



Recordati Industria Chimica e Farmaceutica S.p.A.

Financial statements as at 31 December 2020

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

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(Translation from the original Italian text)

To the Shareholders of
Recordati Industria Chimica e Farmaceutica S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2020, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The financial statements for the year ended 31 December 2019 have been audited by another auditor who expressed an unqualified opinion on the financial statements on 7 April 2020.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matter:

| Key Audit Matter | Audit Response |
|---|---|
| <p data-bbox="181 430 794 488">Recoverability of the book value of investments in subsidiaries</p> <p data-bbox="181 524 794 613">As of 31 December 2020, the investments in subsidiaries recorded in the Company's financial statements amount to Euro 1.050 million.</p> <p data-bbox="181 649 794 1187">In case of specific impairment indicators, the value of investments in subsidiaries, recorded at cost, is tested for impairment by the directors. For the purpose of impairment testing, the value of the investments in subsidiaries is compared with the recoverable amount, defined as the higher of the fair value less costs to sell and the value in use. The processes as well as the methods of evaluation and calculation of the recoverable amount of investments in subsidiaries are based on assumptions, sometimes complex, which imply, by their nature, estimates by the directors, especially with regard to the forecast of future cash flows, the determination of the discount rates and growth rates adopted beyond the period with explicit forecasts.</p> <p data-bbox="181 1223 794 1411">Considering the significance of the item, the judgment requested and the complexity of the assumptions adopted in the estimation of the recoverable amount of investments in subsidiaries, we assessed this matter as a key audit matter.</p> <p data-bbox="181 1447 794 1760">Financial statements disclosures related to this matter are reported in the note "2. Summary of significant accounting policies" and in particular in the note "16. Investments", which describes the composition of the balance as of 31 December 2020, as well as the methodology used to assess the recoverable amount of investments in subsidiaries, with specific reference to the valuation methodology and the assumptions used.</p> | <p data-bbox="801 524 1394 582">Our audit procedures related to the key audit matter included, among the others:</p> <ul style="list-style-type: none"> <li data-bbox="801 591 1394 869">i. the analysis of the procedure adopted by the Company and the methodology applied in connection with identification and evaluation of any reduction in the value of investments in subsidiaries, taking into account the impairment test procedure approved by the Board of Directors of the Company on 18 March 2021; <li data-bbox="801 878 1394 1093">ii. the analysis of the differences between the value of investments in subsidiaries and the corresponding value of the net assets of the subsidiaries, also considering the effects recognized and tested in the consolidated financial statements; <li data-bbox="801 1102 1394 1160">iii. the analysis of the reasonableness of the expected cash flows; <li data-bbox="801 1169 1394 1317">iv. the analysis of the impairment test, also taking into account the activities performed to assess the recoverability of goodwill in the consolidated financial statements; <li data-bbox="801 1326 1394 1415">v. the assessment of the quality of forecasts as compared to the historical accuracy of the previous forecasts; <li data-bbox="801 1424 1394 1572">vi. the sensitivity analysis on key assumptions in order to identify the changes in assumptions that could have a significant impact on the valuation of the recoverable amount. <p data-bbox="801 1608 1394 1863">Our procedures were performed with the support of our experts in valuation techniques, who analyzed the valuation methodologies adopted, verified the mathematical accuracy of the calculation models and evaluated the criteria adopted to determine the discount rates and growth rates applied beyond the period with explicit forecasts.</p> <p data-bbox="801 1899 1394 1980">Finally, we analyzed the disclosures provided in the financial statements of the Company as of 31 December 2020.</p> |

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

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

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Recordati Industria Chimica e Farmaceutica S.p.A., in the general meeting held on 29 April 2020, engaged us to perform the audits of the financial statements for each of the years ending 31 December 2020 to 31 December 2028.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Recordati Industria Chimica e Farmaceutica S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Recordati Industria Chimica e Farmaceutica S.p.A. as at 31 December 2020, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. as at 31 December 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain

material misstatements.

In our opinion, the Report on Operations and the above-mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. as at 31 December 2020 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Recordati Industria Chimica e Farmaceutica S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, 29 March 2021

EY S.p.A.

Signed by: Renato Macchi, Auditor

This report has been translated into the English language solely for the convenience of international readers.