



**INTERIM REPORT**  
**FIRST NINE MONTHS**  
**2020**

Recordati, established in 1926, is an international pharmaceutical group, listed on the Italian Stock Exchange (Reuters RECI.MI, Bloomberg REC IM, ISIN IT 0003828271), dedicated to the research, development, manufacturing and marketing of pharmaceuticals and pharmaceutical chemicals, with headquarters in Milan, Italy, Recordati has operations throughout the whole of Europe, including Russia, Turkey, North Africa, the United States of America, Canada, Mexico, some South American countries, Japan and Australia.

# MANAGEMENT REVIEW

## HIGHLIGHTS

### FIRST NINE MONTHS 2020

#### NET REVENUE

€ (thousands)	First nine months 2020		First nine months 2019		Change 2020/2019	%
Total net revenue	1,093,818	100.0	1,100,418	100.0	(6,600)	(0.6)
Italy	208,523	19.1	220,597	20.0	(12,074)	(5.5)
International	885,295	80.9	879,821	80.0	5,474	0.6

#### KEY CONSOLIDATED P&L DATA

€ (thousands)	First nine months 2020	% of revenue	First nine months 2019	% of revenue	Change 2020/2019	%
Net revenue	1,093,818	100.0	1,100,418	100.0	(6,600)	(0.6)
EBITDA <sup>(1)</sup>	438,801	40.1	409,612	37.2	29,189	7.1
Operating income	364,037	33.3	353,500	32.1	10,537	3.0
Net income	274,100	25.1	253,674	23.1	20,426	8.1
Adjusted net income <sup>(2)</sup>	317,548	29.0	282,796	25.7	34,752	12.3

(1) Net income before financial (income) expense, provision for taxes, depreciation, amortization and write down of property, plant and equipment, intangible assets and goodwill, and non-recurring items.

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

#### KEY CONSOLIDATED B/S DATA

€ (thousands)	30 September 2020	31 December 2019	Change 2020/2019	%
Net financial position <sup>(3)</sup>	(845,940)	(902,681)	56,741	(6.3)
Shareholders' equity	1,287,575	1,198,811	88,764	7.4

(3) Short-term financial investments, cash and cash equivalents, less bank overdrafts and loans which include the measurement at fair value of hedging derivatives.

### THIRD QUARTER 2020

#### NET REVENUE

€ (thousands)	Third quarter 2020	%	Third quarter 2019	%	Change 2020/2019	%
Total net revenue	333,626	100.0	357,165	100.0	(23,539)	(6.6)
Italy	60,038	18.0	65,500	18.3	(5,462)	(8.3)
International	273,588	82.0	291,665	81.7	(18,077)	(6.2)

## KEY CONSOLIDATED P&amp;L DATA

€ (thousands)	Third quarter 2020	% of revenue	Third quarter 2019	% of revenue	Change 2020/2019	%
Net revenue	333,626	100.0	357,165	100.0	(23,539)	(6.6)
EBITDA <sup>(1)</sup>	127,710	38.3	130,299	36.5	(2,589)	(2.0)
Operating income	102,527	30.7	110,941	31.1	(8,414)	(7.6)
Net income	77,157	23.1	79,400	22.2	(2,243)	(2.8)
Adjusted net income <sup>(2)</sup>	91,980	27.6	89,659	25.1	2,321	2.6

(1) Net income before financial (income) expense, provision for taxes, depreciation, amortization and write down of property, plant and equipment, intangible assets and goodwill, and non-recurring items.

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

Business activities in the third quarter of 2020 continued to be affected by the COVID-19 pandemic due both to the local restrictions imposed to limit contagion in all territories, as well as to a cautious management of stocks by wholesalers. This, together with the further devaluation of most currencies with respect to the euro, negatively affected sales in the main countries in which the Group operates. Consequently, revenue at € 1,093.8 million is slightly down by 0.6% compared to the same period of the preceding year. International sales, conversely, increase by 0.6%, thanks to the contribution of the new products acquired in the second half of 2019. At constant currency exchange rates revenue increases by 1.1% over the same period of 2019.

While complying with all the measures necessary to ensure the health safety of its personnel, Recordati has continued its production and distribution activities without interruption and has adopted measures to guarantee the continued availability on the market of its products. For office personnel, operations not requiring the physical presence of people in the companies' offices continued to be carried out normally in home working mode, while our medical representatives gradually returned to their field activities that had been suspended during the most acute period of the epidemic, while respecting the medical assistance priorities of all healthcare workers, and continuing to supplement their activity through alternative communication means. In March, the Group allocated € 5 million to contribute gratuitously to the support of hospitals and health facilities in their fight against the epidemiologic emergency due to COVID-19 in the areas most affected.

Despite the impact of the health emergency and the currency devaluations, EBITDA is € 438.8 million, or at 40.1% of sales, an increase of 7.1% over the first nine months of 2019, thanks to an increase in gross margin and the reduction of operating expenses stemming from lower activity in the field due to the health emergency. As previously communicated, to better represent the performance of the business, the definition of EBITDA, as from this year, has been integrated to exclude non-recurring

charges. As in preceding quarters, non-recurring costs relate to the COVID-19 epidemiological emergency for an amount of € 5.2 million which include donations already paid, while there were no non-recurring charges in the first nine months of 2019.

Operating income, at 33.3% of sales, is € 364.0 million, an increase of 3.0% over the same period of the preceding year. Growth is lower than that recorded by EBITDA due to the increase in the amortization associated with the product acquisitions in 2019.

Net income, at 25.1% of sales, is € 274.1 million, an increase of 8.1% over the first nine months of 2019. Growth is due to the increase in operating income and the benefit from lower financial expenses and, thanks to the effect derived from the so-called patent box, a lower effective tax rate.

As already illustrated in the preceding quarters, given the increased amount of intangible assets on the Group's balance sheet and their amortization, in order to provide information in line with best practice in the sector and to allow comparability with other players, as from this year a new performance indicator has been introduced, adjusted net income, which is net income excluding amortization and write-down of intangible assets (except software) and goodwill, and non-recurring items, net of tax effects. Adjusted net income is € 317.5 million, up by 12.3% over the same indicator calculated using the first nine months of 2019 results, with a margin of 29.0% of sales.

Net financial position at 30 September 2020 records a net debt of € 845.9 million compared to net debt of € 902.7 million at 31 December 2019. During the period milestones of \$ 90.0 million were paid to Novartis following the European and U.S. approval of Isturisa® and its launch in Germany, own shares were purchased for a total disbursement, net of disposals for the exercise of stock options, of € 15.6 million and dividends were paid for a total of € 110.5 million. Net of these effects cash generation during the period was of around € 267 million. Shareholders' equity is € 1,287.6 million.

## CORPORATE DEVELOPMENT NEWS

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 FDA approved Isturisa® for the treatment of patients with Cushing's disease, for whom pituitary surgery is not an option or has not been curative, in the U.S.A. Both the European Commission and the FDA confirmed the orphan drug status of Isturisa®. Also, in March, the Japanese New Drug Application (JNDA) was submitted to the Ministry of Health, Labour and Welfare seeking marketing approval for osilodrostat. Furthermore, the marketing authorizations for Isturisa® were transferred to Recordati Rare Diseases both in the United States and in Europe, in March and April respectively, and the product was launched with initial sales in the second quarter in the U.S., France and Germany.

The active substance of 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 program show that osilodrostat leads to 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. Particularly, 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 demonstrates 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).

As per the agreement with Novartis, in the month of February the marketing authorizations for Signifor® and Signifor® LAR in the

U.S. were transferred to Recordati Rare Diseases Inc. and direct marketing of these products on this market started. Consolidated revenue generated by Signifor®, Signifor® LAR and Isturisa® in the first nine months of 2020 is € 53.8 million.

In August, the U.S. Food and Drug Administration (FDA) granted approval for the marketing of Cystadrops® (cysteamine ophthalmic solution) 0.37% in the U.S.A and the product 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® demonstrated a significant reduction in cystine crystal deposits in the cornea of the eye and is the first and only FDA-approved cysteamine drop formulation with four times a day dosing. Cystinosis is a rare genetic condition present from birth that leads to the build-up of cystine crystals throughout the body, causing widespread tissue and organ damage and significant impact on the eyes.

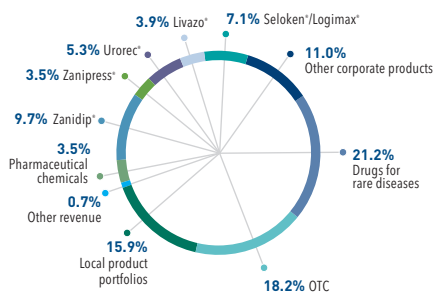
In September, an exclusive license agreement with ARS Pharmaceuticals, a private U.S. pharmaceutical company, for the commercialization in the European Union, Iceland, Liechtenstein, Norway, Switzerland, United Kingdom, Russia/CIS, Turkey, Middle East and French-speaking African countries, of ARS-1, an epinephrine nasal spray in late-stage development for the emergency treatment of severe allergic reactions that can lead to anaphylaxis, was signed. The terms of the agreement provide for an upfront payment (€ 10 million paid in October) and further milestone payments linked to the regulatory process and commercial performance. Anaphylaxis is a severe, generalized allergic reaction, characterized by life-threatening breathing or cardiovascular problems. The trigger is exogenous and can be associated with food, insect bites or other allergenic substances. ARS-1 is a liquid formulation of epinephrine associated with Intravail®, an absorption enhancer, contained in a disposable, mono-dose nasal spray device. Compared to existing products this innovative formulation represents a new easy-to-use and needle-free route of administration. With use at the first signs of allergic response, it could provide patients and their families the preventive solution to anaphylactic progression.

## REVIEW OF OPERATIONS

The Group's business is composed of two segments, that dedicated to specialty and primary care and the one dedicated to treatments for rare diseases, and is carried out directly in the main European markets, including Central and Eastern Europe, in Russia, Turkey, North Africa, the United States of America, Canada, Mexico, in some South American countries, in Japan and Australia through our own subsidiaries and in the rest of the world through licensing agreements with pharmaceutical companies of high standing.

Net revenue in the first nine months of 2020 is € 1,093.8 million,

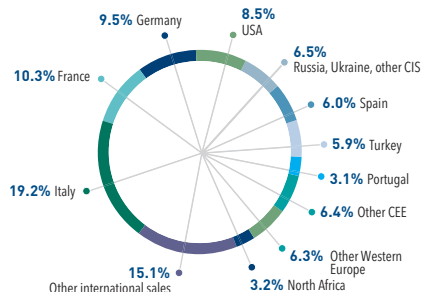
### SALES BY BUSINESS



As already mentioned, the Group's revenue, mainly in the second and third quarters, suffered from the impact of the COVID-19 pandemic on its reference markets, affecting mainly the Specialty and Primary Care segment. The more consolidated products for the treatment of chronic diseases continued to perform well, as confirmed by the growth of lercanidipine, pitavastatin and metoprolol. The negative impact was mainly caused by the reduction of procedures conducted in hospitals and clinics, such as endoscopies which have negatively affected Citrafleet® (colonoscopy preparation) in Spain; by the low incidence of some diseases due to the reduced activity of the population, which negatively affected the performance of the anti-infectives

down by 0.6% over the same period of the preceding year, and includes revenue of € 53.8 million related to Signifor® and Signifor® LAR, realized starting 24 October 2019, and initial sales of Isturisa®, in addition to an estimated negative currency exchange rate effect of € 18.5 million. Excluding these items revenue would have been down by 3.8%, mainly due to the impact of the COVID-19 pandemic on our reference markets and to the loss of Urorec®'s (silodosin) marketing exclusivity. International sales grow by 0.6% to € 885.3 million, which represent 80.9% of total sales.

### SALES BY GEOGRAPHY\*



\* Excluding sales of pharmaceutical chemicals which are € 37.9 million, up by 11.3% and represent 3.5% of total revenue.

Tergyman®, Polydexa® and Isofra® in Russia and in other Central and Eastern European countries; the reduced use of OTC products such as vitamins, food supplements and probiotics. The segment dedicated to the treatment of rare diseases was less affected, except for the sales of Panhematin® in the U.S.A. due to the lower number of patients visiting infusion centres, mainly in the second quarter. The negative variances recorded regarding the abovementioned products are expected to be of a temporary nature as they are associated with the contingent COVID-19 emergency.

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

€ (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019	%
Zanidip® (lercanidipine)	106,083	102,216	3,867	3.8
Zanipress® (lercanidipine+enalapril)	38,234	44,377	(6,143)	(13.8)
Urorec® (silodosin)	58,488	82,694	(24,206)	(29.3)
Livazo® (pitavastatin)	42,450	40,001	2,449	6.1
Seloken®/Seloken® ZOK/Logimax® (metoprolol/metoprolol+felodipine)	77,699	72,479	5,220	7.2
Other corporate products*	198,689	225,496	(26,807)	(11.9)
Drugs for rare diseases	232,359	177,136	55,223	31.2

\* Include the OTC corporate products for an amount of € 78.4 million in 2020 and € 84.7 million in 2019 (-7.5%).

Zanidip® is a specialty containing lercanidipine, Recordati's original calcium channel blocker for the treatment of hypertension. Our lercanidipine based products are sold directly to the market by our own marketing organizations in Europe, including Central and Eastern

Europe, in Russia, in Turkey and in North Africa. In the other markets they are sold by licensees, and in some of the above co-marketing agreements are in place.

€ (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019	%
Direct sales	57,551	55,462	2,089	3.8
Sales to licensees	48,532	46,754	1,778	3.8
<b>Total lercanidipine sales</b>	<b>106,083</b>	<b>102,216</b>	<b>3,867</b>	<b>3.8</b>

Lercanidipine direct sales are up by 3.8% due to growth mainly in Italy, Germany, Poland and Russia as well as to the direct sales by our organizations now operational in the Nordic countries and in BeNeLux, areas where sales were previously realized by our licensees. Sales to licensees, which represent 45.7% of total lercanidipine sales, are up by 3.8%, a lower growth rate than that in preceding quarters, due to the normalization of sales

on international markets following higher orders in previous quarters.

Zanipress® is an original specialty also indicated for the treatment of hypertension developed by Recordati which consists of a fixed combination of lercanidipine with enalapril. This product is successfully marketed directly by Recordati and/or by its licensees in 30 countries

€ (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019	%
Direct sales	34,117	39,670	(5,553)	(14.0)
Sales to licensees	4,117	4,707	(590)	(12.5)
<b>Total lercanidipine+enalapril sales</b>	<b>38,234</b>	<b>44,377</b>	<b>(6,143)</b>	<b>(13.8)</b>

Direct sales of Zanipress® in the first nine months of 2020 are down by 14.0% due to the impact of the new measures introduced in France in favour of the use of generic products. Sales to licensees represent 10.8% of total Zanipress® sales and are down by 12.5% mainly due to the termination of the licenses in France and Belgium.

Urorec® (silodosin) is a specialty indicated for the treatment of symptoms associated with benign prostatic hyperplasia (BPH). Currently the product is marketed in 40 countries with sales of € 58.5 million in the first nine months of 2020, down by 29.3% in line with expectations due to competition from generic versions of the product following the expiry of its marketing exclusivity, mainly in Italy, France, Spain and Germany. Urorec® is performing well in Turkey where generic versions are not present.

Sales of Livazo® (pitavastatin), a statin indicated for the reduction of elevated total and LDL cholesterol, in Spain, Portugal, Ukraine, Greece, Switzerland, Russia, other C.I.S. countries and Turkey, are € 42.5 million in the first nine months of 2020, up by 6.1% due mainly to the performance of the product in Turkey, Greece and Switzerland. In August 2020, the exclusivity covering the use of pitavastatin clinical data expired and consequently generic

versions of the product are entering the market, mainly in Spain and Portugal.

Sales of Seloken®/Seloken® ZOK (metoprolol) and associated Logimax® fixed dose combination (metoprolol and felodipine), metoprolol based products belonging to the beta-blocker class of drugs widely used in the treatment of various cardiovascular disorders, are of € 77.7 million in the first nine months of 2020, up by 7.2% compared to the same period of the preceding year thanks mainly to the growth of sales in the Central and Eastern European countries.

In the first nine months of 2020 sales of other corporate products totaled € 198.7 million, down by 11.9% compared to the same period of the preceding year due to lower sales of Citrafleet® and the other products used in the preparation for colonoscopies, a hospital procedure which was interrupted in recent months due to the COVID-19 emergency, in addition to the low incidence of some diseases due to the reduced activity of the population, which negatively affected the performance of the anti-infectives Tergynan®, Polydexa® and Isofra® in Russia and in other Central and Eastern European countries. Furthermore, sales were affected by the negative currency exchange effect in Turkey and Russia and

the reduced demand for OTC products and food supplements. Other corporate products comprise both prescription and OTC products and are: Reagila® (cariprazine), Lomexin® (fenticonazole), Urispas® (flavoxate), Kentera® (oxybutynin transdermal patch), TransAct® LAT (flurbiprofen transdermal patch), Rupafin®/Wystamm® (rupatadine), Lopresor® (metoprolol), Procto-Glyvenol® (tribenoside), Tergynan® (fixed association of anti-infectives) as well as CitraFleet®, Casenlax®, Fleet enema, Phosphosoda®, Reuflor®/Reuteri® (lactobacillus Reuteri) and Lactigest® (lactase), gastroenterological products, Polydexa®, Isofra® and Otofa®, ENT anti-infective products, the Hexa line of products indicated for seasonal disorders of the upper respiratory tract, Abufene® and Muvagyn® for gynecological use, Virirec® (alprostadil) and Fortacin® (lidocaine+prilocaine) for male sexual disorders.

In the first nine months of 2020, our specialties indicated for the treatment of rare diseases, marketed directly throughout Europe, in the Middle East, in the U.S.A., Canada, Mexico, in some South American countries, in Japan and Australia, and through partners in other parts of the world, generated sales of € 232.4 million, up by 31.2%, and include revenues from Signifor®, Signifor® LAR and

Isturisa® for a total of € 53.8 million. Excluding the contribution from these products, acquired at the end of 2019, the growth of the products for the treatment of rare diseases would have been 0.8%. The continued growth of Carbaglu®, Cystadrops®, Cystadane® and Juxtapid® partly compensated for the reduction of the U.S.A. sales of Panhematin® (haemin for injection) which were affected by restricted access to infusion centres on account of the COVID-19 emergency and to the entry of a competitive product for the amelioration of recurrent attacks of acute intermittent porphyria. The sales of products for the treatment of rare diseases in the rest of the world (ex U.S.A.), excluding revenues generated by Signifor®, Signifor® LAR and Isturisa®, grow by 11.5%.

Sales of pharmaceutical chemicals, which comprise active substances produced in the Campoverde d'Aprilia plant for the international pharmaceutical industry, are € 37.9 million, up by 11.3%, and account for 3.5% of total sales.

The sales of the Recordati subsidiaries, which include the abovementioned product sales but exclude sales of pharmaceutical chemicals, are shown in the following table.

€ (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019	%
Italy	202,898	215,147	(12,249)	(5.7)
France	109,132	117,028	(7,896)	(6.7)
Germany	100,595	101,465	(870)	(0.9)
U.S.A.	89,418	78,342	11,076	14.1
Russia, other C.I.S. countries and Ukraine	69,089	83,589	(14,500)	(17.3)
Spain	63,079	69,420	(6,341)	(9.1)
Turkey	62,443	65,314	(2,871)	(4.4)
Portugal	32,557	32,979	(422)	(1.3)
Other C.E.E. countries	67,098	60,017	7,081	11.8
Other Western European countries	66,864	55,891	10,973	19.6
North Africa	33,372	30,288	3,084	10.2
Other international sales	159,341	156,871	2,470	1.6
<b>Total pharmaceutical revenue*</b>	<b>1,055,886</b>	<b>1,066,351</b>	<b>(10,465)</b>	<b>(1.0)</b>

\*I ricavi netti includono le vendite di prodotti e ricavi vari ed escludono quelli relativi ai prodotti di chimica farmaceutica.

Sales in countries affected by currency exchange oscillations are shown hereunder in their relative local currencies.

Local currency (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019	%
Russia (RUB)	4,276,804	4,824,138	(547,334)	(11.4)
Turkey (TRY)	450,265	393,024	57,241	14.6
U.S.A. (USD)	100,598	88,026	12,572	14.3

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



Sales of pharmaceuticals in Italy are down by 5.7% compared to those of the same period of the preceding year mainly due to competition from generic versions of Urorec®, Peptazol® (pantoprazole) and Lovinacor®/Rextat® (lovastatin) in addition to weak consumption of self-medication products, except for the eye drops Imidazol® and Eumill®, during the health emergency. Worth mentioning is the good performance of Reagila®, Cardicor® (bisoprolol), Zanidip®/Lercadip® (lercanidipine) as well as the significant growth of treatments for rare diseases that include the newly acquired endocrinology products Signifor® and Signifor® LAR.

Pharmaceutical sales in France are down by 6.7% mainly due to generic competition for Urorec® and the impact on the lercanidipine based products of the new measures introduced at the beginning of the year which further promote the adoption of generic drugs. Worth noting is the good performance of methadone sales and the significant growth of treatments for rare diseases that include the newly acquired endocrinology products Signifor®, Signifor® LAR and Isturisa®.

Sales in Germany are down by 0.9% compared with those of the same period of the preceding year due to competition from generic versions of Ortoton® (methocarbamol). Worth mentioning is the performance of Claversal® (mesalazina) and lercanidipine, as well as Mirfulan® and Laxbene®, OTC products. Furthermore, treatments for rare diseases, that include the newly acquired endocrinology products Signifor®, Signifor® LAR and Isturisa®, grow significantly.

The Group's pharmaceutical business in the U.S.A. is dedicated to the marketing of products for the treatment of rare diseases. Sales in the first nine months of 2020 are € 89.4 million, up by 14.1% and by 14.3% in local currency. Growth reflects mainly the contribution from the newly acquired endocrinology products Signifor® and Signifor® LAR (pasireotide) for the treatment of Cushing's disease and acromegaly, and the launch of Isturisa® (osilodrostat) for the treatment of Cushing's disease, together with the continued growth of Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency and Cystadane® (betaine anhydrous) indicated in the treatment of homocystinuria. Sales of Panhematin® (haem for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, instead, are down following the entry of a competitive product.

Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) is € 69.1 million, down by 17.3% compared to the same period of the preceding year and includes estimated currency exchange losses of € 5.2 million. In addition to the devaluation of the ruble, activities in these areas were particularly affected by the COVID-19 epidemiological emergency. Sales in Russia, in local currency, are RUB 4,276.8 million, down by 11.4% compared to the same period of the preceding year mainly due to the reduction of products for seasonal infections. Worth mentioning is the significant growth of the corporate products Zanidip®, Livazo® and Urorec® in addition to the self-medication products Procto-Glyvenol® and Abufene®. Sales generated in Ukraine and in the C.I.S. countries, mainly Belarus, Kazakhstan and Armenia are € 13.2 million, down by 15.9%.

In Spain sales are € 63.1 million, down by 9.1% mainly due to the reduced sales of products associated with hospital procedures, temporarily suspended because of the COVID-19 epidemiological emergency

(Citrafleet® and Enema Casen) and to the competition from generic versions of Urorec® and Livazo®. Worthy of note is the good performance of Reagila® and the significant growth of the treatments for rare diseases.

Sales in Turkey are € 62.4 million, down by 4.4%, and include a negative currency exchange effect estimated to be of € 11.7 million. In local currency sales of our Turkish subsidiary grow by 14.6% thanks to an overall price increase and to the good performance of all the corporate products, in particular Livazo®, Urorec®, Lercadip®, Zanipress®, and Procto-Glyvenol®, as well as the local products Mictonom® (propiverine), Cabral® (phenylamidol), Kreal® (butamirate citrate) and Colchicum® (colchicine).

Sales in Portugal are down by 1.3% mainly due to the competition from generic versions of Urorec® and Zanipress® as well as to the weak sales of self-medication products. Worthy of note is the good performance of Cloxam® (doxazolam), Carzap® (candesartan cilexetil), the launch of Reagila® and the significant sales growth of the treatments for rare diseases. During the third quarter generic versions of Livazo® entered the Portuguese market.

Sales in other Central and Eastern European countries include the sales of Recordati subsidiaries in Poland, the Czech Republic, Slovakia, Romania, Bulgaria and the Baltic countries, in addition to sales of rare disease treatments in this area as well as in Hungary. In the first nine months of 2020 overall sales are up by 11.8% thanks mainly to the growth of sales in the Czech Republic, Poland and Romania in addition to the entry into Bulgaria and the Baltic countries. The main products in the portfolios of these subsidiaries are those based on metoprolol. Sales of the treatments for rare diseases in these countries grow by 83.3%.

Sales in other countries in Western Europe, up by 19.6%, comprise sales of products for the treatment of rare diseases in these countries (+37.3%) and sales of specialty and primary care products generated by the Recordati subsidiaries in the United Kingdom, Ireland, Greece, Switzerland, in the Nordic countries (Finland, Sweden, Denmark, Norway and Iceland) and in BeNeLux. Sales are growing in all countries and the strong increase is to be attributed mainly to the direct commercialization of our corporate products by Recordati organizations in the Nordic countries and in BeNeLux where sales were previously made through licenses.

Sales in North Africa are € 33.4 million, up by 10.2% over the same period of the preceding year, and comprise both the export sales generated by Laboratoires Bouchara Recordati in these territories, in particular in Algeria, and sales generated by Opalia Pharma, the Group's Tunisian subsidiary. Sales in Tunisia in the first nine months of 2020 are up by 10.2%.

Other international sales are up by 1.6% as compared to the same period of the preceding year and comprise the sales to, and other revenues from, our licensees for our corporate products, Laboratoires Bouchara Recordati's and Casen Recordati's export sales, as well as the sales of products for the treatment of rare diseases in the rest of the world. The increase is to be attributed mainly to the good sales performance of the treatments for rare diseases and particularly to the sales in Japan thanks to the contribution from Juxtapid® and the addition of Signifor® and Signifor® LAR to the portfolio.

## FINANCIAL REVIEW

### INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus the first nine months of 2019:

€ (thousands)	First nine months 2020	% of revenue	First nine months 2019	% of revenue	Change 2020/2019	%
Revenue	1,093,818	100.0	1,100,418	100.0	(6,600)	(0.6)
Cost of sales	(308,237)	(28.2)	(329,069)	(29.9)	20,832	(6.3)
Gross profit	785,581	71.8	771,349	70.1	14,232	1.8
Selling expenses	(256,701)	(23.5)	(273,446)	(24.8)	16,745	(6.1)
Research and development expenses	(106,344)	(9.7)	(91,581)	(8.3)	(14,763)	16.1
General and administrative expenses	(53,644)	(4.9)	(51,740)	(4.7)	(1,904)	3.7
Other income (expense), net	(4,855)	(0.4)	(1,082)	(0.1)	(3,773)	n.s.
Operating income	364,037	33.3	353,500	32.1	10,537	3.0
Financial income (expense), net	(11,192)	(1.0)	(15,980)	(1.5)	4,788	(30.0)
Pretax income	352,845	32.3	337,520	30.7	15,325	4.5
Provision for income taxes	(78,745)	(7.2)	(83,846)	(7.6)	5,101	(6.1)
Net income	274,100	25.1	253,674	23.1	20,426	8.1
Adjusted net income <sup>(1)</sup>	317,548	29.0	282,796	25.7	34,752	12.3
EBITDA <sup>(2)</sup>	438,801	40.1	409,612	37.2	29,189	7.1

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

*(2) Net income before financial (income) expense, provision for taxes, depreciation, amortization and write down of property, plant and equipment, intangible assets and goodwill, and non-recurring items.*

Revenue for the period is € 1,093.8 million, an increase of € 6.6 million compared to the first nine months of 2019. For a detailed analysis please refer to the preceding "Review of Operations".

Gross profit is € 785.6 million with a margin of 71.8% on sales, an improvement compared to that of the same period of the preceding year due mainly to a larger proportion of products with higher margins.

Selling expenses decrease by 6.1% mainly due to the significant reduction of promotional activities as a result of the restrictions introduced in all markets to counter the COVID-19 epidemiological emergency, with a consequent decrease as a percent of revenue compared to the same period of the preceding year.

Research and development expenses are € 106.3 million, up by 16.1% compared to those recorded in the first nine months of the preceding year due to the advancement of new development programs and the amortization of the rights to the new products Signifor®, Signifor® LAR and, as from the second quarter also Isturisa®, acquired from Novartis in October 2019.

General and administrative expenses are up by 3.7%, due mainly to the reinforcement of the organization in support of the endocrinology business unit but are substantially unchanged as percent of sales.

Other expense, net of other income, is € 4.9 million and includes costs of € 5.2 million related to the COVID-19 epidemiological

emergency, mainly composed of donations to hospitals.

EBITDA (net income before financial (income) expense, provision for taxes, depreciation, amortization and write down of property, plant and equipment, intangible assets and goodwill, and exceptional non-recurring items), at 40.1% of sales, is € 438.8 million, an increase of 7.1% over the first nine months of 2019. Total depreciation and amortization charges, classified in the lines above, are € 69.6 million, of which amortization charges are € 50.6

million, an increase of € 12.8 million over the same period of the preceding year mainly resulting from the acquisition of the rights to Signifor®, Signifor® LAR and Isturisa® from Novartis in October 2019, and depreciation charges are € 19.0 million, up by € 0.6 million compared to the first nine months of 2019. Costs related to non-recurring events are € 5.2 million and are relative to the COVID-19 epidemiological emergency, mainly donations to hospitals.

The reconciliation of net income with EBITDA\* is reported below.

€ (thousands)	First nine months 2020	First nine months 2019
Net income	274,100	253,674
Financial (income) expenses, net	78,745	83,846
Provision for income taxes	11,192	15,980
Depreciation, amortization and write-downs	69,582	56,112
Non-recurring items	5,182	0
<b>EBITDA*</b>	<b>438,801</b>	<b>409,612</b>

\* Net income before financial (income) expense, provision for taxes, depreciation, amortization and write down of property, plant and equipment, intangible assets and goodwill, and non-recurring items.

The breakdown of EBITDA\* by business segment is reported below.

€ (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019	%
Specialty and Primary Care segment	321,823	321,832	(9)	n.s.
Rare diseases segment	116,978	87,780	29,198	33.3
<b>Total EBITDA*</b>	<b>438,801</b>	<b>409,612</b>	<b>29,189</b>	<b>7.1</b>

\* Net income before financial (income) expense, provision for taxes, depreciation, amortization and write down of property, plant and equipment, intangible assets and goodwill, and non-recurring items.

The EBITDA margin on sales of Specialty and Primary Care products is 37.4%, while that on sales of treatments for rare diseases is 50.3%, both increased compared to those in the first nine months of 2019.

Net financial charges are € 11.2 million, a decrease of € 4.8 million compared to the same period of the preceding year. Interest charges on loans increased by € 2.6 million, mainly following new loans raised, while short term positions generated net gains of € 1.3 million compared to net charges of € 4.2 million in the first nine months of 2019. During the year the Parent company repaid in advance to the U.S. company Recordati Rare Diseases Inc. two loans stipulated in November 2016 for an overall amount of \$ 70 million (which correspond to the two tranches of the notes privately placed by the US subsidiary in 2013) and

extinguished the relative cross-currency swaps. Following the early reimbursement of the notes in the first half of 2019, the derivative financial instruments no longer qualified as hedging instruments and their change in fair value was recognized to the profit and loss, net of the effect of the conversion of the loans to 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.

The effective tax rate during the period is 22.3%, lower than that of the same period of the preceding year due to the tax benefit provided by the so-called "patent box". Following the agreement reached with 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 period 2015 to 2019, the Parent Company has decided to adhere – instead of renewing the agreement – to the new optional reverse charge mechanism provided for by art. 4 of the 30 April 2019 legislative decree number 34, and therefore determine directly in its tax returns 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-year period. The accrued benefit for the first half 2020, booked as a reduction in taxes, is € 6.4 million.

Net income is € 274.1 million, or 25.1% of sales, an increase of 8.1% over the same period of the preceding year thanks to the increase in operating income and the benefit from lower financial expenses and the reduction of the effective tax rate.

Adjusted net income\* is € 317.5 million and excludes amortization and write-down of intangible assets (except software) and goodwill for an amount of € 39.6 million, and non-recurring items for an amount of € 3.8 million, both net of tax effects.

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

€ (thousands)	First nine months 2020	First nine months 2019
Net income	274,100	253,674
Amortization and write-down of intangible assets (excluding software)	50,371	37,511
Tax effect	(10,732)	(8,389)
Non-recurring items	5,182	0
Tax effect	(1,373)	0
<b>Adjusted net income*</b>	<b>317,548</b>	<b>282,796</b>

\* *Utile netto esclusi gli ammortamenti e le svalutazioni delle attività immateriali (escluso il software) e dell'avviamento, e gli eventi non ricorrenti, al netto degli effetti fiscali.*

## NET FINANCIAL POSITION

The net financial position is set out in the following table:

€ (migliaia)	31 September 2020	31 December 2019	Change 2020/2019	%
Cash and short-term financial investments	277,622	187,923	89,699	47.7
Bank overdrafts and short-term loans	(14,729)	(13,392)	(1,337)	10.0
Loans – due within one year <sup>(1)</sup>	(211,060)	(140,963)	(70,097)	49.7
Leasing liabilities – due within one year	(8,889)	(8,854)	(35)	0.4
<b>Net liquid assets</b>	<b>42,944</b>	<b>24,714</b>	<b>18,230</b>	<b>73.8</b>
Loans – due after one year <sup>(1)</sup>	(870,547)	(908,542)	37,995	(4.2)
Leasing liabilities – due after one year	(18,337)	(18,853)	516	(2.7)
<b>Net financial position</b>	<b>(845,940)</b>	<b>(902,681)</b>	<b>56,741</b>	<b>(6.3)</b>

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

At 30 September 2020, the net financial position shows a net debt of € 845.9 million compared to net debt of € 902.7 million at 31 December 2019. During the period milestones of \$ 90.0 million (€ 81.6 million) were paid to Novartis following the marketing authorization for Isturisa® in Europe and in the United States and its launch in Germany, and € 2.5 million were paid to Helsinn according to the license agreement covering

Ledaga®. Furthermore, own shares were purchased for a total, net of disposals due to the exercising of stock options, of € 15.6 million and dividends were paid for a total of € 110.5 million. The analysis of the financial position net of the abovementioned effects confirms the Group's solid cash generation of around € 267 million during the period.

## RELATED PARTY TRANSACTIONS

The Group's direct controlling company is FIMEI S.p.A., headquartered in Milan, via Vecchio Politecnico 9, Italy, which since 2018 is owned by a consortium of investors controlled by CVC Capital Partners.

Tax receivables include an amount of € 14.7 million, computed by Recordati S.p.A. based on estimated taxable income, receivable from the direct controlling company FIMEI S.p.A. consequent to the participation in a tax consolidation grouping under tax laws in Italy. The amount includes the effect of the so-called "patent box", for the part related to corporate tax, both relative to the years 2015-2019, as agreed with the Italian tax authorities in December 2019, and to the first half of 2020.

On October 1<sup>st</sup>, 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 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.

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 be substantially 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 the strategy or its capital allocation policy. For further information please refer to Note 27 of the Notes to the Consolidated Financial Statements.

## BUSINESS OUTLOOK

As previously described, despite the results of the first nine months having been impacted by the COVID-19 epidemiological emergency, both operating income and net income continued to grow and are in line with expectations thanks to the positive contribution of the new products and the reduction of expenses. The persistence of the pandemic will continue to affect Group sales also in the fourth quarter with full year 2020 sales expected to be slightly below those recorded in 2019, due also to a negative foreign currency effect. However, thanks to lower expenses and an improvement in margins, EBITDA <sup>(1)</sup> and adjusted net income <sup>(2)</sup> are expected to be in line with the targets announced at the beginning of the year.

*(1) Net income before financial (income) expense, provision for taxes, depreciation, amortization and write down of property, plant and equipment, intangible assets and goodwill, and non-recurring items.*

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

Milan, 29 October 2020

on behalf of the Board of Directors  
*the Chief Executive Officer*  
**Andrea Recordati**

# CONSOLIDATED FINANCIAL STATEMENTS AT 30 SEPTEMBER 2020

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENT

€ (thousands) <sup>(1)</sup>	Note	First nine months 2020	First nine months 2019
Revenue	3	1,093,818	1,100,418
Cost of sales	4	(308,237)	(329,069)
<b>Gross profit</b>		<b>785,581</b>	<b>771,349</b>
Selling expenses	4	(256,701)	(273,446)
Research and Development expenses	4	(106,344)	(91,581)
General and Administrative expenses	4	(53,644)	(51,740)
Other income (expense), net	4	(4,855)	(1,082)
<b>Operating income</b>		<b>364,037</b>	<b>353,500</b>
Financial income (expense), net	5	(11,192)	(15,980)
<b>Pretax income</b>		<b>352,845</b>	<b>337,520</b>
Provision for income taxes	6	(78,745)	(83,846)
<b>Net income</b>		<b>274,100</b>	<b>253,674</b>
Attributable to:			
Equity holders of the parent		274,063	253,642
Non-controlling interests		37	32
<b>Earnings per share</b>			
Basic		€ 1.333	€ 1.239
Diluted		€ 1.311	€ 1.213

*(1) Except for share and per-share amounts.*

*Earnings per share (EPS) are based on average shares outstanding during each year, 205,603,780 in 2020 and 204,706,235 in 2019, net of average treasury stock which amounted to 3,521,376 shares in 2020 and to 4,418,921 shares in 2019.*

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

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

**ASSETS**

€ (thousands)	Note	30 September 2020	31 December 2019
<b>Non-current assets</b>			
Property, plant and equipment	7	129,739	133,342
Intangible assets	8	1,125,534	1,161,760
Goodwill	9	561,960	577,973
Other investments	10	28,933	38,566
Other non-current assets	11	6,742	16,426
Deferred tax assets	12	78,077	71,513
<b>Total non-current assets</b>		<b>1,930,985</b>	<b>1,999,580</b>
<b>Current assets</b>			
Inventories	13	250,334	226,885
Trade receivables	13	269,982	296,961
Other receivables	13	57,138	79,949
Other current assets	13	13,620	7,683
Fair value of hedging derivatives (cash flow hedge)	14	10,465	9,949
Short-term financial investments, cash and cash equivalents	15	277,622	187,923
<b>Total current assets</b>		<b>879,161</b>	<b>809,350</b>
<b>Total assets</b>		<b>2,810,146</b>	<b>2,808,930</b>

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

**EQUITY AND LIABILITIES**

€ (thousands)	Note	30 September 2020	31 December 2019
<b>Shareholders' equity</b>			
Share capital		26,141	26,141
Additional paid-in capital		83,719	83,719
Treasury stock		(92,295)	(93,480)
Hedging reserve (cash flow hedge)		(3,054)	(5,357)
Translation reserve		(207,332)	(146,866)
Other reserves		54,825	64,651
Retained earnings		1,151,237	999,708
Net income for the period		274,063	368,825
Interim dividend		0	(98,764)
<b>Shareholders' equity attributable to the holders of the Parent</b>		<b>1,287,304</b>	<b>1,198,577</b>
Non-controlling interests		271	234
<b>Total shareholders' equity</b>	16	<b>1,287,575</b>	<b>1,198,811</b>
<b>Non-current liabilities</b>			
Loans – due after one year	17	898,967	937,344
Staff leaving indemnities	18	20,077	20,557
Deferred tax liabilities	19	41,296	43,172
Other non-current liabilities	20	20,338	22,292
<b>Total non-current liabilities</b>		<b>980,678</b>	<b>1,023,365</b>
<b>Current liabilities</b>			
Trade payables	21	145,204	175,481
Other payables	21	87,765	185,706
Tax liabilities	21	37,066	21,094
Other current liabilities	21	11,298	12,543
Provisions	21	16,186	17,933
Fair value of hedging derivatives (cash flow hedge)	22	9,696	10,788
Loans – due within one year	17	219,949	149,817
Bank overdrafts and short-term loans	23	14,729	13,392
<b>Total current liabilities</b>		<b>541,893</b>	<b>586,754</b>
<b>Total equity and liabilities</b>		<b>2,810,146</b>	<b>2,808,930</b>



RECORDATI S.P.A. AND SUBSIDIARIES  
STATEMENT OF COMPREHENSIVE INCOME

€ (thousands) <sup>(1)</sup>	First nine months 2020	First nine months 2019
Net income for the period	274,100	253,674
Gains/(losses) on cash flow hedges, net of tax	2,303	318
Gains/(losses) on translation of foreign financial statements	(60,466)	19,651
Gains/(losses) on equity-accounted investees, net of tax	(9,333)	8,596
Other changes, net of tax	(208)	0
<b>Income and expense for the period recognized directly in equity</b>	<b>(67,704)</b>	<b>28,565</b>
<b>Comprehensive income for the period</b>	<b>206,396</b>	<b>282,239</b>
Attributable to:		
Equity holders of the parent	206,359	282,207
Non-controlling interests	37	32
<b>Earnings per share</b>		
Basic	€ 1.004	€ 1.379
Diluted	€ 0.987	€ 1.350

(1) Except for share and per-share amounts.

Earnings per share (EPS) are based on average shares outstanding during each year, 205,603,780 in 2020 and 204,706,235 in 2019, net of average treasury stock which amounted to 3,521,376 shares in 2020 and to 4,418,921 shares in 2019.

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

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ (thousands)	Attributable to equity holders of the Parent										Total
	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the period	Interim dividend	Non-controlling interests	
Balance at 31.12.2018*	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:											
- Dividends							29,486	(217,330)	91,761		(96,083)
- Retained earnings							95,046	(95,046)			0
Change in the reserve for share-based payments						3,023	2,264				5,287
Disposal of own shares			47,706				(23,700)				24,006
Other changes							583				583
Comprehensive income for the period				318	19,651	8,596		253,642		32	282,239
Balance at 30.9.2019	26,141	83,719	(97,902)	(8,081)	(134,495)	54,700	1,001,669	253,642	0	225	1,179,618
Balance at 31.12.2019	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:											
- Dividends							35,669	(241,092)	98,764		(106,659)
- Retained earnings							127,733	(127,733)			0
Change in the reserve for share-based payments						(285)	3,934				3,649
Purchase of own shares			(47,871)								(47,871)
Disposal of own shares			49,056				(16,817)				32,239
Other changes							1,010				1,010
Comprehensive income for the period				2,303	(60,466)	(9,541)		274,063		37	206,396
Balance at 30.9.2020	26,141	83,719	(92,295)	(3,054)	(207,332)	54,825	1,151,237	274,063	0	271	1,287,575

\*The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application.

The notes to the financial statements are an integral part of the consolidated financial statements.

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED CASH FLOW STATEMENT

€ (thousands)	First nine months 2020	First nine months 2019
<b>Cash flow from operating activities</b>		
Net Income	274,100	253,674
Depreciation of property, plant and equipment	18,975	18,348
Amortization of intangible assets	50,607	37,764
Equity-settled share-based payment transactions	3,649	5,287
<b>Total</b>	<b>347,331</b>	<b>315,073</b>
(Increase)/decrease in deferred tax assets	(6,314)	7,801
Increase/(decrease) in staff leaving indemnities	(480)	(32)
Increase/(decrease) in other non-current liabilities	(4,503)	(1,325)
	<b>336,034</b>	<b>321,517</b>
<b>Changes in working capital</b>		
Trade receivables	6,822	(31,629)
Inventories	(43,361)	(7,370)
Other receivables and other current assets	26,604	2,751
Trade payables	(37,651)	(16,841)
Tax liabilities	15,972	(4,093)
Other payables and other current liabilities	(13,596)	(6,403)
Provisions	(1,747)	(4,534)
<b>Changes in working capital</b>	<b>(46,957)</b>	<b>(68,119)</b>
<b>Net cash and cash equivalents from (used in) operating activities</b>	<b>289,077</b>	<b>253,398</b>
<b>Cash flow from investing activities</b>		
Net (investments)/disposals in property, plant and equipment	(13,213)	(14,102)
Net (investments)/disposals in intangible assets	(92,242)	(61,909)
Net (increase)/decrease in other non-current receivables	(46)	(277)
<b>Net cash and cash equivalents from (used in) investing activities</b>	<b>(105,501)</b>	<b>(76,288)</b>
<b>Cash flow from financing activities</b>		
Loans granted	110,183	418,750
Re-payment of loans	(73,409)	(111,948)
Payment of lease liabilities	(7,246)	(7,311)
Purchase of treasury stock	(47,871)	0
Sale of treasury stock	32,239	24,006
Other changes in equity	4,257	583
Dividends paid	(110,541)	(96,083)
<b>Net cash and cash equivalents from/ (used in) financing activities</b>	<b>(92,388)</b>	<b>227,997</b>
<b>Changes in net cash and cash equivalents</b>	<b>91,188</b>	<b>405,107</b>
Net cash and cash equivalents at beginning of period *	174,531	181,131
Exchange rate effect	(2,826)	10,244
<b>Net cash and cash equivalents at end of period *</b>	<b>262,893</b>	<b>596,482</b>

\* Includes cash and cash equivalents net of bank overdrafts and short-term loans.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2020

## 1. GENERAL INFORMATION

The consolidated financial statements of the Recordati group for the period ended 30 September 2020 have been prepared by Recordati Industria Chimica e Farmaceutica S.p.A. (the "Company" or the "Parent"), with offices at Via Matteo Civitali 1, Milan, Italy, and were approved by the Board of Directors on 29 October 2020 that authorised their public disclosure.

The consolidated financial statements for the period ended 30 September 2020 comprise those of the "Parent" and all

its controlled subsidiaries. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in Note 28. During the first nine months of 2020 the consolidation perimeter remained unchanged.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements were prepared in accordance with the recognition and measurement criteria prescribed by the International Financial Reporting Standards (IFRS) adopted by the European Union, but do not include the full information required for the annual financial statements and must therefore be read together with the annual report for the full year ended 31 December 2019, prepared in accordance with the IFRS, issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

The preparation of the interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The estimates and hypothesis made during the preparation of the consolidated condensed financial statements take into account the impacts, even if potential,

determined by the COVID-19 pandemic. Valuation exercises, in particular complex calculations such as those required to identify impairment loss, are carried out in depth only for the preparation of the year-end consolidated financial statements, except when there is an indication that an asset has suffered an impairment loss which would require an immediate estimate of the loss.

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 utilized 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 directly observable (prices) or indirectly (derivatives from the prices) on the market;
- Level 3: input which is not based on observable market data.

Disclosure of the net financial position is included under the preceding management review.

### ACCOUNTING PRINCIPLES USED BY THE GROUP IN PREPARING INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's last annual consolidated financial statements.

## 3. REVENUE

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers and is not subject to seasonal fluctuations.

Net revenue for the first nine months of 2020 is € 1,093.8 million (€ 1,100.4 million in the same period of the preceding year) and can be broken down as follows:

€ (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019
Net sales	1,064,960	1,085,523	(20,563)
Royalties	4,141	5,107	(966)
Up-front payments	3,521	4,673	(1,152)
Various revenues	21,196	5,115	16,081
<b>Total revenue</b>	<b>1,093,818</b>	<b>1,100,418</b>	<b>(6,600)</b>

Up-front payments relate to the licensing and distribution of the portfolio products and are recognized over the period of the collaboration with the customers. Revenue from up-front payments of € 3.5 million recorded in the first nine months of 2020 refer mainly to license agreements for pitavastatin (€ 1.1 million), lercanidipine (€ 0.7 million), Cystadrops® (cysteamine hydrochloride) (€ 0.6 million), the lercanidipine-enalapril combination (€ 0.4 million) and silodosin (€ 0.3 million). The remaining balance of amounts already paid up-front by customers, which will be recognized as revenue in future periods, recorded under current liabilities (see Note 21), is of

€ 10.0 million (€ 11.9 million at 31 December 2019).

The increase in the line "Various revenues" is mainly due to the contractual margin on sales realized by Novartis, on behalf of Recordati, of Signifor® and Signifor® LAR for an amount of € 19.5 million, following the acquisition of the rights on 23 October 2019. In addition to these, € 28.9 million, booked to net sales, were recorded following marketing authorisation transfer in the U.S.A and progressively in Europe and other geographic areas. Starting from the second quarter 2020 Recordati launched Isturisa® in the U.S.A., in France and in Germany with combined sales of 5.4 million.

In the following tables, revenue is disaggregated by product or product class and by geographical areas. 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	Rare Diseases 2019	Total 2020	Total 2019
Zanidip®	106,083	102,216	-	-	106,083	102,216
Zanipress®	38,234	44,377	-	-	38,234	44,377
Urorec®	58,488	82,694	-	-	58,488	82,694
Livazo®	42,450	40,001	-	-	42,450	40,001
Seloken®/Logimax®	77,699	72,479	-	-	77,699	72,479
Other corporate products	120,303	140,773	-	-	120,303	140,773
Drugs for rare diseases			232,359	177,136	232,359	177,136
OTC	198,608	203,559	-	-	198,608	203,559
Local product portfolios	174,345	193,576	-	-	174,345	193,576
Other revenue	7,317	9,540	-	-	7,317	9,540
Pharmaceutical chemicals	37,392	34,067	-	-	37,392	34,067
<b>Total net revenue</b>	<b>861,459</b>	<b>923,282</b>	<b>232,359</b>	<b>177,136</b>	<b>1,093,818</b>	<b>1,100,418</b>

#### GEOGRAPHIC AREAS BY COUNTRY

€ (thousands)	Specialty and Primary Care 2020	Specialty and Primary Care 2019	Rare Diseases 2020	Rare Diseases 2019	Total 2020	Total 2019
<b>Pharmaceuticals</b>						
Italy	188,750	206,983	14,148	8,164	202,898	215,147
France	86,235	104,517	22,897	12,511	109,132	117,028
Russia, Ukraine, other CIS	66,719	81,955	2,370	1,634	69,089	83,589
Germany	87,495	91,464	13,100	10,001	100,595	101,465
Spain	54,414	62,826	8,665	6,594	63,079	69,420
Turkey	59,252	62,001	3,191	3,313	62,443	65,314
Portugal	31,313	31,999	1,244	980	32,557	32,979
Other CEE	62,018	57,246	5,080	2,771	67,098	60,017
Other Western Europe	46,268	40,892	20,596	14,999	66,864	55,891
North Africa	31,753	29,646	1,619	642	33,372	30,288
Other international sales	109,310	119,686	50,031	37,185	159,341	156,871
U.S.A	-	-	89,418	78,342	89,418	78,342
<b>Total pharmaceutical net revenue</b>	<b>823,527</b>	<b>889,215</b>	<b>232,359</b>	<b>117,136</b>	<b>1,055,886</b>	<b>1,066,351</b>
<b>Pharmaceutical chemicals</b>						
Italy	3,302	2,310	-	-	3,302	2,310
Other European countries	11,749	11,296	-	-	11,749	11,296
U.S.A.	4,225	6,495	-	-	4,225	6,495
America (exc. U.S.A.)	3,692	3,024	-	-	3,692	3,024
Australasia	13,844	10,059	-	-	13,844	10,059
Africa	1,120	883	-	-	1,120	883
<b>Total chemical pharmaceuticals net revenue</b>	<b>37,932</b>	<b>34,067</b>	<b>0</b>	<b>0</b>	<b>37,932</b>	<b>34,067</b>
<b>Total net revenue</b>	<b>861,459</b>	<b>923,282</b>	<b>232,359</b>	<b>117,136</b>	<b>1,093,818</b>	<b>1,100,418</b>

## 4. OPERATING EXPENSES

Overall operating expenses in the first nine months of 2020 are € 729.8 million, a decrease compared to the € 746.9 million in the same period of the preceding year and are analyzed by function as follows:

€ (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019
Cost of sales	308,237	329,069	(20,832)
Selling expenses	256,701	273,446	(16,745)
Research and development expenses	106,344	91,581	14,763
General and administrative expenses	53,644	51,740	1,904
Other income (expense), net	4,855	1,082	3,773
<b>Total operating expenses</b>	<b>729,781</b>	<b>746,918</b>	<b>(17,137)</b>

Cost of sales is € 308.2 or 28.2% of sales, a reduction compared to the 29.9% in the first nine months of 2019 due mainly to a larger proportion of products with higher margins.

Selling expenses decrease by 6.1% mainly due to the significant reduction of promotional activities as a result of the restrictions introduced in all markets to counter the COVID-19 epidemiological emergency, with a consequent decrease as a percent of revenue compared to the same period of the preceding year.

Research and development expenses are € 106.3 million, up by 16.1% compared to those recorded in the first nine months of

the preceding year due to the advancement of new development programs and the amortization of the rights to the new products Signifor® and Signifor® LAR and, as from the second quarter also Isturisa®, acquired from Novartis in October 2019. Before amortization charges research and development expenses grow by 3.6%.

General and administrative expenses are up by 3.7% while they remain substantially unchanged as percent of sales.

The main items in other (income) expense are summarized in the table below.

€ (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019
Non-recurring expenses	5,182	-	5,182
Other	(327)	1,082	(1,409)
<b>Total operating expenses</b>	<b>4,855</b>	<b>1,082</b>	<b>3,773</b>

Non-recurring expenses are those related to the COVID-19 epidemiological emergency, mainly donations to hospitals and healthcare services, but also include costs for the safety measures to secure workspaces and for the purchase of personal protective equipment.

Total operating expenses are analyzed by nature as follows:

€ (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019
Material consumption	231,297	258,032	(26,735)
Payroll costs	185,963	185,631	332
Other employees' costs	21,618	26,663	(5,045)
Variable sales expenses	61,767	56,888	4,879
Depreciation and amortization	69,582	56,112	13,470
Utilities and consumables	26,528	23,885	2,643
Other expenses	133,026	139,707	(6,681)
<b>Total operating expenses</b>	<b>729,781</b>	<b>746,918</b>	<b>(17,137)</b>

Material consumption as a percentage of sales is 21.1%, down by 2.3% compared to that in the same period of 2019.

Payroll costs include a cost for stock options of € 3.6 million in the first nine months of 2020 and € 5.3 million in the same period of the preceding year.

During the year 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 plan's duration. At 30 September 2020 recognition under IFRS 2 generated a cost booked to the profit and loss of € 0.8 million.

Total depreciation and amortization charges are € 69.6 million. Amortization charges are € 50.6 million, an increase of € 12.8 million over the same period of the preceding year mainly resulting from the acquisition of the rights to Signifor®, Signifor® LAR and Isturisa® from Novartis in October 2019. Depreciation charges are € 19.0 million, up by € 0.6 million compared to the first nine months of 2019.



## 5. FINANCIAL INCOME AND EXPENSE

In the first nine months of 2020 and in the same period of 2019 financial items record a net expense of € 11.2 million and € 16.0 million respectively and are comprised as follows:

€ (thousands)	First nine months 2020	First nine months 2019	Change 2020/2019
Currency exchange (gains) losses	(600)	893	(1,493)
Interest expense on loans	12,188	9,614	2,574
Net interest (income) expense on short-term financial position	(1,282)	4,221	(5,503)
Interest cost on leases	828	881	(53)
Interest on tax assessments	-	222	(222)
Interest cost in respect of defined benefit plans	58	149	(91)
<b>Total financial income (expense), net</b>	<b>11,192</b>	<b>15,980</b>	<b>(4,788)</b>

The net increase of interest expense on loans is mainly due to the interest on the syndicated loan of € 400.0 million received by the Parent 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), offset by lower interest charges on the \$ 70 million loan privately placed 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.

During the period the Parent company repaid in advance to the U.S. company Recordati Rare Diseases Inc. two loans stipulated

in November 2016 for an overall amount of \$ 70 million (which correspond to the two tranches of the notes privately placed by the US subsidiary in 2013) and extinguished the relative cross-currency swaps. Following the early reimbursement of the notes in the first half of 2019, the derivative financial instruments no longer qualified as hedging instruments and their change in fair value was recognized to the profit and loss, net of the effect of the conversion of the loans to 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, compared to net charges of € 1.1 million in the first nine months of the preceding year.

## 6. PROVISION FOR TAXES

The provision for taxes amounts to € 78.7 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.

Following the agreement reached with 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 period 2015 to 2019, the Parent Company decided to adhere - instead of renewing the

agreement - to the new optional reverse charge mechanism provided for by art. 4 of the 30 April 2019 legislative decree number 34, and therefore determine directly in its tax returns 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-year period and providing documentation supporting the calculation. The accrued benefit for the first nine months 2020, booked as a reduction in taxes, is € 6.4 million.

## 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 & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
<b>Cost</b>					
Balance at 31 December 2019	92,762	233,176	92,182	19,596	437,716
Additions	3,776	2,354	8,743	8,447	23,320
Disposals	(2,451)	(318)	(3,896)	0	(6,665)
Other changes	(3,427)	2,303	(410)	(7,831)	(9,365)
<b>Balance at 30 September 2020</b>	<b>90,660</b>	<b>237,515</b>	<b>96,619</b>	<b>20,212</b>	<b>445,006</b>
<b>Accumulated depreciation</b>					
Balance at 31 December 2019	48,016	193,906	62,452	0	304,374
Depreciation for the period	4,506	6,324	8,145	0	18,975
Disposals	(1,448)	(372)	(2,930)	0	(4,750)
Other changes	(624)	(1,573)	(1,135)	0	(3,332)
<b>Balance at 30 September 2020</b>	<b>50,450</b>	<b>198,285</b>	<b>66,532</b>	<b>0</b>	<b>315,267</b>
<b>Carrying amount at</b>					
31 December 2019	44,746	39,270	29,730	19,596	133,342
<b>30 September 2020</b>	<b>40,210</b>	<b>39,230</b>	<b>30,087</b>	<b>20,212</b>	<b>129,739</b>

The additions during the period are € 23.3 million, of which € 10.1 million related to the right to use the assets conveyed under leases, and refer mainly to investments by the Parent (€ 8.9 million), the Turkish subsidiary Recordati Ilaç (€ 2.9 million), the Portuguese subsidiary Jaba Recordati (€ 2.2 million) and the Spanish subsidiary Casen Recordati (€ 1.7 million).

Disposals are mainly due to the expiry of the rights of use of land and buildings, plant and machinery and other equipment conveyed under leases.

The line "Other changes" includes the conversion into euros of the tangible assets booked in different currencies, for a net decrease of € 6.0 million compared to that at 31 December 2019, of which € 5.3 million due to the devaluation of the Turkish lira.

The following table shows the valuation of the right to use the assets conveyed under leases, already included in the table above, determined as prescribed by IFRS 16.

€ (thousands)	Land and buildings	Plant and machinery	Other equipment	Total
<b>Cost</b>				
Balance at 31 December 2019	20,239	496	17,263	37,998
Additions	2,962	858	6,325	10,145
Disposals	(1,860)	(289)	(3,421)	(5,570)
Other changes	(668)	17	(1,450)	(2,101)
<b>Balance at 30 September 2020</b>	<b>20,673</b>	<b>1,082</b>	<b>18,717</b>	<b>40,472</b>
<b>Accumulated depreciation</b>				
Balance at 31 December 2019	4,196	247	5,804	10,247
Depreciation for the period	2,837	176	4,662	7,675
Disposals	(879)	(289)	(2,473)	(3,641)
Other changes	(205)	2	(557)	(760)
<b>Balance at 30 September 2020</b>	<b>5,949</b>	<b>136</b>	<b>7,436</b>	<b>13,521</b>
<b>Carrying amount at</b>				
31 December 2019	16,043	249	11,459	27,751
<b>30 September 2020</b>	<b>14,724</b>	<b>946</b>	<b>11,281</b>	<b>26,951</b>

Right-of-use assets refer mainly to the office premises of several Group subsidiaries and of 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
<b>Cost</b>					
Balance at 31 December 2019	801,402	502,530	21,764	263,559	1,589,255
Additions	164	324	210	19,893	20,591
Disposals	0	0	(14)	(48)	(62)
Other changes	223,433	(389)	(309)	(234,978)	(12,243)
<b>Balance at 30 September 2020</b>	<b>1,024,999</b>	<b>502,465</b>	<b>21,651</b>	<b>48,426</b>	<b>1,597,541</b>
<b>Accumulated amortization</b>					
Balance at 31 December 2019	217,723	190,368	19,404	0	427,495
Amortization for the period	31,162	19,091	354	0	50,607
Disposals	0	0	(5)	0	(5)
Other changes	(5,207)	(655)	(228)	0	(6,090)
<b>Balance at 30 September 2020</b>	<b>243,678</b>	<b>208,804</b>	<b>19,525</b>	<b>0</b>	<b>472,007</b>
<b>Carrying amount at</b>					
31 December 2019	583,679	312,162	2,360	263,559	1,161,760
<b>30 September 2020</b>	<b>781,321</b>	<b>293,661</b>	<b>2,126</b>	<b>48,426</b>	<b>1,125,534</b>

Additions 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 other conditions covered by the agreements with Novartis for the rights to Signifor®, Signifor® LAR and Isturisa® and with Gedeon Richter for the rights to Reagila®.

The conversion into euros of the intangible assets booked in different currencies, included in the line "Other changes", gives rise to a net decrease of € 6.2 million as compared to 31 December 2019, mainly attributable to the devaluation of the U.S. dollar for an amount of € 3.0 million, the devaluation of the Russian ruble for an amount of € 4.4 million, the devaluation of the Turkish lira for an amount of € 1.0 million and the revaluation of the Swiss franc for an amount of € 2.6 million.

## 9. GOODWILL

Net goodwill at 30 September 2020 amounts to € 562.0 million, a decrease of € 16.0 million as compared to that at 31 December 2019, and is attributed to the operational areas, which represent the same number of cash generating units:

- France: € 74.2 million;
- Russia: € 23.9 million;
- Germany: € 48.8 million;
- Portugal: € 32.8 million;
- Treatments for rare diseases business: € 110.6 million;
- Turkey: € 27.3 million;
- Czech Republic: € 13.0 million;
- Romania: € 0.2 million;
- Poland: € 14.5 million;
- Spain: € 58.1 million;
- Tunisia: € 16.8 million;

- Italy: € 133.2 million;
- Switzerland: € 8.6 million.

Goodwill related to acquisitions made in countries outside the European Monetary Union is calculated in local currency and converted into euros at the period-end exchange rate. Conversion at 30 September 2020 resulted in an overall net decrease of € 16.0 million, compared to that at 31 December 2019, to be attributed to the acquisitions in Turkey (decrease of € 9.9 million), Russia (decrease of € 3.7 million), Poland (decrease of € 1.0 million), Czech Republic (decrease of € 1.0 million), Tunisia (decrease of € 0.5 million) and Switzerland (increase of € 0.1 million).

In compliance with IFRS 3 goodwill is not systematically amortized. Instead, it is tested for impairment on an annual basis or more frequently if specific events or circumstances indicate a possible loss of value. During the period, no events or circumstances arose to indicate possible value loss related to any of the abovementioned items.

## 10. OTHER INVESTMENTS

At 30 September 2020 other investments amount to € 28.9 million, a decrease of € 9.6 million compared to those at 31 December 2019.

The main investment is that made in the U.K. company PureTech Health plc, specialized in investment in start-up companies dedicated to innovative therapies, medical devices and new research technologies. Starting 19 June 2015, the shares of the company were admitted to trading on the London Stock Exchange. At 30 September 2020, the overall listed value of the 9.554.140 shares held is of € 26.7 million. The € 8.9 million decrease in value compared to that at 31 December 2019 is recognized directly in

equity, net of the relative tax effect, and shown on the statement of comprehensive income.

This account also comprises € 2.2 million regarding an investment made during 2012 in Erytech Pharma S.A., a listed late development stage French biopharmaceutical company focused on orphan oncology and rare diseases. The investment, originally structured as a non-interest-bearing loan, was converted into 431,034 shares of the company in May 2013. As compared to 31 December 2019 the value of the investment was reduced by € 0.7 million to bring it in line with its listed value. This amount, net of its tax effect, is recognized directly in equity and shown on the statement of comprehensive income.

## 11. OTHER NON-CURRENT ASSETS

Other non-current assets at 30 September 2020 are € 6.7 million, a reduction of € 9.7 million compared to those at 31 December 2019 mainly due to the reclassification to other current assets of the tax benefit obtained under the so-called "patent box" agreed with the Italian tax authorities in December 2019 to be utilized as from 2021.

## 12. DEFERRED TAX ASSETS

At 30 September 2020 deferred tax assets are € 78.1 million, a net increase of € 6.6 million compared to those at 31 December 2019. The effect of deferred tax assets related to components of the other comprehensive income is a net decrease of € 0.4 million.

## 13. CURRENT ASSETS

Inventories are € 250.3 million, an increase of € 23.4 million compared to those stated at 31 December 2019 and include, among others, supplies of Signifor®, Signifor® LAR and Isturisa® in view of their direct distribution.

Trade receivables at 30 September 2020 are € 270.0 million, a decrease of € 27.0 million compared to that at 31 December 2019 due to the decrease in sales during the second and third quarters of 2020 because of the COVID-19 epidemiological emergency. Trade receivables are stated net of a € 14.3 million provision for doubtful accounts, a decrease of € 0.6 million compared to 31 December 2019, booked to the P&L under selling expenses, which reflects the potential collection risk connected with certain

customers and geographic areas. Days sales outstanding are 69, higher than the 63 registered at 31 December 2019 but in line with the 67 reported at 30 September 2019.

Other receivables, at € 57.1 million, decrease by € 22.8 million compared to those at 31 December 2019, mainly due to the Parent's lower tax credits following the accrual of tax payable for the period. The so-called patent box tax credits are accounted for here and include € 9.7 million reclassified from non-current assets as they can be used in 2021.

Other current assets are € 13.6 million and refer mainly to prepaid expenses.

## 14. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGE) (included in current assets)

The cross currency swaps covering the cash flows related to the notes issued and privately placed on 30 September 2014, for an amount of \$ 75 million, measured at fair value at 30 September 2020 give rise to a € 10.1 million asset recognized under current assets as 'Fair value of hedging derivatives (cash flow hedge)'. This amount represents the potential benefit of a lower value in euros of the future dollar denominated capital and interest flows, in view of the revaluation of the foreign currency subsequent to the moment in which the loan and hedging instrument were negotiated. In particular, the change in fair value of the hedging instrument covering the \$ 50 million tranche of the loan, provided by Mediobanca, was positive for an amount of € 6.6 million, and that covering the \$ 25 million tranche of the loan, provided by UniCredit, yielded a € 3.5 million positive value change.

During the first nine months of 2020 other foreign currency hedging instruments were put in place. Their fair value measurement at 30 September 2020 resulted in a positive change of € 0.4 million, booked to profit and loss to offset the exchange rate losses incurred following the conversion of the underlying instruments at current rates.

The fair value of such hedging derivatives is measured at level 2. The fair value is calculated as 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 these purposes when pricing interest rate swaps.

## 15. SHORT-TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

Short term financial investments, cash and cash equivalents at 30 September 2020 are € 277.6 million, an increase of € 89.7 million compared to those at 31 December 2019 and are mostly denominated in euros, U.S. dollars and Pounds Sterling and comprise mainly current accounts and short-term deposits.

## 16. SHAREHOLDERS' EQUITY

Shareholders' Equity at 30 September 2020 is € 1,287.6 million, an increase of € 88.8 million compared to that at 31 December 2019 for the following combined reasons:

- increase of € 274.1 million from net income for the period;
- increase of € 3.6 million from cost of stock option plans set-off directly in equity;
- decrease of € 47.9 million from purchase of 1,283,231 own shares;
- increase of € 32.2 million from disposal of 1,608,000 own shares in treasury stock to service the stock option plans;
- increase of € 2.3 million from change in the value of cross currency swaps, the underlying loans and interest rate swaps set-off directly in equity, net of the relative tax effect;
- decrease of € 9.3 million from application of IFRS 9, almost entirely due to the change in fair value of the holdings in PureTech Health plc and in Erytech Pharma S.A., net of the tax effect;
- decrease of € 60.5 million for translation adjustments;
- increase of € 1.0 million from other changes;

- decrease of € 106.7 million from the distribution of the 2019 dividend balance.

The Italian company Recordati Rare Diseases Italy is 99% owned giving rise to a minority interest of € 271.0 thousand.

As at 30 September 2020 the Company has three stock option plans in favor of certain group employees in place, the 2010-2013 plan, under which options were granted on 8 May 2012, on 17 April 2013 and on 30 October 2013, the 2014-2018, plan under which options were granted on 29 July 2014 and on 13 April 2016 and the 2018-2022 plan, under which options were granted on 3 August 2018. The strike price of the options is the average of the parent company's listed share price during the 30 days prior to the grant date. Stock options are vested over a period of five years and those not exercised within the eighth year of the date of grant expire. Options cannot be exercised if the employee leaves the company before they are vested. Stock options outstanding at 30 September 2020 are analyzed in the following table.

Date of grant	Strike price (€)	Options outstanding at 1.1.2020	Options granted during 2020	Options exercised during 2020	Options cancelled or expired	Options outstanding at 30.9.2020
8 May 2012	5.3070	242,500	-	(216,000)	-	26,500
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	-	(494,000)	(40,500)	1,683,500
3 August 2018	30.7300	4,578,500	-	(508,000)	(131,000)	3,939,500
<b>Total</b>		<b>8,207,500</b>	<b>-</b>	<b>(1,608,000)</b>	<b>(171,500)</b>	<b>6,428,000</b>

At 30 September 2020, 2,983,802 own shares are held as treasury stock, a decrease of 324,769 shares as compared to those at 31 December 2019. The change is to be attributed to the disposal of 1,608,000 shares, for an overall value of € 32.2 million, to service the exercise of stock options issued under the stock option plans and to the purchase of 1,283,231 shares for an overall value of € 47.9 million. The overall purchase cost of the

shares held in treasury stock is € 92.3 million with an average unit price of € 30.93.

During the year 2019, some Group employees were designated as beneficiaries of an incentive plan, for 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 plan's duration.

## 17. LOANS

At 30 September 2020 loans total € 1,118.9 million, a net increase of € 31.8 million compared to those at 31 December 2019.

Loans include the liability, determined by the application of the accounting principle IFRS 16, that represents the obligation of making the payments provided for in the existing lease contracts for an overall value of € 27.2 million, a net decrease of € 0.5 million compared to that at 31 December 2019.

During the first nine months 2020 loans increased by € 120.3 million, € 110.2 million from the raising of new loans and € 10.1 million attributable to new leasing contracts, while a total of € 80.6 million was reimbursed, of which € 7.2 million related to leasing liabilities. The loan from ING Bank for an amount of € 30.0 million, originally undersigned 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 the payment of the last installment in January. The relative interest rate swap was extinguished. The loan stipulated by the Parent with UniCredit in May 2015 for an amount of € 50.0 million was extinguished following the payment of the last installment in May. The conversion of loans in currencies other than the Euro together with the early termination of various leasing contracts, determined a net decrease of € 7.9 million compared to those at 31 December 2019.

The average effective interest rate at 30 September 2020, applying the rates resulting from the hedging instruments, is 1.51%.

The main loans outstanding are:

a) A loan agreement undersigned with UBS Switzerland AG by the Swiss subsidiary Recordati AG on 17 April 2020 for an amount of 75.0 million Swiss francs. The main terms and conditions provide for variable interest rate fixed at the Swiss currency's 3 months' Libor (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 euros of the outstanding loan at 30 September 2020 is of € 62.5 million. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured semi-annually, are the following:

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

The above conditions were fulfilled during the period.

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

c) A loan agreement undersigned with ING Bank by the Parent in August 2019 for an amount of € 22.5 million. The main terms and conditions provide for variable interest rate fixed at

the 6 months' Euribor plus a variable spread that may change through a step up/step down mechanism linked to the Leverage Ratio, with semi-annual interest payments and semi-annual repayment of principal starting December 2021 through December 2024. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured semi-annually, are the following:

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

The above conditions were fulfilled during the period.

d) A loan for an amount of € 400.0 million negotiated by the Parent in June 2019 aimed at supporting the Group's growth strategy. The loan, initially undersigned by 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 months' Euribor (with a zero floor) plus a variable spread, that may change through a step up/step down mechanism linked to the Leverage Ratio, and a duration of 5 years with principal semi-annual repayment starting 30 June 2020 through June 2024. Funding, net of up-front commissions, took place on 30 July 2019. The debt outstanding at 30 September 2020 is of € 370.4 million. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured semi-annually, are the following:

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

The above conditions were fulfilled during the period.

e) A loan agreement undersigned with Mediobanca by the Parent in November 2018 for an amount of € 150.0 million. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a variable spread, that may change through a step up/step down mechanism linked to the Leverage Ratio, with semi-annual repayments of principal from 23 November 2020 through 22 November 2023. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate. The measurement at fair value at 30 September 2020 of the swap generated a liability of € 2.2 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives



(cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured annually, are the following:

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

The above conditions were fulfilled during the period.

f) A loan of € 4.3 million granted to the Parent in July 2018 by the Banca del Mezzogiorno-Mediocredito Centrale to fund investments in research and development, 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 months' Euribor, to be repaid in two installments on 30 June and 31 December 2021. The debt outstanding at 30 September 2020 is of € 2.4 million. The loan agreement does not include financial covenants.

g) A loan agreement with Banca Passadore undersigned by the Parent in November 2017 for an amount of € 15.0 million. The main terms and conditions provide for variable interest rate fixed at the three months' Euribor plus a fixed spread with quarterly payments of interest and a duration of 5 years with annual repayments of principal from November 2020 through November 2022. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured annually, are the following:

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

The above conditions were fulfilled during the period.

h) A loan agreement with Intesa Sanpaolo undersigned by the Parent in October 2017 for an amount of € 75.0 million. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a fixed spread, semi-annual payments of interest and a duration of 8 years with semi-annual repayments of principal from June 2019 through October 2025. The debt outstanding at 30 September 2020 is of € 58.8 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate. The measurement at fair value at 30 September 2020 of the swap generated a liability of € 1.4 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The

loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured annually, are the following:

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

The above conditions were fulfilled during the period.

i) A loan agreement with UniCredit undersigned by the Parent in September 2017 for an amount of € 50.0 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a fixed spread with semi-annual payments of interest and the repayment of principal on 29 September 2021. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate. The measurement at fair value at 30 September 2020 of the swap generated a liability of € 0.3 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured annually, are the following:

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

The above conditions were fulfilled during the period.

j) A loan agreement with UBI Banca undersigned by the Parent in September 2017 for an amount of € 50.0 million. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a fixed spread with semi-annual payments of interest and the repayment of principal on 7 September 2022. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate. The measurement at fair value at 30 September 2020 of the swap generated a liability of € 0.7 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured annually, are the following:

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

- the ratio of consolidated operating income to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

The above conditions were fulfilled during the period.

k) A loan agreement with Mediobanca undersigned by the Parent in July 2017 for an amount of € 75.0 million. The main terms and conditions provide for variable interest rate fixed at the six months 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 30 September 2020 is of € 43.5 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate. The measurement at fair value at 30 September 2020 of the swap generated a liability of € 0.9 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured annually, are the following:

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

The above conditions were fulfilled during the period.

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

The above conditions were fulfilled during the period.

m) A loan agreement with Banca Nazionale del Lavoro undersigned by the Parent company in December 2016 for an amount of € 25.0 million. The main terms and conditions provide for variable interest rate fixed at the six months 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 has 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 epidemiological emergency). The debt outstanding at 30 September 2020 is of € 6.3 million. Following the postponement of the installment, the interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate was extinguished with non-significant charges. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured semi-annually, are the following:

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

The above conditions are fulfilled.

n) A loan agreement with Intesa Sanpaolo undersigned by the Parent company in December 2016 for an amount of € 25.0 million. The main terms and conditions provide for variable interest rate fixed at the six months 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 30 September 2020 is of € 12.5 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate. The measurement at fair value at 30 September 2020 of the swap generated a small liability which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured annually, are:

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

The above conditions are fulfilled.

o) A loan agreement with IFC-World Bank undersigned by the subsidiary Recordati İlaç on 16 October 2014 for an amount of 71.6 million Turkish lira to finance the construction of a new production plant. Main terms are: variable interest rate equivalent to the 3 months' Tlribor plus a fixed spread, 8-year duration and reimbursement of principal at the end of every three months starting November 2016 through August 2022. The value in euros of the outstanding loan at 30 September 2020 is of € 2.5 million, resulting in a reduction of the liability by € 2.2 million as compared to that at 31 December 2019, of which € 1.1 million was due to the devaluation of the Turkish lira at the date of consolidation. The loan agreement includes covenants which, if not met, could lead to a request

for immediate repayment of the loan. The financial covenants, measured quarterly, are:

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

The above conditions were fulfilled.

- p) Privately placed guaranteed senior notes by the Parent company on 30 September 2014 for an amount of \$ 75 million in two tranches: \$ 50 million at a fixed interest rate to be reimbursed bi-annually as from 30 March 2022 through 30 September 2026, and \$ 25 million at a fixed interest rate to be reimbursed bi-annually as from 30 March 2023 through 30 September 2029. The conversion of the loan into euros at 30 September 2020 resulted in a decrease of the liability by € 2.7 million as compared to that at 31 December 2019 due to the devaluation of the U.S. dollar. The loan was simultaneously covered with two currency rate swaps transforming the overall debt to € 56.0 million, of which € 37.3 million at a lower fixed interest rate on the 12-year tranche and € 18.7 million at a lower fixed interest rate on the 15-year tranche. At 30 September 2020 the measurement at fair value of the hedging instruments generated an overall positive amount of € 10.1 million recognized directly to equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current assets (see Note 14).

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

The above conditions were fulfilled during the period.

- q) A loan agreement with Centrobanca undersigned by the Parent company on 30 November 2010 to fund a three-year research and investment program. The loan, for which Centrobanca received funding from the European Investment Bank, amounts to € 75.0 million of which € 30.0 million were cashed in during 2010 and € 45.0 million in the first quarter of 2011. The main terms and conditions provide for a variable interest rate equivalent to the six months' Euribor, plus a variable spread that may change as a function of the Leverage Ratio, and a duration

of 12 years with semi-annual repayments of principal from June 2012 through December 2022. At 30 September 2020, the outstanding amount of the loan is € 17.0 million. During the month of June 2012 interest on the whole loan was covered with an interest rate swap qualifying as a cash flow hedge. The measurement at fair value of the hedging instrument at 30 September 2020 generated a liability of € 0.5 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants, measured semi-annually, are the following:

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

The above conditions were fulfilled during the period.

## 18. STAFF LEAVING INDEMNITIES

The staff leaving indemnity fund at 30 September 2020 is of € 20.1 million and is measured as prescribed by IAS 19.

## 19. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 30 September 2020 are € 41.3 million, a decrease of € 1.9 million as compared to those at 31 December 2019.

## 20. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities at 30 September 2020 are € 20.3 million. They include € 17.0 million relative to future milestones due to Novartis AG upon the launch of Isturisa® in selected European markets and € 3.3 million relative to the debt for the acquisition of a further 10% of the share capital of Opalia Pharma which, in line with the put and call options in the purchase agreement, is expected to be settled not before the next 12 months. The fair value of such purchase option is measured at level 2 as the valuation model considers the present value of expected payments.

## 21. CURRENT LIABILITIES

Trade payables, which include the accrual for invoices to be received, are € 145.2 million.

Other payables are € 87.8 million, a decrease of € 97.9 million compared to those at 31 December 2019, and relate mainly to:

- € 37.5 million due to employees and social security institutions;
- € 9.1 million due to Novartis AG, equivalent to \$ 10.0 million related to the fulfillment of certain conditions on the European market involving Isturisa® (osilodrostat);
- € 6.5 million to be paid to U.S. health insurance institutions by Recordati Rare Diseases Inc.;
- € 3.6 million to be paid to the "Krankenkassen" (German health insurance) by Recordati Pharma GmbH;
- € 2.8 million to be paid to the Italian health authorities resulting from the 1.83% claw-back applicable on the price to the public before VAT of pharmaceutical products reimbursed by the National Health Service.

The reduction compared to 31 December 2019 is mainly attributable to the payment of \$ 20.0 million upon the approval, in January 2020, of Isturisa® in Europe, \$ 60 million upon approval, in March 2020, of the product in the U.S.A. and \$ 10 million following the advancement of the launch in Europe.

Tax payables are € 37.1 million, an increase of € 16.0 million compared to those at 31 December 2019.

Other current liabilities are € 11.3 million, a reduction of € 1.2 million as compared to those at 31 December 2019. An amount of € 10.0 million is attributable to the effect of the application of IFRS 15. This liability is released to the profit and loss in variable quotas as revenue recognition conditions are met.

Provisions are € 16.2 million, a reduction of € 1.7 million compared to those at 31 December 2019.

## 22. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGE)

The measurement at fair value of the interest rate swaps covering the cash flows related to loans gave rise to a net € 6.0 million liability at 30 September 2020 recognized under current liabilities as 'Fair value of hedging derivatives (*cash flow hedge*)'. This amount represents the unrealized opportunity of paying the current expected future rates instead of the rates agreed. The amount refers to the interest rate swaps to cover the interest rate risk associated with the loans granted by Mediobanca (€ 3.1 million), Intesa Sanpaolo (€ 1.4 million), UBI Banca (€ 0.7 million), Centrobanca (€ 0.5 million) and UniCredit (€ 0.3 million).

In October 2019 Recordati S.p.A. stipulated forward exchange contracts to cover the intercompany loan granted to Recordati AG for an amount of 228.9 million Swiss francs. The fair value of the derivative at 30 September 2020 on the residual loan of 213.5 million Swiss francs was negative by € 3.6 million, which were booked to profit and loss compensating the exchange gains

determined by the valuation of the underlying loan at current exchange rates.

During the first nine months 2020 hedging derivatives to cover foreign currency positions were put in place. Their fair value at 30 September 2020 was negative by € 0.1 million, which were booked to profit and loss compensating the exchange gains determined by the valuation of the underlying loan at current exchange rates.

The fair value of such hedging derivatives is measured at level 2. The fair value is calculated as 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 constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps.

## 23. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans are € 14.7 million at 30 September 2020 and are comprised mainly of temporary use of lines of credit, current account overdrafts and interest accrued on existing loans.

## 24. OPERATING SEGMENTS

The financial information reported by line of business, in compliance with IFRS 8 – Operating segments, is prepared using the same accounting principles and reporting standards used for the preparation and disclosure of the Group consolidated financial statements. Two main business segments can be

identified, the specialty and primary care segment and the rare diseases segment.

The following tables show financial information for these two business segments as at 30 September 2020 and includes comparative data.

€ (thousands)	Specialty & primary care segment*	Rare diseases segment	Non-allocated	Consolidated accounts
<b>First nine months 2020</b>				
Net revenue	861,459	232,359	-	1,093,818
Expenses	(594,043)	(135,738)	-	(729,781)
<b>Operating income</b>	<b>267,416</b>	<b>96,621</b>	-	<b>364,037</b>
<b>First nine months 2019</b>				
Net revenue	923,282	177,136	-	1,100,418
Expenses	(650,382)	(96,536)	-	(746,918)
<b>Operating income</b>	<b>272,900</b>	<b>80,600</b>	-	<b>353,500</b>

€ (thousands)	Specialty & primary care segment*	Rare diseases segment	Non-allocated **	Consolidated accounts
<b>30 September 2020</b>				
Non-current assets	1,160,691	741,361	28,933	1,930,985
Inventories	211,922	38,412	-	250,334
Trade receivables	198,716	71,266	-	269,982
Other current assets	56,903	13,855	10,465	81,223
Short-term investments, cash and cash equivalents	-	-	277,622	277,622
<b>Total assets</b>	<b>1,628,232</b>	<b>864,894</b>	<b>317,020</b>	<b>2,810,146</b>
Non-current liabilities	61,159	20,552	898,967	980,678
Current liabilities	216,907	80,613	244,373	541,893
<b>Total liabilities</b>	<b>278,066</b>	<b>101,165</b>	<b>1,143,340</b>	<b>1,522,571</b>
<b>Net capital employed</b>	<b>1,350,166</b>	<b>763,729</b>		
<b>31 December 2019</b>				
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 current assets	76,352	11,280	9,949	97,581
Short-term investments, cash and cash equivalents	-	-	187,923	187,923
<b>Total assets</b>	<b>1,725,134</b>	<b>847,358</b>	<b>236,438</b>	<b>2,808,930</b>
Non-current liabilities	63,441	22,581	937,343	1,023,365
Current liabilities	265,343	147,414	173,997	586,754
<b>Total liabilities</b>	<b>328,784</b>	<b>169,995</b>	<b>1,111,340</b>	<b>1,610,119</b>
<b>Net capital employed</b>	<b>1,396,350</b>	<b>677,363</b>		

\* Includes the pharmaceutical chemicals operations.

\*\* Non-allocated amounts include: other equity investments, short-term investments, cash and cash equivalents, loans, hedging instruments, bank overdrafts and short-term loans.

The pharmaceutical chemicals operations are considered part of the specialty and primary care segment as they are prevalently dedicated to the production of active ingredients for this business, both from a strategic and organizational point of view.

## 25. LITIGATION AND CONTINGENT LIABILITIES

The parent company and some subsidiaries are party to certain minor legal actions, the outcomes of which are not expected to result in any significant liability. Some license agreements provide for future milestones which to date are not deemed probable and therefore merely potential. Among these the only ones for a potentially material amount are for a total of around € 35 million.

## 26. RELATED PARTY TRANSACTIONS

The Group's direct controlling company is FIMEI S.p.A., headquartered in Milan, via Vecchio Politecnico 9, Italy which since 2018 is owned by a consortium of investors controlled by CVC Capital Partners.

Tax credits shown in the consolidated balance sheet at 30 September 2020 include those receivable from the direct controlling company FIMEI S.p.A. for an amount of € 14.7 million. This amount refers to tax liabilities computed by the parent Recordati S.p.A. based on estimated taxable income and transferred to the direct controlling company consequent to the

participation in a tax consolidation grouping under tax laws in Italy. The amount includes the effect of the so-called "patent box" for the part related to corporate tax both for the 2015-2019 period following the agreement with the Italian tax authorities in December 2019, as well as for the first nine months 2020.

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



## 27. SUBSEQUENT EVENTS

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

On October 1<sup>st</sup>, 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](http://www.recordati.com), under "Investors"/"Shareholders' Meetings/Reverse merger into Recordati S.p.A. 2020-2021") for further information.

The Merger, that 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.

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 be substantially 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 the strategy or its capital allocation policy.

The Merger constitutes a "major" related party transaction,

in accordance with the regulation adopted by Consob under resolution no. 17221 of 12 March 2010 and subsequent modifications and with the current Procedure governing operations with related parties. As such, the operation, in its entirety, received the favourable opinion of Recordati's Control, Risk and Sustainability Committee acting as the Related Party Transactions Committee (the "Committee"), pursuant to the regulations governing Related Party Transactions.

The Information Document related to major related party transactions, approved by the Board of Directors on the 1st of October 2020 and prepared to illustrate the Operation, together with the Committee's fairness opinion (which includes the fairness opinion on the exchange ratio issued by Prof. Pietro Mazzola as independent financial advisor to the Committee) is also available on the abovementioned Recordati website.

It is envisaged that the Merger shall 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 as at 31 December 2020 and of their closing balance sheets as at 31 March 2021.

Italy and all the main countries in which the Group operates continue to be impacted by restrictions to the circulation of people and provisions to support companies' economic activities have been introduced following the epidemiologic emergency due to the COVID-19 virus, declared a pandemic by the OMS in March. To face the emergency, in Italy, and subsequently also in other countries the Group has implemented all possible measures and initiatives to guarantee the supply of medicines to its patients and the safety of its employees. The first nine months results 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 income remaining in line with expectations.

## 28. SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 30 SEPTEMBER 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 and sales of pharmaceuticals	Italy	1,920,000.00	EUR	Line-by-line
CASEN RECORDATI S.L. Development, production, marketing and sales of pharmaceuticals	Spain	238,966,000.00	EUR	Line-by-line
BOUCHARA RECORDATI S.A.S. Development, production, marketing 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, marketing and sales of pharmaceuticals	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD Development, production, marketing and sales of pharmaceuticals	Ireland	200,000.00	EUR	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. Development, production, marketing and sales of pharmaceuticals	France	14,000,000.00	EUR	Line-by-line
RECORDATI PHARMA GmbH Marketing and sales of pharmaceuticals	Germany	600,000.00	EUR	Line-by-line
RECORDATI PHARMACEUTICALS LTD Marketing and sales of pharmaceuticals	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. Marketing and sales of pharmaceuticals	Greece	10,050,000.00	EUR	Line-by-line
JABA RECORDATI S.A. Marketing and sales of pharmaceuticals	Portugal	2,000,000.00	EUR	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. Marketing and sales of pharmaceuticals	Portugal	50,000.00	EUR	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. Marketing and sales 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 and sales of pharmaceuticals	United Arab Emirates	100,000.00	AED	Line-by-line
RECORDATI AB Marketing and sales of pharmaceuticals	Sweden	100,000.00	SEK	Line-by-line
RECORDATI RARE DISEASES S.à r.l. Development, production, marketing and sales of pharmaceuticals	France	320,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES UK Limited Marketing and sales of pharmaceuticals	United Kingdom	50,000.00	GBP	Line-by-line
RECORDATI RARE DISEASES GERMANY GmbH Marketing and sales of pharmaceuticals	Germany	25,600.00	EUR	Line-by-line
RECORDATI RARE DISEASES SPAIN S.L. Marketing and sales of pharmaceuticals	Spain	1,775,065.49	EUR	Line-by-line
RECORDATI RARE DISEASES ITALY S.R.L. Marketing and sales of pharmaceuticals	Italy	40,000.00	EUR	Line-by-line
RECORDATI BVBA Marketing and sales of pharmaceuticals	Belgium	18,600.00	EUR	Line-by-line

PERCENTAGE OF OWNERSHIP

Recordati S.p.A. (Parent)	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 İlaç A.Ş.	Opalia Pharma S.A.	Recordati AG	Total
100.00										100.00
100.00										100.00
100.00										100.00
100.00										100.00
100.00										100.00
100.00										100.00
		100.00								100.00
55.00			45.00							100.00
100.00										100.00
100.00										100.00
			100.00							100.00
			100.00							100.00
			100.00							100.00
90.00	10.00									100.00
				100.00						100.00
				100.00						100.00
				100.00						100.00
					100.00					100.00
					100.00					100.00
					99.00					99.00
				99.46	0.54					100.00

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
FIC MEDICAL S.à.r.L. Marketing and sales of pharmaceuticals	France	173,700.00	EUR	Line-by-line
HERBACOS RECORDATI s.r.o. Development, production, marketing and sales of pharmaceuticals	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o. Marketing and sales of pharmaceuticals	Slovakia	33,193.92	EUR	Line-by-line
RUSFIC LLC Marketing and sales of pharmaceuticals	Russian Federation	3,560,000.00	RUB	Line-by-line
RECFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S. Marketing of pharmaceuticals	Turkey	10,000.00	TRY	Line-by-line
RECORDATI ROMÂNIA S.R.L. Marketing and sales of pharmaceuticals	Romania	5,000,000.00	RON	Line-by-line
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. Development, production, marketing and sales of pharmaceuticals	Turkey	180,000,000.00	TRY	Line-by-line
RECORDATI POLSKA Sp. z o.o. Marketing and sales 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, marketing and sales of pharmaceuticals	Tunisia	9,656,000.00	TND	Line-by-line
OPALIA RECORDATI S.à.r.L. Marketing 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 <sup>(1)</sup> Marketing of pharmaceuticals	Bulgaria	50,000.00	BGN	Line-by-line

(1) Established in 2019



# DECLARATION BY THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

The manager responsible for preparing the company's financial reports Luigi La Corte declares, pursuant to paragraph 2 of Article 154-bis of the Consolidated Law on Finance, that the accounting information contained in this report corresponds to the document results, books and accounting records.

Milan, 29 October 2020

Signed by  
**Luigi La Corte**  
*Manager responsible for preparing  
the Company's financial reports*

Statements contained in this report, other than historical facts, are "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements are based on currently available information, on current best estimates, and on assumptions believed to be reasonable. This information, these estimates and assumptions may prove to be incomplete or erroneous, and involve numerous risks and uncertainties, beyond the Company's control. Hence, actual results may differ materially from those expressed or implied by such forward-looking statements. All mentions and descriptions of Recordati products are intended solely as information on the general nature of the company's activities and are not intended to indicate the advisability of administering any product in any particular instance.

# RECORDATI

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