Gedeon Richter and is under license to Recordati in Western Europe. The product was launched in Germany, Switzerland, Italy, Benelux, the United Kingdom, Sweden, Denmark, Finland, Spain, Portugal and Ireland, generating total sales for € 12.4 million in 2020 versus €7,6 million of last year. To be noted that the pandemic contained the growth of this product due to reduced affluence to psychiatric centres and to less intense promotional activities that mainly penalized all products in launch phase.

- TransAct® LAT, a transdermal patch containing 40 mg of flurbiprofen, a non-steroidal anti-inflammatory drug (NSAID), is indicated for the symptomatic relief of localized pain involving the musculoskeletal system, obtained under license from Amdipharm and sold in Italy and Portugal. Sales of this product in 2020 totalled € 10.3 million (-6.1%).

- Kentera® is an oxybutynin transdermal patch indicated for the symptomatic treatment of lower urinary tract disorders such as incontinence, increased urinary frequency and urgency, obtained under license from Allergan (formerly Actavis and previously Watson Pharmaceuticals) and marketed in 18 countries, but mainly in Germany. Sales of Kentera® in 2020 totalled € 7.2 million (-5.5%).

- Flavoxate, a Recordati original research product, is a urinary tract muscle relaxant, indicated for the symptomatic treatment of dysuria, urgency, nocturia, frequency and incontinence and the treatment of bladder and urethral spasms and is marketed under the Genurin® and Urispas® brands. Sales of this product in 2020 totalled € 7.0 million and, being mainly addressed to the Turkish market, accounted for an overall decline of 19,9%, penalized by the exchange rate.

- Lopresor® (metoprolol) is a selective beta blocker for the treatment of different cardiovascular disorders, in particular hypertension and angina pectoris, marketed in Greece and other European countries. Sales of this product in 2020 were at € 6.1 million (-0.4%) and were generated primarily in Greece and Germany.

- Lacdigest® (tilactase) is an enzyme-based preparation indicated in cases of lactose intolerance due to primary and secondary lactase deficiency. Sales of this product in 2020 totalled € 5.1 million (-0.4%) and were generated in Italy and Switzerland.

- Rupatadine is a systemic antihistamine indicated for the treatment of different allergies, especially allergic rhinitis. Under license from Uriach, it is marketed in Italy and Germany as Rupafin® and in France as Wystamm®. Sales of Rupatadine in 2020 totalled € 4.1 million, up by 7.4%.

- Abufene® and Muvagyn® are gynecological products indicated for menopausal symptoms. Sales of these products in 2020 totalled € 5.2 million (-7.3%) and € 2.3 million (-11.6%) respectively.

- Vitaros®/Virirec® (alprostadil) is the first topically applied cream formulation of alprostadil for the treatment of erectile dysfunction. The local action mechanism minimizes any adverse systemic reactions or interactions with other drugs, food or alcoholic beverages, making Vitaros® an effective and safe alternative to existing orally administered products. It has been launched in Spain, Portugal, Ireland, the Czech Republic, Slovakia and recently also introduced in Greece, Romania and Poland. Sales of this product in 2020 totalled € 4.2 million (-8.8%).

- Fortacin® (lidocaine+prilocaine) is an easy-to-use fast-acting topical spray formulation of lidocaine and prilocaine for the treatment of premature ejaculation. The product was launched in 2018, and is sold in Italy, Germany, Spain, Portugal, France, the United Kingdom and Greece. This is the first topical treatment officially approved for this specific condition by the European Medicines Agency (EMA) and is included in the EAU (European Association for Urology) Guidelines as a reference drug indicated for premature ejaculation. Fortacin® was recently officially classified by the EMA as OTC, making it available as an effective and convenient self-treatment option. Sales of this product in 2020 totalled € 1.2 million (+1.3%).

Treatments of rare diseases

Rare diseases bring great suffering to millions of affected people worldwide. They are predominantly genetic disorders that can affect patients of any age, gender and ethnicity, involving all medical specializations. These diseases are chronic, fatal or severely debilitating, strongly impacting patients, their families and society as a whole. In most cases, they affect newborns, children and young adults.
An orphan drug is a medicinal product specifically developed to treat a rare disease. According to the European definition, a rare disease is defined as one that affects fewer than five in 10,000 people or, based on the American definition, fewer than 200,000 people in the United States of America. Over 30 million people are affected in Europe alone. There are currently over 7,000 known rare diseases, but approved treatment only exists today for less than 10% of them.

Due to the extensive range of existing diseases and scarce available information, a specialist or general practitioner may never come across a patient affected by a rare disease in their entire career. This always poses the risk that when a baby is born with a rare disease, it may not be correctly diagnosed and provided with timely and appropriate treatment. The limited number of patients and sparse relevant knowledge and expertise are specific characteristics of rare diseases. Governments have introduced legal and financial incentives to provide treatment to people affected by rare diseases and encourage pharmaceutical and biotechnology companies to invest in these treatments. The Orphan Drug Act was approved in the USA in 1983. In 1999, European legislation explicitly recognised the need to identify targeted treatments for these conditions and introduced specific regulatory processes and incentives to develop orphan drugs. The designation as “orphan drug” in Europe provides exclusivity on the marketing of the designated indication for 10 years from the time the drug is approved. Since April 2000, when the EU orphan drug regulation came into effect, many hundreds of drugs have been designated as orphan drugs by the European Medicines Agency (EMA). Of these designated drugs, over 100 have received marketing authorization (MA). The orphan medicines, 40% have been authorized for the treatment of oncological and hematological conditions and about 30% for the treatment of rare genetic metabolic disorders.

More recently, there has been an increase in international research investments by different funding bodies to boost the number of authorized treatments. Reports estimate that orphan drugs account for between 1.7% and 4% of total drug expenditure.

The Recordati group operates in the rare disease segment worldwide through Recordati Rare Diseases, its group of subsidiaries entirely dedicated to the research, development and marketing of medicines for the treatment of rare diseases which share the conviction that every person with a rare disease has the right to the best possible treatment. Our organizations work closely with specialists, health care professionals, patients, their families and associations to spread knowledge, improve diagnosis and treatment, and enable access to treatment by supporting patients.. Recordati Rare Diseases operates directly in Europe, Russia, the Middle East and North Africa, the USA, Canada, Mexico, Colombia, Brazil, Japan and Australia, as well as selected partners in a number of other countries, covering over 100 countries worldwide. It has developed a global presence through its network of subsidiaries and highly qualified distributors. Furthermore, a direct distribution and packaging system is able to deliver very small numbers of specialist products to people around the world at short notice. Recordati has a facility in Nanterre (Paris) dedicated to packaging and storing these drugs and shipping them to every country.

The main products in the rare diseases segment for metabolic and treatment areas other than endocrinology are listed in the table below:

NAME	ACTIVE INGREDIENT	INDICATION
CARBAGLU®	carglumic acid	Treatment of hyperammonemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and some organic acidaemias (isovaleric acidaemia, methylmalonic acidaemia and propionic acidaemia)
NORMOSANG® PANHEMATIN®	human hemin	Treatment of acute attacks of hepatic porphyria
CYSTADANE®	betaine anhydrous	Treatment of homocystinuria
CYSTADROPS®	cysteamine hydrochloride	Treatment of the ocular manifestations of cystinosis
COSMEGEN®	dactinomycin for injection	Treatment of rare cancers: Wilms tumour, infantile rhabdomyosarcoma, Ewing sarcoma and metastatic nonseminomatous testicular cancer
JUXTAPID®	lomitapide	Treatment of homozygous familial hypercholesterolemia (HoFH)
CYSTAGON®	cysteamine bitartrate	Treatment of nephropathic cystinosis
LEDAGA®	chlormethine hydrochloride	Treatment of mycosis fungoides (MF), T-cell cutaneous lymphoma (CTCL)
PEDEA® NEOPROFEN®	IV ibuprofene	Treatment of patent ductus arteriosus (PDA)

The main segment products dedicated to rare endocrine conditions are listed in the table below:

NAME	ACTIVE INGREDIENT	INDICATION
SIGNIFOR® and SIGNIFOR® LAR	pasireotide	Treatment of Cushing's disease and acromegaly
ISTURISA®	osilodrostat	Treatment of Cushing's disease (United States of America) and Cushing's syndrome (European Union, Switzerland)

In 2020, sales on products for the treatment of rare diseases, marketed directly in Europe, the Middle East, the U.S.A., Canada, Mexico and some countries in South America, Japan, Australia and through partners in other territories, generated sales of € 319.4 million, increasing by 27.9%, and included revenue from Signifor®, Signifor® LAR and Isturisa® for a total of € 79.0 million.
The contribution of these new products, together with consistent growth in Carbaglu®, Cystadrops®, Cystadane®, Ledaga® and Juxtapid® more than compensated for the decrease in Panhematin® (injectable hemin for the treatment of recurrent attacks of acute intermittent porphyria) sales in the U.S.A., which were affected by the difficulties experienced by patients in accessing infusion centers due to the COVID-19 emergency and the introduction of a new competing product. Sales in the U.S.A. increased by 11.8%, whereas sales in the rest of the world grew by 40.4%.

As mentioned above, with effect from the last quarter of 2019, worldwide rights were acquired from Novartis for Signifor® and Signifor® LAR for the treatment of Cushing's disease and acromegaly in adult patients when surgery is not indicated or has failed. In February 2020, the marketing authorisations for Signifor® and Signifor® LAR in the U.S.A. were transferred to Recordati Rare Diseases Inc., and direct marketing of these products on this market has begun.

Within Cushing's syndrome (CS), Cushing's disease (CD) is a severe endocrine disease caused by a pituitary adenoma, an enlargement in the pituitary gland which results in over-production of cortisol by the adrenal glands. Other causes of endogenous Cushing's syndrome include rarer conditions such as adrenal adenoma, ectopic corticotropin syndrome and ACTH independent macronodular adrenal hyperplasia. This condition is associated with increased morbidity and mortality. Acromegaly is caused by an overexposure to growth hormone, which leads to the production of insulin-like growth factor-1. The most common cause of acromegaly is a pituitary adenoma.

Signifor® contains the active substance pasireotide, a somatostatin analogue. The human body naturally produces somatostatin, which blocks the production and release of certain hormones, including ACTH. Pasireotide works in a very similar way to somatostatin. Signifor® is thus able to block the production of ACTH, helping to control the overproduction of cortisol and improve the symptoms of Cushing's disease.

Sales of Signifor® and Signifor® LAR in 2020 totalled € 66.9 million, compared to the € 10.1 million recorded in 2019, and reflect the time frame when the marketing authorizations for various countries were transferred from Novartis*. It is estimated that sales at market level on a comparable basis grew by over 10%.

The agreement also covered the acquisition of worldwide rights to Isturisa® (osilodrostat), an innovative drug for the oral treatment of endogenous Cushing's syndrome. The relevant marketing authorization was granted by the European Commission in January 2020 and approval obtained in the U.S.A. in March 2020. The active substance in Isturisa® is osilodrostat, a cortisol synthesis inhibitor. Osilodrostat works by inhibiting 11-beta-hydroxylase, an enzyme responsible for the final step of cortisol biosynthesis in the adrenal gland. The benefits of Isturisa® are its ability to control or normalise cortisol levels in adult CS patients with a manageable safety profile, making this product a valuable treatment option for patients with Cushing's syndrome. The data generated throughout the clinical programme showed that osilodrostat leads to the normalisation of cortisol levels in the majority of patients, as well as improvement in multiple clinical features of the disease and quality of life, thereby providing significant clinical benefit in an area with unmet medical need. More specifically, in the LINC-3 study, a significantly higher proportion of patients in the Isturisa® arm maintained normal mUFC at the end of the 8-week randomised withdrawal period (week 34) versus placebo (86.1% vs 29.4%). These positive results were confirmed by the LINC-4 study, which demonstrated that a significantly higher proportion of patients receiving Isturisa® achieve normal mUFC, the primary treatment goal for Cushing's disease, after 12 weeks of treatment versus placebo (77% vs 8%; $P<0.0001$). Improvements in mUFC levels are sustained over 36 weeks of treatment (81 % of patients).

The European Commission and the FDA have confirmed this product's orphan drug status. Also, in March 2020, the Japanese New Drug Application (JNDA) was submitted to the Ministry of Health, Labour and Welfare seeking marketing approval for Isturisa®. Furthermore, the marketing authorizations for Isturisa® were transferred to Recordati Rare Diseases in the United States and in Europe, during March and April respectively. The product was launched with initial sales in the U.S.A., France and Germany for € 12.1 million.

**Recordati has only recognized margins on the sales of Signifor® and Signifor LAR® up until the transfer of the marketing and distribution authorizations from Novartis.*

In order to better manage the new endocrinology franchise, the Rare Diseases Branch of Recordati AG was established in Basel (Switzerland). The Swiss-based office is also responsible for marketing Ledaga®.

As already mentioned, a number of activities have strengthened the portfolio. In August 2020, the U.S. Food and Drug Administration (FDA) granted approval to market Cystadrops® (cysteamine ophthalmic solution) 0.37% in the U.S.A. The product was subsequently launched on the market. In January 2021, the U.S. Food and Drug Administration (FDA) approved a new indication for Carbaglu® (carglumic acid) 200 mg tablets as an adjunctive therapy to the primary treatment of acute hyperammonemia due to propionic acidemia (PA) or methylmalonic acidemia (MMA) in pediatric and adult patients.

As outlined above, a significant commitment has been made to enhance and expand the portfolio of products for rare diseases, with the molecular development programs in the pipeline and by acquiring late-stage-development or already marketed compounds. Work is also continuing on the life cycle management of the compounds currently sold and, specifically, on formulation improvement projects.

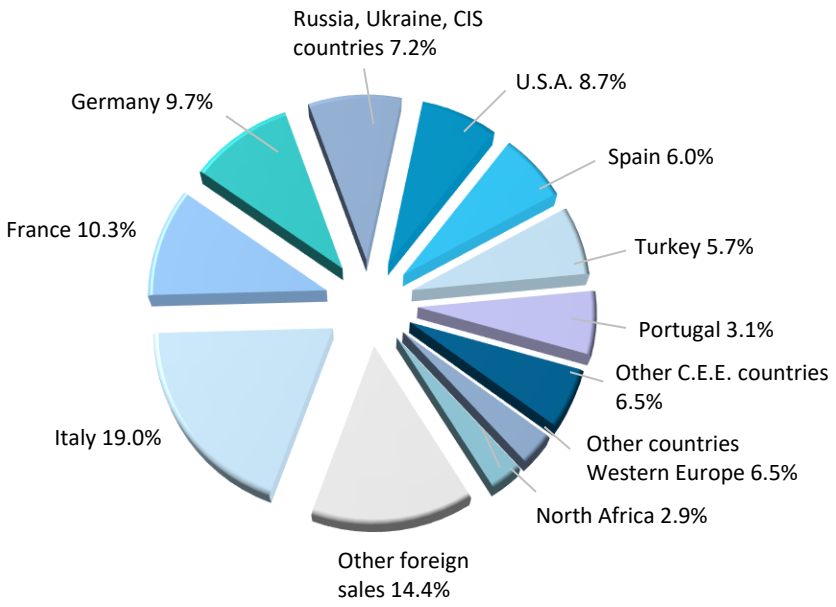
Pharmaceutical sales by geographic area

Pharmaceutical sales by geographic area for the different Recordati subsidiaries (including those dedicated to rare disease treatments) are listed in the table and graph below:

€ (thousands)	2020	2019	Change 2020/2019	%
Italy	266,459	280,068	(13,609)	(4.9)
France	144,049	157,270	(13,221)	(8.4)
Germany	135,729	138,602	(2,873)	(2.1)
Russia, other C.I.S. countries and Ukraine	100,219	120,160	(19,941)	(16.6)
U.S.A.	122,472	109,570	12,902	11.8
Spain	83,824	94,699	(10,875)	(11.5)
Turkey	79,186	88,610	(9,424)	(10.6)
Portugal	42,719	44,454	(1,735)	(3.9)
Other C.E.E. countries	91,975	82,108	9,867	12.0
Other Western European countries	91,125	77,577	13,548	17.5
North Africa	41,252	40,318	934	2.3
Other international sales	200,925	202,310	(1,385)	(0.7)
Total pharmaceutical revenue	**1,399,934**	**1,435,746**	**(35,812)**	**(2.5)**

Net revenue includes the sales of products and miscellaneous revenue.

Breakdown of pharmaceutical products by geographic area in 2020:



Sales in countries affected by currency exchange fluctuations are shown below in their relative local currencies.

Local currency (thousands)	2020	2019	Change 2020/2019	%
Russia (RUB)	6,460,313	6,852,418	(392,105)	(5.7)
Turkey (TRY)	601,241	538,730	62,511	11.6
United States of America (USD)	139,887	122,661	17,226	14.0

Net revenues in Russia and in Turkey exclude sales of rare disease products.

ITALY

The Recordati group offers a wide range of treatment options in Italy through Recordati S.p.A., Innova Pharma S.p.A., Recordati Rare Diseases Italy S.r.l., Italchimici S.p.A. and Natural Point S.r.l. It has an established presence in the cardiometabolic field, with two antihypertensive products that were fully developed in its research laboratories, Zanedip®/Lercadip® (lercanidipine) and Zanipril®/Lercaprel® (lercanidipine + enalapril), with two drugs that belong to the beta blocker category, Cardicor® (bisoprolol), and Seloken® (metoprolol) and Rextat®/Lovinacor® (lovastatin). The Italian product portfolio also has a consolidated offering primarily in urology, with Urorec® (silodosin), Recoprox® and Fortacin®, gastroenterology, with Peptazol® (pantoprazole), Reuflor® (lactobacillus reuteri protectis-based supplement), Peridon® (domperidone), PeridoNatural®, Citrafleet® (sodium picosulfate), Casenlax® (macrogol) and Lacdigest®.
In the ENT area (ear, nose throat), Recordati offers Isocef® (ceftibuten) for the antimicrobial treatment of respiratory tract conditions, combined with the Unicexal™/Cexidal® (ciprofloxacin and corticosteroid for topical use) line, Aircort® (budesonide) a corticosteroid based line and Rupafin® (rupatadine) an antiallergy antihystamine. In the pain and inflammation area, it offers a non-steroidal anti-inflammatory drug Tora-Dol® (keterolac tromethamine). Completing the product portfolio in this treatment area is Naprosyn® (naproxen), belonging to the non-steroidal anti-inflammatory/anti-rheumatic class (NSAIDs) with an effective treatment

action in controlling chronic pain. As from December 2018, Recordati entered the psychiatric area, launching Reagila® (cariprazine), a new drug for the treatment of schizophrenia.
Under the self-medication products, Recordati has a wide range of offerings in oral hygiene, eye, nose and throat care and gastrointestinal treatments. The historic brands include Alovex®, Proctolyn®, Eumill®, Dentosan®, Imidazyl®, TransAct® LAT, Clismafleet® and Losipaco®. With the acquisition of Natural Point S.r.l. in 2018, Recordati entered the food supplements market, with the main product Magnesio Supremo®.
Recordati is also involved in treatments for rare diseases, primarily those of metabolic and endocrinological origin.
The Italian pharmaceutical production site is situated in Milan, covering a surface area of around 5,000 sq. m., extending over several floors for a total of 21,000 sq. m. and produces over 59 million packs per year. The plant specializes in the manufacture and packaging of solid oral forms, liquids, injectables and products for topical use.

Pharmaceutical sales in Italy are broken down into prescription pharmaceuticals and self-medication pharmaceuticals, as shown in the table below:

€ (thousands)	2020	2019	Change 2020/2019	%
Prescription pharmaceuticals [(a)]	185,420	194,301	(8,881)	(4.6)
Self-medication pharmaceuticals [(b)]	81,039	85,767	(4,728)	(5.5)
Pharmaceuticals, Italy	**266,459**	**280,068**	**(13,609)**	**(4.9)**

(a) Prescription pharmaceuticals include both reimbursable and non-reimbursable drugs.
(b) Self-medication pharmaceuticals include OTC products and other pharmaceuticals not requiring a prescription.

Pharmaceutical sales in Italy were down by 4.9% compared to the same period the previous year, mainly due to competition from the generic versions of Urorec®, Peptazol® (pantoprazole) and Lovinacor®/Rextat® (lovastatin), as well as the drop in products related to seasonal winter illnesses (Aircort®, Isocef® and Reuflor®) and the decrease in the consumption of self-medication products over the health emergency. Growth was recorded for Imidazyl® and Eumill® eye drops and Proctolyn®. Also of note is the good performance by Cardicor® (bisoprolol), Zanedip®/Lercadip® (lercanidipine) and Reagila®, as well as the significant growth in the sales of treatments for rare diseases that closed at €18.6 million (+59.4%) and include the newly acquired endocrinology products Signifor® and Signifor® LAR.

The performance in the sale of the main products in Italy is as follows:

€ (thousands)	Therapeutic indications	2020	2019	Change 2020/2019	%
Cardicor®	heart failure	34,954	31,733	3,221	10.2
Urorec®	benign prostatic hyperplasia	22,187	29,848	(7,661)	(25.7)
Zanedip®/Lercadip®	hypertension	21,693	19,555	2,138	10.9
Peptazol®	gastric ulcers	15,118	17,364	(2,246)	(12.9)
Tora-Dol®	pain	13,481	13,252	229	1.7
Zanipril®/Lercaprel®	hypertension	11,594	12,822	(1,228)	(9.6)
Aircort®	bronchial asthma	10,447	13,537	(3,090)	(22.8)

Self-medication pharmaceuticals generated sales for € 81.0 million, down on the previous year due to the weak demand caused by the health emergency. The products TransAct® LAT, symptomatic relief of localized pain involving the musculoskeletal system and Reuflor®, a food supplement indicated for the rebalancing of intestinal bacterial flora, were more significantly affected. Better results in the sales of Alovex™, indicated for the

treatment of oral cavity aphthae, Magnesio Supremo®, a magnesium-based supplement, with sales of € 16.2 million and for Proctolyn® (hemorrhoid treatment) with sales of € 7.4 million (+4.3%).
Eumill® (eye drops and nasal spray) also performed well and leads the segment (with a market share of 24.8%), generating sales of € 7.5 million, up by 16.6%, as did Imidazyl®, with sales of € 4.0 million, up by 13.0%. Dentosan®, a line of oral care products, generated sales of € 4.3 million (+2.4%).

FRANCE

Laboratoires Bouchara Recordati S.A.S. is solidly established in the French pharmaceutical market thanks to a number of prescription drugs and a historical presence in the market for self-medication products, a market in which Tonipharm S.a.s., acquired at the end of 2018 and consolidated as from 1 January 2019, operates. It markets products covering a wide range of treatment areas, such as the cardiovascular area with Zanextra® (lercanidipine + enalapril), Logimax® (metoprolol succinate+felodipine), Seloken® (metoprolol tartrate) and Selozok® (metoprolol succinate), the urology area with Urorec® (silodosin) and Leptoprol® (leuprorelin acetate), the anti-allergy area with Wystamm® (rupatadine) and gastroenterology area with Citrafleet® and Colopeg®, Transipeg® and TransipegLib®.
Methadone, a synthetic opioid analgesic used as a substitute for heroin in abstinence syndromes, in detoxification from opiates and in maintenance programs, is Laboratoires Bouchara Recordati's most important product. Highly specialized staff and dedicated resources underpin the success of the detoxification programs. The benefits of treatment with methadone are universally recognized. The most important are the decrease in deaths resulting from the use of narcotics, the reduction in the spread of viral infections (HIV, HCV), reduced health, legal and social costs related to the use of drugs and improvements in the health and rehabilitation of addicts. A new capsule formulation has contributed to expanding its use. Zoryon® (trade name for methadone in this indication) was launched towards the end of the year for the treatment of chronic cancer pain. Zoryon® is recognized as an effective alternative treatment that provides pain relief and improves quality of life.
Laboratoires Bouchara Recordati has a historical presence in the French OTC market, and in this regard, we note the Hexa line (Hexaspray®, Hexalyse®, Hexamer® and Haxatoux®), Exomuc® (mucolytic containing N-acetyl cysteine), the Ginkor® brand products, a ginkgo biloba-based food supplement and Alodont®, an oral hygiene product.
Recordati Rare Diseases S.à.r.l, a company dedicated exclusively to treatments for rare diseases, is headquartered in France.
The French pharmaceutical production plant is in Saint Victor, covering a surface area of 6,750 sq. m. and specializes in the production and packaging of liquid, solid oral and spray formulations. The site produces around 32 million packs per year. Furthermore, the Group operates a manufacturing site in Nanterre, covering 1,200 sq. m. and entirely dedicated to the packaging, storage and shipping of rare disease products. An area of 400 sq. m. is office space. The site delivers, upon short notice, more than 27,000 orders annually to more than 60 countries worldwide thanks to its highly qualified staff and a modern GMP (Good Manufacturing Practice) certified logistics platform.

Pharmaceutical sales in France, at € 144.0 million, were down by 8.4%, mainly due to generic competition for Urorec® and the impact of lercanidipine-based products from the new measures introduced at the beginning of the year to promote the use of generic medicines.

The performance of the main products is shown below:

€ (thousands)	Therapeutic indications	2020	2019	Change 2020/2019	%
Methadone	drug addiction	33,221	31,399	1,822	5.8
Ginkor®	ginkgo biloba-based food supplement	13,102	12,934	168	1.3
Seloken®/Seloken® ZOK/ Logimax®	hypertension, cardiac disorders	10,331	9,997	334	3.3
Transipeg®	laxative	7,115	7,117	(2)	0.0
Hexa line	oral antibacterial	6,636	7,945	(1,309)	(16.5)
Zanextra®/Lercapress®	hypertension	4,974	11,861	(6,887)	(58.1)
Lercan®/Zanidip®/lercanidipine	hypertension	4,800	7,716	(2,916)	(37.8)
Urorec®	benign prostatic hyperplasia	4,335	17,703	(13,368)	(75.5)

Of note is the good performance in sales of methadone, which reached € 33.2 million in 2020, up by 5.8% compared to the previous year, Seloken®/Seloken® ZOK/ Logimax® (+3.3%) in addition to the significant growth in the sale of treatments for rare diseases totalling € 31.7 million, increasing by 73.0%, and including the newly acquired endocrinology products Signifor®, Signifor® LAR and Isturisa®.
Sales include those of Lercapress® (lercanidipine+enalapril), now marketed by our subsidiary following the expiry of the license agreement with Pierre Fabre. Sales of lercanidipine-based products decreased due to competition from the generic versions of the drug. Regarding self-medication products, sales of Ginkor® and Alodont® recorded growth over the year.
Sales in the Hexa line, a leader in the treatment of seasonal winter illnesses, fell by 16.5% and were impacted by the drop in certain illnesses related to the reduced activity in the population imposed by the health emergency.

GERMANY

In addition to its consolidated presence in the cardiovascular therapeutic area with a range of treatments from the calcium channel blocker antihypertensives Corifeo® and Zanipress® to the beta blocker Beloc® ZOK, Beloc® and Mobloc® (metoprolol), Recordati Pharma GmbH is one of the most esteemed German pharmaceutical companies in the field of orthopedics, where it has developed a strong presence and supplies quality products to specialists in this segment. The most important of these includes Ortoton® (methocarbamol), a muscle relaxant used for back pain, considered the gold standard for this condition. Recosyn® (hyaluronic acid), for arthritis treatment regimens, Lipotalon® (dexamethasone palmitate), used to alleviate pain in the presence of inflammation of the joints, and Binosto® (alendronic acid) effervescent tablets used to treat osteoporosis that presents with the onset of menopause, are also very popular.
Recently, Recordati Pharma began marketing Fortacin® in the urology segment, a treatment area where it has established its presence, and offers additional products such as Urorec® and Kentera®. With the launch of Reagila® (cariprazine), the German subsidiary entered a new treatment area, psychiatry. Another important aspect for the German branch is its business in the gastroenterology area, and specifically in the treatment of chronic inflammatory intestinal conditions with the product Claversal® (mesalazine). Citrafleet® and Fleet Phospho-soda® are products extending the offering of the German branch in this area. The German subsidiary markets a line of self-medication products with a specific sales force operating in a growing market and is dedicated to marketing a number of well-known brands in the country, including Rhinopront® for rhinitis, JHP-Rödler® for coughs and colds, Laxbene® junior and the scar healing Mirfulan® line. Operations in the segment dedicated to rare diseases in this country are carried out by Recordati Rare Diseases Germany GmbH.
Sales in Germany reached € 135.7 million, down by 2.1% compared to the same period the previous year, attributable to competition from the generic version of Oroton® (methocarbamol).

The performance in the main products is as follows:

€ (thousands)	Therapeutic indications	2020	2019	Change 2020/2019	%
Ortoton®	muscle relaxant	30,121	32,652	(2,531)	(7.8)
Seloken®/Seloken® ZOK/ Logimax®	hypertension, cardiac disorders	18,735	20,075	(1,340)	(6.7)
Corifeo®/lercanidipine	hypertension	12,756	12,152	604	5.0
Claversal®	ulcerative colitis	11,431	11,425	6	0.1
Zanipress®	hypertension	8,882	9,353	(471)	(5.0)
Mirfulan®	healing ointment	8,659	8,352	307	3.7
Recosyn®	musculoskeletal	6,547	6,614	(67)	(1.0)

Of note is the good performance of lercanidipine, as well as the OTC Mirfulan® and Laxbene®, with Claversal® (mesalazine) essentially holding its own. There was growth (+25.2%) in the treatment medicine's area, reaching € 17.9 million, which included the newly acquired endocrinology products Signifor®, Signifor® LAR and Isturisa®. Overall sales in self-medication products in Germany reached € 32.4 million, essentially in line with the previous year, mainly thanks to increased sales of Laxbene® (+31.2%), Mirfulan® (+3.7%), which offset the drop in products like Rhinopront®, Citrafleet® and Recosyn® where sales felt the repercussions of the negative effects of COVID-19. Sales of treatments for rare diseases in this country were up by 25.2%.

RUSSIA, OTHER C.I.S. COUNTRIES AND UKRAINE

Rusfic LLC, Fic Médical S.à r.l. and Recordati Ukraine LLC, are the Recordati group companies that operate in Russia and in other markets of the Commonwealth of Independent States (C.I.S.), in Ukraine and in Central Asia. Our organisations' success in these regions is based largely on the progressive affirmation of the main corporate portfolio products, including Procto-Glyvenol®, Urorec®, Zanidip®, Lomexin® Livazo® that were launched in these regions, as well as the anti-infective products like Tergynan®, and Polydexa® and Isofra®, products indicated for the treatment of ENT disorders, as well as a portfolio of popular self-medication products. These refer mainly to the well-known food supplements like Alfavit® and Qudesan®, the oral anti-bacterials in the Hexa line, Hexalyse® and Hexaspray® and the intestinal absorbent product (enterosorbent) White Carbo®. Fic Medical, with its four representative offices in Kazakhstan, Belarus, Georgia and Armenia ensures the Group's direct presence in the C.I.S., the Caucasus region and Central Asia, territories where geographic coverage has increased significantly.
Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) was € 100.2 million, down by 16.6% compared to the same period the previous year and includes estimated currency exchange losses of € 12.1 million. In addition to the devaluation in the ruble, this area was severely impacted by the COVID-19 epidemiological emergency. Revenue realized in Russia, in local currency, was RUB 6,460.3 million, down by 5.7 % on the same period the previous year, mainly due to reduced sales in seasonal infection products.
The table below shows overall sales of the main products in Russia in local currency.

RUB (thousands)	Therapeutic indications	2020	2019	Change 2020/2019	%
Polydexa®	ear infections	1,777,700	1,776,476	1,224	0.1
Tergynan®	gynecological infections	1,306,087	1,428,009	(121,922)	(8.5)
Isofra®	nasal infections	843,980	1,257,005	(413,025)	(32.9)
Procto-Glyvenol®	hemorrhoids	745,073	646,310	98,763	15.3

The main product in the Russian portfolio is Polydexa®, with sales essentially in line with the previous year, whereas a drop was recorded for Isofra® and Tergynan® products. Of note is the success of the corporate self-medication product Procto-Glyvenol® which has become one of the leading products in its market segment, similarly to Abufene® and Alfavit®. Sales in Russia of the corporate products Urorec®, Zanidip® and Livazo® also recorded strong growth.

Revenue of € 19.1 million generated in Ukraine and in the C.I.S. countries, mainly Belarus, Kazakhstan and Armenia, was down by 12.1%, mirroring trends similar to the Russian market.

UNITED STATES OF AMERICA

The Group's pharmaceutical business in the U.S.A. is dedicated exclusively to marketing products for the treatment of rare diseases through our subsidiary Recordati Rare Diseases Inc. The main products are Panhematin® (hemin for injection) used for recurrent attacks of acute intermittent porphyria, Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonemia associated with NAGS deficiency, Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers, Cystadane® (betaine anhydrous oral solution), used in the treatment of homocystinuria to reduce the high level of homocysteine in the blood and Cystadrops® (cysteamine ophthalmic solution) 0.37%, approved in August 2020 by the U.S. Food and Drug Administration (FDA) for the treatment of corneal cystine crystal deposits in adults and children from 2 years of age with cystinosis.
A dedicated business unit was created in 2020, to develop the newly acquired endocrinology products, Signifor® and Signifor® LAR (pasireotide) for the treatment of Cushing's disease and acromegaly, and support the launch of Isturisa® (osilodrostat) for Cushing's syndrome.
Sales reached € 122.5 million in 2020, up by 11.8% and by 14.0% in local currency. Growth mainly reflected the contribution of the new products Signifor® and Signifor® LAR, the launch of Isturisa® (osilodrostat), together with the ongoing growth in Carbaglu®, which was authorized by the FDA in January 2021 for the treatment of acute hyperammonemia due to propionic acidemia and methylmalonic acidemia, as well as Cystadane® and Cystadrops®. Sales of Panhematin® were down on the other hand, due to the entry of a competing drug and the difficulties experienced by patients in accessing infusion centers due to the COVID-19 pandemic.

SPAIN

Casen Recordati S.L., the Spanish subsidiary of the Recordati group, with headquarters in Madrid and production facilities in Utebo (Zaragoza), markets an extensive and substantial portfolio of Specialty and Primary Care products belonging to the cardiovascular, urological, gastrointestinal, pediatric, and as from 2019, psychiatric treatment areas. It is particularly well known for its products for bowel cleansing and oral rehydration, which belong to markets where the Company is an undisputed leader. Of note among the main products on the listing are Citrafleet®, indicated as a bowel cleanser used before any diagnostic procedure which requires emptying of the intestines, and Bi-OralSuero®, the *lactobacillus reuteri protectis* drops formulation, Reuteri® and Casenbiotic®. Products added in 2019 include Reagila®, an antipsychotic for schizophrenic patients and Elebiotic®, a product used to prevent recurring otitis in newborns. In Spain, Recordati Rare Diseases Spain S.L. markets the portfolio of products for the treatment of rare diseases.
The Spanish production plant is situated near Zaragoza, covering 7,100 sq. m., and specializes in the production and packaging of solid and liquid oral and topical formulations. In particular, it manufactures a line of gastroenterological products. The plant produces around 19 million packs a year. Recently, a project was finalized for the installation of a new line for the packaging of tablets in bottles, which has increased the annual volumes by around 7-8 million packs.

Sales in Spain totalled € 83.8 million, down by 11.5%, mainly due to the decrease in the sale of products associated with hospital procedures (Citrafleet®, Enema Casen), temporarily suspended due to the COVID-19 emergency, which also impacted on sales of OTC products related to gastrointestinal conditions (salts and probiotics). The drop in Urorec® and Livazo® can be attributed to competition from the generic versions.

The table below shows sales of the main products:

€ (thousands)	Therapeutic indications	2020	2019	Change 2020/2019	%
CitraFleet®	bowel cleansing	12,260	15,567	(3,307)	(21.2)
Livazo®	hypercholesterolemia	12,751	15,250	(2,499)	(16.4)
Enema Casen	bowel cleansing	6,893	7,740	(847)	(10.9)
Urorec®	benign prostatic hyperplasia	6,565	10,038	(3,473)	(34.6)
Casenlax®	laxative	5,942	5,501	441	8.0
Cidine®	gastroprokinetic	5,654	5,429	225	4.1
Zanipress®	hypertension	3,613	3,491	122	3.5
Virirec®	erectile dysfunction	3,337	3,548	(211)	(5.9)
Reuteri®	probiotic	3,019	3,549	(530)	(14.9)

Of note is the good performance by Reagila®, Casenlax® and Zanipress®, as well as the increased sales of products for the treatment of rare diseases at €11.7 million (+27.7%).
Sales of Cidine® (cinitapride) have grown slightly despite the presence of generic competition in the market.

TURKEY

Recordati Ilaç, the Group's Turkish subsidiary, is one of the top 25 pharmaceutical companies in Turkey. It continues to strengthen its position on the Turkish pharmaceutical market and has a strong, consolidated presence in the fields of urology, cardiology, gynecology and in rehabilitation. The branch markets the corporate products Lercadip®, Zanipress®, Alipza®, Urorec®, Gyno-Lomexin®, Procto-Glyvenol® and Phospho-soda®, together with the local brands Mictonorm® and Mictonorm SR® (propiverine hydrochloride), used for the treatment of hyperactive bladder and urinary incontinence, Cabral® (phenyramidol hydrochloride), a muscle relaxant, Krerval® (butamirate citrate), a cough suppressant, Aknetrent® (isotretinoin), used for the treatment of severe acne, Pankreoflat® (pancreatin), a treatment for dyspepsia, Prepagel® (escin, diethylamine salicylate), for use in cases of bruises, sprains, hematoma, and the antibiotic Ciprasid® (ciprofloxacin). The Turkish product portfolio was extended in 2020 with the addition of the Alipza® (pitavastatin) line and launch of the 1 mg formulation.
Recordati Ilaç has undertaken an important investment program for the construction of a new production plant in Çerkezköy, built on 45,000 sq. m. of land, and covering approximately 11,300 sq. m., with a total production capacity of 80 million packs annually. It currently produces 57 million packs per year of solid oral and liquid formulations and products for topical use, of which 20% are for other pharmaceutical companies. The Çerkezköy plant was certified GMP compliant by the Turkish authorities in 2016 and has also been confirmed compliant with current Good Manufacturing Practices (cGMPs) by the European Union, Azerbaijan, Libya and Kenya in 2019 and the Russian Federation in 2020. The plant continued operating without interruption in 2020, whilst respecting the strict COVID-19 prevention measures.

Sales in Turkey were at € 79.2 million, down by 10.6%, and included a negative currency exchange effect estimated at € 19.7 million. The Turkish branch's sales in local currency were up by 11.6% thanks to a generalised price increase and the good performance by all corporate products, in particular Livazo® (sold in Turkey under

the Alipza® brand), Urorec®, Lercadip®, Zanipress® and Procto-Glyvenol®, and the local products Mictonorm® (propiverine), Cabral® (phenyramidol hydrochloride) and Colchicum® (colchicine).
The table below shows overall sales of the main products in local currency.

TRY (thousands)	Therapeutic indications	2020	2019	Change 2020/2019	%
Mictonorm®	urinary incontinence	120,742	96,447	24,295	25.2
Lercadip®	hypertension	96,027	83,217	12,810	15.4
Cabral®	muscle relaxant	95,517	80,669	14,848	18.4
Urorec®	benign prostatic hyperplasia	94,097	71,870	22,227	30.9
Livazo®	hypercholesterolemia	72,445	43,096	29,349	68.1
Zanipress®	hypertension	55,023	48,891	6,132	12.5
Procto-Glyvenol®	hemorrhoids	41,460	33,608	7,852	23.4
Kreval®	cough	36,962	45,075	(8,113)	(18.0)
Ciprasid®	anti-infective	32,901	35,768	(2,867)	(8.0)

PORTUGAL

Jaba Recordati S.A. maintains a solid position in the Portuguese pharmaceutical market, especially in the cardiovascular (Livazo® and Zanipress®), urological (Urorec®), gastrointestinal (Citrafleet®) and pain control areas (TransAct® LAT), as well as the self-medication products market (Guronsan® Aloclair® Biogaia®). Among the main products, of note is Egostar® used as a Vitamin D supplement.
Jaba Recordati S.A. has recently moved its office to Tagus Park.

Sales were down in Portugal by 3.9% mainly due to the competition from the generic versions of Urorec® and Zanipress®, as well as the weakness in the self-medication listing that was impacted by the COVID-19 pandemic, with the exception of Microlax® and Procto Glyvenol®, which recorded growth. Worthy of note is the good performance of Carzap® (candesartan cilexetil), the launch of Reagila® and the significant growth in sales of the rare disease treatments. Generic versions of Livazo® entered the Portuguese market in the third quarter of 2020.

The table below shows the main products:

€ (thousands)	Therapeutic indications	2020	2019	Change 2020/2019	%
Livazo®	hypercholesterolemia	7,063	7,932	(869)	(11.0)
TransAct® LAT	anti-inflammatory	4,425	4,929	(504)	(10.2)
Microlax®	laxative	3,312	3,191	121	3.8
Egostar®	vitamin D3	2,508	2,529	(21)	(0.8)
Zanipress®	hypertension	2,403	2,950	(547)	(18.5)
Urorec®	benign prostatic hyperplasia	2,394	3,269	(875)	(26.8)

OTHER CENTRAL AND EASTERN EUROPEAN COUNTRIES

The acquisition from AstraZeneca of the metoprolol-based products, Seloken®, Seloken® ZOK and Logimax® in 2017 has had a significant impact on the sales of our subsidiaries in Central Europe and consequently increased our presence in these countries.

Poland

The Group's subsidiary in Poland, Recordati Polska Sp z o.o., markets a diversified product portfolio that is well-positioned in the cardiovascular, gastroenterology, gynaecology and urology areas, in particular with regard to benign prostatic hyperplasia, as well as the self-medication segment. The main products are Betaloc® ZOK (metoprolol succinate), a product widely used for the treatment of angina pectoris and other cardiac disorders, Procto- Glyvenol® for the treatment of hemorrhoids, Uprox® (tamsulosin) for lower urinary tract disturbances associated with enlargement of the prostate, Finxta® (finasteride) for benign prostatic hyperplasia and the antihypertensives Lercan® (lercanidipine) and Lercaprel® (lercanidipine+enalapril). Recordati Polska also markets corporate products like Gynoxin® Optima in the OTC segment and Citrafleet® in the gastroenterology area.

Sales of € 33.9 million were realized in Poland in 2020, up by 7.2% mainly thanks to the good performance of Betaloc®, which increased by 24.8%, benefiting from the break in competitive stock and less parallel imports from Romania. Lercan® (lercanidipine) also increased in demand +31.0%.

There were products, on the other hand, that suffered from the health emergency, like Citrafleet® and the self-medication products, with the exception of Gynoxin® (fenticonazole), which realized sales for € 5.2 million (+ 12.3%).

Czech Republic and Slovakia

Herbacos Recordati s.r.o., the Group's subsidiary in the Czech Republic and in Slovakia, successfully markets pharmaceutical products belonging to a number of therapeutic areas, including cardiology, urology, gynecology and self-medication products such as analgesics, anti-inflammatories and dermatological medicines. Betaloc® (metoprolol succinate) indicated in the treatment of hypertension and other cardiac disorders, and Mictonorm® (propiverine hydrochloride), a urological treatment for a hyperactive bladder, where the relevant rights were acquired in 2019, contributed to the subsidiary's development. Well-established in the self-medication market with Procto-Glyvenol®, the analgesic Valetol®(paracetamol), Acylpyrin® (acetylsalicylic acid), also offered as a solution for coughs and colds, Infadolan®, a topical treatment for dry and cracked skin recommended after using hand disinfectant products and Veral®.

The subsidiary operates a small pharmaceutical production plant, situated in Pardubice, which produces creams, gels and ointments for a total of around 2 million packs per year. Sales of € 27.9 million were recorded by Herbacos Recordati s.r.o., up 8.5% on the previous year, thanks to the growth in cardiovascular metoprolol-based products Betaloc® and Urorec® in the first part of the year due to the delayed entry of generic products. The self-medication product portfolio increased by 17.1% mainly due to the good performance of the Valetol®, Acylpyrin® and Procto-Glyvenol® brands.

Romania and Bulgaria

Recordati Romania S.R.L. promotes prescription and self-mediation products successfully. Sales of € 13.3 million were realized in Romania, up by 7.1%, attributable primarily to the good performance by Betaloc® driven by the ban on parallel imports, whereas the COVID-19 pandemic impacted negatively on sales of the anti-hemorrhoid Procto-Glyvenol®, Tergynan Flora, Lomexin GYN® and Citrafleet®.

The Recordati Bulgaria Ltd branch was established in 2019, and in 2020 realized sales for € 3.9 million, up by 26.7%, almost exclusively generated by the metoprolol-based cardiovascular products.

Baltic states

As from 2019, the Group conducts direct sales to the market in the Baltic states, generating sales of € 5.9 million, up by 14.2%, composed entirely of the metoprolol-based cardiovascular products.

Products for the treatment of rare diseases marketed by Recordati Rare Diseases

Sales of products for the treatment of rare diseases in the Central and Eastern European markets amounted to € 7.0 million, up by 72.8%.

OTHER WESTERN EUROPEAN COUNTRIES

The Recordati group is also present with its own subsidiaries in the United Kingdom with Recordati Pharmaceuticals Ltd and Recordati Rare Diseases United Kingdom Ltd, in Ireland through its subsidiary Recordati Ireland Ltd, in Greece with Recordati Hellas Pharmaceuticals S.A., in Switzerland through Recordati AG (also present in Austria through Pro-Farma GmhH), in the Nordic countries with Recordati AB and in Benelux with Recordati BV.

Switzerland

The Recordati group is present in Switzerland through Recordati AG, which is headquartered in Zug and also operates in Austria. The portfolio mainly comprises metoprolol-based cardiovascular products in addition to Zanidip®, Zanipress®, Beloc Zok®, the anti-cholesterol Livazo®, and Urorec®, for the treatment of benign prostatic hyperplasia. Other important brands are Lacdigest® (tilactase), used in lactose intolerance, Tretinac® (isotretinoin), a treatment for severe acne, and Urocit® (potassium citrate) for the prevention of kidney stones. Recordati AG recently entered the psychiatric therapeutic area with the launch of Reagila®, an innovative product for the treatment of schizophrenia in adults which addresses unmet psychiatric medical needs.
Sales for € 21.3 million were realized at the Swiss branch, up 4.1% thanks to the good performance by Livazo®, Reagila® and Urorec®.

Greece

Recordati Hellas Pharmaceuticals S.A. is the Recordati subsidiary which operates in Greece where it offers a number of products in different therapeutic areas such as cardiovascular, urology, gynecology, dermatology and gastrointestinal. In the cardiovascular area, popular products are Livazo® and Lopresor®, a selective beta blocker indicated for the treatment of hypertension, Zanidip® (lercanidipine) and its fixed combination with enalapril Lercaprel®/Zaneril®, and Logimax®, for the treatment of hypertension. The main product in the urology area is Urorec®, which is marketed together with Vitaros® and Kentera®. Completing the product portfolio are the antimycotic Lomexin® and Citrafleet®.
Sales in Greece were € 18.9 million, up 5.5% thanks to the good performance by Livazo®, Lopresor® and Urorec®.

United Kingdom

Recordati Pharmaceuticals is the Group company marketing Recordati products in the United Kingdom. In 2019, the branch launched Reagila®, relaunched Fortacin®, which became a self-medication product, and Betaloc®, a product for hypertensive patients. Sales in the United Kingdom were € 8.5 million, up 6.6% and refer primarily to products for the treatment of rare diseases, which represent 81.5% of our business in that country.

Ireland

Recordati Ireland is the Group organization operating in Ireland. It successfully introduced Lercaril® 20/20, a new formulation of the lercanidipine + enalapril combination for the treatment of hypertension strengthening the branch's product portfolio in the cardiovascular area. It also continued promoting Urorec® and launched Reagila®, which was well-accepted by the scientific community. Sales in Ireland were € 1.7 million, mainly generated by Urorec®, Zanipress® (sold in Ireland under the Lercaril® brand), Kentera® and Zanidip®.

Nordic countries and BeNeLux

Starting in 2018, the organizational structure of our subsidiaries Recordati AB in Sweden and Recordati BV in Belgium was reinforced to promote and market our specialty products, in addition to our products for the treatment of rare diseases, in the Nordic countries and in Benelux.

The Nordic countries are managed by the Swedish branch with headquarters in Kista, (Stockholm), which also operates directly in Denmark, Norway, Finland and Iceland. Sales of € 11.6 million (+5.7%) were recorded in 2020 and referred mainly to the corporate products belonging to the cardiovascular segment, like Seloken®, Seloken ZOC®, Logimax®, Zanidip® and Zanipress®, and to a lesser extent to the gastrointestinal area, like Citrafleet®, Cleen Enema and Phospho-soda®. Recordati AB also markets Reagila®, the new antipsychotic drug for the treatment of schizophrenia, in all the Nordic countries, which despite the difficulties experienced due to the health emergency, recorded a good growth rate compared to 2019.

Recordati BV, with headquarters in Brussels and a branch in Oss, Netherlands, manages direct distribution in Belgium, the Netherlands and Luxembourg of its lercanidipine and metoprolol-based products in the cardiovascular area, Citrafleet®, Cleen Enema and Phospho-soda® in the gastrointestinal area. Reagila® was launched in 2019 to the community of psychiatrists and also launched in the Netherlands. Sales of € 7.9 million were recorded in Benelux in 2020, more than doubling on the previous year.

Products for the treatment of rare diseases marketed by Recordati Rare Diseases

Sales of products for the treatment of rare diseases in these countries stands at € 28.1 million (+31.7%).

NORTH AFRICA

Recordati is present in North Africa with its subsidiary Opalia Pharma S.A. in Tunisia and through its export business from France, mainly towards Algeria. Opalia Pharma is one of the most important Tunisian pharmaceutical companies and ranks high in the local pharmaceutical market. It markets branded generic drugs with leading products in dermatology and in the gastrointestinal and respiratory treatment areas. The Company produces the majority of its products in its cGMP certified manufacturing plant. The Tunisian plant is situated near Tunis. It covers an area of around 9,100 sq. m. and produces liquid, semi-solid and oral solid forms for the local market and for some of the countries in the Arabian Peninsula. The plant produces around 19 million packs a year.

Overall sales in North Africa were at € 41.3 million, up by 2.3% compared to the previous year. Sales in Tunisia in 2020 totalled € 27.3 million, up by 2.6%.

In local currency, sales in Tunisia were in line with the previous period. The main products in this highly diversified portfolio are the antihypertensives Zanidip® and Zanextra® (lercanidipine + enalapril), the two treatments for asthma and chronic obstructive pulmonary disease (COPD), Eolide® (budesonide) and Notos® (formoterol + fumarate dehydrate), Urorec®, Goldix® Duo, a cold and flu remedy and Psoriasone® a calcipotriol and betamethasone combination gel for topical use in the treatment of psoriasis.

OTHER INTERNATIONAL SALES

Other international sales were € 200.9 million, slightly down by 0.7%, and comprise the sales and other revenue from our licensees for our corporate products, Laboratoires Bouchara Recordati's and Casen Recordati's export sales and Recordati Rare Diseases's sales in all other countries not described above.

Sales to international licensees, including other revenue, were at € 108.2 million, down by 15.3%, mainly due to the shift to direct in-market sales by the Group's subsidiaries of the metoprolol-based products, Seloken®, Seloken® ZOK and Logimax®, and of Zanipress®, as well as other corporate products, in countries where they were previously distributed based on agreements with third parties.

Overseas sales by the French subsidiary Laboratoires Bouchara Recordati, excluding North Africa, reached € 17.6 million, down by 3.8%. Sales recorded by the Spanish subsidiary Casen Recordati were at € 4.0 million, up by 12.9%, based on the international presence it has developed and the authorization obtained to market Citrafleet® in Malta, Sri Lanka, Kazakhstan and Macedonia, and FisioEnema in Macedonia.

Revenue generated by our treatments for rare diseases in other countries not described above, mainly in Canada, some countries in Latin America, the Middle East, Asia and Australia, mostly generated by our subsidiaries, including the ones recently established in Japan and in Australia, amounted to € 71.1 million, up by 37.4%. Revenue included sales of Juxtapid®, a product obtained under license in 2019, in Japan and the launch of Panhematin® and Cystadrops® in Canada.

PHARMACEUTICAL CHEMICALS AND PLANTS

Recordati produces a number of active ingredients and intermediates for the pharmaceutical industry in its two pharmaceutical chemical production plants. Recordati's pharmaceutical chemicals business focuses on satisfying the requirements of the pharmaceutical business, striving for maximum product quality, strengthening its presence in highly regulated markets (the United States, Europe and Japan) and on constantly guaranteeing maximum safety standard in its production processes, protection of the environment and health and safety in the workplace.

The Campoverde di Aprilia plant in Italy mainly supplies the active ingredients used in the preparation of the various pharmaceutical specialties produced by the Company, but is also an established independent producer of a number of active and intermediate ingredients for the pharmaceutical industry internationally. It is one of the most important producers in the world of verapamil HCl, phenytoin, papaverine HCl, dimenhydrinate, tribenoside and manidipine. Other pharmaceutical chemicals are produced on behalf of important pharmaceutical companies. The plant was one of the first European facilities to undergo inspection by the american Food and Drug Administration (FDA). The United States has become and continues to be the primary outlet market for its production. The Campoverde site extends over approximately 335,000 sq. m., with an area of 35,000 sq. m under cover, and produces approximately 650 metric T/year of finished goods with approximately 5,000 T/year of semi-finished goods handled internally.

High-tech systems are employed for the management of particularly delicate processes such as the reactions which employ cyanides, high pressure hydrogenations, dehydrogenations, methylations, chlorine methylations, halogenations or those which involve substances which require very stringent safety measures.

Investments have been made to enhance the technological and production capacity of the plant, which over the last 8 years installed more than 20 new reactors, a latest generation three stage distillation unit, 2 thin film evaporators and 2 anti-acid filters for the isolation of solid products. From the perspective of continual improvement, important upgrades were also carried out in the intermediates and active ingredients' discharge and packaging areas.

A vast range of technologies, skills and expertise in the field of organic synthesis is employed, making it possible to quickly and effectively develop new processes for the production of active ingredients, from their synthesis to purification and finishing, through the various research stages, scale up and final industrialization. The Research and Development laboratories are fitted with the latest equipment such as a high containment HP-API pharmaceutical isolator (glove box) and a micro reactor for the development of new continuous production processes. An extremely versatile pilot plant is also available, equipped for the small-scale production of active ingredients, in accordance with cGMP (current Good Manufacturing Practices). The plant operates in compliance

with current Good Manufacturing Practices (cGMP) and is regularly inspected by national and international authorities such as AIFA (Agenzia Italiana del Farmaco), FDA (Food and Drug Administration), ANVISA (the Brazilian agency), PMDA (the Japanese Ministry of Health), KFDA (Korean Food and Drug Administration). The plant's environmental management system has been certified according to the UNI EN ISO 14001:2004:2015 standards by Det Norske Veritas Italia (DNV), an internationally accredited body, and is inspected on an annual basis.

To guarantee adequate and continuous supplies of the active ingredient lercanidipine, in 2005, a new and dedicated plant was constructed in Cork, Ireland. This facility boasts automated process control systems which ensure constant high quality production. The plant is certified according to cGMP (current Good Manufacturing Practices) standards and covers a surface area of around 43,000 sq. m, with an installed area of 8,300 sq. m. The continuous commitment to reduce and improve the use of energy was recognized in 2012 with the National Energy Efficiency Award, which is promoted by the Sustainable Energy Authority of Ireland (SEAI), and in 2013 by the European Energy Efficiency Award, promoted by the Chemical European Federation Industry Council (CEFIC). In 2016, the site was extended, enlarging the two buildings housing the administration and quality control laboratories.

Sales of pharmaceutical chemicals, which comprise active substances produced in the Campoverde di Aprilia plant for the international pharmaceutical industry, were at € 48.9 million, up by 6.1%. Of note, the products tribenoside, manidipine and papaverine performed well.

The sales of active ingredients by geographical area are shown below:

€ (thousands)	2020	%	2019	%	Change 2020/2019	%
Italy	5,024	10.3	3,122	6.8	1,902	60.9
Europe (Italy excluded)	15,239	31.1	14,642	31.8	597	4.1
U.S.A.	5,700	11.6	7,755	16.8	(2,055)	(26.5)
America (U.S.A. excluded)	4,584	9.4	4,376	9.5	208	4.8
Australasia	16,885	34.5	15,014	32.6	1,871	12.5
Africa	1,501	3.1	1,193	2.6	308	25.8
Total	**48,933**	**100.0**	**46,102**	**100.0**	**2,831**	**6.1**

HEALTH, SAFETY AND ENVIRONMENT

The Recordati Group recognizes the protection of the environment, safety in the workplace and prevention in general concerning all themes related to health, safety and the environment as one of its most important priorities.

Company policy is implemented through the careful organization of roles with regard to guaranteeing the safety and health of workers. A well- defined corporate organization combined with a systemic approach to the management of safety at the workplace ensures continuous improvement in management with the objective of constantly reducing work-related and environmental risks.

2020 proved to be a particularly difficult year for the entire world, which found itself facing an unprecedented health emergency with the COVID-19 epidemic.
Since the beginning of the emergency, the pharmaceutical world has been under immense pressure due to its role as an “essential service for the community”. The Group reacted immediately and decisively, adopting all measures necessary to manage the emergency, with the goal of reducing the spread of the virus and therefore protecting the health and safety of all employees whilst ensuring business continuity.

These measures ranged from smart working implemented for office personnel to the launch of new organisational models for our sales network through the remote provision of scientific information, also supported by specific training programmes. A series of measures were adopted in production and distribution facilities, in full compliance with provisions issued by the Authority, which allowed the Group to continue production and guarantee the health and safety of production personnel.
While observing all measures necessary to ensure the health and safety of its employees, Recordati never suspended its production and distribution activity, guaranteeing continuous availability of its products in the market, many of which are used in the treatment of serious and chronic illnesses.

In order to define an organization model specifically designed to address health and safety at the workplace, as well as protect the environment, the Company has internal procedures in place to regulate these issues entitled: “Procedures for Prevention Management, Accident Management and Medical Services” and “Procedures for environmental management”. The application of these standards is periodically verified through internal audits.

The following common characteristics and measures for risk prevention are present within the system for the management of health, safety and the environment that the Recordati group employs in both its pharmaceutical chemicals and its pharmaceutical plants: risk assessment, training and information for workers, proper maintenance standards, environmental protection systems designed to minimize environmental impacts, appropriate emergency measures and compliance with local legislation on the subject. The Group monitors and analyses injuries and accidents that occur at the various production sites as well as any work-related illness. For every accident, an action plan aimed at preventing similar episodes is prepared and implemented. The results of these analyses of industrial accidents are periodically submitted to the Internal Audit Committee. Recordati employs a systematic approach to the management of health, safety and the environment, and sets itself the specific objective not only of compliance with the various national regulations in force at different production sites, but also of continuous improvement in the management of these matters.

Risk assessment is the principal tool used in the safety management system. It is used to define risk control factors along with the relative measures for prevention and protection to be adopted or monitored in order to reduce the risk to the health and safety of workers. The updating of the risk assessment document is a continuous activity, it records the sequence of the actions undertaken to improve the working environment and the activities in progress, and it also includes assessments of new activities or changes made to the work process.

Training, information, and awareness of the workers are considered to be fundamental prevention tools in all matters related to health, safety and the environment. Health and safety training programs are implemented to ensure adequate competency of everyone within the whole Company organization. The goal is to increase the attention placed by personnel on risks and the prevention measures put in place in order to reduce accident rates caused by human error, which is the main cause of accidents at the Company. Training and the dissemination of information on the organization of safety in the Company is provided for all employees and, thanks to the use of remote training, the operational forces in the field are also systematically involved.

Maintenance is one of the key prevention activities. Equipment, plant and machinery are subject to regular maintenance programmes performed by both internal and external resources.

Out-sourcing to third party contractors is managed by special internal procedures which include the verification that the contractor is suitable and the sharing of the “Single Interference Risk Assessment Document” in order to reduce, and if possible eliminate, potential interferences between the work activities of external firms and the normal operations of the Company.

Particular attention is placed on all aspects of an environmental nature, in order to protect the environment and to prevent any form of pollution.

The environmental factor is controlled and managed in the pharmaceutical chemicals plants by an environmental management system that is part of the general management system. It includes the organizational structure, planned activities, responsibilities, practices, procedures and resources to formulate, implement, review and maintain the Company’s environmental policies.

The environmental management system goes beyond carefully ensuring that laws and regulations for preventing potential incidents from occurring are complied with. It involves a programme of continuous improvement in corporate conduct in relation to the surrounding environment.

The Campoverde plant underwent an inspection in 2020, conducted by Local Entities for the issue of the new integrated environmental authorisation (AIA).

The Cork plant submitted its annual environmental report to the Environmental Protection Agency (EPA) in 2020, receiving positive feedback.

FINANCIAL REVIEW

INCOME STATEMENT

Income statement items are shown below, with the relative percentage of net revenue and changes compared to 2019:

€ (thousands)	2020	% of revenue	2019	% of revenue	Change 2020/2019	%
Net revenue	**1,448,867**	**100.0**	**1,481,848**	**100.0**	**(32,981)**	**(2.2)**
Cost of sales	(406,831)	(28.1)	(436,901)	(29.5)	30,070	(6.9)
Gross profit	**1,042,036**	**71.9**	**1,044,947**	**70.5**	**(2,911)**	**(0.3)**
Selling expenses	(349,072)	(24.1)	(372,803)	(25.2)	23,731	(6.4)
Research and development expenses	(146,236)	(10.1)	(129,681)	(8.8)	(16,555)	12.8
General and administrative expenses	(72,785)	(5.0)	(72,783)	(4.9)	(2)	0.0
Other income/(expenses), net	(4,927)	(0.3)	(4,414)	(0.3)	(513)	11.6
Operating income	**469,016**	**32.4**	**465,266**	**31.4**	**3,750**	**0.8**
Financial income/(expenses), net	(13,360)	(0.9)	(21,122)	(1.4)	7,762	(36.7)
Pre-tax income	**455,656**	**31.4**	**444,144**	**30.0**	**11,512**	**2.6**
Income taxes	(100,629)	(6.9)	(75,278)	(5.1)	(25,351)	33.7
Net income	**355,027**	**24.5**	**368,866**	**24.9**	**(13,839)**	**(3.8)**
Adjusted net income [(1)]	**410,402**	**28.3**	**382,413**	**25.8**	**27,989**	**7.3**
EBITDA[(2)]	**569,320**	**39.3**	**543,967**	**36.7**	**25,353**	**4.7**
attributable to:						
Equity holders of the Parent	354,984	24.5	368,825	24.9	(13,841)	(3.8)
Non-controlling interests	43	0.0	41	0.0	2	4.9

[(1)] Net income excluding the amortization and write-downs of intangible assets (except software) and goodwill, and non-recurring items, net of tax effects.
[(2)] Net income before income taxes, financial income and expenses, depreciation, amortization and write-downs of property, plant and equipment, intangible assets and goodwill, and non-recurring items.

Net revenue amounted to € 1,448.9 million, down by € 33.0 million compared to 2019. For a detailed analysis, please refer to the previous chapter "Review of Operations".
Gross profit at € 1,042.0 million remained essentially unchanged on the previous year, at 71.9% of sales. This margin increased thanks to the effective cost management and increased proportion of products with higher margins that offset the fall in revenue.

Selling expenses decreased by 6.4% mainly due to the significant reduction in promotional activities as a result of the restrictions introduced in all markets to counter the COVID-19 epidemiological emergency, with a consequent decrease in the percentage of revenue compared to the previous year.

Research and development expenses, at € 146.2 million, were up by 12.8% compared to those recorded the previous year due to the advancement of new development programs and amortization of the rights to the new products Signifor®, Signifor® LAR and, starting from the second quarter, Isturisa®, which were acquired from Novartis in October 2019.

General and administrative expenses were unchanged. The strengthening of the structures supporting endocrinology activities was offset by efficiencies in other areas.

Labor costs in 2020 totalled € 279.1 million, down by 3.5% on 2019, with the per-capita cost decreasing by 6.5% following the containment of the variable component as a consequence of the slowdown in business due to the pandemic.

The table below shows the main data referring to Group personnel for 2020 and 2019:

	2020	2019
Employees at year-end	**4,362**	**4,323**
Average age (years)	44	43
Average service (years)	8.6	8.4
Labor productivity:		
Labor cost on net sales	19.3%	19.5%
Net sales per employee (€ thousands)[(a)]	338.7	357.9
Value added per employee (€ thousands)[(a)]	196.8	201.1

Labor costs include wages, related expenses and additional costs.
(a) Data per employee is calculated on the average number of effective personnel: 4,278 in 2020 and 4,141 in 2019.

Based on the Group's international expansion process, central structures continued to be strengthened to ensure the integration, monitoring and coordination of foreign subsidiaries. A concerted effort was also made to create local organizational structures to set up and develop the new international, European and non-European subsidiaries and the specialist organizations managing the new endocrinology area. In general, personnel training and development was a substantial portion of the Group's efforts to ensure that the different work groups belonging to different business areas were effective, while at the same time, continuing to focus on the development of managerial skills distinctive to Recordati.

Other net income and expenses for € 4.9 million included € 6.1 million in non-recurring costs related to the COVID-19 health emergency, mainly comprising donations.

EBITDA (Net income before income taxes, financial income and expenses, depreciation, amortization and write-downs of property, plant and equipment, intangible assets and goodwill, and non-recurring items) totalled € 569.3 million, up by 4.7% compared to 2019, at 39.3% of revenue. The amortization items classified in the above equalled € 93.7 million, of which, € 68.3 million related to intangible assets, increasing by € 15.2 million over the previous year, mainly due to the acquisition in October 2019 of the rights on Signifor®, Signifor® LAR and Isturisa® products from Novartis, and € 25.4 million relating to property, plant and equipment, up by € 0.3 million on 2019. As noted above, starting this year, the definition of EBITDA has changed to better represent business performance and excludes non-recurring charges. Non-recurring costs in 2020 amounted to € 6.6 million, of which, € 6.1 million related to the COVID-19 emergency and included the donations already provided and € 0.5 million for the costs of the reverse merger between the Parent Company and its Italian subsidiaries (as better described in the paragraph related-party transactions). There were no non-recurring costs in 2019.

The reconciliation of net income and EBITDA, including write-downs on intangible assets is reported below.

€ (thousands)	2020	2019
Net income	355,027	368,866
Income taxes	100,629	75,278
Financial income/(expenses), net	13,360	21,122
Depreciation and amortization	93,672	78,248
Write-downs of intangible assets	0	453
Non-recurring expenses	6,632	0
EBITDA [(1)]	**569,320**	**543,967**

[(1)] Net income before income taxes, financial income and expenses, depreciation, amortization and write-downs of property, plant and equipment, intangible assets and goodwill, and non-recurring items.

The breakdown of EBITDA by business segment is reported below.

€ (thousands)	2020	2019	Changes 2020/2019	%
Specialty and Primary Care segment	421,166	422,514	(1,348)	(0.3)
Rare diseases segment	148,154	121,453	26,701	22.0
Total EBITDA[(1)]	**569,320**	**543,967**	**25,353**	**4.7**

[(1)] Net income before income taxes, financial income and expenses, depreciation, amortization and write-downs of property, plant and equipment, intangible assets and goodwill, and non-recurring items.

The Specialty and Primary Care segment was 37.3% of EBITDA, and the rare disease segment was 46.4%.

Net financial expenses amounted to € 13.4 million, down by € 7.8 million compared to the previous year.
The increase in the interest expense on loans for € 2.9 million, mainly related to higher costs on the syndicated loan of € 400.0 million received by the Parent in June 2019 and the new loans obtained in the first half of the year. These were offset by the recognition of exchange rate gains for € 4.3 million (net exchange rate losses of € 0.7 million in 2019) and the € 5.1 million increase in the net balance on the expenses on short term loans, primarily attributable to the repayment of two intergroup loans.

Income taxes amounted to € 100.6 million, up by € 25.4 million compared to the previous year, mainly as a result of the positive effects of the “Patent Box” in 2019. Following the advance agreement signed with the Advance Agreement and Disputes Office of the Italian Tax Authorities on 19 December 2019, which allows the Parent Company to benefit from a discount on taxable income connected with the direct use of intangible assets for the tax years 2015 to 2019 (which had resulted in an overall benefit the previous year of € 35.3 million, of which € 27.0 million related to 2015-2018 and € 8.3 million to 2019), the Parent Company opted to subscribe (instead of renewing the agreement) to the new optional reverse charge mechanism provided for by Art. 4 of Italian Legislative Decree No. 34 of 30 April 2019 and therefore directly determine the discount on taxable income provided by the "Patent Box" for the current year, using the same criteria agreed with the Tax Authorities for the preceding five years. The relevant benefit for 2020, totalling € 8.1 million, was recognized to reduce the tax amount.
On 16 December 2020, an additional advance agreement was signed on the “Patent Box”, based on the same application procedures as the one for the previous year, between the Tax Authority – Regional Lazio Department and the subsidiary Italchimici S.p.A. The relevant tax benefit for the five years from 2015-2019 of € 2.0 million was recognized to reduce the tax amount for the 2020 period.

Net income equalled € 355.0 million, at 24.5% of revenue, compared to € 368.9 million in 2019 and, excluding the non-recurring Patent Box tax benefit for € 2.0 million in 2020 and € 27.0 million the previous year, net income grew by 3.2% based on the increase in operating income and reduction in financial expenses.

As detailed above, given the increased volume of intangible assets on the Group's balance sheet and their amortization, in order to provide information in line with best practices in the sector and provide a comparison with other operators, a new performance indicator has been introduced starting this year, adjusted net income, which is net income excluding amortizations and write-downs of intangible assets (except software) and goodwill, and non-recurring items, net of tax effects. In 2020, adjusted net income amounted to € 410.4 million, increasing by 7.3% on the same indicator calculated for the previous year, at 28.3% of revenue.

The reconciliation of net income with adjusted net income* is reported below.

€ (thousands)	2020	2019
Net income	355,027	368,866
Amortization and write-downs of intangible assets (except software)	66,507	52,397
Tax effect	(13,936)	(11,856)
Non-recurring operating expenses	6,632	0
Tax effect	(1,770)	0
Non-recurring tax income	(2,058)	(26,994)
Adjusted net income*	**410,402**	**382,413**

* Net income excluding amortization and write-downs of intangible assets (except software) and goodwill, and non-recurring items, net of tax effects.

NET FINANCIAL POSITION

The net financial position at 31 December 2020 recorded net debt of € 865.8 million compared to net debt of € 902.7 million at 31 December 2019.

€ (thousands)	31/12/2020	31/12/2019	Changes 2020/2019	%
Cash and cash equivalents	188,230	187,923	307	0.2
Short-term debts to banks and other lenders	(12,567)	(13,392)	825	(6.2)
Loans - due within one year[(1)]	(261,216)	(140,963)	(120,253)	85.3
Leasing liabilities - due within one year	(9,038)	(8,854)	(184)	2.1
Short-term financial position	(94,591)	24,714	(119,305)	n.s.
Loans - due after one year[(1)]	(753,582)	(908,542)	154,960	(17.1)
Leasing liabilities - due after one year	(17,651)	(18,853)	1,202	(6.4)
Net financial position	**(865,824)**	**(902,681)**	**36,857**	**(4.1)**

(1) Includes the fair value measurement of the relative currency risk hedging instruments (cash flow hedge).

During 2020, US$90 million (€ 81.6 million) was paid to Novartis following the approval to market Isturisa® in Europe and the U.S.A. and the launch in Germany, € 15 million was paid to ARS Pharmaceuticals for the ARS-1 license and € 2.5 million to Helsinn for the Ledaga® license. Treasury shares were purchased for a total of € 12.2

million, net of disposals due to exercise of stock options, and dividends were paid for a total of € 212.7 million. The financial position analysis confirms the Group's solid cash generation, which net of these effects, amounted to approximately € 360 million.

The increases in property, plant and equipment for € 33.2 million, of which € 12.1 million related to the right-of-use on leased assets, referring mainly to the Parent Company (€ 15.0 million), the Turkish subsidiary Recordati Ilaç (€ 3.4 million) and the Portuguese subsidiary Jaba Recordati S.A (€ 2.3 million).

In April, the subsidiary Recordati AG signed a loan agreement for CHF 75.0 million with UBS Switzerland AG, at a variable interest rate equal to the Swiss currency's 3-month Libor (with a zero floor) plus a fixed spread with quarterly interest payments and semi-annual repayment on the principal starting in September 2020 through March 2025.

Also, in April, the Parent Company signed a loan agreement with UBI Banca for € 40.0 million, at a fixed interest rate with quarterly interest payments and repayment of the principal in a single tranche in October 2021.

Net working capital for operations at 31 December 2020 was € 291.8 million and is broken down as follows:

€ (thousands)	31/12/2020	% of revenue	31/12/2019	% of revenue	Change 2020/2019	%
Trade receivables	268,897	18.5	296,961	20.0	(28,064)	(9.4)
Inventories	251,252	17.3	226,885	15.3	24,367	10.7
Other current assets	57,536	4.0	87,632	5.9	(30,096)	(34.3)
Current assets	**577,685**	**39.8**	**611,478**	**41.3**	**(33,793)**	**(5.5)**
Trade payables	132,096	9.1	175,481	11.8	(43,385)	(24.7)
Tax liabilities	29,743	2.0	21,094	1.4	8,649	41.0
Other current liabilities	124,034	8.6	216,182	14.6	(92,148)	(42.6)
Current liabilities	**285,873**	**19.7**	**412,757**	**27.9**	**(126,884)**	**(30.7)**
Net working capital for operations	**291,812**	**20.1**	**198,721**	**13.4**	**93,091**	**46.8**
Trade receivables:						
Days of exposure	63		63			
Inventories as % of cost of sales	61.8%		51.9%			

Details and comments relative to the different components are available in the Notes to the consolidated financial statements.

RECONCILIATION BETWEEN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY AND NET INCOME AND GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND NET INCOME

The reconciliation between the Parent Company's shareholders' equity and net income and the group consolidated shareholders' equity and net income is as follows:

€ (thousands)	Shareholders' equity		Net income	
	31/12/2020	31/12/2019	2020	2019
Recordati S.p.A.	464.010	435,426	234.664	241,092
Consolidation adjustments:				
- Elimination margins in inventories	(76,552)	(59,066)	(17,486)	(655)
- Related tax effect	21,704	16,618	5,086	322
- Other adjustments	(16,689)	(13,726)	(2,705)	(4,014)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already recognized by Recordati S.p.A.	835.142	708,217		-
Net income for consolidated subsidiaries, net of amounts already recognized by Recordati S.p.A.	265,671	257,974	265,671	257,974
Dividends received from consolidated subsidiaries	-	-	(132,785)	(128,138)
Write-down of holdings in subsidiaries	-	-	2.539	2,244
Translation adjustments	(217,303)	(146,866)	-	-
Consolidated financial statements	**1,275,983**	**1,198,577**	**354,984**	**368,825**

RELATED-PARTY TRANSACTIONS

The Group's immediate parent is FIMEI S.p.A., headquartered in Milan (Italy), Via Vecchio Politecnico 9, which has been owned by a consortium of investors controlled by CVC Capital Partners since 2018.

At 31 December 2020, the Parent Company held 2,829,302 in treasury shares equivalent to 1.35% of its share capital, with a nominal value of € 0.125 each.

Tax receivables from the immediate parent FIMEI S.p.A. for € 9.7 million referred to the tax credit calculated by the Parent Company Recordati S.p.A. based on the taxable amount estimated and transferred to the immediate Parent Company following the subscription to the tax consolidation, pursuant to Articles 117 to 128 of Italian Presidential Decree 917/1986 as amended by Legislative Decree No. 344/2003. This amount includes the unused credit resulting from the "Patent Box" for the portion related to the companies' taxes.

On 1 October 2020, the Company's Board of Directors approved the reverse merger by incorporation of Rossini Investimenti S.p.A. and FIMEI S.p.A. in Recordati S.p.A. (the "Merger"). The merger aims to shorten the chain of control in respect of the Group's operating companies, simplifying the Group corporate structure to the benefit of the majority shareholders and the entire Group, and reducing the administrative costs associated with maintaining the companies to be incorporated (Rossini Investimenti S.p.A. and FIMEI S.p.A.), while lowering taxes for the incorporating Company (Recordati S.p.A.) from the tax incentives transferred from the incorporated companies, subject to the relevant application being submitted.

It should be noted that the Merger will not entail any change to the share capital of the incorporating company nor is any balancing cash payment planned. Furthermore, the balance sheet and earnings profile of the entity resulting from the Merger will substantially be in line with that of the incorporating company at present and, in particular, the Merger will not alter the net financial position and, therefore, the investment capacity of Recordati or its capital allocation strategy and policy.

Except for what is stated above, to our knowledge, no transactions or contracts have been entered into with related parties that can be considered significant in terms of value or conditions, or which could in any way materially affect the accounts.

In compliance with the requirements of Art. 4, paragraph 7 of the Italian Regulations on operations with related parties adopted with CONSOB Resolution No. 17221 of 12 March 2010 and subsequent amendments, as well as Art. 2391-*bis*, paragraph 1 of the Italian Civil Code, the Parent Company states that it has adopted the "Procedure governing transactions with related parties", available on the Company's website www.recordati.com (in the "Corporate Governance" section). For further information regarding corporate governance, please refer to the Corporate Governance and Proprietary Assets Report, prepared in compliance with Art. 123 *bis* of the Consolidated Law on Finance, approved by the Board of Directors together with the Annual Report. Information regarding paragraphs 1 and 2 of Art. 123 *bis* of Italian Legislative Decree 58/1998 can be found in the "Corporate Governance and Proprietary Assets Report" available, in its entirety on the Parent Company's website www.recordati.com (in the "Corporate Governance" section).

SUBSIDIARIES OUTSIDE THE EUROPEAN UNION

Pursuant to Articles 15 (ex 36) and 18 (ex 39) of the Financial Markets Regulation (as amended by CONSOB with Resolution no. 20249 of 28 December 2018) concerning the conditions for listing companies established and regulated under the laws of countries outside the European Union with significant relevance and for the purposes of the consolidated financial statements, we note that, at 31 December 2020, the provisions of Art. 15 (ex 36) of the Financial Markets Regulation apply to the subsidiaries Recordati Ilaç, Recordati Rare Diseases Inc., Rusfic LLC and Recordati AG and that the conditions indicated in the above-mentioned Art. 15 (ex 36) regarding the administrative body's certification have been met.

SIGNIFICANT TRANSACTIONS, DISCLOSURE REQUIREMENTS DEROGATION

With effect from 20 December 2012, the Parent Company has decided to avail itself of the right to derogate from the requirements of disclosing the information documents prescribed in the event of significant transactions involving mergers, spin-offs, capital increases through contributions in kind, acquisitions and disposals, pursuant to Article 70, paragraph 8 and Article 71, paragraph 1-*bis* of the Issuers Regulation issued by CONSOB with Resolution no. 11971/1999 and subsequent amendments.

ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In compliance with the CONSOB Communication dated 28 July 2006, it is noted that, during 2020, no atypical or unusual transactions, as defined by the Communication itself, were put in place.

MAIN RISKS AND UNCERTAINTIES

The identification, valuation and management of company risk is based on an Enterprise Risk Management (ERM) approach, a structured risk management process, in line with international best practice prescriptions on the subject and in accordance with the main requisites of current rules and regulations. The criteria applied by the Group is that of evaluating its risks in terms of their occurrence probability and impact. When evaluating the impact of the risks on the Group, a number of dimensions, not only of economic or market related nature, but also of a reputational nature, are taken into consideration.

With the creation of a catalogue of company risks, which is subject to constant review, even on more than one occasion during the year, the objective of the Group is to classify the potential risks to which it is exposed, which could be both of an exogenous (e.g. evolution of the rules and regulations framework, competitive pressure, etc.) and of an endogenous kind connected with the management of the various company processes (pharmacovigilance, production process, patent expiry, launch of new products, etc.). Among the risks considered, are non-financial risks referred to in Italian Legislative Decree 254/2016. These relate to risks connected with environmental and health and safety management (damage caused by weather events and accidents, HSE – Health and Safety Executive related risks, industrial accidents), with workers' rights and supply chain subjects (size of the organizational structure, loss of key resources, inadequate selection of suppliers and commercial partners, interruption of critical supplies) as well as with compliance (compliance with international quality standards, compliance with anti-corruption rules and specifically rules regulating medical information and the relationship with the medical community). In particular, the latter risks of a non-financial nature were analysed by the Group and classified as involving low to medium risk, in terms of residual risk, evaluated taking into account the probability of occurrence of a risky event and the impact of the event if it should occur.

Results

The principal risk factors to which the Group is exposed are associated with the following macro-categories:

- Risks associated with the external context
- Risks associated with strategy and operations
- Financial risks
- Legal and compliance risks

For each risk, the strategies and management policies are described for effective and concrete protection and the consequent mitigation of the risk.

RISKS ASSOCIATED WITH THE EXTERNAL CONTEXT

Risks caused by catastrophic events (biological events, epidemics and pandemics, etc.)

The ongoing situation caused by the COVID-19 virus broadly falls into this risk category. While on one hand the spread of the virus has underlined the importance of health and the role of the pharmaceutical sector, creating an urgent demand for pharmaceuticals, on the other hand it continues to impact business operation in the various stages of the product life cycle. The pharmaceutical sector is, therefore, not immune to the impact associated with the numerous emergency measures (lockdowns, health care restrictions, social distancing, etc.) introduced by the health authorities in the various countries in which the Group operates. These measures have impacted various business activities: research and development, with delays to patient enrolment during clinical trials, to production activities with the restructuring of shifts and production processes, to medical and scientific data, where relations with the medical community have been profoundly remodelled, and to office work with the extensive use of remote working. The Recordati Group reacted swiftly to the new conditions arising from the emergency health measures adopted, implementing operating plans that would enable business continuity while ensuring the safety of the people involved (employees, clients, suppliers and other stakeholders). In particular, the Company adopted a Coronavirus Pandemic Plan aimed at ensuring business continuity and protecting the

safety of its employees. New management protocols were implemented, and business processes were modified to ensure the continuous operation of production plants in compliance with the new COVID-19 health regulations. Guidelines for the safe management of human resources were issued by the Parent Company to all of its subsidiaries. The "Safely back to work" project was developed in collaboration with external consultants, aimed at defining the most effective and efficient measures to protect employee health; these included an employee information and training campaign, the provision and use of personal protective equipment (PPE), changes to the layout of workspaces, the introduction of static and dynamic social distancing in the workplace, the installation of protective barriers, and the provision of sanitizers. The operating guidelines issued to External Operating Personnel regarding medical and scientific information were redefined. With reference to medical and scientific information, the Company constantly monitors and coordinates representatives' activities in order to ensure the adoption of the most effective measures and alternative approaches to enable effective interaction with the medical community, including through the use of digital tools, in compliance with COVID-19 regulations.

Risks associated with changes in legislation and regulations governing the pharmaceutical sector

The pharmaceuticals sector is heavily regulated locally, nationally and internationally and this impacts activities at all levels.

Group sales consist predominantly of products subject to medical prescription which are reimbursed by national health care services or other medical insurance schemes which are, however, primarily of a public nature. While on the one hand this situation protects the Group from general economic trends, on the other it exposes it to changes in local legislation governing public spending on health care. For many years the Group has pursued a policy of diversifying and expanding its sales in several geographical markets and in products not reimbursed by public health care schemes in order to mitigate dependency on decisions by single national governments to control spending on pharmaceuticals.

The pharmaceuticals sector is also characterised by the presence of national and international technical standards which regulate pharmaceutical research and development, production and promotion. The Group implements a policy to constantly monitor changes in regulations on all the markets where it operates, with dedicated organisational units in the Parent Company and in subsidiaries to implement efficient coordination mechanisms and information flows designed to identify and rapidly adopt the most appropriate response strategies.

Risks associated with business expansion into emerging markets

The policies pursued by the Group include the expansion of operations in countries with the highest potential for development and the strongest growth rates (for example Central and Eastern Europe, the Middle East and North Africa). Operations in those countries could present risks associated with political, economic, currency, regulatory and fiscal instabilities or discontinuities. Recordati carefully assesses all growth opportunities in all geographies in order to mitigate exposure to these uncertainties and where possible it prefers to acquire local companies with a smaller outlay of capital, rather than other companies that are more exposed to country risk. Furthermore, the export of medicinal products by the Group to countries subject to sanction programmes are marginal and are in any case allowed and in line with said programmes. In this regard, in order to mitigate the risk of commercial and economic sanctions, the Group continues to refine the Export Management and Control model adopted several years ago.

Evaluations of new business opportunities undergo analysis and monitoring by top management. From an operational and organizational point of view, the International Primary and Specialty Care Business Unit (IPSC) is in charge of monitoring, with the support of Regional Directors who are responsible for the overall supervision of the subsidiaries and for the coordination of the relative strategic activities, in collaboration with corporate structures.

Risks associated with market competition

The Group, like any company operating in the pharmaceuticals sector, is subject to competition from products which could determine a contraction in its market share. These consist of both new pharmaceuticals launched by competitors in the same therapeutic classes in which the Group is present and also generic versions of pharmaceuticals coming to market when patents expire.

While the Group monitors the market continuously to detect the introduction of competing pharmaceuticals in advance, it also manages risk by pursuing a policy to progressively diversify and broaden the range of its product portfolio, in order to reduce dependency on a small number of strategic pharmaceuticals, and increase the presence in the product portfolio of OTC products and treatments for rare diseases.

RISKS ASSOCIATED WITH STRATEGY AND OPERATIONS

Risks associated with the internationalization of the Group

The Group currently operates in a growing number of countries and is therefore subject to risks arising from the complexity of conducting operations in delocalized areas.

In order to address this situation, the Group has put a management system in place with central units which integrate, monitor and co-ordinate the operations of local units, with operational and marketing powers conferred to be exercised in compliance with guidelines and within limits indicated by the Group. Group policies and procedures have been formalized which provide corporate guidelines for the management of the main company processes which must be complied with by all subsidiaries.

Risks associated with the expiry of patents

The pharmaceuticals industry makes large investments in research and development and as a consequence, it enjoys a high degree of protection on its intellectual property. Therefore, the expiry of patents covering important pharmaceuticals in product portfolios and the consequent introduction onto the market of generic versions exposes companies to reductions in revenues which can be significant. In order to counter the reduction in revenues as a result of competition from generic pharmaceuticals, the Group is pursuing a diversification strategy based on the reinforcement of its pipeline, the launch of new products in the therapeutic areas of major interest and the expansion of its operations into new markets with high growth rates.

Risks associated with investments in research and development

The competitive positioning of the Group depends on the continuous development of its product portfolio through the research and development of new molecules and pharmaceutical products in which it invests a substantial part of its resources.

Given the complexity, length of time involved and the intrinsic nature of these initiatives, it is not possible to be certain that investments in research and development will always produce the expected results, because the research conducted may fail or the necessary authorisations to market products may not be obtained or the pricing and reimbursement conditions may not be satisfactory.

In order to mitigate exposure to these risks, the Group constantly monitors the intermediate results generated at the various stages of the research and development process, in order to select and move forward only on the most reliable initiatives that have the highest probability of an economic return and success.

Furthermore, health technology evaluations have been introduced during the clinical development phases in order to effectively support the negotiations with the relevant authorities regarding reimbursement conditions for the products.

Finally, the costs for investments in research and development are fully expensed on a prudential basis in the accounting period when they are incurred.

Risks associated with the launch of new products

A risk exists in the pharmaceuticals sector that delays in the development process, or in the issue of the necessary authorizations by regulatory authorities, may result in product launches occurring behind schedule with a consequent possible impact on the expected profitability of the product and/or delay in the achievement of growth targets.

In order to mitigate that risk Recordati pursues two policy lines. One is to broaden and balance its pipeline of products, implemented by acquiring pharmaceuticals that are already registered or are about to be registered, or of new products at different stages of development. The other is to pursue a plan of geographical diversification designed to limit dependence on the regulatory authorities of a single country.

Risks associated with pharmacovigilance

The Group, as a holder of drug marketing authorizations, must comply with regulations on pharmacovigilance. These regulations require that holders of marketing authorizations submit to the regulatory bodies information regarding drug safety, within the time limits and in the manner established by these, with particular regard to adverse reactions. The ascertainment of serious adverse drug reactions can expose the Group to the risk of restrictions being placed on the prescription of a drug, and in the most significant cases, authorization to market the product can be revoked.

In order to efficiently handle this risk and to comply with national regulations in the countries where the Group operates, Recordati has assigned specific pharmacovigilance responsibilities within its organizations and has put integrated systems in place to collect, assess, manage and submit the information required to the competent authorities.

Following the introduction of even more stringent regulatory requirements, internal organizations, instruments, training, procedures are constantly reinforced. Coordination with subsidiaries and partners has improved and includes the centralized evaluation of all information relating to pharmacovigilance.

Risks associated with the production process

The Group has production plants which produce both intermediate products and active ingredients and also finished pharmaceutical products. The risks connected with these activities are of a diverse nature and could result in the interruption of production, damage to the plant, delays in the production cycle or risks linked to the denial of regulatory authorizations. As protection against these risks, first of all, production activities are carried out in strict compliance with internationally established Good Manufacturing Practices (GMPs) implemented through Standard Operating Procedures applicable to the pharmaceutical sector, and are submitted to monitoring and inspection by the relevant national and international authorities.

The Group's production sites are provided with adequate structures and qualified personnel, in accordance with the requirements of the sector's standards, to ensure that the production of medicinal specialties and active ingredients is carried out in compliance with good manufacturing practices (GMPs) and with specific internal procedures and rules in force.

In particular, the Group's main production site in Campoverde di Aprilia (Italy) regularly successfully passes inspections carried out by the Food and Drug Administration (FDA) and other national and international authorities.

Risks associated with the interruption of the production process

Production is by its nature exposed to potential risks of interruption which, if they were to have significant or long lasting effects – caused for example by natural disasters, fires, the revocation of production permits and licenses, malfunctioning of plant and equipment, interruptions in the supply of important raw materials or energy – could have adverse consequences on the continuity and regularity of sales.

In order to mitigate the effects of long lasting interruptions in production processes, the Group has an effective asset protection policy in place (through precise plant maintenance plans and adequate systems to automatically detect and put out fires) and has production plants with adequate capacity and flexibility to handle changed planning requirements.

Furthermore, the Group uses only reliable suppliers, approved as complying with the relevant technical standards. It also constantly monitors the availability of raw materials and strategic excipients, in order to promptly identify potential local or worldwide "out-of-stock" situations and to take the necessary action (supply and/or production backups) to guarantee production autonomy. In addition, the Company has reinforced its organization within the Procurement, Supply Chain and Contract manufacturing areas with the presence of dedicated professional staff.
Furthermore, in order to reduce losses resulting from potential interruptions or damage to production cycles, the Group has taken out "All risk property" insurance policies which cover direct damages (such as damages to buildings, machines and goods) as well as indirect damages (such as a loss in profit as a consequence of accidents).

Risks associated with health, safety and the environment

Chemical and pharmaceutical production is subject to obligations to comply with environmental, health and safety rules and regulations. To ensure the correct application of these rules and regulations, the Group has in place organizational units specifically dedicated to prevention, verification and continuous monitoring as regards compliance with the structural technical standards (related to equipment, plant, the workplace, chemical, physical and biological agents) in addition to activities regarding health surveillance, security vigilance, workers training and information and the procurement of the documents and certificates required by law. In particular, the environmental management system of the Group's main production plant, located at Campoverde di Aprilia, obtained certification from the accredited international body DNV (Det Norske Veritas, Italy) of compliance with the UNI EN ISO 14001:1996 standard in 2003, which was subsequently confirmed with certification for the UNI EN ISO 14001:2004 standard. Opalia Pharma's production plant in Tunisia also obtained UNI EN ISO 14001 (environment) and ISO 45001:2018 (management of Health and Safety in the workplace) certification.
The Company's control and governing bodies are periodically informed by the responsible functions of any accidents that occurred and the activities undertaken to mitigate such accidents.

Risks associated with the management of information technology resources and data security

The current pervasiveness of information technology for the management of business and the necessary connection between Company information systems and external information infrastructures (web and networks) exposes said systems to potential risks, both related to the availability, integrity and confidentiality of the data as well as to the availability and efficiency of the information systems.
In order to guarantee effective operational continuity, the Group has implemented a disaster recovery and business continuity system which ensures the immediate replication of the principal legacy systems' workstations.
Furthermore, the active safety of the Company's data and software is guaranteed by multiple protection levels of a physical and logical nature, at both server and client level.
The risk catalogue includes and monitors the risk of cyber attacks and cyber fraud. To combat this risk the Group has already introduced technological and organisational control measures.

The Company subjects its infrastructure to continuous VAPT (Vulnerability Assessment and Penetration Test) analysis and to additional IT security audits undertaken by independent technicians. The outcome of this analysis has always shown the Company's information systems to be adequately protected.

Instead, as regards fraud through the use of information technology resources by external individuals, the Company continues to provide training and information for employees in order to create awareness on the correct use of the resources and applications assigned to their use.

In the course of 2020, with the extensive use of remote working due to the COVID-19 pandemic, the Company introduced new security levels for servers and clients (e.g. MFA - multi-factor authentication) in order to minimise the risk of cyber fraud.

The Company also commissioned a leading IT consultancy firm to conduct an assessment of the security of remote connections; the report found the protection to be adequate according to international standards.

FINANCIAL RISKS

Credit Risk

Credit risk is exposure to potential losses resulting from commercial counterparties failing to meet their obligations. This risk is higher during long lasting periods of economic and financial hardship due to COVID-19 pandemic and as a result of exposure to geographical areas with specific dynamics and peculiarities (for example Russia and Tunisia). The Group closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system.

Interest Rate Risk

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

The significant expansion of the Group into countries with different economic dynamics from the Euro (for example Turkey, Russia and Tunisia) leads to an increase in risk.

The Group's policy is to limit the risk arising from interest rate fluctuations by establishing medium/long-term fixed interest loans or variable interest loans. Variable interest loans are covered with derivative financial instruments (for example interest rate swaps) for the sole purpose of minimizing such fluctuations and are not for speculation.

This hedging policy limits the Group's exposure to the risk of fluctuations in interest rates.

Foreign Currency Risk

The Group operates in an international context and is affected by assets and transactions denominated in foreign currency other than euro. It is therefore exposed to risks of foreign currency fluctuations which can affect its operating results and the value of its equity. The diversification strategy enacted by the Group results in a progressive higher exposure to trade transactions in foreign currency with respect to the Group's business volume. Many of the Recordati group companies are exposed to a limited level of exchange risk linked to operations, because in each country, most of cash flows generated both by sales and by expenses are denominated in the currency of the relative country. For the sole purpose of hedging and not for speculation, the Group engages in forward contracts for the purchase and sale of currencies to cover amounts at risk.

Liquidity Risk

The liquidity risk to which the Group may be exposed is represented by the inability to raise sufficient financial resources for its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash 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 Group has at its disposal readily available liquidity for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions.

The terms and conditions of the Group's loans and its financial assets are set out in Notes 18, 21 and 31 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts.

The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are sufficient to meet investment needs, working capital requirements and the repayment of debts at their natural due dates, despite the difficult environment as a result of COVID-19 pandemic

LEGAL AND COMPLIANCE RISKS

Risks associated with product liability

Despite rigorous compliance with standards and regulations, like any company operating in the pharmaceuticals sector, the Group could be exposed to risks of claims for damages caused by its pharmaceuticals.

In order to meet potential liabilities, the Group has taken out insurance policies to cover all the products marketed and under development. The maximum liability limits are considered adequate and are constantly monitored with the help of analyses and market research conducted by leading insurance brokers.

Risks associated with compliance

Each and every activity performed by the Group throughout the entire life cycle of a product, from research and development, to production, to the scientific information provided, presupposes a compliance risk. To safeguard against non-compliance risks, the Company has in place an internal control system, composed of a series of procedures and structured and organic organizations in order to control the monitoring of risks of non-compliance with laws, rules and regulations, guarantee correct and transparent information to the market, as well as prevent and limit the consequences of unexpected results, whilst focusing on achieving the Company's objectives.

The structural aspects of internal control and risk management comprise: the Code of Ethics, that defines the principles and values at the base of the Company's ethics, as well as the behavioural rules in respect of said principles; the system for the delegation of powers based on general and special powers of attorney and internal delegations, corresponding to the responsibilities assigned by the Company's operational procedures; the information systems supporting administration and production activities as well as the accounting and financial processes.

All operating and marketing activities performed by the Group, both in Italy and abroad, are performed in compliance with the legislation and regulations that apply in the geographical areas in which it operates, including national and international technical standards that apply to the pharmaceuticals sector which regulate pharmaceutical research and development, production, distribution and promotion.

With regard to the regulation of drug promotion activities, the Group has formulated a set of ethical rules of conduct. All Company personnel are continuously informed of those rules and monitoring, both internally and by independent certifiers, is performed constantly to ensure that they are properly observed.

In compliance with Legislative Decree 231/2001 on the administrative liability of legal entities, the Italian companies in the Group have an "Organisation, Management and Control Model" that is continuously updated to comply with the latest amendments to the relevant legislation. Analogous models are being adopted by other foreign subsidiaries in compliance with local regulations.

Regarding the risk of corruption, the Group has implemented a specific operational and behavioural plan for all its subsidiaries which defines the necessary measures to mitigate the risk of corruption.

Regarding anti-terrorism, the Group has implemented a Policy to monitor and handle transactions with counterparts residing in countries subject to sanctions or embargo.

Regarding the Code of Ethics, Anti-corruption and Organisation, Management and Control Models, the Group provides continuous training to all employees.

Risks associated with legal action

It is always possible that the Group may be required to meet costs resulting from various types of litigation. In these cases, the Group may be called upon to pay extraordinary costs with consequences for operating and financial results.

A detailed description of litigation in progress is given in Note 38 to the financial statements.

BUSINESS OUTLOOK

On 22 February, the Company announced the following financial targets for 2021, which include the contribution of the new licence agreements finalized at the beginning of the year and are based on the expectation of a gradual recovery in reference markets post the COVID-19 pandemic during the second half of the year: revenue of between € 1,570 and € 1,620 million, EBITDA of between € 600 and € 620 million and adjusted net income between € 420 and € 440 million.

Despite the persistent COVID-19 pandemic and restrictions on mobility in the main countries, the Group consolidated sales during the first two months of 2021 are in line with expectations. Considering the limited impact of the pandemic on the financial results of 2020, the Group's business segment, recent performance and the high level of diversification, it is believed that the continuation of the pandemic in 2021 will not have any significant effect on the results expected by the Group, thus confirming the asset or liabilities amounts recognised in the financial statement.

Milan, 18 March 2021

for the Board of Directors
Chief Executive Officer
Andrea Recordati

CONSOLIDATED FINANCIAL STATEMENTS

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2020

INCOME STATEMENT

€ (thousands) [1]	Note	2020	2019
Net revenue	3	**1,448,867**	**1,481,848**
Cost of sales	4	(406,831)	(436,901)
Gross profit		**1,042,036**	**1,044,947**
Selling expenses	4	(349,072)	(372,803)
Research and development expenses	4	(146,236)	(129,681)
General and administrative expenses	4	(72,785)	(72,783)
Other income/(expenses), net	4	(4,927)	(4,414)
Operating income		**469,016**	**465,266**
Financial income/(expenses), net	5	(13,360)	(21,122)
Pre-tax income		**455,656**	**444,144**
Income taxes	6	(100,629)	(75,278)
Net income		**355,027**	**368,866**
Attributable to:			
Equity holders of the Parent		354,984	368,825
Non-controlling interests		43	41
Earnings per share			
Basic		€ 1.725	€ 1.800
Diluted		€ 1.698	€ 1.764

[1] Except amounts per share.
Basic earnings per share base is calculated on the average number of outstanding shares in the respective periods, 205,758,125 for 2020 and 204,959,193 for 2019. These amounts are calculated deducting treasury shares in the portfolio, the average of which was 3,367,031 for 2020 and 4,165,963 for 2019.
Diluted earnings per share is calculated taking into account stock options granted to employees.

The accompanying notes are an integral part of these consolidated financial statements.

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS at 31 DECEMBER 2020 and 31 DECEMBER 2019

ASSETS

€ (thousands)	Note	31/12/2020	31 December 2019
Non-current assets			
Property, plant and equipment	7	133,250	133,342
Intangible assets	8	1,115,811	1,161,760
Goodwill	9	562,116	577,973
Other equity investments and securities	10	45,581	38,566
Other non-current assets	11	6,861	16,426
Deferred tax assets	12	75,084	71,513
Total non-current assets		**1,938,703**	**1,999,580**
Current assets			
Inventories	13	251,252	226,885
Trade receivables	14	268,897	296,961
Other receivables	15	47,291	79,949
Other current assets	16	10,245	7,683
Derivative instruments measured at fair value	17	7,036	9,949
Cash and cash equivalents	18	188,230	187,923
Total current assets		**772,951**	**809,350**
Total assets		**2,711,654**	**2,808,930**

The accompanying notes are an integral part of these consolidated financial statements.

SHAREHOLDERS' EQUITY AND LIABILITIES

€ (thousands)	Note	31/12/2020	31 December 2019
Shareholders' equity			
Share capital		26,141	26,141
Share premium reserve		83,719	83,719
Treasury shares		(87,516)	(93,480)
Reserve for derivative instruments		(2,659)	(5,357)
Translation reserve		(217,303)	(146,866)
Other reserves		70,707	64,651
Profits carried forward		1,151,053	999,708
Net income		354,984	368,825
Interim dividend		(103,143)	(98,764)
Shareholders' equity attributable to equity holders of the Parent	19	**1,275,983**	**1,198,577**
Shareholders' equity attributable to non-controlling interests	20	277	234
Total shareholders' equity		**1,276,260**	**1,198,811**
Non-current liabilities			
Loans - due after one year	21	778,238	937,344
Provisions for employee benefits	22	21,174	20,557
Deferred tax liabilities	23	41,219	43,172
Other non-current liabilities	24	16,299	22,292
Total non-current liabilities		**856,930**	**1,023,365**
Current liabilities			
Trade payables	25	132,096	175,481
Other payables	26	95,671	185,706
Tax liabilities	27	29,743	21,094
Other current liabilities	28	11,250	12,543
Provisions for risks and charges	29	17,113	17,933
Derivative instruments measured at fair value	30	9,770	10,788
Loans - due within one year	21	270,254	149,817
Short-term debts to banks and other lenders	31	12,567	13,392
Total current liabilities		**578,464**	**586,754**
Total shareholders' equity and liabilities		**2,711,654**	**2,808,930**

The accompanying notes are an integral part of these consolidated financial statements.

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME RECOGNISED IN SHAREHOLDERS' EQUITY FOR FINANCIAL YEARS ENDED

at 31 DECEMBER 2020 AND 31 DECEMBER 2019

€ (thousands) [1]	2020	2019
Net income	355,027	368,866
Gains/(losses) on cash flow hedges, net of tax effects	2,698	3,042
Gains/(losses) on translation of foreign financial statements	(70,437)	7,280
Gains/(losses) on equity-accounted investees, net of tax effects	6,917	17,455
Other changes, net of tax effects	(1,021)	(459)
Income and expenses recognized in shareholders' equity	**(61,843)**	**27,318**
Comprehensive income	**293,184**	**396,184**
Attributable to:		
Equity holders of the Parent	293,141	396,143
Non-controlling interests	43	41
Per share data		
Basic	€ 1.425	€ 1.933
Diluted	€ 1.402	€ 1.894

[1] Except amounts per share.

Basic earnings per share base is calculated on the average number of shares outstanding in the respective periods, 205,758,125 for 2020 and 204,959,193 for 2019. These amounts are calculated deducting treasury shares in the portfolio, the average of which was 3,367,031 for 2020 and 4,165,963 for 2019.

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

The accompanying notes are an integral part of these consolidated financial statements.

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN GROUP SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

€ (thousands)	Shareholders' equity attributable to equity holders of the Parent									Non-controlling interests	Total
	Share capital	Share premium reserve	Treasury shares	Reserve for derivative instruments	Translation reserve	Other reserves	Profits carried forward	Net income	Interim dividend		
Balance at 31 December 2018	**26,141**	**83,719**	**(145,608)**	**(8,399)**	**(154,146)**	**43,081**	**897,990**	**312,376**	**(91,761)**	**193**	**963,586**
Allocation of 2018 net income							312,376	(312,376)			0
Dividend distribution							(187,844)		91,761		(96,083)
Change in share-based payments						4,574	2,475				7,049
Sale of treasury shares			52,128				(25,941)				26,187
Interim dividend									(98,764)		(98,764)
Other changes							652				652
Comprehensive income				3,042	7,280	16,996		368,825		41	396,184
Balance at 31 December 2019	**26,141**	**83,719**	**(93,480)**	**(5,357)**	**(146,866)**	**64,651**	**999,708**	**368,825**	**(98,764)**	**234**	**1,198,811**
Allocation of 2019 net income							368,825	(368,825)			0
Dividend distribution							(205,423)		98,764		(106,659)
Change in share-based payments						160	4,718				4,878
Purchase of treasury shares			(47,871)								(47,871)
Sale of treasury shares			53,835				(18,134)				35,701
Interim dividend									(103,143)		(103,143)
Other changes							1,359				1,359
Comprehensive income				2,698	(70,437)	5,896		354,984		43	293,184
Balance at 31 December 2020	**26,141**	**83,719**	**(87,516)**	**(2,659)**	**(217,303)**	**70,707**	**1,151,053**	**354,984**	**(103,143)**	**277**	**1,276,260**

The accompanying notes are an integral part of these consolidated financial statements.

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

€ (thousands)	2020	2019*	
OPERATING ACTIVITIES			
Net income	355,027	368,866	
Income taxes	100,629	75,278	
Net interest	17,475	15,142	
Depreciation of property, plant and equipment	25,355	25,170	
Amortization of intangible assets	68,317	53,078	
Write-downs	0	453	
Equity-settled share-based payment transactions	4,878	7,049	
Other non-monetary components	1,997	4,825	
Changes in other assets and other liabilities	(11,090)	(8,478)	
Cash flow generated/(used) by operating activities before changes in working capital	**562,588**	**541,383**	
Change in:			
- inventories	(42,924)	(19,483)	
- trade receivables	6,033	(54,386)	
- trade payables	(38,614)	8,350	
Changes in working capital	**(75,505)**	**(65,519)**	
Interest received	463	573	
Interest paid	(18,699)	(17,597)	
Income taxes paid	(65,272)	(140,140)	
Cash flow generated/(used) by operating activities	**403,575**	**318,700**	
INVESTMENT ACTIVITIES			
Investments in property, plant and equipment	(21,263)	(22,095)	
Disposals of property, plant and equipment	0	2,046	
Investments in intangible assets	(110,415)	(421,193)	
Disposals of intangible assets	57	33	
Disposals of holdings in other companies	66	0	
Cash flow generated/(used) by investment activities	**(131,555)**	**(441,209)**	
FINANCING ACTIVITIES			
Opening of loans	110,020	418,048	
Repayment of loans	(141,430)	(131,258)	
Payment of lease liabilities	(9,730)	(10,345)	
Change in short-term debts to banks and other lenders	1,740	(2,190)	
Dividends paid	(212,718)	(190,916)	
Purchase of treasury shares	(47,871)	0	
Sale of treasury shares	35,701	26,187	
Cash flow generated/(used) by financing activities	**(264,288)**	**109,526**	
Change in cash and cash equivalents	**7,732**	**(12,983)**	
Opening cash and cash equivalents	187,923	198,036	**
Currency translation effect	(7,425)	2,870	
Closing cash and cash equivalents	**188,230**	**187,923**	**

* The 2019 amounts were redetermined after adopting the new method (See Note 1).

** In 2019, the amounts net of short-term debts to banks and other lenders were shown, equal to €16,905 thousand at 31 December 2018 and € 13,392 thousand at 31 December 2019.

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The consolidated financial statements of the Recordati group for the year ended 31 December 2020 were prepared by Recordati Industria Chimica e Farmaceutica S.p.A. (the "Company" or the "Parent Company"), with headquarters in Milan at Via Matteo Civitali no. 1, were approved by the Board of Directors' meeting of 18 March 2021, which authorized their distribution to the public, and are available at the Company's headquarters.

The consolidated financial statements were prepared in accordance with the International Accounting Standards ("IFRS") issued or revised by the International Accounting Standards Board ("IASB") and endorsed by the European Union, and with the Italian regulations implementing article 9 of Italian Legislative Decree no. 38/2005. In order to better represent the Group's operations, the profit and loss accounts are classified by function, while they are classified by nature in the financial statements of the Parent. The distinction between current and non-current was adopted for the presentation of assets and liabilities in the balance sheet. In preparing the cash flow statement, the indirect method was used, introducing some changes in the presentation method—starting with the 2020 financial statements—with the objective of better representing Group cash flow. These changes did not lead to significant changes in cash flow balances in terms of operating, investment, or financing activities as compared to what the cash flow statement showed last year.

Details regarding the accounting standards adopted by the Group are specified in Note 2.

The consolidated financial statements at 31 December 2020 comprise those of the Parent Company and all its subsidiaries. The companies included in the consolidation scope, the consolidation method applied, their percentage of ownership and a description of their activity are set out in Note 40.
During 2020, the consolidation scope did not change.

On 1 October 2020, the Company's Board of Directors approved the reverse merger by incorporation of Rossini Investimenti S.p.A. and FIMEI S.p.A. in Recordati S.p.A. (the "Transaction" or the "Merger") and the documentation preparatory to implementation of the Merger, including the relevant merger plan, which is available on the Company's website (www.recordati.com, under "Investors"/"Shareholders' Meetings/Reverse merger into Recordati S.p.A. 2020-2021") for further information.
The Merger, which is part of the overall process for the indirect acquisition of Recordati S.p.A. by Rossini Investimenti S.p.A., achieved through the acquisition of the entire share capital of FIMEI S.p.A. (to which it is closely and intrinsically connected), aims to achieve a shortening the chain of control with respect to the operating companies, obtaining, for the benefit of the majority shareholders and the entire Group, a simplification of the Group's corporate structure and the reduction of administrative costs associated with maintaining the companies to be incorporated (Rossini Investimenti S.p.A. and FIMEI S.p.A.) and, for the incorporating Company (Recordati S.p.A.), lower taxes due to transfer of tax incentives from Rossini Investimenti, subject to Italian tax ruling.
The Merger will not entail any change to the share capital of the incorporating Company, nor is any balancing cash payment planned. Furthermore, the balance sheet and earnings profile of Recordati S.p.A. after the Merger will be substantially in line with that of the Company at present and, in particular, the Merger will not alter the net financial position and, therefore, the investment capacity of Recordati or the strategy or its capital allocation policy.

It is envisaged that the Merger will be completed by the end of the first half of 2021 and in any event following the date of approval of the financial statements of the Companies to be incorporated at 31 December 2020 and of their closing balance sheets at 31 March 2021.

These financial statements are presented in euro (€), rounded to thousands of euro, except when indicated otherwise.

2. SUMMARY OF ACCOUNTING STANDARDS

The financial statements were prepared in accordance with the International Accounting Standards ("IFRS") issued or revised by the International Accounting Standards Board ("IASB") and endorsed by the European Union and with the Italian regulations implementing Article 9 of Italian Legislative Decree no. 38/2005, in continuity with what was done for the consolidated financial statements at 31 December 2019, with the exception of the adoption of the new standards and amendments in force from 1 January 2020 described in the following paragraph "Application of new standards". The Group did not adopt any new standard, interpretation or amendment issued but not yet in force in advance.

The financial statements were prepared on a going concern basis because the Directors verified the non-existence of indicators of a financial, operational or other nature which could signal critical issues on the Group's ability to meet its obligations in the foreseeable future and, in particular, in the next 12 months. Specifically, in making the estimates and assumptions related to the preparation of the consolidated financial statements, the impacts, including potential ones, deriving from the COVID-19 pandemic were taken into account. To face the emergency, in Italy, and subsequently also in other countries, in 2020, the Group implemented all possible measures and initiatives to guarantee the supply of medicines to its patients and the safety of its employees. The results obtained show that the impact on the Group's consolidated revenue is more than offset by the positive contribution from new products and the containment of operating expenses resulting from reduced activities, with operating and net income remaining in line with expectations. Also for 2021, despite the continuation of the epidemiological emergency, we believe that we can implement the necessary actions to ensure that the business is a going concern and to achieve positive results.

The financial statements for the consolidated companies, prepared by the Board of Directors or the Sole Director for submission to the respective Shareholders' Meetings, have been reclassified and adjusted as required in accordance with International Financial Reporting Standards. The criteria applied is consistent with that of the consolidated financial statements at 31 December 2019.

The financial statements have been prepared on the historical cost basis, except for the financial assets available for sale included under the line "Other equity investments and securities", derivative financial instruments (and the relative underlying hedged financial liability) for which their fair value has been applied as prescribed by IFRS 9 and defined benefit plans for which the actuarial valuation was carried out as prescribed by IAS 19.

Application of new accounting principles

Several amendments and interpretations apply for the first time in 2020 but had no impact on the Group's consolidated financial statements. These included:

- **Amendments to IFRS 3: Definition of a business**

  The amendments to IFRS 3 clarify that, to be considered a business, an integrated set of activities and assets must include at least an input and a substantive process that together significantly contribute to the ability to create an output. In addition, it was clarified that a business can exist without including all the inputs and processes necessary to create an output. These amendments had no impact on the Group's consolidated financial statements but could have an impact on future years if the Group carries out business combinations.

- **Amendments to IAS 1 and IAS 8: Definition of material**

  The amendments provide a new definition of materiality which states 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 the significance of the information or on both. The entity assesses whether the information, alone or in combination with other information, is material in the context of the financial statements, considered as a whole.

  Information is obscured if it is communicated in such a way as to have, for primary users of the financial statements, a similar effect to that of omitting or misstating the same information.

  These amendments had no impact on the consolidated financial statements, nor is any future impact for the Group foreseen.

- **Conceptual Framework for Financial Reporting issued 29 March 2018**

  The Conceptual Framework is not a standard, and none of its concepts takes priority over the concepts or requirements of a standard. The purpose of the Conceptual Framework is to support the IASB in developing standards, help preparers develop uniform accounting policies when existing standards do not apply to specific circumstances and help all parties involved understand and interpret the standards. The revised version of the Conceptual Framework includes some new concepts, gives updated definitions and reporting criteria for assets and liabilities and clarifies some important concepts. These changes did not have any impact on the Group's consolidated financial statement.

- **IFRS 16 COVID-19-Related Rent Concessions amendment**

  On 28 May 2020, the IASB published an amendment to IFRS 16. The amendment permits a lessee not to apply the IFRS 16 requirements for the accounting effects of lease modifications for any reduction in lease payments granted by the landlord which are a direct consequence of the COVID-19 pandemic. The amendment introduces a practical expedient according to which the lessee can choose not to assess whether the reduction in lease payments is a lease modification. A lessee electing to use this expedient reports payment reductions as if it were not a lease modification in terms of IFRS 16.

  The modifications apply to financial statements for the accounting period beginning 1 June 2020 or later. Prior adoption is permitted. These changes did not have any impact on the Group's consolidated financial statement.

Use of estimates

The preparation of the financial statements by management requires estimates and assumptions to be made, based on management's best judgement, that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. If in the future these estimates and assumptions differ from the actual circumstances, they will be amended as appropriate when circumstances change.

The balance sheet accounts which require, more than others, a higher degree of subjectivity on the part of management when making estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on financial data are hereunder briefly described.

- *Goodwill*: according to the accounting standards applied by the Group, goodwill is subject to annual impairment testing in order to ascertain whether a reduction in value has occurred. These tests require, on the part of management, subjective evaluations based on available information within the Group and from the market, as well as historical experience. They also depend on factors that could change over time, influencing the valuations and estimates made by management. Furthermore, when it has been determined that a potential reduction in value may have occurred, the Group proceeds to determine it by using the evaluation methods deemed to be most adequate.
- *Provisions for risks*: the identification of the existence or not of a current obligation (legal or implicit) is not easy to determine in some cases. Management evaluates these events on a case-by-case basis together with an estimate of the amount of financial resources required to comply with the obligation. When management considers that the generation of a liability is only possible, the risks are disclosed in the appropriate information section on risks and liabilities, and no accruals are made.
- *Deferred tax assets*: recording is supported by a recovery plan based on hypotheses and assumptions which management considers to be reasonable.
- *Inventories*: inventories which appear to be obsolete or slow-moving are periodically tested and written down if their recoverable value in less than their book value. Write-downs are based on assumptions and estimates which derive from experience and the historical results obtained.
- *Financial instruments*: trade receivables are reduced by their relative provision for bad debts in order to take into account their effective recoverable value. The determination of the amounts to be written down requires that management make subjective evaluations which take into account past events, current conditions and expectations of future economic conditions.

  In general, the methods for the calculation of the fair value of financial instruments, for accounting or disclosure purposes, are summarized below with regard to the main categories of financial instruments:
  - Derivative financial instruments: pricing models are adopted based on the market values of the interest rates;
  - Receivables and payables and unlisted financial assets: for financial instruments with maturity at more than 1 year, the discounted cash flow method was applied (discounting to the present the expected cash flows in consideration of the current interest rate conditions and creditworthiness) to determine the fair value on “first recognition”. Further measurements are made based on the amortized cost method;
  - Listed financial instruments: the market value at the reporting date is used.

  In relation to financial instruments measured at fair value, IFRS 13 requires the classification of these instruments according to the standard’s hierarchy levels, which reflect the significance of the inputs used in establishing the fair value. The following levels are used:
  - Level 1: unadjusted assets or liabilities subject to valuation on an active market;
  - Level 2: inputs other than prices listed at the previous point, which are observable directly (prices) or indirectly (derivatives from the prices) on the market;
  - Level 3: input which is not based on observable market data.

Basis of consolidation

The consolidated financial statements include the financial statements for the Parent Company and the enterprises controlled by it, prepared at 31 December each year.

Control is attained when the Group is exposed or has the right to variable returns originating from its relationship with the investee entity, at the same time, having the capacity to affect these returns, exerting its power over that entity. Specifically, the Group controls an investee if and only if the Group has:

- investment power over the entity (i.e. holds valid rights that give it the ability to actually manage business relevant to the investee entity);
- exposure or rights to variable returns originating from the relationship with the investee entity;
- the ability to exert power over the investee entity to affect the total returns.

Generally, it is presumed that having the majority of voting rights leads to control. In support of this assumption and when the Group does not hold the majority of voting (or similar) rights, the Group considers all the relevant facts and circumstances to establish whether it controls the investee entity, including:

- Contractual agreements with other voting rights holders;
- Rights originating from contractual agreements;
- The Group's voting rights and potential voting rights.

The Group reconsiders whether it has control of an investee or not if the facts and circumstances indicate that there have been changes in one or more of the three relevant factors which define control. Consolidation of a subsidiary begins when the Group gains control of it and ceases when the Group loses control. The assets, liabilities, revenue and costs of the subsidiary acquired or disposed of during the year are included in the consolidated financial statement from the date the Group obtains control until the date the Group can no longer exert control over the company.

The financial statements of the subsidiaries are prepared according to the same accounting standards adopted by the Parent Company. Where necessary, consolidation adjustments are made to bring the accounting policies used in line with those used by the Company.

All intercompany transactions and balances between group enterprises, including unrealized gains, are eliminated on consolidation. Unrealized losses are also eliminated, unless they cannot be recovered later.

The consolidation is made with the full line-by-line method. The criteria adopted for the application of this method include, among others:

a. elimination of the book value of investments in consolidated companies against the related shareholders' equity and the assumption at the same time of all their assets and liabilities;
b. elimination of intercompany payables and receivables and transactions, as well as intragroup profits and losses not yet realized;
c. any excess of the cost of acquisition over the value of equity at the date of acquisition is recognized as goodwill;
d. non-controlling interests in the equity of consolidated subsidiaries are shown separately under equity, while non-controlling interests in the net income of these companies are shown separately in the consolidated income statement.

The financial statements of foreign subsidiaries expressed in currencies other than Euro are translated into Euro as follows:
- assets and liabilities, with the exception of shareholders' equity, at year-end exchange rates;
- shareholders' equity at historical exchange rates, for year of formation;
- income and expense items at the average exchange rates for the year;
- the goodwill resulting from the acquisition of a foreign company is recognized in the currency of the country in question and translated at year-end exchange rates.

Translation differences arising from this process are shown in the consolidated statement of comprehensive income.

Balance Sheet

Property, plant and equipment – Property, plant and equipment is sated at purchase cost less accumulated depreciation and any recognized impairment loss. Reviews are performed when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on impairment).

Depreciation is computed 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 and machinery 10% - 17.5%
- Other equipment 12% - 40%

Gains or losses arising from the disposal or retirement of an asset are determined as the difference between the sales proceeds and the net carrying amount of the asset and are recognized in income.

Leasing - The Group applied IFRS 16, using the modified retrospective approach.
Accounting model for lessee
At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of its related stand-alone price. The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.
The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In this case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis of those of property, plant and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted to reflect any changes deriving from remeasurements of the lease liability.
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interests rate implicit in the lease. If that rate cannot be readily determined, the Group uses the incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.
The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the assets leased.
The payments due for the lease included in the measurements of the lease liability comprise:
- fixed payments (including substantially fixed payments);
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.
When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset. If the carrying amount of the right-of-use asset has been reduced to zero, the lessee recognises the change in the profit/loss for the year.
The Group presents right-of-use assets that do not meet the definition of investments property in "Property, plant and equipment" and lease liabilities in "Loans" in the balance sheet.
Short-term leases and leases of low value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Intangible assets - An intangible asset is recognized in the accounts only if identifiable, likely to generate future economic benefits and its cost can be reliably determined. Intangible assets are recognized at purchase cost, net of amortization calculated on a straight line basis and on the basis of their estimated useful life which, however, cannot exceed 20 years. Patents, licenses and know-how are amortized as from the year of the first sale of relevant products. Amortization of distribution and license rights is calculated over the duration of the contract, using the following rates which are held to be representative of the estimated useful life of the assets.

- Industrial patent rights and marketing authorizations 5% - 33%
- Distribution licenses, trademarks and similar rights 5% - 25%.

Goodwill - Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly-controlled entity at the date of acquisition. Transaction costs associated with a business combination are not considered acquisition costs, but are recognized as expenses in the year they are incurred. Goodwill is recognized as an asset and subjected annually to an impairment test in order to determine any loss of value. This test is performed with reference to a cash-generating unit, or CGU, to which goodwill is attributed and at the level at which it is monitored.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate.

On disposal of a subsidiary, associate or jointly-controlled entity, the attributable amount of remaining goodwill is included in the determination of the gain or loss on disposal.

Impairment - At each reporting date, or more frequently if necessary, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If these indications exist, the recoverable amount of these assets is estimated to determine the amount of the write-down. Where it is not possible to estimate the recoverable amount of an individual asset, the Group 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 assessing value in use, the estimated future cash flows are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of 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 (cash- generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized as income immediately. Losses resulting from the impairment of goodwill cannot be reversed.

Equity investments in associates - An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

Financial instruments
Recognition and measurement
Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and liabilities are initially recognized when the Group becomes a party to the contractual provisions of the financial instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement
Financial assets
On initial recognition, a financial asset is classified on the basis of its measurement: amortized cost; fair value through other comprehensive income ("FVOCI") - debt security; (FVOCI) - equity security; or at fair value through profit or loss ("FVTPL").
Financial assets are not reclassified after their initial recognition, unless the Group changes its business model for management of financial assets. In this case, all the financial assets involved are reclassified on the first day of the year following the change in the business model.
A financial asset must be measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect 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.

A financial asset must be measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling 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.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This choice is made for each asset.
All financial assets not classified as measured at amortized cost or at FVOCI, as indicated above, are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may

irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: subsequent measurement and gains and losses

- *Financial assets measured at FVTPL*
  These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss for the year.
- *Financial assets measured at amortized cost*
  These assets are subsequently measured at amortized cost in conformity with the effective interest criterion. The amortized cost is decreased by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss, as are any gains or losses on derecognition.
- *Debt investments measured at FVOCI*
  These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
- *Equity securities measured at FVOCI*
  These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Financial liabilities: classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or at FVTPL. A financial liability is classified as at FVTPL when it is held for trading, represents a derivative or is designated as such at the moment of initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost in using the effective interest criterion. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the assets transferred are not derecognized.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group derecognizes a financial liability also in the case of a change in the related contractual terms and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognized at fair value on the basis of the modified contractual terms.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivative instruments are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the cost of the non-financial item on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of, for a derivative, changes in the fair value of the hedging instrument or, for a non-derivative, foreign exchange gains and losses is recognized in other comprehensive income and presented in the translation reserve within equity. Any ineffective portion is recognized immediately in profit or loss. The amount recognized in other comprehensive income is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

Inventories - Inventories are stated at the lower of cost and net realizable value, where the market value of raw materials and subsidiaries is their substitution cost while that related to finished goods and work-in-process is their net realizable value. Inventories of raw materials, supplies and promotional material are valued at their average acquisition 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 valued at their average manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production.

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

Cash and cash equivalents - Cash in banks on demand and short-term highly liquid investments measured at market value.

Non-current assets classified as held for sale and discontinued operations – These consist of components of an entity, whose operations and cash flows can be distinguished operationally and for financial reporting purposes, which have either been disposed of or satisfy the criteria to be classified as held for sale.
A non-current asset (or disposal group) classified as held for sale is measured at the lower of fair value less costs to sell it and its carrying amount. Non-current assets or disposal groups that are classified as held for sale are not depreciated.

Shareholders' equity - Equity instruments issued by the Company are recognized at the proceeds received. Dividends distributed by the Parent Company are recognized as payables at the moment of the resolution to distribute them. The purchase cost and selling price of treasury shares are recognized directly in equity and are therefore not recognized in the income statement.

Provisions for employee benefits - Employee benefits are recognized on the basis of the results of the measurements made according to what is established by the accounting standard IAS 19. The liability recognized in the balance sheet for post-employment benefit plans is the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. In particular the Projected Unit Credit Method is applied.

Provisions for risks and charges - Provisions for risks and charges made when the Group 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.

Transactions in foreign currencies - Transactions in currencies other than the euro are initially recognized at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the reporting date. Gains and losses arising on exchange are included in net profit or loss for the period. Non-monetary assets and liabilities recognized at the exchange rates prevailing on the dates of the transactions are not retranslated on the reporting date.

On consolidation, the assets and liabilities of the Group's foreign currency operations are translated at the exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in the consolidated statement of comprehensive income and included in the item "reserve from translation of financial statements in foreign currencies". This reserve is recognized as income or as expenses in the period in which the subsidiary is disposed of.

Income statement

Revenue - Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over a good or service to a customer. Revenues are stated net of discounts, rebates and returns.
Information about the nature and the timing of the satisfaction of performance obligations in contracts with customers and the related revenue recognition policies are as follows.
Revenues mainly comprise product sales and revenue from licensing-out agreements. Product sales represent net invoice value less estimated rebates, returns and chargebacks and are recognized when control of the goods has been transferred to a third party. This is usually when ownership passes to the customer, either on shipment or on receipt of goods by the customer, depending on the specific trading terms.
Revenue from licensing-out agreements includes income from collaborative arrangements on the Group's products where the Group has licensed certain rights associated with those products, but retains a significant ongoing economic interest, through for example the ongoing supply of finished goods. Income may take the form of up-front payments, profit sharing and royalties. Where control of a right to use of intangible assets passes at the outset of an arrangement, revenue is recognized at one point in time. Where the substance of an arrangement is that of a right to access intangible assets, revenue is recognized over time, normally on a straight-line basis over the life of the contract. Where the Group provides ongoing services (i.e. supply of products), revenue in respect of this element is recognized over the duration of these services. Sales performance milestones are accounted for when the licensee achieves the sales target, so these are recognized at one point in time. Royalties received from the licensee are accounted for when the licensor is entitled to the payment, so these are to be recognized at one point in time.

Cost of sales - This represents the cost of the goods sold. It includes the cost of raw materials, supplies and consumables, finished goods, and direct and indirect production expenses.

Selling expenses - These include all expenses incurred in connection with the products sold during the year, such as payroll and other costs for sales and marketing personnel, promotional expenses and all distribution costs.

Research and development expenses - Research and development costs are expensed in the income statement in the year in which they are incurred in accordance with IAS 38, except the cases for which the same IAS 38 prescribes the capitalization. IAS 38 prescribes that development costs must be capitalized when, in relation to the products of the activity, technical and commercial feasibility is achieved with high probability of success and future economic benefits are probable. These costs include amounts due under collaboration agreements with third parties.

Grants from public bodies - Public grants towards investment in plant are recognized as income over the periods necessary to match them with the related costs and are presented in the balance sheet as deferred income. Operating grants, including those for research, are booked on an accrual basis and are recognized in the income statement as "other revenue".

Transactions involving share-based payments - As prescribed by IFRS 2, stock option plans for the benefit of Group employees are considered part of their remuneration, the cost of which is the fair value of the stock options at the date they are granted. This cost is recognized in profit and loss linearly distributed over the vesting period with a counter-item booked directly to equity.

Financial income and expenses - These include interest income and expenses, foreign exchange gains and losses, both realized and unrealized, and differences arising from the valuation of securities. Interest income

and expenses are recognized in profit and loss using the effective interest method.

Taxes - Income taxes are the sum of current and deferred taxes. Current taxes are based on taxable profit for the year and the tax rates in force at the reporting date are applied.

Deferred taxes are taxes 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 income. Deferred tax liabilities are generally recognized all taxable temporary differences, while deferred tax assets are recognized to the extent to which it is considered probable that there will be taxable fiscal results in the future that will enable the use of the deductible temporary differences. Assets and liabilities are not recognized if the temporary differences derive 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 realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognized in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group 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 number of shares outstanding for the effects of all dilutive potential ordinary shares.

3. NET REVENUE

The Group's revenue is derived from contracts with customers and is not subject to significant seasonal fluctuations.

In 2020 total net revenue, of € 1,448.9 million, was down compared to the previous year owing mainly to the impact of the COVID-19 pandemic on the main markets of reference, the loss of the exclusive rights to market Urorec® (Silodosin) from February 2020 and Livazo® (Pitavastatin) from August 2020, and to the devaluation of the main currencies against the euro during the year, which led to a reduction in net sales. Revenue can be detailed as follows:

€ (thousands)	2020	2019	Change 2020/2019
Net sales	1,416,543	1,451,797	(35,254)
Royalties	5,415	7,059	(1,644)
Up-front payments	4,782	6,970	(2,188)
Various revenues	22,127	16,022	6,105
Total net revenue	**1,448,867**	**1,481,848**	**(32,981)**

Revenue for up-front payments is related to the activity of licensing and distribution of products in the portfolio and is recognized when it accrues along the time horizon of collaboration with customers. Revenue for up-front payments of € 4.8 million recorded in 2020 refers mainly to marketing agreements for Pitavastatin (€ 1.4 million), Lercanidipine (€ 1.1 million), Cystadrops® (cysteamine hydrochloride) (€ 0.7 million), for the combination Lercanidipine+Enalapril (€ 0.6 million) and for Silodosin (€ 0.5 million). The

remaining balance of amounts already paid in advance by customers, which will be recognized for accounting purposes as revenue in future periods, is recognized under current liabilities (see Note 21), and amounted to € 10.3 million (€ 11.9 million at 31 December 2019).

The increase in the item "Various revenues" is mainly the consequence of the margin contractually recognized by Novartis AG, of € 20.1 million, on sales of Signifor® and Signifor® LAR® made on behalf of Recordati after 23 October 2019, the transfer date of the rights on the products. Following the transfer of the marketing authorisation of the products, initially in the United States of America and gradually also in Europe and in other geographical areas, direct sales of these products to the market began; these were € 46.8 million, accounted for as net sales. Starting from the second quarter of 2020 Recordati launched directly Isturisa® in the United States of America, France, Germany and other countries, with total net sales of € 12.1 million.

In the following tables, net revenue is disaggregated by primary geographical market, by product or product class and by geographic area by country. The tables also include a reconciliation of the disaggregated revenue with the Group's reportable segments.

Product or product class

€ (thousands)	Specialty and Primary Care 2020	Specialty and Primary Care 2019	Rare Diseases 2020	Diseases Rare 2019	Total 2020	Total 2019
Zanidip®	134,612	134,381			134,612	134,381
Zanipress®	48,423	58,938			48,423	58,938
Urorec®	74,103	107,128			74,103	107,128
Livazo®	52,863	53,807			52,863	53,807
Seloken®/Logimax®	105,699	98,321			105,699	98,321
Other corporate products	165,859	192,455			165,859	192,455
Drugs for rare diseases			319,441	249,850	319,441	249,850
OTC	262,178	275,789			262,178	275,789
Local product portfolios	227,333	251,170			227,333	251,170
Other revenue	9,423	13,907			9,423	13,907
Pharmaceutical chemicals	48,933	46,102			48,933	46,102
Total net revenue	**1,129,426**	**1,231,998**	**319,441**	**249,850**	**1,448,867**	**1,481,848**

Geographic area by country

€ (thousands)	Specialty and Primary Care 2020	Specialty and Primary Care 2019	Rare Diseases 2020	Rare Diseases 2019	Total 2020	Total 2019
Pharmaceutical revenue						
Italy	247,822	268,374	18,637	11,694	266,459	280,068
France	112,366	138,961	31,683	18,309	144,049	157,270
Russia, Ukraine, other CIS	97,512	116,670	2,707	3,490	100,219	120,160
Germany	117,861	124,333	17,868	14,269	135,729	138,602
Spain	72,156	85,563	11,668	9,136	83,824	94,699
Turkey	74,645	84,736	4,541	3,874	79,186	88,610
Portugal	41,046	43,123	1,673	1,331	42,719	44,454
Other Eastern European countries	85,019	78,083	6,956	4,025	91,975	82,108
Other Western European countries	62,971	56,201	28,154	21,376	91,125	77,577
North Africa	39,316	39,305	1,936	1,013	41,252	40,318
Other international sales	129,779	150,547	71,146	51,763	200,925	202,310
U.S.A.	-	-	122,472	109,570	122,472	109,570
Total pharmaceutical revenue	**1,080,493**	**1,185,896**	**319,441**	**249,850**	**1,399,934**	**1,435,746**
Pharmaceutical chemicals revenue						
Italy	5,024	3,122	-	-	5,024	3,122
Other European countries	15,239	14,642	-	-	15,239	14,642
U.S.A.	5,700	7,755	-	-	5,700	7,755
America (U.S.A. excluded)	4,584	4,376	-	-	4,584	4,376
Australasia	16,885	15,014	-	-	16,885	15,014
Africa	1,501	1,193	-	-	1,501	1,193
Total chemical pharmaceuticals revenue	**48,933**	**46,102**	**0**	**0**	**48,933**	**46,102**
Total net revenue	**1,129,426**	**1,231,998**	**319,441**	**249,850**	**1,448,867**	**1,481,848**

4. OPERATING EXPENSES

Total operating expenses for 2020 amounted to € 979.9 million, down compared to the € 1,016.6 million of 2019, and are classified by function as follows:

€ (thousands)	2020	2019	Change 2020/2019
Cost of sales	406,831	436,901	(30,070)
Selling expenses	349,072	372,803	(23,731)
Research and development expenses	146,236	129,681	16,555
General and administrative expenses	72,785	72,783	2
Other (income)/expenses, net	4,927	4,414	513
Total operating expenses	**979,851**	**1,016,582**	**(36,731)**

The cost of sales was € 406.8 million, down compared to the previous year owing to the reduction of sales volumes, with a proportion of revenue of 28.1%, lower than the 29.5% of the previous year owing mainly to the higher proportion of sales of products with better margins.

Selling expenses decreased by 6.4% mainly due to the significant reduction in promotional activities as a result of the restrictions introduced in all markets to counter the COVID-19 epidemiological emergency, with a consequent decrease in the percentage of revenue compared to the previous year.

Research and development expenses, at € 146.2 million, were up by 12.8% compared to those recorded the previous year due to the advancement of new development programs and amortization of the rights to the new products Signifor®, Signifor® LAR and, starting from the second quarter, Isturisa®, which were acquired from Novartis in October 2019.

General and administrative expenses were € 72.8 million, in line with those of 2019 also as a proportion of revenue.

The following table summarizes the more significant components of “Other net (income)/expenses”.

€ (thousands)	2020	2019	Change 2020/2019
Non-recurring costs for the COVID-19 epidemic	6,125	-	6,125
Non-recurring costs for the reverse merger	507	-	507
Ancillary costs related to acquisitions	-	1,423	(1,423)
Write-downs of intangible assets	-	453	(453)
Provision for early termination of a license contract	-	4,150	(4,150)
Other	(1,705)	(1,612)	(93)
Other (income)/expenses, net	**4,927**	**4,414**	**513**

Under the terms of the CONSOB Communication of 28 July 2006, on events, transactions and matters which are non-recurring or do not occur frequently in the normal course of business we can note:

- the costs incurred for the COVID-19 epidemic, mainly for donations in favour of hospitals and national health services, but also to make work environments safe and for the purchase of personal protective equipment;
- the costs related to the reverse merger approved by the Board of Directors of the Parent Company on 1 October 2020, which provides for the incorporation of the controlling companies Rossini Investimenti S.p.A. and FIMEI S.p.A. into Recordati S.p.A.

In compliance with the CONSOB Communication dated 28 July 2006, it is noted that, during 2020, no atypical or unusual transactions, as defined by the Communication itself, were put in place.

Total operating expenses are analyzed by nature as follows:

€ (thousands)	2020	2019	Change 2020/2019
Material consumption	304,381	341,990	(37,609)
Payroll costs	250,879	252,632	(1,753)
Other employee costs	28,198	36,442	(8,244)
Variable sales expenses	85,422	80,686	4,736
Depreciation and amortization	93,672	78,248	15,424
Utilities and consumables	35,587	33,498	2,089
Other expenses	181,712	193,086	(11,374)
Total operating expenses	**979,851**	**1,016,582**	**(36,731)**

The proportion of raw material consumption to net revenue was 21.0%, down compared to the 23.1% of 2019.

The item "Payroll costs" includes € 4.9 million in charges for stock option plans, down by € 2.2 million compared to the previous year. The average number of employees in 2020 was 4,278, an increase compared to the 4,141 of 2019. There were 4,362 employees as at 31 December 2020, an increase over the 4,323 at the end of 2019.

During 2019, some Group employees were designated as beneficiaries of an incentive plan, with a duration of 5 years, under which they acquired, at nominal value, shares of Rossini Luxembourg S.à r.l., an indirect shareholder of Recordati S.p.A., and will benefit from a return at the expiry of the term of the plan. Recognition according to the accounting standard IFRS 2 determined an expense in the 2020 income statement of € 1.1 million.

Depreciation and amortization amounted to € 93.7 million, of which € 68.3 million related to intangible assets, up by € 15.2 million compared to the previous year owing mainly to the acquisition by Novartis in October 2019 of the rights on the products Signifor®, Signifor® LAR® and Isturisa®, and € 25.4 million related to property, plant and equipment, up by € 0.3 million compared to that of 2019.

5. NET FINANCIAL INCOME AND EXPENSES

In 2020 and 2019 the net balance of financial components was negative respectively of € 13.4 million and € 21.1 million.

The main items are summarized as follows:

€ (thousands)	2020	2019	Change 2020/2019
Interest expense on loans	16,449	13,555	2,894
Expenses on leases	1,054	1,202	(148)
Expenses for defined benefit plans	157	284	(127)
Net (income)/expense on short-term positions	(21)	5,117	(5,138)
Net exchange rate (gains)/losses	(4,279)	742	(5,021)
Interest expense related to tax audits	-	222	(222)
Total net financial (income)/expenses	**13,360**	**21,122**	**(7,762)**

The net change in interest expense on loans was mainly due to the interest on the syndicated loan of € 400.0 million entered into by the Parent Company in June 2019 and the new loans granted by UBS Switzerland AG (75.0 million Swiss francs to the Swiss subsidiary Recordati AG) and by UBI Banca (€ 40.0 million to the Parent Company), offset by lower interest charges on the US$70 million bond loan issued by the US subsidiary Recordati Rare Diseases Inc. in 2013 and reimbursed in advance in the first part of 2019, as well as by more favourable variable interest rates on the IFC-World Bank loan.

The balance of net expenses on short-term positions improved by € 5.1 million owing mainly to the settlement of two cross-currency swaps correlated with two intercompany loans which were paid off during the year. During the year the Parent Company repaid in advance to the U.S. company Recordati Rare Diseases Inc. two loans entered into in November 2016 for an overall amount of US$70 million (which correspond to the two tranches of the bond loan issued by the subsidiary in 2013) and extinguished the related cross-currency swaps. Following the early reimbursement of the bond loan in 2019, the derivative financial instruments no longer qualified as hedging instruments and their change in fair value was recognized in profit and loss, together with the effect of the conversion of the loans at the current Euro/Dollar exchange rate. The settlement of the cross-currency swaps gave rise to a gain, net of the currency exchange loss associated with the reimbursement of the intercompany loans and bank charges, of € 2.6 million, which compared to a net cost of € 1.0 million in the previous year.

The net exchange gains were mainly determined by transactions in Russian roubles and U.S. dollars, currencies which during the year devalued against the euro.

6. INCOME TAXES

The provision for income taxes amounts to € 100.6 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies.
The increase of € 25.4 million compared to the previous year derived mainly from the positive effects of the “Patent box” recognized in 2019.

Following the advance agreement signed with the Advance Agreement and Disputes Office of the Italian Tax Authorities on 19 December 2019, which allows the Parent Company to benefit from a discount on taxable income connected with the direct use of intangible assets for the tax years 2015 to 2019 (which had resulted in an overall benefit the previous year of € 35.3 million, of which € 27.0 million related to 2015-2018 and € 8.3 million to 2019), the Parent Company opted to subscribe (instead of renewing the agreement) to the new optional reverse charge mechanism provided for by Art. 4 of Italian Legislative Decree No. 34 of 30 April 2019 and therefore directly determine the discount on taxable income provided by the "Patent Box" for the current year, using the same criteria agreed with the Tax Authorities for the preceding five years and providing documentation supporting the calculation.

The relevant benefit for 2020, totalling € 8.1 million, was recognized to reduce the tax amount.

On 16 December 2020 the advance agreement on the "Patent box" for determining the economic contribution in the case of direct use of intangible assets, effective for the tax periods 2015 to 2019, was signed by the Revenues Agency – Lazio Regional Department and the subsidiary Italchimici S.p.A. This allows the Company to exclude from the taxable base a growing portion of income attributable to the use of subsidised intangible assets (know-how and trademarks) of 30% for 2015, 40% for 2016 and 50% for the three years from 2017 to 2019. The tax benefit for the Company for the five years 2015-2019, of € 2.0 million, was accounted for in financial year 2020. Italchimici S.p.A. exercised the option for the renewal of the agreement in relation to the five years 2020-2024, but the tax benefit decreases as a result of exclusion of the trademarks from the intangible assets covered by the subsidies.

The current standard corporate income tax rate in Italy can be reconciled with the tax rate effectively incurred on consolidated pre-tax income, as follows:

	2020 %	2019 %
Standard income tax rate on pre-tax income of the Parent Company	24.0	24.0
Dividends from foreign subsidiaries	0.4	0.4
Foreign tax rate differential	(1.9)	(1.1)
Provisions for risks deriving from ongoing tax audits	-	(0.2)
Other differences, net	(0.1)	0.1
Tax benefit provided by the so-called "Patent box" in Italy	(2.2)	(8.0)
Effective tax rate on income	**20.2**	**15.2**
IRAP	1.9	1.8
Effective tax rate on pre-tax income	**22.1**	**17.0**

IRAP is levied only on the Italian companies and is computed applying an average rate of 5.42% to a broader taxable base calculated before the deduction of interest.

Under the terms of the CONSOB Communication of 28 July 2006 on events, transactions and matters which are non-recurring, for 2020, we can note the tax benefit described above for Italchimici S.p.A. Deriving from the "Patent box".

7. PROPERTY, PLANT AND EQUIPMENT

The composition and variation of property, plant and equipment, including the valuation of the right to use the assets conveyed under leases, are shown in the following table:

€ (thousands)	Land and buildings	Plant and machinery	Other equipment	Investments in progress	Total
Cost					
Balance at 1 January 2019	91,418	228,290	78,416	14,751	412,875
Additions	3,788	2,250	14,340	12,935	33,313
Disposals	(2,193)	(634)	(2,849)	(1,835)	(7,511)
Other changes	(251)	3,270	2,275	(6,255)	(961)
Balance at 31 December 2019	**92,762**	**233,176**	**92,182**	**19,596**	**437,716**
Additions	4,182	3,909	11,416	13,723	33,230
Disposals	(2,656)	(442)	(5,182)	0	(8,280)
Other changes	(3,358)	4,934	296	(11,502)	(9,630)
Balance at 31 December 2020	**90,930**	**241,577**	**98,712**	**21,817**	**453,036**
Accumulated depreciation					
Balance at 1 January 2019	43,767	186,365	54,144	0	284,276
Depreciation for the year	6,237	8,113	10,820	0	25,170
Disposals	(2,236)	(625)	(2,604)	0	(5,465)
Other changes	248	53	92	0	393
Balance at 31 December 2019	**48,016**	**193,906**	**62,452**	**0**	**304,374**
Depreciation for the year	5,995	8,444	10,916	0	25,355
Disposals	(1,657)	(446)	(4,238)	0	(6,341)
Other changes	(684)	(1,636)	(1,282)	0	(3,602)
Balance at 31 December 2020	**51,670**	**200,268**	**67,848**	**0**	**319,786**
Net amount					
1 January 2019	47,651	41,925	24,272	14,751	128,599
31 December 2019	**44,746**	**39,270**	**29,730**	**19,596**	**133,342**
31 December 2020	**39,260**	**41,309**	**30,864**	**21,817**	**133,250**

The increases in property, plant and equipment for € 33.2 million, of which € 12.1 million related to the right-of-use on leased assets, referring mainly to the Parent Company (€ 15.0 million), the Turkish subsidiary Recordati Ilaç (€ 3.4 million) and the Portuguese subsidiary Jaba Recordati S.A (€ 2.3 million).

Disposals are mainly due to the expiry of the rights of use of property, plant and equipment conveyed under leases.

The line "Other changes" includes the conversion into euro of the property, plant and equipment booked in different currencies, for a net decrease of € 6.1 million compared to 31 December 2019, of which € 5.3 million due to the devaluation of the Turkish lira.

The following table shows the measurement of the right to use the assets conveyed under leases, determined as prescribed by the accounting standard IFRS 16.

€ (thousands)	Land and Buildings	Plant and machinery	Other equipment	Total
Cost				
Balance at 1 January 2019	17,346	420	10,926	28,692
Additions	3,602	93	7,505	11,200
Disposals	(752)	(15)	(1,197)	(1,964)
Other changes	43	(2)	29	70
Balance at 31 December 2019	**20,239**	**496**	**17,263**	**37,998**
Additions	3,074	858	8,121	12,053
Disposals	(2,045)	(289)	(4,075)	(6,409)
Other changes	(649)	17	(1,448)	(2,080)
Balance at 31 December 2020	**20,619**	**1,082**	**19,861**	**41,562**
Accumulated depreciation				
Balance at 1 January 2019	911	0	224	1,135
Depreciation for the year	3,896	255	6,702	10,853
Disposals	(631)	(7)	(1,141)	(1,779)
Other changes	20	(1)	19	38
Balance at 31 December 2019	**4,196**	**247**	**5,804**	**10,247**
Depreciation for the year	3,769	228	6,185	10,182
Disposals	(1,068)	(288)	(3,138)	(4,494)
Other changes	(213)	1	(596)	(808)
Balance at 31 December 2020	**6,684**	**188**	**8,255**	**15,127**
Net amount				
1 January 2019	16,435	420	10,702	27,557
31 December 2019	**16,043**	**249**	**11,459**	**27,751**
31 December 2020	**13,935**	**894**	**11,606**	**26,435**

Rights of use of leased assets refer mainly to the office premises of several Group companies and to the cars used by medical representatives operating in their territories.

8. INTANGIBLE ASSETS

The composition and variation of intangible assets are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 1 January 2019	582,461	413,510	18,948	30,211	1,045,130
Additions	213,066	64,218	347	257,633	535,264
Disposals	0	(300)	(377)	(1)	(678)
Write-downs	(453)	0	0	0	(453)
Other changes	6,328	25,102	2,846	(24,284)	9,992
Balance at 31 December 2019	**801,402**	**502,530**	**21,764**	**263,559**	**1,589,255**
Additions	168	1,714	293	29,362	31,537
Disposals	0	(201)	(1,163)	(48)	(1,412)
Other changes	227,765	106	(243)	(244,437)	(16,809)
Balance at 31 December 2020	**1,029,335**	**504,149**	**20,651**	**48,436**	**1,602,571**
Accumulated amortization					
Balance at 1 January 2019	187,418	168,918	16,688	0	373,024
Amortization for the year	28,500	24,083	495	0	53,078
Disposals	0	(268)	(377)	0	(645)
Other changes	1,805	(2,365)	2,598	0	2,038
Balance at 31 December 2019	**217,723**	**190,368**	**19,404**	**0**	**427,495**
Amortization for the year	42,577	25,261	479	0	68,317
Disposals	0	(201)	(1,154)	0	(1,355)
Other changes	(6,615)	(856)	(226)	0	(7,697)
Balance at 31 December 2020	**253,685**	**214,572**	**18,503**	**0**	**486,760**
Net amount					
1 January 2019	395,043	244,592	2,260	30,211	672,106
31 December 2019	**583,679**	**312,162**	**2,360**	**263,559**	**1,161,760**
31 December 2020	**775,650**	**289,577**	**2,148**	**48,436**	**1,115,811**

The increases during the period are mainly attributable to the recent license agreement with ARS Pharmaceuticals covering the rights to ARS-1 a nasal spray containing epinephrine in advanced development for the emergency treatment of severe allergic reactions, and to the effects of the agreements with Novartis for the rights on Signifor®, Signifor® LAR® and Isturisa® and with Gedeon Richter for the rights on Reagila®.

The "Other changes" includes the conversion into euro of the value of the intangible assets held and booked in different currencies, which determined a net decrease of € 9.1 million compared to 31 December 2019 mainly attributable to the devaluation of the U.S. dollar for € 6.2 million, of the Russian ruble for € 4.3 million and of the Turkish lira for € 1.0 million and to the revaluation of the Swiss franc for € 2.7 million.

9. GOODWILL

Goodwill at 31 December 2020 and 2019 amounted to € 562.1 million and € 578.0 million respectively and changed as follows:

€ (thousands)	Goodwill

Cost	
Balance at 31 December 2019	615,637
Exchange rate adjustments	(15,857)
Balance at 31 December 2020	**599,780**
Accumulated amortization	
Balance at 31 December 2019	37,664
Changes during the year	0
Balance at 31 December 2020	**37,664**
Net amount	
31 December 2019	577,973
31 December 2020	**562,116**

The exchange rate adjustments are related to the goodwill associated with the acquisitions made in countries having currencies different from the euro: goodwill calculated in local currency is translated into euro for the preparation of the consolidated financial statements using the year-end exchange rates. This determined, compared to 31 December 2019, a total net decrease of € 15.9 million attributable to the acquisitions made in Turkey (decrease of € 9.9 million), Russia (decrease of € 3.7 million), Poland (decrease of € 1.0 million), Tunisia (decrease of € 0.8 million) and the Czech Republic (decrease of € 0.5 million).

Net goodwill at 31 December 2020, amounting to € 562.1 million, is divided among the following operational areas, which represent the same number of cash-generating units:

- France for € 74.2 million;
- Russia for € 24.0 million;
- Germany for € 48.8 million;
- Portugal for € 32.8 million;
- Treatments for rare diseases business: 110.6 million;
- Turkey for € 27.3 million;
- Czech Republic for € 13.5 million;
- Romania for € 0.2 million;
- Poland for € 14.4 million;
- Spain for € 58.1 million;
- Tunisia for € 16.5 million:
- Italy for € 133.2 million;
- Switzerland for € 8.5 million.

As reported in Note 2 above - “Summary of significant accounting policies” and as required by IFRS 3, goodwill is not amortized systematically but is subject to impairment tests at least once a year to determine its recoverable value. Goodwill is allocated to the individual cash-generating units identified on the basis of the business segments and the markets on which the companies acquired operate. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and when there is any indication that it may be impaired, by comparing the carrying amount of the unit, including goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognize an impairment loss.

The recoverable amount was determined by calculating the value in use of the individual cash-generating units based on discounted cash flow (DCF analysis) originating from operating cash flow forecasts for the period used explicitly for the calculation (2021-2023) and from the cash flow beyond that period, according

to the net operating income model expected in perpetuity.

The main assumptions used for calculating the value in use concern the expected operating cash flows during the period assumed for the calculation, the discount rate and the growth rate.

Operating cash flow forecasts for the period explicitly used for the calculation (2021-2023) come from the 2021 budget approved by the Board of Directors of the Parent Company on 17 December 2020 and, for 2022 and 2023, from specific forecasts prepared for the cash-generating units subject to impairment testing approved by the Board of Directors on 18 March 2021. The effects of the COVID-19 pandemic were duly considered in the cash flow forecasts.

The discount rate used is the after-tax average weighted cost of capital which reflects current market valuations of the cost of money and the specific risk associated with the cash-generating units. The growth rates used for the period subsequent to the explicit forecast period were prudently estimated and take into account the specific features of each country involved.

The following table shows the discount rates used for the impairment test for each of the main cash-generating units:

Cash-generating unit	Discount rate
France	3.63%
Russia	11.24%
Germany	3.34%
Portugal	4.17%
Business dedicated to treatments for rare diseases	4.90%
Turkey	17.47%
Czech Republic	5.24%
Poland	5.21%
Spain	4.18%
Tunisia	13.50%
Italy	4.98%
Switzerland	3.91%

The value in use, calculated according to the procedures described for each cash-generating unit, was examined and approved by the Board of Directors. In all cases, it was higher, even significantly so, than the book value of the net capital invested recognized in the financial statements at 31 December 2020, even when the growth rates and the discount rates used in impairment testing were changed, and therefore no impairment of goodwill was recognized.

10. OTHER EQUITY INVESTMENTS AND SECURITIES

At 31 December 2020 the details of other equity investments and securities were as follows:

€ (thousands)	Book value		Percentage stake	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
PureTech Health p.l.c. - United Kingdom	42,509	35,597	3.3%	3.3%
Erytech Pharma S.A. - France	3,064	2,888	2.1%	2.4%
Codexis Inc. - United States of America	-	73	-	n.s.
Fluidigm Corp. - United States of America	5	5	n.s.	n.s.
Other	3	3	n.s.	n.s.
Total equity investments and securities	**45,581**	**38,566**		

The main investment is that made in the U.K. company PureTech Health plc, specialized in investments in start-up companies dedicated to innovative therapies, medical devices and new research technologies. Starting from 19 June 2015, the shares of the Company were admitted to trading on the London Stock Exchange. At 31 December 2020, the total fair value of the 9,554,140 shares held was € 42.5 million. The value of the investment was consequently adjusted to the stock exchange value and increased, compared to that at 31 December 2019, by € 6.9 million, with a counter-item accounted for, net of the related tax effect, in the statement of gains and losses recognized in equity.

This item also includes € 3.1 million regarding an investment made during 2012 in Erytech Pharma S.A., a listed French biopharmaceutical company, focused on developing new therapies for rare oncological pathologies and orphan diseases. The investment, originally structured as a non-interest-bearing loan, was converted into 431,034 shares of the Company in May 2013. The value of the investment was adjusted to the stock exchange value and increased, compared to that at 31 December 2019, by € 0.2 million, with a counter-item accounted for, net of the related tax effect, in the statement of gains and losses recognized in equity.

During the year the shares of the US company Codexis Inc. were sold, for an amount of € 66 thousand.

11. OTHER NON-CURRENT ASSETS

Other non-current assets at 31 December 2020 were € 6.9 million, a reduction of € 9.6 million compared to 31 December 2019 mainly due to the reclassification to current assets of the credit for tax benefit obtained under the so-called "patent box" agreed with the Italian tax authorities in December 2019 and usable from 2021.

12. DEFERRED TAX ASSETS

At 31 December 2020 deferred tax assets amounted to € 75.1 million (€ 71.5 million at 31 December 2019).

The main deferred tax assets and their changes are presented in the two tables below:

€ (thousands)	2020	2019
Balance at 1 January	71,513	81,227
Additions	18,212	6,763
Utilizations	(14,641)	(16,477)
Balance at 31 December	**75,084**	**71,513**

€ (thousands)	Earlier losses	Revenues/costs with deferred tax effect	Tax Realignment	Tax credits	Other	Total
Balance at 1 January	1,158	6,898	22,928	5,026	35,503	71,513
Additions	0	2,063	0	380	15,769	18,212
Utilizations	(1,125)	(3,454)	(6,164)	(2,367)	(1,531)	(14,641)
Balance at 31 December	**33**	**5,507**	**16,764**	**3,039**	**49,741**	**75,084**

During 2017, the Parent Company and the subsidiary Italchimici S.p.A. took advantage of the option, allowed by tax law, to realign the differences between the higher book value of Goodwill and intangible assets determined by extraordinary transactions and the corresponding recognized fiscal values. Tax law provides for the payment of an IRES and IRAP substitute tax of 16% and the subsequent deductibility of the realigned values in the amount of one fifth per year starting, as the case may be, from the first or the second fiscal year subsequent to that in which the substitute tax was paid.

In the case of the Parent Company, the amounts realigned relate to Goodwill, determined according to fiscal rules, arising from the acquisition of Italchimici S.p.A. and Pro Farma AG, both in 2016. The benefit deriving from the future tax deductibility of the realigned amounts determined the recognition of deferred tax assets of € 22.2 million. The amount realigned by Italchimici S.p.A. relates to the goodwill, determined according to fiscal rules, arising from a merger independently realized before their entry into the Recordati group. The benefit deriving from the future fiscal deductibility resulted in the recognition of deferred tax assets for an amount of € 8.6 million.

In 2020, the deferred tax assets corresponding to Italchimici's and the Parent Company's recognized tax benefits were utilized for an amount of € 6.2 million.

The tax credits relate to the tax incentives associated with the construction of the production plant in Turkey.

"Other" deferred tax assets refers mainly to temporary differences arising from the elimination of unrealized gains on intercompany sales and also includes the effect of the application of the accounting standard IFRS 15 for an amount of € 1.7 million. This item also includes deferred tax assets related to components of other comprehensive income amounting to € 1.0 million (€ 2.0 million at 31 December 2019).

13. INVENTORIES

Inventories at 31 December 2020 amounted to € 251.3 million (€ 226.9 million at 31 December 2019), net of provisions for the impairment of pharmaceutical products nearing expiry and slow moving of € 7.1 million (€ 4.7 million at 31 December 2019). Composition of inventories is as follows:

€ (thousands)	31/12/2020	31/12/2019	Change 2020/2019
Raw materials and supplies	74,790	66,286	8,504
Semi-finished goods and work in process	32,663	35,067	(2,404)
Finished goods	143,799	125,532	18,267
Total	**251,252**	**226,885**	**24,367**

The increase of € 24.4 million was also due to the procurement of Signifor®, Signifor® LAR® and Isturisa® for the launch of their direct distribution.

14. TRADE RECEIVABLES

Trade receivables at 31 December 2020 and 2019 amounted to € 268.9 million and € 297.0 million respectively. The amounts are expressed net of provisions for impairment, which at 31 December 2020 amounted to € 15.1 million (€ 14.9 million at 31 December 2019). This item is considered consistent with positions which, for the particular nature of the customers or the destination markets, may be difficult to collect. The average number of days of exposure was 63, in line with at 31 December 2019. Provisions for doubtful accounts increased by € 0.2 million (increase of € 0.3 million in 2019), and this difference is classified in selling expenses.

The Group uses a matrix to measure the expected credit losses on trade receivables from individual customers, which comprise a very large number of small balances. Losses are estimated using a method based on the probability of a receivable progressing through successive stages of insolvencies calculated separately for exposures in different segments based on common credit risk characteristics, such as geographical region and duration of the customer relationship. In preparing the 2020 consolidated financial statements, the analysis was done with due consideration of the effects of the COVID-19 pandemic, without revealing significant impacts for the Group. The following table provides information about the exposure to credit risk for trade receivables at 31 December 2020.

€ (thousands)	Gross carrying amount
Current (not past due)	234,598
1-30 days past due	11,519
31-60 days past due	7,088
61-90 days past due	1,837
More than 90 days past due	28,982
Total gross trade receivables	**284,024**

Additional information about how the Group assesses the exposure to credit risk and provisions for doubtful accounts is provided in Note 33.

15. OTHER RECEIVABLES

Other receivables amounted to € 47.3 million, down by € 32.7 million compared to 31 December 2019. The relevant details are presented in the table below:

€ (thousands)	31/12/2020	31/12/2019	Change 2020/2019
Tax receivables	39,724	71,302	(31,578)
Advances to employees and agents	2,329	2,582	(253)
Other	5,238	6,065	(827)
Total other receivables	**47,291**	**79,949**	**(32,658)**

The decrease in tax receivables is mainly due to the Parent Company using them to provide against the provisions for taxes for the year. This item includes "Patent Box" receivables, among which that of € 9.7 million, reclassified from non-current assets, usable from 2021.
Tax receivables also includes value added tax (VAT) receivable (€ 10.0 million) and advance payments of income tax paid in excess. Receivables from employees and agents comprise advances on expense accounts and other receivables. "Other" includes advances paid to suppliers and other parties and to computed credits under licensing-in agreements.

16. OTHER CURRENT ASSETS

Other current assets amounted to € 10.2 million (€ 7.7 million at 31 December 2019) and relate mainly to prepaid expenses.

17. DERIVATIVE INSTRUMENTS MEASURED AT FAIR VALUE (included in current assets)

At 31 December 2020 the value of derivative instruments included under this item amounted to € 7.0 million.

The measurement at market (fair) value of the cross currency swaps, entered into by the Parent Company to hedge the US$75 million loan issued on 31 September 2014 resulted in a total asset of € 7.0 million. This amount represents the potential benefit of a lower value in euro of the future dollar denominated principal and interest flows, in view of the revaluation of the foreign currency with respect to the moment in which the loan and hedging instruments were negotiated. In particular, the change in fair value of the derivative hedging the US$50 million tranche of the loan, provided by Mediobanca, was positive for an amount of € 4.7 million, and that hedging the US$25 million tranche of the loan, provided by UniCredit, yielded a € 2.3 million positive change.

The fair value of these hedging derivatives is measured at level 2 of the hierarchy provided for in the accounting standard IFRS 13 (see note 2). The fair value is equal to the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve which reflects the relevant benchmark interbank rate used by market participants for pricing interest rate swaps.

18. CASH AND CASH EQUIVALENTS

A breakdown is shown in the following table:

€ (thousands)	31/12/2020	31/12/2019	Change 2020/2019
Demand current account deposits	175,196	141,346	33,850
Short-term time deposits	13,003	46,539	(33,536)
Cash on hand	31	38	(7)
Total cash and cash equivalents	**188,230**	**187,923**	**307**

Short-term time deposits consist of tied deposits with maturities of three months or less.

At 31 December 2020, cash and cash equivalents were mainly denominated in euro (96.9 million), in pounds sterling (12.3 million, mainly in the U.K. subsidiaries) and in U.S. dollars (72.3 million, mainly in the U.S. subsidiary Recordati Rare Diseases Inc.).

19. SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Share capital - the share capital at 31 December 2020, of € 26,140,644.50, was fully paid up and consisted of 209,125,156 ordinary shares with a par value of € 0.125 each. During 2020, there were no changes.

Share premium reserve – At 31 December 2020, this amounted to € 83.7 million, unchanged compared to the previous year.

Treasury shares - As at 31 December 2020, 2,829,302 treasury shares are held in the portfolio, a reduction of 479,269 shares compared to 31 December 2019. The change was due to the disposal of 1,762,500 shares for an amount of € 35.7 million to enable the exercise of the options attributed to employees as part of the stock option plans and to the purchase of 1,283,231 shares for an amount of € 47.9 million. The total cost to purchase the treasury shares in the portfolio was € 87.5 million, with an average unit price of € 30.93.

Reserve for derivative instruments measured at fair value - In accordance with the provisions of the international accounting standard IFRS 9, this shareholders' equity reserve contains the contra entry for the value of the assets and liabilities resulting from the measurement at market value of the cross-currency swaps qualifying as cash flow hedges, the contra entry for the recognition in the income statement offsetting the valuation at year-end exchange rates of the foreign currency loans hedged, and the assets and liabilities resulting from the measurement at market value of the interest rate swaps also qualifying as cash flow hedges. At 31 December 2020 this value, net of the tax effect, was negative € 2.7 million.

Other reserves - At 31 December 2020, these amounted to € 70.7 million, up by € 6.1 million compared to 31 December 2019. Other reserves include the statutory reserve of the Parent Company (€ 5.2 million), reserves for grants received (€ 15.5 million) and reserves for amounts booked directly to equity in application of the international accounting standards. The application of IFRS 2 had a positive effect of € 17.0 million, while the application of IAS 19 had a negative effect of € 0.2 million. The recognition of the gains associated with the investment in Puretech Health determined a positive after-tax effect of € 34.6 million, while the recognition of the reduced value of the investment in Erytech Pharma determined an after-tax negative effect of € 1.4 million.

Profits carried forward and net profit – At 31 December 2020, retained profits amounted to € 1,151.1 million, up by € 151.3 million compared to 31 December 2019 and the Group's net profit was € 355.0 million, down by 3.8% compared to € 368.8 million in 2019. Some of the shareholders' equity reserves recognised in the Group's Italian companies are in tax suspension and, according to the fiscal rules, their distribution is subject to taxation. These reserves, net of the substitute taxes already paid of € 16.6 million, amounted to € 101.1

million. In accordance with the international accounting standard IAS 12, deferred taxes are not recognized on these suspended reserves until their distribution is resolved.

Interim dividend – During the year, the Board of Directors of the Parent Company resolved to distribute an interim dividend for 2020 of € 0.50 per share, for a total amount of € 103.1 million.

Incentive plans - At 31 December 2020, two stock option plans were active in favour of a number of the Group's employees: the 2014-2018 plan, with the grant of 29 July 2014 and 13 April 2016 and the 2018-2022 plan, with the grant of 3 August 2018. The strike price for the options is the average of the Parent Company's listed share price during the 30 days prior to the grant date. The options are vested over a period of five years, and those 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.
Stock options outstanding at 31 December 2020 are detailed in the following table:

	Strike price (€)	Quantity 1/1/2020	Granted 2020	Exercised in 2020	Cancelled and expired	Quantity 31/12/2020
Grant date						
08 May 2012	5.3070	242,500	-	(237,500)	(5,000)	-
17 April 2013	7.1600	25,000	-	(25,000)	-	-
30 October 2013	8.9300	5,000	-	(5,000)	-	-
29 July 2014	12.2900	1,138,500	-	(360,000)	-	778,500
13 April 2016	21.9300	2,218,000	-	(578,000)	(52,500)	1,587,500
03 August 2018	30.7300	4,578,500	-	(557,000)	(180,500)	3,841,000
Total		**8,207,500**	**-**	**(1,762,500)**	**(238,000)**	**6,207,000**

During 2019, some Group employees were designated as beneficiaries of an incentive plan, with a duration of 5 years, under which they acquired, at nominal value, shares of Rossini Luxembourg S.à r.l., an indirect shareholder of Recordati S.p.A., and will benefit from a return at the expiry of the term of the plan.

20. SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

All consolidated companies are 100% owned except for Recordati Rare Diseases Italy which is 99% owned and the Tunisian company Opalia Pharma which is 90% owned. The latter has, however, been 100% consolidated by applying the anticipated acquisition method allowed by IAS 32. Consequently, the amount estimated for the acquisition of the remaining 10%, of € 3.3 million, was recognized as a liability since the transfer of this remaining quota is covered by contractual agreements which provide for reciprocal put and call options between the parties which have a high probability of being exercised. Subsequent changes of the estimate will be recognized in a shareholders' equity reserve. This accounting method is not detrimental to the rights of the non-controlling shareholders during the period until all capital shares are transferred.

21. LOANS

At 31 December 2020, loans amounted to € 1,048.5 million, down by a net € 38.7 million compared to 31 December 2019.

This item includes the liabilities deriving from the application of the accounting standard IFRS 16, representing the obligation to make the payments provided for in the existing leases for a total amount of € 26.7 million, a net decrease of € 1.0 million compared to 31 December 2019.

In 2020, the increases were € 122.1 million—€ 110.0 million for the opening of new bank loans and € 12.1 million related to new leases—while a total of € 151.2 million was repaid, of which € 9.7 million related to lease liabilities. The loan from ING Bank for € 30.0 million, originally taken out by the Parent Company on 8 January 2014 and re-negotiated on 12 June 2015 with only the interest rate being changed, has been entirely reimbursed following payment of the last installment in January. The related interest rate swap was extinguished. The loan entered into by the Parent with UniCredit in May 2015 for € 50.0 million was extinguished following payment of the last installment in May.
The effect of the translation of loans in foreign currencies and of expenses incurred to place the loans, together with the early termination of a number of leases, determined a total net decrease of € 9.6 million compared to 31 December 2019.

A breakdown of medium- and long-term loans at 31 December 2020 and 2019 is shown in the following table:

€ (thousands)	31/12/2020	31/12/2019
Granted to Recordati S.p.A.:		
Loan from UBI Banca, at fixed interest rate, repayable in a lump sum in 2021	*39,974	-
Loan from ING Bank, at variable interest rate, repayable in semi-annual installments starting 2021 through 2024	*22,416	*22,395
Loan from Mediobanca, Natixis and Unicredit, syndicated involving a pool of Italian and international banks, at variable interest rate, repayable in semi-annual installments starting 2020 through 2024	*343,651	*396,722
Loan from Mediobanca, at variable interest rate hedged by an interest rate swap, repayable in semi-annual installments starting 2020 through 2023	*128,178	*149,471
Loan from Medio Credito Centrale, at subsidised interest rate, repayable in semi-annual installments starting 2019 through 2021	*1,714	*2,995
Loan from Banca Passadore, at variable interest rate - 3-month Euribor plus a fixed spread - repayable in annual installments starting 2020 through 2022	*9,997	*14,996
Loan from Intesa Sanpaolo, at variable interest rate hedged by an interest rate swap, repayable in semi-annual installments starting 2019 through 2025	*53,435	*64,122
Loan from Unicredit, at variable interest rate hedged by an interest rate swap, repayable in a lump sum in 2021	*49,986	*49,967
Loan from UBI Banca, at variable interest rate hedged by an interest rate swap, repayable in a lump sum in 2022	*49,983	*49,972
Loan from Mediobanca, at variable interest rate hedged by an interest rate swap, repayable in annual installments starting 2018 through 2024	43,500	54,000
Guaranteed senior notes privately placed with international institutional investors in 2017 at a fixed interest rate, repayable in annual installments starting 2025 through 2032	*124,905	*124,896
Loan from Banca Nazionale del Lavoro, at variable interest rate, repayable in semi-annual installments starting 2019 through 2021	6,250	*12,490
Loan from Intesa Sanpaolo, at variable interest rate hedged by an interest rate swap, repayable in semi-annual installments starting 2019 through 2021	*8,318	*16,637
Guaranteed senior notes privately placed in 2014 with international institutional investors, structured in two tranches: US$50 million at fixed interest rate repayable in semi-annual installments starting 2022 through 2026, converted with cross currency swap into a debt of € 37.3 million at fixed interest rate, US$25 million at fixed interest rate repayable in semi-annual installments starting 2023 through 2029, converted with cross currency swap into a debt of € 18.7 million at fixed interest rate	*60,938	*66,553
Loan from Centrobanca, at variable interest rate hedged by an interest rate swap, repayable in semi-annual installments starting 2012 through 2022	*13,593	*20,389
Loan from Unicredit, at variable interest rate partially hedged by an interest rate swap, repaid in 2020	-	*4,997
Loan from ING Bank, at variable interest rate hedged by an interest rate swap, repaid in 2020	-	3,750
Liabilities for leases granted to Recordati S.p.A.	3,091	3,511
Granted to other Group companies:		
Loan from UBS Switzerland AB to Recordati AG for CHF 75.0 million, at variable interest rate, repayable in semi-annual installments starting 2020 through 2025	62,489	-
Loan from IFC-World Bank to Recordati Ilaç for TRY 71.6 million, at variable interest rate, repayable in quarterly installments starting 2016 through 2022	*2,195	*4,763
Various interest-free loans granted to Casen Recordati S.L. repayable within 2029	281	339
Liabilities for leases granted to the other Group companies	23,598	24,196
Total amortized cost of loans	**1,048,492**	**1,087,161**

€ (thousands)	31/12/2020	31/12/2019
Loans due within one year, classified among current liabilities	270,254	149,817
Loans due after one year, classified among non-current liabilities	778,238	937,344

* Net of expenses incurred for placing the loans, amortized on the basis of the effective interest rate. At 31 December 2020, the remaining expenses amounted to a total of € 3.7 million, mainly related to the syndicated loan granted to Recordati S.p.A. by a pool of banks (€ 2.5 million), to the guaranteed senior notes issued by Recordati S.p.A. in 2014 and in 2017 (€ 0.3 million) and to the loans from Mediobanca (€ 0.4 million), Intesa Sanpaolo (€ 0.2 million), IFC-World Bank (€ 0.1 million), ING Bank (€ 0.1 million) and Centrobanca (€ 0.1 million).

The repayment schedule for loans due after 31 December 2021, based on their amortization plans, is as follows:

€ (thousands)	
2022	229,867
2023	186,505
2024	184,746
2025	27,927
2026 and subsequent years	149,193
Total	**778,238**

The weighted average interest rate at 31 December 2020, calculated applying the rates resulting from the hedging instruments, is 1.51%.

The main loans outstanding are:

a) Loan for 75.0 million Swiss francs taken out on 17 April 2020 by the subsidiary Recordati AG with UBS Switzerland AG, at a variable interest rate of the 3-months Libor on the Swiss currency (with a zero floor) plus a fixed spread, with quarterly interest payments and semi-annual repayment of principal starting September 2020 through March 2025. The value in euro of the outstanding loan at 31 December 2020 was € 62.5 million.
The loan, guaranteed by the Parent Company, includes covenants which, if not observed, could lead to a request for immediate repayment.
The financial covenants, measured semi-annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

b) Loan for € 40.0 million taken out on 17 April 2020 by the Parent Company with UBI Banca, at a fixed interest rate, with quarterly interest payments and repayment of principal in a lump sum in October 2021. The loan agreement does not include financial covenants.

c) Loan for € 22.5 million taken out by the Parent Company in August 2019 with ING Bank at a variable interest rate of the 6-month Euribor plus a variable spread based on a step up/step down mechanism on changes in the Leverage Ratio, with repayments of principal, again on a semi-annual basis, starting December 2021 through December 2024.
The loan includes covenants which, if not observed, could lead to a request for immediate repayment.

The financial covenants, measured semi-annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

d) Loan for € 400.0 million negotiated by the Parent Company in June 2019 aimed at supporting the Group's growth strategy. The loan, initially agreed with Mediobanca, Natixis and Unicredit was subsequently syndicated involving a pool of Italian and international banks. The terms of the loan provide for a variable interest rate at the 6-month Euribor (with a zero floor) plus a variable spread based on a step up/step down mechanism on changes in the Leverage Ratio, and a duration of 5 years with semi-annual repayment of the principal starting 30 June 2020 through June 2024. The disbursement, net of up-front commissions, took place on 30 July 2019. The debt outstanding recognized at 31 December 2020 amounted to a total of € 343.7 million.
The loan includes covenants which, if not observed, could lead to a request for immediate repayment.
The financial covenants, measured semi-annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

e) Loan for € 150.0 million taken out by the Parent Company in November 2018 with Mediobanca, at a variable interest rate of the 6-month Euribor plus a variable spread based on a step up mechanism on changes in the Leverage Ratio, with quarterly interest payments and a duration of 5 years with semi-annual repayments of principal starting November 2020 through November 2023. The debt outstanding at 31 December 2020 amounted to € 128.2 million. The loan was hedged with an interest rate swap, qualifying as a cash flow hedge, effectively converting the entire debt to a fixed interest rate. At 31 December 2020, the fair value of the derivative was measured at negative € 1.9 million, which was recognized directly as a decrease in equity and as an increase in the liability item “Derivative instruments measured at fair value” (see Note 30).
The loan includes covenants which, if not observed, could lead to a request for immediate repayment.
The financial covenants, measured annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

f) Loan for € 4.3 million granted to the Parent Company in July 2018 by Banca del Mezzogiorno-Mediocredito Centrale to fund investments in research, of which € 3.9 million at a reduced fixed interest rate, to be repaid in six semi-annual installments starting 30 June 2019 through 31 December 2021, and € 0.4 million at a variable interest rate equal to the 6-month Euribor, to be repaid in two installments on 30 June and 31 December 2021. The total debt outstanding at 31 December 2020 amounted to € 1.7 million. The loan agreement does not include financial covenants.

g) Loan for € 15.0 million taken out by the Parent Company in November 2017 with Banca Passadore. The main conditions provide for a variable interest rate of the 3-month Euribor plus a fixed spread, quarterly payments of interest and a duration of 5 years with annual repayments of principal from November 2020

through November 2022. The total debt outstanding at 31 December 2020 amounted to € 10.0 million. The loan includes covenants which, if not observed, could lead to a request for immediate repayment. The financial covenants, measured annually, are the following:

- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

h) Loan for € 75.0 million taken out by the Parent Company in October 2017 with Intesa Sanpaolo. The main conditions provide for a variable interest rate of the 6-month Euribor plus a fixed spread, semi-annual interest payments and a duration of 8 years with semi-annual repayments of principal from June 2019 through October 2025. The debt outstanding at 31 December 2020 amounted to € 53.4 million. The loan was hedged with an interest rate swap, qualifying as a cash flow hedge, effectively converting the entire debt to a fixed interest rate. At 31 December 2020, the fair value of the derivative was measured at negative € 1.2 million, which was recognized directly as a decrease in equity and as an increase in the liability item "Derivative instruments measured at fair value" (see Note 30).
The loan includes covenants which, if not observed, could lead to a request for immediate repayment. The financial covenants, measured annually, are the following:

- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

i) Loan for € 50.0 million taken out by the Parent Company in September 2017 with UniCredit. The main conditions provide for a variable interest rate of the 6-month Euribor plus a fixed spread, semi-annual interest payments and repayment of the principal in a lump sum on 29 September 2021. The loan was hedged with an interest rate swap, qualifying as a cash flow hedge, effectively converting the entire debt to a fixed interest rate. At 31 December 2020, the fair value of the derivative was measured at negative € 0.3 million, which was recognized directly as a decrease in equity and as an increase in the liability item "Derivative instruments measured at fair value" (see Note 30).
The loan includes covenants which, if not observed, could lead to a request for immediate repayment. The financial covenants, measured annually, are the following:

- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

j) Loan for € 50.0 million taken out by the Parent Company in September 2017 with UBI Banca. The main conditions provide for a variable interest rate of the 6-month Euribor plus a fixed spread, semi-annual interest payments and repayment of the principal in a lump sum on 07 September 2022. The loan was hedged with an interest rate swap, qualifying as a cash flow hedge, effectively converting the entire debt to a fixed interest rate. At 31 December 2020, the fair value of the derivative was measured at negative € 0.7 million, which was recognized directly as a decrease in equity and as an increase in the liability item "Derivative instruments measured at fair value" (see Note 30).
The loan includes covenants which, if not observed, could lead to a request for immediate repayment. The financial covenants, measured annually, are the following:

- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of

twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

k) Loan for € 75.0 million taken out by the Parent Company in July 2017 with Mediobanca. The main conditions of the loan provide for a variable interest rate of the 6-month Euribor plus a fixed spread and a duration of 7 years with annual repayments of principal from July 2018 through July 2024. The debt outstanding at 31 December 2020 amounted to € 43.5 million. The loan was hedged with an interest rate swap, qualifying as a cash flow hedge, effectively converting the entire debt to a fixed interest rate. At 31 December 2020, the fair value of the derivative was measured at negative € 0.9 million, which was recognized directly as a decrease in equity and as an increase in the liability item "Derivative instruments measured at fair value" (see Note 30).
The loan includes covenants which, if not observed, could lead to a request for immediate repayment.
The financial covenants, measured annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

l) Privately placed guaranteed senior notes by the Parent in May 2017 for an overall amount of € 125.0 million at a fixed interest rate with repayment in annual instalments starting on 31 May 2025 through 31 May 2032.
The note purchase agreement covering the senior guaranteed notes issued by Recordati S.p.A. includes covenants which, if not met, could lead to a request for immediate repayment of the loan.
The financial covenants, measured quarterly, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

m) Loan for € 25.0 million taken out by the Parent Company in December 2016 with Banca Nazionale del Lavoro. The main conditions of the loan provide for a variable interest rate of the 6-month Euribor plus a fixed spread and a duration of 4 years with semi-annual repayments of principal from March 2019 through March 2021 (the Parent Company benefited from the postponement of the reimbursement date originally fixed for September 2020 thanks to the bank's initiative aimed at alleviating financial pressure on enterprises generated by the COVID-19 epidemic). The debt outstanding at 31 December 2020 amounted to € 6.3 million. Following the postponement of the maturity, the interest rate swap, qualifying as a cash flow hedge, effectively converting the debt to fixed rate was extinguished with non-significant expenses.
The loan includes covenants which, if not observed, could lead to a request for immediate repayment.
The financial covenants, measured semi-annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

n) Loan for € 25.0 million taken out by the Parent Company in December 2016 with Intesa Sanpaolo. The main conditions of the loan provide for a variable interest rate of the 6-month Euribor plus a fixed spread and a duration of 5 years with semi-annual repayments of principal from June 2019 through December 2021. The debt outstanding at 31 December 2020 amounted to € 8.3 million. The loan was hedged with an interest rate swap, qualifying as a cash flow hedge, effectively converting the debt to a fixed interest rate. At 31 December 2020, the fair value measurement of the derivative was slightly negative and was recognized directly as a decrease in equity and as an increase in the liability item "Derivative instruments measured at fair value" (see Note 30).
The loan includes covenants which, if not observed, could lead to a request for immediate repayment. The financial covenants, measured annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

o) Loan disbursed on 16 October 2014 to the subsidiary Recordati Ilaç by IFC-World Bank for 71.6 million Turkish lira to finance the construction of a new production plant. The main conditions provide for a variable interest rate of the 3-month Trlibor plus a fixed spread and a duration of 8 years with quarterly repayments of principal from November 2016 through August 2022. The counter-value of the outstanding debt at 31 December 2020 amounted to € 2.2 million, down by € 2.6 million compared to 31 December 2019. This reduction was determined for € 1.1 million by the depreciation of the Turkish lira against the consolidation currency.
The loan includes covenants which, if not observed, could lead to a request for immediate repayment. The financial covenants, measured quarterly, are the following:
- the ratio of consolidated net financial position to consolidated shareholders' equity must be less than 0.75;
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

p) Guaranteed senior notes issued by the Parent Company on 30 September 2014 for a total of US$75 million, divided into two tranches: US$50 million at fixed rate, repayable semi-annually starting 30 March 2022 and with maturity 30 September 2026, and US$25 million again at fixed rate, repayable semi-annually starting 30 March 2023 and with maturity 30 September 2029. The conversion of the loan at 31 December 2020 resulted in a decrease of the liability by € 5.6 million compared to 31 December 2019, due to the devaluation of the U.S. dollar against the consolidation currency.
The loan was hedged at the same time with two cross-currency swap operations, which provide for the conversion of the debt into a total of € 56.0 million, of which € 37.3 million at a lower fixed rate for the tranche with maturity at 12 years and € 18.7 million again at a lower fixed rate for per that with maturity at 15 years. At 31 December 2020, hedging instruments measured at fair value were positive for a total of € 7.0 million, which was recognized directly as an increase in equity and as an increase in the asset item "Derivative instruments measured at fair value" (see Note 17).
The note purchase agreement covering the senior guaranteed notes issued by Recordati S.p.A. includes covenants which, if not met, could lead to a request for immediate repayment of the loan.
The financial covenants, measured quarterly, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;

- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

q) Loan taken out by the Parent Company on 30 November 2010 with Centrobanca, to fund a three-year research and development investment program. The loan, for which Centrobanca received funding from the European Investment Bank, amounts to € 75.0 million, disbursed for € 30.0 million in 2010 and € 45.0 million in the first quarter of 2011. The main conditions provide for a variable interest rate of the 6-month Euribor plus a spread, variable on the basis of the Leverage Ratio, and a duration of 12 years with semi-annual repayments of principal from June 2012 through December 2022. The debt outstanding at 31 December 2020 amounted to € 13.6 million. In June 2012, the loan was hedged with an interest rate swap, qualifying as a cash flow hedge, effectively converting the entire debt to a fixed interest rate. At 31 December 2020, the fair value of the derivative was measured at negative € 0.3 million, which was recognized directly as a decrease in equity and as an increase in the liability item "Derivative instruments measured at fair value" (see Note 30).
The loan includes covenants which, if not observed, could lead to a request for immediate repayment. The financial covenants, measured semi-annually, are the following:
   - the ratio of consolidated net financial position to consolidated shareholders' equity must be less than 0.75;
   - the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
   - the ratio of consolidated EBITDA to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

   These parameters are being observed.

22. PROVISIONS FOR EMPLOYEE BENEFITS

The balance at 31 December 2020 amounted to € 21.2 million (20.6 million at 31 December 2019) and reflects the Group's liability towards its employees determined in accordance with IAS 19.
The changes in these provision were follows:

€ (thousands)	2020	2019
Balance at 1 January	20,557	19,547
Additions	1,341	1,892
Utilizations	(1,932)	(1,674)
Adjustment for actuarial (gains)/losses	1,208	792
Balance at 31 December	**21,174**	**20,557**

This liability is mainly due to the severance indemnities (TFR, Trattamento Fine Rapporto) in the Italian companies. The value of these provisions, measured in accordance with IAS 19, amounted to € 9.6 million. The other liabilities are mainly due to contribution plans in being in the French company Laboratoires Bouchara Recordati (€ 5.1 million), in the U.S. company Recordati Rare Diseases (€ 2.0 million), in the German company Recordati Pharma (€ 1.5 million), in the Swiss company Recordati AG (€ 1.0 million) and in the other Recordati Rare Diseases companies (€ 0.9 million). The fair value calculation made using actuarial assumptions updated to 31 December 2020 determined an increase of € 1.2 million compared to the value of the provisions at 31 December 2019 which is recognized in the statement of comprehensive income, net of the tax effect, as prescribed by the relevant accounting standard.

23. DEFERRED TAX LIABILITIES

At 31 December 2020 deferred tax liabilities amounted to € 41.2 million, down by a net € 2.0 million compared to 31 December 2019.

Their changes are shown in the table below:

€ (thousands)	2020	2019
Balance at 1 January	43,172	43,486
Additions	1,502	1,457
Utilizations	(3,455)	(1,771)
Balance at 31 December	**41,219**	**43,172**

At 31 December 2020 no deferred tax liabilities were calculated on subsidiaries' undistributed profits as, considering the current dividend policy applied by the Group and thanks to the substantial exemption from double income taxation, no significant additional tax would have to be paid by the Group.

Deferred tax liabilities related to other comprehensive income amounted to € 0.4 million (€ 0.6 million at 31 December 2019).

24. OTHER NON-CURRENT LIABILITIES

At 31 December 2020 the balance of this item amounted to € 16.3 million and referred entirely to future payments to Novartis AG for marketing of Isturisa® on a number of European markets. The payable of € 3.3 million related to the acquisition of a further 10% of the capital of Opalia Pharma, previously included in this item, was classified among current liabilities on the basis of the put and call options provided for contractually.

25. TRADE PAYABLES

Trade payables, which are entirely of a commercial nature and include end-of-year provisions for invoices to be received, at 31 December 2020 and 2019 amounted to € 132.1 million and € 175.5 million respectively.

26. OTHER PAYABLES

Other payables at 31 December 2020 amounted to € 95.7 million (€ 185.7 million at 31 December 2019). Their composition is as follows:

€ (thousands)	31/12/2020	31/12/2019	Change 2020/2019
Personnel	25,218	30,048	(4,830)
Social security	14,431	15,219	(788)
Agents	174	649	(475)
Other	55,848	139,790	(83,942)
Total other payables	**95,671**	**185,706**	**(90,035)**

The item "Other" includes:

- the payable for € 8.1 million of Recordati AG with Novartis AG, linked to the fulfillment of the contract conditions regarding the acquisition of the rights for Isturisa®, down compared to the € 89.0 million recognized at 31 December 2019; during 2020, 90.0 million US dollars were paid, of which 20.0 million following the approval of the product in the European Union countries, 60.0 million following the registration of the product in the United States of America and 10.0 million following the launch of marketing in Germany;
- € 7.2 million which Recordati Rare Diseases Inc. must pay to the U.S. health care insurance schemes;
- € 4.1 million to be paid to the "Krankenkassen" (German health insurance schemes) by Recordati Pharma GmbH;
- The payable of € 3.3 million related to the acquisition of a further 10% of the capital of Opalia Pharma reclassified among current liabilities on the basis of the put and call options provided for contractually. The fair value of this purchase option is measured at level 2 as the valuation model considers the present value of the expected payments.
- € 1.6 million to be paid to the Italian National Health Service resulting from the 1.83% discount applicable to the retail price of reimbursed pharmaceutical products before VAT.

27. TAX LIABILITIES

Tax liabilities at 31 December 2020 amounted to € 29.7 million (21.1 million at 31 December 2019) and include mainly tax payables, net of advances already paid, computed by the companies on the basis of estimated taxable income, and withholding taxes payable.

28. OTHER CURRENT LIABILITIES

At 31 December 2020, other current liabilities amounted to € 11.3 million, down by € 1.3 million compared to 31 December 2019. An amount of € 10.3 million is attributable to the adoption of the accounting principle IFRS 15 based on which some deferred revenue is recognized in the income statement in variable installments based on the fulfillment of the conditions for revenue recognition.

29. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges set aside at 31 December 2020 amounted to € 17.1 million and include tax provisions and other provisions for future contingencies to cover liabilities of uncertain timing and value. The following tables show their composition and changes.

€ (thousands)	31/12/2020	31/12/2019	Change 2020/2019
For taxes	483	604	(121)
Future contingencies	16,630	17,329	(699)
Total other provisions	**17,113**	**17,933**	**(820)**

€ (thousands)	2020	2019
Balance at 1 January	17,933	21,446
Additions	1,523	3,002
Utilizations	(2,343)	(6,515)
Balance at 31 December	**17,113**	**17,933**

The year-end balance is mainly related to the Parent Company and to the other Italian companies (€ 6.4 million), to the companies in France (€ 3.2 million), to the companies in Germany (€ 2.6 million), to the Spanish company Casen Recordati (€ 1.8 million) and to Recordati AG in Switzerland (€ 1.4 million).

30. DERIVATIVE INSTRUMENTS MEASURED AT FAIR VALUE (included in current liabilities)

The measurement at market (fair) value at 31 December 2020 of the interest rate swaps hedging a number of loans gave rise to a total € 5.3 million liability, which represents the unrealized opportunity of paying in the future, for the duration of the loans, the variable rates currently expected instead of the rates agreed. The amount is related to the interest rate swaps entered into by the Parent Company to hedge the interest rates on loans with Mediobanca (€ 2.8 million), Intesa Sanpaolo (€ 1.2 million), UBI Banca (€ 0.7 million), Centrobanca (€ 0.3 million) and UniCredit (€ 0.3 million).

In October 2019, Recordati S.p.A. entered into forward exchange contracts to hedge the intercompany loan granted to Recordati AG for an amount of 228.9 million Swiss francs. The fair value of the derivative at 31 December 2020 on the outstanding loan of 198.1 million Swiss francs was a negative € 3.2 million, which was booked to profit and loss offsetting the exchange gains determined by the valuation of the underlying loan at current exchange rates.

During the year, other hedging transactions were carried out on foreign currency positions, the fair value of which, at 31 December 2020, was negative for a total of € 1.3 million, booked to profit and loss and offsetting the exchange gains determined by the valuation of the underlying loans at current exchange rates.

The fair value of these hedging derivatives is measured at level 2 of the hierarchy provided for in the accounting standard IFRS 13 (see note 2). The fair value is equal to the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve which reflects the relevant benchmark interbank rate used by market participants for pricing interest rate swaps.

31. SHORT-TERM DEBTS TO BANKS AND OTHER LENDERS

Short-term debts to banks and other lenders at 31 December 2020 were € 12.6 million and comprise temporary use of short-term credit lines, overdrafts of a number of foreign associates and interest due on existing loans.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IFRS 7, the book values and fair values at 31 December 2020 of financial assets and liabilities are resented below:

€ (thousands)	Book value	Fair value
Financial assets		
Financial assets measured at fair value		
Other equity investments and securities	45,581	45,581
Derivative instruments measured at fair value	7,036	7,036
Financial assets not measured at fair value		
Cash and cash equivalents	188,230	188,230
Trade receivables	268,897	268,897
Other receivables	47,291	47,291
Financial liabilities		
Financial liabilities measured at fair value		
Derivative instruments measured at fair value	9,770	9,770
Other payables	3,257	3,257
Financial liabilities not measured at fair value		
Loans		
- at variable interest rates	448,710	448,710
- at variable interest rates hedged with interest rate swaps	346,995	346,995
- at fixed interest rates	165,160	173,955
- at fixed interest rates hedged with cross currency swaps	60,938	68,796
- lease liabilities	26,689	26,689
Trade payables	132,096	132,096
Other payables	122,157	122,157
Other non-current liabilities	16,299	16,299
Short-term debts to banks and other lenders	12,567	12,567

33. DISCLOSURE OF FINANCIAL RISKS

The Group constantly monitors the financial risks to which it is exposed in order to take immediate mitigating actions when necessary.

The Group aims at achieving a balanced and prudent financial structure as a basic condition for funding internal and external growth, minimizing financing costs and maximizing yields. Speculative investments in equities, funds or financial assets which could impair the value of the Company are forbidden.
The only financial investments permitted are investments in risk-free assets and/or funds issued by major financial institutions.
The Group monitors the financial risks to which it is exposed in order to take immediate mitigating actions, whenever necessary, in compliance with the applicable legislations and regulations.
All companies belonging to the Group work only with investment grade banks.

On the basis of the above and considering that the related effects would be insignificant, no sensitivity analysis has been performed.

As prescribed by IFRS 7, the main financial risks to which the Group is exposed are disclosed below.

Credit risk - The Group closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. At 31 December 2020, the credit exposure was not critical due to the large number of customers, their geographic distribution and the average amount of each account receivable. In particular, at 31 December 2020, total trade receivables of € 284.0 million included € 29.0 million in receivables past due by more than 90 days. Of these, € 5.9 million are receivables from public hospitals which, despite their long collection times, do not represent a significant risk situation. The provisions for doubtful accounts of € 15.1 million are considered sufficient to cover potential losses due to insolvency. The effects of the COVID-19 pandemic were duly considered in the credit risk assessment.

Interest rate risk - The Group raises funds using debt and invests excess cash in money market and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments, therefore affecting the Group's net financial expenses.
The Group's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or variable interest loans hedged by derivative financial instruments, which are used to hedge risk and are never of a speculative nature, to minimize such fluctuations, as described in Note 21. As a result of this policy and considering the current amount of net debt, it is believed that changes in current interest rates would not have a significant impact on net financial expenses.

Foreign currency risk - - The Group is exposed to foreign currency exchange rate fluctuations, which can affect its operating results and the value of its equity. All companies are subject to exchange rate fluctuations affecting trade and financial balances denominated in currencies different from their own. In order to limit this risk, in some cases, non-speculative hedging instruments are negotiated.

As at 31 December 2020, positions in currencies other that the euro in companies in countries belonging to the European Monetary Union, not hedged by derivative instruments, are the following:

net receivables of 1.2 million British pounds;
net receivables of 1.4 million US dollars;
net receivables of 19.0 million Polish zloty;
net debts of 118.0 million Russian rubles.

Among the companies in countries outside the European Monetary Union, at 31 December 2020 the main net exposures in currencies other than their own and not hedged by derivative instruments are in euro and in U.S. dollars. Net exposures in euro refer to the companies located in the United States (net payables of 9.2 million), in Switzerland (net payables of € 3.8 million), Japan (net payables of 3.4 million), Turkey (net payables of 3.0 million), Sweden (net payables of 3.0 million), Mexico (net payables of 1.5 million), Canada (net payables of 1.3 million) and Colombia (net payables of 1.2 million). Net exposures in U.S. dollars refer to the companies in Switzerland (net payables of 60.5 million), Japan (net payables of 10.8 million) and Colombia (net payables of 3.6 million).

For consolidation purposes, the income statements and balance sheets of the Group companies located outside the European Monetary Union are converted from their local currencies into euro. At 31 December 2020, the net asset values of these companies are denominated mainly in U.S. dollars (271.7 million), pounds sterling (13.6 million), Swiss francs (196.1 million), Turkish lira (466.9 million), Czech crowns (359.8 million), Romanian ron (37.0 million), Russian rubles (4,858.5 million), Polish zloty (35.5 million) and Tunisian dinars (63.4 million). The effect of exchange rate variations on the conversion of these amounts is recognized in the consolidated statement of comprehensive income and booked to the translation reserve in

shareholders' equity which, at 31 December 2020, was a negative € 217.3 million.

Liquidity risk - The liquidity risk to which the Group may be exposed is represented by the inability to raise sufficient financial resources for its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on one hand, the cash generated or used by operations and investments and, on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. At 31 December 2020, the Group has at its disposal liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's loans and its financial assets are set out in Notes 18, 21 and 31 which address, respectively, short-term financial investments, cash and cash equivalents, medium/long-term loans and payables to banks. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are sufficient to meet investment needs, working capital requirements and the repayment of debts at their natural due dates.

34. OPERATING SEGMENTS

The financial information reported by line of business and geographic area, in compliance with IFRS 8 – *Operating Segments*, is prepared using the same accounting principles used for the preparation and disclosure of the Group's consolidated financial statements.

Based on the characteristics of their business, operational and strategic models two main business segments can be identified, the Specialty and Primary Care segment and the segment dedicated to treatments for rare diseases.

The identification took into account the different management and marketing strategies applied to the products belonging to the two segments. Consequently, clearly identified and separate models and organizational structures have been developed. All economic and financial data derive from precise accounting and not from generic allocation criteria.

The geographic footprint of the Group's Specialty and Primary Care business is focused mainly on Europe. The Group operates in the main European markets, including Central and Eastern Europe, Russia and the other C.I.S. countries, Ukraine, Turkey and Tunisia, where it has established its own subsidiaries. In the rest of the world sales of Specialty and Primary Care products are carried out mainly through licensing agreements with pharmaceutical companies of high standing. The Group has gradually extended its international presence through the acquisition of existing marketing organizations with the aim of adding our proprietary products and those obtained under multi-territorial licenses to the local portfolios.

The Group's segment dedicated to treatments for rare diseases is a worldwide business. The Group operates through Recordati Rare Diseases, its dedicated group of subsidiaries, sharing the conviction that each person with a rare disease has the right to the best possible treatment. Our organizations work closely with specialists, health care professionals, patients, their families and associations to spread knowledge, improve diagnosis and treatment, and enable access to treatment by supporting patients and their needs. Recordati Rare Diseases operates directly in Europe, the Middle East, North Africa, the U.S.A., Canada, Mexico, Brazil, Colombia, Japan and Australia through its subsidiaries and highly qualified distributors in the rest of the world.

During 2019, Recordati Rare Diseases announced that its strategy aimed at establishing a direct presence in the key markets across all continents has been successfully executed. Several companies formerly operating under the name of Orphan Europe were recently renamed Recordati Rare Diseases, which is today the global

brand of Recordati's organization dedicated to treatments for rare diseases and orphan drugs. Orphan Europe, founded in 1990, pioneered the development of orphan drugs in Europe and became part of the Recordati group in 2007.

The Group's chief executive officer reviews the internal management reports of each segment at least quarterly.

The two following tables show financial information for these two business segments as at 31 December 2020 and include comparative data.

€ (thousands)	Specialty and Primary Care segment*	Rare diseases segment	Values not allocated	Consolidated financial statements
2020				
Revenue	1,129,426	319,441	-	1,448,867
Expenses	(780,080)	(199,771)	-	(979,851)
Operating income	**349,346**	**119,670**	**-**	**469,016**
2019				
Revenue	1,231,998	249,850	-	1,481,848
Expenses	(876,116)	(140,466)	-	(1,016,582)
Operating income	**355,882**	**109,384**	**-**	**465,266**

* Includes pharmaceutical chemical operations.

€ (thousands)	Segment Specialty and Primary Care*	Rare diseases segment	Not allocated**	Consolidated financial statements
31 December 2020				
Non-current assets	1,162,636	730,486	45,581	1,938,703
Inventories	210,089	41,163	-	251,252
Trade receivables	200,601	68,296	-	268,897
Other receivables and other current assets	48,133	9,403	7,036	64,572
Cash and cash equivalents	-	-	188,230	188,230
Total assets	**1,621,459**	**849,348**	**240,847**	**2,711,654**
Non-current liabilities	57,621	21,071	778,238	856,930
Current liabilities	192,454	93,419	292,591	578,464
Total liabilities	**250,075**	**114,490**	**1,070,829**	**1,435,394**
Net capital employed	**1,371,384**	**734,858**		
31 December 2019				
Non-current assets	1,213,146	747,868	38,566	1,999,580
Inventories	200,848	26,037	-	226,885
Trade receivables	234,788	62,173	-	296,961
Other receivables and other current assets	76,352	11,280	9,949	97,581
Cash and cash equivalents	-	-	187,923	187,923
Total assets	**1,725,134**	**847,358**	**236,438**	**2,808,930**
Non-current liabilities	63,441	22,581	937,343	1,023,365
Current liabilities	265,343	147,414	173,997	586,754
Total liabilities	**328,784**	**169,995**	**1,111,340**	**1,610,119**
Net capital employed	**1,396,350**	**677,363**		

* Includes pharmaceutical chemical operations. ** Amounts not allocated refer to the items other equity investments and securities, cash and cash equivalents, loans, derivative instruments and short-term debts to banks and other lenders.

The pharmaceutical chemical business is considered part of the Specialty and Primary Care segment as it is mainly engaged in the production of active ingredients for finished pharmaceutical products, both from a strategic and organizational point of view.

No single customer contributed more than 10% to revenue in 2020 or in 2019.

The following table shows net revenue by geographic area:

€ (thousands)	2020	2019	Changes 2020/2019
Europe	1,132,008	1,191,474	(59,466)
of which Italy	*274,588*	*287,289*	*(12,701)*
Australasia	95,099	85,465	9,634
America	169,366	152,626	16,740
Africa	52,394	52,283	111
Total	**1,448,867**	**1,481,848**	**(32,981)**

The Group's production facilities are located almost exclusively in Europe, and therefore non-current assets and investments are, for the most part, in this geographic area.

35. NET FINANCIAL POSITION

The following table summarizes the Group's net financial position:

€ (thousands)	31/12/2020	31/12/2019	Change 2020/2019
Deposits in bank current accounts and cash on hand	175,227	141,384	33,843
Short-term time deposits	13,003	46,539	(33,536)
Cash and cash equivalents	**188,230**	**187,923**	**307**
Short-term debts to banks and other lenders	(12,567)	(13,392)	825
Loans - due within one year	(261,216)	(140,963)	(120,253)
Leasing liabilities – due within one year	(9,038)	(8,854)	(184)
Short-term borrowings	**(282,821)**	**(163,209)**	**(119,612)**
Short-term financial position	**(94,591)**	**24,714**	**(119,305)**
Loans - due after one year	(574,743)	(726,834)	152,091
Notes issued [(1)]	(178,839)	(181,708)	2,869
Leasing liabilities – due after one year	(17,651)	(18,853)	1,202
Non-current financial debt	**(771,233)**	**(927,395)**	**156,162**
Net financial position	**(865,824)**	**(902,681)**	**36,857**

[(1)] Includes the fair value measurement of the related currency risk hedging instruments (cash flow hedges).

36. RECONCILIATION BETWEEN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY AND NET INCOME AND GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND NET INCOME

The reconciliation between the Parent Company's shareholders' equity and net income and the group consolidated shareholders' equity and net income is as follows:

€ (thousands)	Shareholders' equity		Net income	
	31/12/2020	31/12/2019	2020	2019
Recordati S.p.A.	464,010	435,426	234,664	241,092
Consolidation adjustments:				
- Elimination margins in inventories	(76,552)	(59,066)	(17,486)	(655)
- Related tax effect	21,704	16,618	5,086	322
- Other adjustments	(16,689)	(13,726)	(2,705)	(4,014)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already recognized by Recordati S.p.A.	835,142	708,217		-
Net income for consolidated subsidiaries, net of amounts already recognized by Recordati S.p.A.	265,671	257,974	265,671	257,974
Dividends received from consolidated subsidiaries		-	(132,785)	(128,138)
Write-down of holdings in subsidiaries		-	2,539	2,244
Translation adjustments	(217,303)	(146,866)	-	-
Consolidated financial statements	**1,275,983**	**1,198,577**	**354,984**	**368,825**

37. LITIGATION AND CONTINGENT LIABILITIES

The Parent Company and some subsidiaries are parties to minor legal actions and disputes, the outcomes of which are not expected to result in any liability. The potential liability is not significant and considered only possible at the moment. Some license agreements require the payment of future milestones as certain conditions—whose fulfillment is as yet uncertain—occur, with the consequence that the contractually required payments, estimated at around € 54 million, are merely potential at the moment.

38. RELATED-PARTY TRANSACTIONS

The Group's immediate Parent Company is FIMEI S.p.A., which since 2018 has been owned by a consortium of investment funds controlled by CVC Capital Partners. FIMEI S.p.A. has its headquarters in Milan, Italy, at Via Vecchio Politecnico 9.

Tax receivables included those due to the immediate parent FIMEI S.p.A. of € 9.7 million, which refer to the net tax payable determined by the Parent Company Recordati S.p.A. on the basis of the taxable income estimated and transferred to the parent as a consequence of acceptance of the tax consolidation under the terms of Articles from 117 to 128 of Italian Presidential Decree 917/1986 as amended by Italian Legislative Decree no. 344/2003. This amount includes the unused credit resulting from the "Patent Box" for the portion related to the companies' taxes.

In compliance with the disclosure obligations required by Article 38 of Italian Legislative Decree 127/91, it is hereby specified that the overall compensation of the Directors and Statutory Auditors of the Parent Company for the performance of their specific functions, including those in other Group companies, during 2020 amounted to € 2.5 million and € 0.2 million respectively.
Key management personnel compensation comprised the following:

€ (thousands)	2020	2019
Fixed remuneration	5,109	4,690
Non-monetary benefits	169	57
Bonuses and other incentives	979	2,071
Share-based payments	981	1,390
Total	**7,238**	**8,208**

Compensation of the Group's key management personnel includes salaries and non-cash benefits. Executive officers also participate in the Group's stock option plans.

On 1 October 2020, the Company's Board of Directors approved the reverse merger by incorporation of Rossini Investimenti S.p.A. and FIMEI S.p.A. into Recordati S.p.A., explained in more detail in Note 1.

Except for what is stated above, to our knowledge, no transactions or contracts have been entered into with related parties that can be considered significant in terms of value or conditions, or which could in any way materially affect the accounts.

39. SUBSEQUENT EVENTS

At the date of preparation of the financial statements, no significant events had occurred subsequent to the closing of the fiscal year that would require changes to the values of assets, liabilities or the profit and loss.

In January 2021, the US Food and Drug Administration (FDA) approved a new indication for Carbaglu® (carglumic acid) 200 mg tablets, as an adjunctive therapy to primary treatment of acute hyperammonemia caused by propionic acidemia (PA) or by methylmalonic acidemia (MMA) in pediatric and adult patients. Carbaglu® is the first and only drug approved by the FDA for the treatment of acute hyperammonemia due to PA and MMA.

Also in January a license and supply agreement was finalized with Tolmar International Ltd. to market Eligard® (leuprolide acetate) in Europe, Turkey, Russia and other countries. Eligard® is a medicinal product for the treatment of advanced hormone-dependent prostate cancer and for the treatment of high-risk localised and locally advanced hormone-dependent prostate cancer, in combination with radiotherapy. This new product strengthens the Group's presence in the urology area, is perfectly suited to its geographic coverage and confirms the continual support to patients and doctors in this field. The consideration is made up of an upfront payment of € 35 million to Tolmar and of further milestones up to a total of € 105 million, plus royalties on sales.

In February 2021, a perpetual license agreement was finalized with Almirall to market Flatoril® (combination of clebopride and simethicone), a product for the treatment of functional disturbances that produce flatulence, used in preparation of gastrointestinal radiological examinations and in the treatment of post-surgical nausea and vomiting associated with flatulence.

Italy and all the other main countries in which the Group operates continue to be impacted by restrictions on the circulation of people, and provisions to support companies' economic activities introduced following the epidemiological emergency due to the COVID-19 virus, declared a pandemic by the WHO (World Health Organization) in March 2020. To cope with the emergency, in Italy, and subsequently also in other countries, the Group implemented all possible measures and initiatives to guarantee the supply of medicines to its patients and the safety of its employees. The results in 2020 show that the impact on the Group's consolidated revenues is more than offset by the positive contribution from new products and the containment of operating expenses resulting from reduced activities, with operating and net profit remaining in line with expectations.

Except for the above, no significant events occurred subsequent to the reporting date.

40. SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2020

Consolidated companies	Head office	Share capital	Currency	Consolidation method
RECORDATI S.p.A. *Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals*	Italy	26,140,644.50	EUR	Line-by-line
INNOVA PHARMA S.p.A. *Marketing of pharmaceuticals*	Italy	1,920,000.00	EUR	Line-by-line
CASEN RECORDATI S.L. *Development, production, and sales of pharmaceuticals*	Spain	238,966,000.00	EUR	Line-by-line
BOUCHARA RECORDATI S.A.S. *Development, production, and sales of pharmaceuticals*	France	4,600,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA *Holds pharmaceutical marketing rights in Brazil*	Brazil	166.00	BRL	Line-by-line
RECORDATI RARE DISEASES INC. *Development, production, and sales of pharmaceuticals*	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD *Development, production, and sales of pharmaceuticals*	Ireland	200,000.00	EUR	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. *Development, production, and sales of pharmaceuticals*	France	14,000,000.00	EUR	Line-by-line
RECORDATI PHARMA GmbH *Marketing of pharmaceuticals*	Germany	600,000.00	EUR	Line-by-line
RECORDATI PHARMACEUTICALS LTD *Marketing of pharmaceuticals*	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. *Marketing of pharmaceuticals*	Greece	10,050,000.00	EUR	Line-by-line
JABA RECORDATI S.A. *Marketing of pharmaceuticals*	Portugal	2,000,000.00	EUR	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. *Promotion of pharmaceuticals*	Portugal	50,000.00	EUR	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. *Promotion of pharmaceuticals*	Portugal	50,000.00	EUR	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S. *Holding company*	France	57,000,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES MIDDLE EAST FZ LLC *Marketing of pharmaceuticals*	United Arab Emirates	100,000.00	AED	Line-by-line
RECORDATI AB *Marketing of pharmaceuticals*	Sweden	100,000.00	SEK	Line-by-line
RECORDATI RARE DISEASES S.à r.l. *Development, production, and sales of pharmaceuticals*	France	320,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES UK Limited *Marketing of pharmaceuticals*	United Kingdom	50,000.00	GBP	Line-by-line
RECORDATI RARE DISEASES GERMANY GmbH *Marketing of pharmaceuticals*	Germany	25,600.00	EUR	Line-by-line
RECORDATI RARE DISEASES SPAIN S.L. *Marketing of pharmaceuticals*	Spain	1,775,065.49	EUR	Line-by-line
RECORDATI RARE DISEASES ITALY S.R.L. *Marketing of pharmaceuticals*	Italy	40,000.00	EUR	Line-by-line
RECORDATI BV *Marketing of pharmaceuticals*	Belgium	18,600.00	EUR	Line-by-line
FIC MEDICAL S.à r.l. *Promotion of pharmaceuticals*	France	173,700.00	EUR	Line-by-line
HERBACOS RECORDATI s.r.o. *Development, production, and sales of pharmaceuticals*	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o. *Marketing of pharmaceuticals*	Slovak Republic	33,193.92	EUR	Line-by-line

Consolidated companies	Head office	Share capital	Currency	Consolidation method
RUSFIC LLC *Development, promotion, and sales of pharmaceutical products*	Russian Federation	3,560,000.00	RUB	Line-by-line
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. *Promotion of pharmaceutical products*	Turkey	10,000.00	TRY	Line-by-line
RECORDATI ROMÂNIA S.R.L. *Marketing of pharmaceuticals*	Romania	5,000,000.00	RON	Line-by-line
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. *Development, production, and sales of pharmaceuticals*	Turkey	180,000,000.00	TRY	Line-by-line
RECORDATI POLSKA Sp. z o.o. *Marketing of pharmaceuticals*	Poland	4,500,000.00	PLN	Line-by-line
ACCENT LLC *Holds pharmaceutical marketing rights*	Russian Federation	20,000.00	RUB	Line-by-line
RECORDATI UKRAINE LLC *Marketing of pharmaceuticals*	Ukraine	1,031,896.30	UAH	Line-by-line
CASEN RECORDATI PORTUGAL Unipessoal Lda *Marketing of pharmaceuticals*	Portugal	100,000.00	EUR	Line-by-line
OPALIA PHARMA S.A. *Development, production, and sales of pharmaceuticals*	Tunisia	9,656,000.00	TND	Line-by-line
OPALIA RECORDATI S.à r.l. *Promotion of pharmaceuticals*	Tunisia	20,000.00	TND	Line-by-line
RECORDATI RARE DISEASES S.A. DE C.V. *Marketing of pharmaceuticals*	Mexico	16,250,000.00	MXN	Line-by-line
RECORDATI RARE DISEASES COLOMBIA S.A.S. *Marketing of pharmaceuticals*	Colombia	150,000,000.00	COP	Line-by-line
ITALCHIMICI S.p.A. *Marketing of pharmaceuticals*	Italy	7,646,000.00	EUR	Line-by-line
RECORDATI AG *Marketing of pharmaceuticals*	Switzerland	15,000,000.00	CHF	Line-by-line
PRO FARMA GmbH *Marketing of pharmaceuticals*	Austria	35,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES CANADA Inc. *Marketing of pharmaceuticals*	Canada	350,000.00	CAD	Line-by-line
RECORDATI RARE DISEASES JAPAN K.K. *Marketing of pharmaceuticals*	Japan	10,000,000.00	JPY	Line-by-line
NATURAL POINT S.r.l. *Marketing of pharmaceuticals*	Italy	10,400.00	EUR	Line-by-line
RECORDATI RARE DISEASES AUSTRALIA Pty Ltd *Marketing of pharmaceuticals*	Australia	200,000.00	AUD	Line-by-line
TONIPHARM S.a.s. *Marketing of pharmaceuticals*	France	257,700.00	EUR	Line-by-line
RECORDATI BULGARIA Ltd [(1)] *Marketing of pharmaceuticals*	Bulgaria	50,000.00	BGN	Line-by-line

[(1)] Set up in 2019

Consolidated companies	PERCENTAGE OF OWNERSHIP										
	Recordati S.p.A. *Parent Company*	Recordati Pharma GmbH	Bouchara Recordati S.a.s.	Casen Recordati S.L.	Recordati Orphan Drugs S.a.s.	Recordati Rare Diseases S.à r.l.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Recordati AG	Total
INNOVA PHARMA S.P.A.	100.00										100.00
CASEN RECORDATI S.L.	100.00										100.00
BOUCHARA RECORDATI S.A.S.	100.00										100.00
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA	100.00										100.00
RECORDATI RARE DISEASES INC.	100.00										100.00
RECORDATI IRELAND LTD	100.00										100.00
LABORATOIRES BOUCHARA RECORDATI S.A.S.			100.00								100.00
RECORDATI PHARMA GmbH	55.00			45.00							100.00
RECORDATI PHARMACEUTICALS LTD	100.00										100.00
RECORDATI HELLAS PHARMACEUTICALS S.A.	100.00										100.00
JABA RECORDATI S.A.				100.00							100.00
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.				100.00							100.00
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.				100.00							100.00
RECORDATI ORPHAN DRUGS S.A.S.	90.00	10.00									100.00
RECORDATI RARE DISEASES MIDDLE EAST FZ LLC					100.00						100.00
RECORDATI AB					100.00						100.00
RECORDATI RARE DISEASES S.à r.l.					100.00						100.00
RECORDATI RARE DISEASES UK Limited						100.00					100.00
RECORDATI RARE DISEASES GERMANY GmbH						100.00					100.00
RECORDATI RARE DISEASES SPAIN S.L.						100.00					100.00
RECORDATI RARE DISEASES ITALY S.R.L.						99.00					99.00
RECORDATI BV					99.46	0.54					100.00
FIC MEDICAL S.à r.l.			100.00								100.00
HERBACOS RECORDATI s.r.o.	100.00										100.00
RECORDATI SK s.r.o.							100.00				100.00

Consolidated companies	PERCENTAGE OF OWNERSHIP										
	Recordati S.p.A. *Parent Company*	Recordati Pharma GmbH	Bouchara Recordati S.a.s.	Casen Recordati S.L.	Recordati Orphan Drugs S.a.s.	Recordati Rare Diseases S.à r.l.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Recordati AG	Total
RUSFIC LLC			100.00								100.00
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş.								100.00			100.00
RECORDATI ROMÂNIA S.R.L.	100.00										100.00
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş.				100.00							100.00
RECORDATI POLSKA Sp. z o.o	100.00										100.00
ACCENT LLC	100.00										100.00
RECORDATI UKRAINE LLC	0.01		99.99								100.00
CASEN RECORDATI PORTUGAL Unipessoal Lda				100.00							100.00
OPALIA PHARMA S.A.	90.00										90.00
OPALIA RECORDATI S.à R.L.			1.00						99.00		100.00
RECORDATI RARE DISEASES S.A. DE C.V.	99.998					0.002					100.00
RECORDATI RARE DISEASES COLOMBIA S.A.S.				100.00							100.00
ITALCHIMICI S.p.A.	100.00										100.00
RECORDATI AG	100.00										100.00
PRO FARMA GmbH										100.00	100.00
RECORDATI RARE DISEASES CANADA Inc.	100.00										100.00
RECORDATI RARE DISEASES JAPAN K.K.						100.00					100.00
NATURAL POINT S.r.l.	100.00										100.00
RECORDATI RARE DISEASES AUSTRALIA Pty Ltd						100.00					100.00
TONIPHARM S.a.s.	100.00										100.00
RECORDATI BULGARIA Ltd [1]	100.00										100.00

[1] Set up in 2019

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

ANNEX 1

DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

Type of service	Provider of the service	Recipient	Fees Amounts in €
Accounting audit	Auditor of Parent Company	Parent Company	132,790
Accounting audit	Auditor of Parent Company	Subsidiaries	70,499
Accounting audit	Network of auditor of Parent Company	Subsidiaries	665,233
Due diligence	Auditor of Parent Company	Parent Company	115,500
Tax compliance	Network of auditor of Parent Company	Subsidiaries	67,138
Signatures on returns and attestations	Auditor of Parent Company	Parent Company	39,970
Signatures on returns and attestations	Auditor of Parent Company	Subsidiaries	3,701
Signatures on returns and attestations	Network of auditor of Parent Company	Subsidiaries	38,825
Other services	Auditor of Parent Company	Parent Company	15,400
Other services	Network of auditor of Parent Company	Subsidiaries	30,412

RECORDATI S.p.A. and SUBSIDIARIES

ATTESTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS UNDER THE TERMS OF ART. 154-BIS OF ITALIAN LEGISLATIVE DECREE 58/98

1. The undersigned, Andrea Recordati, in his capacity as Chief Executive Officer, and Luigi La Corte, as Financial Reporting Manager, of Recordati S.p.A., pursuant to the provisions or Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998, hereby attest:

- the adequacy with respect to the Company structure and;
- the effective application

of the administrative and accounting procedures applied in the preparation of the consolidated financial statements during financial year 2020.

2. The undersigned moreover attest that:

2.1 the consolidated financial statements at 31 December 2020:

- have been prepared in accordance with the applicable International Accounting Standards, as endorsed by the European Union under the terms of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 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 Company and its consolidated subsidiaries.

2.2 The annual report includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

Milan, 18 March 2021

Chief Executive Officer — *Andrea Recordati*

Financial Reporting Manager — *Luigi La Corte*