PROPOSED ANNUAL REPORT
AS AT AND FOR THE YEAR- ENDED
31ST DECEMBER 2019

RECORDATI

RECORDATI INDUSTRIA CHIMICA E FARMACEUTICA S.p.A.

Company subject to management and co-ordination by Rossini Holdings Sà.r.L.

Registered Office: 1 Via Matteo Civitali, Milan
Fully paid up share capital: € 26,140,644.50
Tax identification number and Milan Company Registration No. 00748210150

The Company prepares the consolidated financial statements for the Recordati Group

BOARD OF DIRECTORS

FLEMMING ØRNSKOV
Chairman

ALFREDO ALTAVILLA
Vice Chairman

ANDREA RECORDATI
Chief Executive Officer

FRITZ SQUINDO	
GIAMPIERO MAZZA	
JAVIER DE JAIME GUIJARRO	
SØREN VESTERGAARD-POULSEN	
CATHRIN PETTY	
JOANNA SUSAN LE COUILLIARD	*Independent*
SILVIA CANDINI	*Independent*
MICHAELA CASTELLI	*Independent*

BOARD OF STATUTORY AUDITORS

ANTONIO SANTI
Chairman

MARCO ROBERTO NAVA
LIVIA AMIDANI ALIBERTI
Statutory Auditors

PATRIZIA PALEOLOGO ORIUNDI
ANDREA BALELLI
Alternate Auditors

RECORDATI

Review of operations

To our Shareholders,

The Annual Report of the Company for the year ended 31st December 2019, which we submit to you for your approval, reports net income of € 241,091,949.

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

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

€ (thousands)	2019	% of revenue	2018	% of revenue	Change 2019/2018	%
Revenue (1)	**441,095**	**100.0**	**448,842**	**100.0**	**(7,747)**	**(1.7)**
Cost of sales	(177,262)	(40.2)	(165,970)	(37.0)	(11,292)	6.8
Gross profit	**263,833**	**59.8**	**282,872**	**63.0**	**(19,039)**	**(6.7)**
Selling expenses	(55,705)	(12.6)	(54,599)	(12.2)	(1,106)	2.0
R&D expenses	(44,480)	(10.1)	(41,216)	(9.2)	(3,264)	7.9
G&A expenses	(32,459)	(7.4)	(33,418)	(7.4)	959	(2.9)
Other income (expense), net	876	0.2	(1,464)	(0.3)	2,340	n.s.
Operating income	**132,065**	**29.9**	**152,175**	**33.9**	**(20,110)**	**(13.2)**
Dividends	128,138	29.1	135,162	30.1	(7,024)	(5.2)
Write-down of investments	(2,244)	(0.5)	(6,200)	(1.4)	3,956	(63.8)
Financial income (expense), net	(17,178)	(3.9)	(17,242)	(3.8)	64	(0.4)
Pre-tax income	**240,781**	**54.6**	**263,895**	**58.8**	**(23,114)**	**(8.8)**
Taxes	311	0.1	(46,565)	(10.4)	46,876	n.s.
Net income	**241,092**	**54.7**	**217,330**	**48.4**	**23,762**	**10.9**

(1) The revenue reported in the reclassified income statement includes other income of € 177 thousand (€ 102 thousand in 2018), relating in particular to training grants and rents, which in the statutory balance sheet are classified under note 4 as Other revenue and income.

Revenue came to € 441.1 million, down € 7.7 million on 2018, due above all to lower sales abroad to subsidiaries.

With regard to sales of prescription products in Italy, we underline the good growth of sales by Cardicor® (bisoprolol – a drug belonging to the beta blocker class indicated for the treatment of chronic cardiac insufficiency) net of the negative impact of the launch of generic competitors of Rextat® on the market.

Sales of pharmaceutical chemicals, consisting of the active ingredients produced at the Campoverde di Aprilia plant, amounting to € 46.1 million, were up € 5.5 million compared with 2018.

Gross profit was down € 19.0 million compared with 2018, for the following reasons: the effect of the unfavourable mix of sales abroad, the increase in costs for the purchase of some specialty pharmaceuticals marketed under licence and in the costs for pharmaceutical chemicals raw materials and the negative price impact on prescription specialty sales in Italy.

A total cost of € 55.7 million was recognised for selling expenses, accounting for 12.6% of revenue.

R&D costs totalled € 44.5 million accounting for 10.1% of net revenue.

G&A expenses came to € 32.5 million, accounting for 7.4% of net revenue

Operating income was € 132.1 million, down 13.2% compared with the previous year as a result of the decrease in gross profit. It amounted to 29.9% of net revenue. Following the adoption of the financial reporting standard IFRS 16, depreciation of € 1,530 thousand was recognised in place of lease instalments, which had no significant defect on operating income.

The write-down of investments, amounting to € 2.2 million, relates to the UK subsidiary Recordati Pharmaceuticals Ltd.

Net financial charges amounted to € 17.2 million, unchanged compared with previous year, and they amounted to 3.9% of the revenue.

Net income came to € 241.1 million, an increase of € 23.8 million compared with 2018, even in the presence of a reduction in operating income, due to the tax benefit resulting from the "patent box" tax relief agreed with the Italian tax authorities in December 2019. The total benefit was € 35.3 million, of which € 27.0 million relating to prior years and € 8.3 million relating to 2019. If the prior year benefit is excluded net income would be € 214.1 million, € 3.2 million less than the previous year, amounting to 48.6% of net revenue.

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

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Cash and cash equivalents and other current receivables	164,628	140,040	24,588
Current debt (1)	(453,664)	(405,731)	(47,933)
Net current financial position	**(289,036)**	**(265,691)**	**(23,345)**
Loans and receivables due after one year (2)	182,649	3,107	179,542
Borrowings – due after one year (3)	(972,182)	(693,100)	(279,082)
Net financial position	**(1,078,569)**	**(955,684)**	**(122,885)**

(1) Current debt includes the current portions of borrowings due after one year, amounts due to banks and other short-term liabilities.

(2) The amount is € 9,731 thousand less than that under asset item 17 in the balance sheet due to the non-financial asset for the "patent box" tax relief.

(3) Inclusive of the fair value of derivatives to hedge foreign exchange rate risk (cash flow hedges), classified within asset item 23 and liability item 35, with an overall net positive impact of € 5,365 thousand as at 31st December 2019.

The net financial position as at 31st December 2019 was a debt of € 1,078.6 million compared with a debt of € 955.7 million as at 31st December 2018.

Dividends were paid during the year totalling € 190.9 million, of which € 96.1 million for the balance on the 2018 dividend and € 94.8 million as an interim dividend relating to 2019.

Furthermore € 2.5 million was paid in relation to the license agreement with Gedeon Richter for the Reagila® (cariprazine) rights.

Following the capital increase of the subsidiary Recordati AG, the value of this investment increased by € 137.1 million.

Expenditure on property, plant and equipment came to € 14.0 million and related to investments made at the Milan headquarters (€ 7.9 million), which included investments in the plant and in pharmaceutical research, as well as in the Campoverde plant (€ 6.1 million).

R&D

In 2019 the Company's R&D activities in the Specialty & Primary Care area was focused on a series of activities for the maintenance and support of pharmaceuticals already being marketed and also on pre-clinical activities for new pharmaceuticals.

PRODUCTS UNDER DEVELOPMENT

NAME	ORIGIN	INDICATION	DEVELOPMENT STAGE
REAGILA®	Gedeon Richter	Schizophrenia	Post-authorisation paediatric plan
REC 0438	Recordati/UFPeptides	New indications	Pre-clinical development

The arrival of new pharmaceuticals both through internal research programmes and through opportunities to carry out research in collaboration with external research companies and institutions again represented an important factor in 2019 for enriching the pipeline and ensuring future growth. At the same time substantial efforts were made on the regulatory front aimed at obtaining important authorisations to sell Recordati pharmaceuticals on markets in new geographical areas.

The main R&D activities carried out in 2019 are summarised in the paragraphs below.

Urology and Andrology

REC 0438

Rec 0438 is a product formulated for use with patients with neurological hyperactive bladder who must make daily recourse to self-catheterisation to empty the bladder. The objective of this treatment is to reduce hyperactivity of the bladder and episodes of incontinence, which have a substantial impact on the quality of patients' lives. Once single dose trials on healthy volunteers and on adult patients with post-traumatic lesions of the spine were completed, in 2019 a second programme of multicentre trials was completed at European level in patients with neurological hyperactive bladder due to spinal lesions who presented signs of hyperactive bladder and episodes of urinary incontinence despite ongoing treatment with anticholinergic drugs. The results of the trials indicated that repeated intravesical administration of the pharmaceutical carried out directly by patients in the home is feasible, well-tolerated and is not associated with systemic exposure. However, even if a slight reduction in episodes of urinary incontinence was observed, the urodynamic test carried out to measure maximum bladder capacity showed great variability in the response, with results that were not in line with the minimum expected benefits needed to be able to continue development in a paediatric population with hyperactive bladder due to spina bifida. As a consequence it was decided to halt clinical development. The final report on the trial is currently being prepared. At the same time toxicological tests on animals have been completed and formulation and pre-clinical studies have begun to assess the possibility of using the pharmaceutical for other indications.

Cardiology and metabolic diseases

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

The process for the transfer of authorisations for the production of the products Seloken®/ Seloken® ZOK (metoprolol) and Logimax® (metoprolol + felodipine) from AstraZeneca has been completed and packaging sites have been inserted and alternatives issued in accordance with the agreement with AstraZeneca.

Psychiatry

Reagila® (cariprazine)

As part of an agreement between Recordati and Gedeon Richter, the paediatric development plan agreed at European level continued in 2019 for cariprazine, a new antipsychotic pharmaceutical for the treatment of schizophrenia. Cariprazine was found to be effective in improving not only the positive symptoms in the adult population but also the negative symptoms of the disease.

Other areas of treatment

LOMEXIN® (fenticonazol)

Fenticonazole is an antimycotic product for topical use, a product of Recordati research. Various projects have been carried out to support development of the product, in consideration of the growth in its sales and the potential arising from its transition to a medicine for which medical prescriptions are not required in a number of European countries and from the publication of scientific evidence to support the efficacy of the molecule fenticonazol for the treatment of vaginal infections with different aetiologies. Finished product specifications for the dermatological and vaginal "cream" form have been completed for all registrations worldwide and an alternative production site at Vamfarma has been added. The Danish authority (RMS) has authorised the worksharing procedure designed to update and harmonise safety information at European level on the technical and administrative sheets of the various presentations of fenticonazol gynaecological indications. The environmental risk assessment was updated, in which the results of the ERA stage II A studies were presented to the Danish authority (RMS). Further studies will be completed by the end of February 2022 (stage II B).

OTHER INFORMATION

Following operations involving the life of the Company in relation to the sale of their controlling interest by the Recordati family to a consortium of investment funds controlled by CVC Capital Partners VII Limited, on 28th February 2019 the Board of Directors of the Company, appointed by a Shareholders' Meeting held on 5th February 2019, noted the management and co-ordination exercised by Rossini Luxembourg S.àr.l. over Recordati S.p.A. pursuant to articles 2497 and following of the Italian Civil Code.
The Board verified that the Company met the requirements pursuant to Art. 16, paragraph 1, letters b, c and d of the Markets Regulation approved by the Consob (Italian securities market authority) with Resolution No. 20249/2017.

Essential information from the financial statements for the year ended 31st December 2018 approved by the company that exercises management and co-ordination is reported in Attachment 6.

In 2019 a single decision was taken by the Board of Directors which was considered to be a "decision influenced by management and co-ordination activities" and it is therefore subject to Art. 2497-*ter* of the Italian Civil Code. It relates to the specific approval of regulations concerning the management and co-ordination exercised by Rossini Luxembourg S.àr.l. over Recordati S.p.A. and lines of reporting from Recordati S.p.A. to Rossini Luxembourg S.àr.l. in particular. The Company's Board of Directors noted in this respect that

Recordati's interest in proceeding to adopt these regulations lies in its interest in defining and limiting the types of information contained in this reporting and also in determining the subjective perimeter of the persons authorised to request and provide information, thereby allowing the lines of reporting to be traced and monitored.

Treasury stock consisting of 1,845,000 shares was sold during the year, accounting for 0.88% of the share capital, for consideration of € 26.2 million, following the exercise of stock options by Group employees under the 2010-2013 and 2014-2018 stock option plans.
As at 31st December 2019 the Company held 3,308,571 treasury shares with a face value of € 0.125 each, accounting for 1.58% of the share capital.

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

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

In compliance with the requirements contained in Art. 4, paragraph 7 of the Regulation on related-party transactions adopted with Consob Resolution 17221 of 12th March 2010 and subsequent amendments and also in Art. 2391-*bis*, paragraph 1 of the Italian Civil Code, the Company reports that it has adopted "Regulations for related-party transactions", the full text of which is available on the Company website at www.recordati.it (in the "Corporate Governance" section).
For all information on corporate governance, reference is made to the Report on Corporate Governance and Ownership Structure prepared in accordance with Art. 123-*bis* of the Consolidated Finance Law, approved by the Board of Directors at the same time as it approved the Annual Report. Information pursuant to paragraphs 1 and 2 of Art. 123 *bis* of Legislative Decree No. 58/1998 is contained in the separate "Report on Corporate Governance and Ownership Structure", the full text of which is available on the Company website at www.recordati.it (in the "Corporate Governance" section).

Reference is made for "information concerning the environment and personnel" to the Consolidated Non-Financial Report.

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

Shares held by directors, statutory auditors, general managers and other key management personnel are reported in the Remuneration Report published in accordance with Art. 123-*ter* of the Consolidated Finance Law.
Reference is made to the information given in the Non-Financial Report for details of the principles governing conduct adopted by the Company.
Reference is made to note 45 to the financial statements for information required by the Consob (Italian securities market authority) communication dated 28th July 2006 on "atypical and/or unusual transactions".

RELATED-PARTY TRANSACTIONS

As at 31st December 2019, intercompany accounts with Group companies and the parent company Fimei S.p.A. showed payables of € 379,469 thousand and receivables of € 356,458 thousand. The most significant items were as follows:

- receivables of € 215,017 thousand for loans granted to Group companies;
- payables of € 77,969 thousand for loans received from Group companies;
- trade receivables of € 53.953 thousand from subsidiaries;
- trade payables to subsidiaries of € 5.888 thousand;
- receivables from subsidiaries for the management of the centralised cash pooling treasury system amounting to € 46,243 thousand;
- payables to subsidiaries for the management of the centralised cash pooling treasury system amounting to € 295,435 thousand;

Sales and services supplied to Group companies in the first half of 2019 amounted to € 221,149 thousand. Dividends received during the year were as follows: € 31,900 thousand from Recordati Pharma GmbH, € 29,000 thousand from Bouchara Recordati S.a.s., € 60,000 thousand from Recordati Ireland Ltd, € 4,104 thousand from Recordati Orphan Drugs, € 1,943 thousand from Recordati Romania SRL and € 1,191 thousand from Herbacos Recordati S.r.o..

Short and long-term tax receivables include those from the parent company Fimei S.p.A. amounting to € 40,571 thousand, which relate to the following:

- receivables for tax refunds requested relating to an application for an IRES (corporate income tax) tax refund because it had not made an expense based deduction from IRAP (regional tax on production) relating to personnel expense for employees for the years 2007 until 2011 in accordance with Art. 2, paragraph 1-*quater* of Decree Law 201 of 2011;
- tax assets for current taxation relating to taxes for the year calculated on the basis of estimated taxable income. Those assets were transferred by Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.
- the tax credit for obtaining "patent box" tax relief.

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

Percentage of transactions with related parties		Related parties	
€ (thousands)	Total	Amount	%
Percentage of transactions or positions in the balance sheet with related parties			
Trade receivables and other	140,997	86,730	61.51
Long-term financial assets	192,380	191,008	99.29
Short-term financial assets	78,720	78,720	100.00
Trade payables and other	90,533	6,065	6.70
Long-term financial liabilities	979,876	62,311	6.36
Short-term financial liabilities	451,391	311,094	68.92
Percentage of transactions or positions in the income statement with related parties			
Revenue	446,883	221,200	49.50
Income from investments	128,138	128,138	100.00
Costs of purchases and service provision	213,035	23,896	11.22
Financial income/(expense), net	(17,178)	(1,387)	8.07

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

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

NON-EUROPEAN UNION SUBSIDIARIES

In relation to the provisions of articles 15 and 18 of the Markets Regulations concerning the conditions for the listing of the parent companies of companies formed and regulated under the laws of countries that do not belong to the EU and which are of significant importance for the purposes of consolidated financial statements, since 31st December 2019 the regulatory provisions of Art. 15 of the Markets Regulations have applied to the subsidiaries Recordati Ilaç, Recordati Rare Diseases Inc., Rusfic LLC and Recordati AG and the conditions laid down in the aforementioned Art. 15 in relation to which the certification is required from the management body, have been satisfied.

SIGNIFICANT TRANSACTIONS, EXCEPTION TO DISCLOSURE OBLIGATIONS

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

BUSINESS OUTLOOK

The implementation of Company policies, operations at the beginning of the current year, the potential of our products, the financial strength of the Company and the managerial capacities of our personnel lead us to forecast a positive result again in 2020.
In the face of the epidemiologic emergency due to the COVID-19 virus, the Company is implementing all possible measures and initiatives to guarantee the supply of medicines to its patients and the safety of its employees. Given the complex and constantly evolving situation it is not possible to predict possible future impacts at this time.
Considering the Company business segment and recent performance it is not deemed necessary to change the asset or liabilities amounts recognised in the financial accounts.

Milan, 18th March 2020

For the Board of Directors
Chief Executive Officer
Andrea Recordati

RECORDATI

RECORDATI S.p.A.

INCOME STATEMENTS FOR THE YEARS ENDED 31ST DECEMBER 2019 AND 31ST DECEMBER 2018

Income Statement

Amounts in euro	Notes	2019	2018*
Revenue	3	**440,918,589**	**448.740.256**
Other income:	4	5,964,192	2.000.889
Total income		**446,882,781**	**450.741.145**
Raw materials costs	5	(127,098,137)	(119.270.855)
Personnel costs	6	(85,524,132)	(80.716.836)
Depreciation and amortisation	7	(24,439,173)	(22.080.464)
Other operating expenses	8	(85,936,976)	(81.829.556)
Changes in inventories	9	8,180,143	5.331.736
Operating income		**132,064,506**	**152.175.170**
Income from investments	10	128,138,195	135.162.189
Write-down of investments	11	(2,244,000)	(6.200.000)
Financial income (expense), net	12	(17,178,097)	(17.241.615)
Pre-tax income		**240,780,604**	**263.895.744**
Taxes**	13	311,345	(46.565.450)
Net income for the year		**241,091,949**	**217.330.294**

Earnings per share (in euro)		
Basic	1.176	1.063
Diluted	1.153	1.039

Basic earnings per share is calculated on average shares outstanding in the relative periods, consisting of 204,969,193 shares in 2019 and 204,379,165 in 2018. The figures are calculated net of average treasury stock held, which amounted to 4,165,963 shares in 2019 and 4,745,991 shares in 2018.
Diluted earnings per share is calculated taking into account stock options granted to employees.

* The Company adopted IFRS 16 as of 1st January 2019 using the modified retrospective approach whereby comparative information is not recalculated and any cumulative effect of initial application, which is not significant for the Company, is recognised within retained earnings at the date of first-time adoption. See note 2 for further details.

** Taxes for 2019 included "patent box" tax relief is a non-recurring event: € 27.0 million relating to prior years and € 8.3 million relating to 2019.

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

RECORDATI

RECORDATI S.p.A.

BALANCE SHEETS as at 31ST DECEMBER 2019 and as at 31ST DECEMBER 2018

Assets

Amounts in euro	Notes	31st December 2019	31st December 2018*
Non-current assets			
Property, plant and equipment	14	61,869,186	51,854,651
Intangible assets	15	235,923,191	242,173,970
Investments	16	1,085,275,905	928,900,151
Loans and receivables	17	192,379,763	3,106,777
Deferred tax assets	18	21,872,245	27,853,549
Total non-current assets		**1,597,320,290**	**1,253,889,098**
Current assets			
Inventories	19	74,893,425	66,713,282
Trade receivables	20	95,181,737	89,393,672
Other receivables	21	45,815,114	6,851,845
Other current assets	22	1,518,966	927,018
Fair value of hedging derivatives (cash flow hedges)	23	9,948,918	6,414,332
Other short-term receivables	24	78,719,613	81,302,003
Cash and cash equivalents	25	85,908,328	58,737,501
Total current assets		**391,986,101**	**310,339,653**
Total assets		**1,989,306,391**	**1,564,228,751**

* The Company adopted IFRS 16 as of 1st January 2019 using the modified retrospective approach whereby comparative information is not recalculated and any cumulative effect of initial application, which is not significant for the Company, is recognised within retained earnings at the date of first-time adoption. See note 2 for further details.

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RECORDATI

RECORDATI S.p.A.

BALANCE SHEETS as at 31ST DECEMBER 2019 and as at 31ST DECEMBER 2018

Equity and Liabilities

Amounts in euro	Notes	31st December 2019	31st December 2018*
Equity			
Share capital	26	26,140,645	26,140,645
Additional paid-in capital	26	83,718,523	83,718,523
Treasury shares	26	(93,479,688)	(145,607,941)
Statutory reserve	26	5,228,129	5,228,129
Other reserves	26	268,887,583	238,407,302
Revaluation reserve	26	2,602,229	2,602,229
Interim dividend	26	(98,763,641)	(91,760,954)
Net income for the year	26	241,091,949	217,330,294
Total shareholders' equity		**435,425,729**	**336,058,227**
Non-current liabilities			
Loans	27	979,875,934	694,819,367
Personnel leaving indemnities and other benefits	28	8,663,140	9,355,571
Other non-current liabilities	29	3,255,646	3,255,646
Total non-current liabilities		**991,794,720**	**707,430,584**
Current liabilities			
Trade payables	30	62,650,316	49,372,645
Other current payables	31	25,533,454	25,155,139
Tax liabilities	32	2,349,033	19,532,019
Other current liabilities	33	1,272,728	1,622,727
Provisions	34	5,829,217	9,580,054
Fair value of hedging derivatives (cash flow hedges)	35	10,787,600	9,746,339
Loans – due within one year	36	140,297,060	67,517,681
Bank overdrafts and short-term loans	37	2,272,509	7,457,274
Other short-term borrowings	38	311,094,025	330,756,062
Total current liabilities		**562,085,942**	**520,739,940**
Total equity and liabilities		**1,989,306,391**	**1,564,228,751**

* The Company adopted IFRS 16 as of 1st January 2019 using the modified retrospective approach whereby comparative information is not recalculated and any cumulative effect of initial application, which is not significant for the Company, is recognised within retained earnings at the date of first-time adoption. See note 2 for further details.

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

RECORDATI S.p.A.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31ST DECEMBER 2019 AND 31ST DECEMBER 2018

€ (thousands)	2019	2018*
Net income for the year	**241,092**	**217,330**
Gains/(losses) on cash flow hedges after tax	2,253	(2,532)
Valuation of the personnel leaving indemnity fund pursuant to IAS 19 net of tax	(357)	478
Adjustment to investments in listed companies net of tax	17,388	1,859
Income (expense) for the year recognised directly in equity	**19,284**	**(195)**
Comprehensive income for the year	**260,376**	**217,135**

Data per share (in euro)		
Basic	1.270	1.062
Diluted	1.245	1.038

* The Company adopted IFRS 16 as of 1st January 2019 using the modified retrospective approach whereby comparative information is not recalculated and any cumulative effect of initial application, which is not significant for the Company, is recognised within retained earnings at the date of first-time adoption. See note 2 for further details.

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

RECORDATI

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31ST DECEMBER 2019 AND 31ST DECEMBER 2018

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Statutory reserve	Other reserves			Revaluation reserves	Interim dividend	Net (loss)/ income for the period	Total
					Sundry reserves	Fair Value hedging instrument reserve	IAS compliance reserve				
Balance as at 31st December2017 *	**26,141**	**83,718**	**(17,029)**	**5,228**	**108,915**	**(5,866)**	**115,754**	**2,602**	**(87,470)**	**212,506**	**444,499**
Effects of first time adoption of IFRS 15					(1,422)						(1,422)
Balance as at 1st January2018 *	**26,141**	**83,718**	**(17,029)**	**5,228**	**107,493**	**(5,866)**	**115,754**	**2,602**	**(87,470)**	**212,506**	**443,077**
Allocation of 2017 net income as per shareholder's resolution of 27.04.2018											
Dividends to shareholders									87,470	(174,596)	(87,126)
to Reserves					37,910					(37,910)	0
Sales of treasury stock			41,189		(20,972)						20,217
Repurchase of treasury shares			(169,768)								(169,768)
Dividends expired					5						5
Interim dividends									(91,761)		(91,761)
Total comprehensive income						(2,532)	2,337			217,330	217,135
IAS compliance as at 31st December 2018											
Stock options							5,020				5,020
Acquisition of 10% of Opalia Pharma							(741)				(741)
Balance as at 31st December2018 *	**26,141**	**83,718**	**(145,608)**	**5,228**	**124,436**	**(8,398)**	**122,370**	**2,602**	**(91,761)**	**217,330**	**336,058**
Allocation of 2018 profit as per shareholders' resolution of 11.04.2019											
Dividends to shareholders									91,761	(187,844)	(96,083)
to Reserves					29,486					(29,486)	0
Sales of treasury stock			52,128		(25,942)						26,186
Interim dividends									(98,764)		(98,764)
Total comprehensive income						2,253	17,031			241,092	260,376
IAS compliance as at 31st December 2019											
Stock options							7,653				7,653
Balance as at 31st December 2019	**26,141**	**83,718**	**-93,480**	**5,228**	**127,980**	**-6,145**	**147,054**	**2,602**	**-98,764**	**241,092**	**435,426**

* The Company adopted IFRS 16 as of 1st January 2019 using the modified retrospective approach whereby comparative information is not recalculated and any cumulative effect of initial application, which is not significant for the Company, is not significant for the Company, is recognised within retained earnings at the date of first-time adoption. See note 2 for further details.

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

RECORDATI

CASH FLOW STATEMENT FOR THE YEARS ENDED 31ST DECEMBER 2019 AND 31ST DECEMBER 2018

€ (thousands)	2019	2018*
Cash flows from operating activities		
Net income for the year	241.092	217.330
Depreciation of property, plant and equipment	8.972	7.213
Amortisation of intangible assets	15.467	14.867
Impairment of investments	2.244	6.200
(Increase)/decrease in deferred tax liabilities	5.059	157
Increase/(decrease) in personnel leaving indemnities	(693)	(1.505)
Other provisions	(3.751)	(26.958)
Trade receivables	(5.788)	(7.143)
Other receivables and other current assets	(39.555)	1.430
Inventories	(8.180)	(5.332)
Trade payables	13.278	(6.391)
Other payables and other current liabilities	(998)	5.786
Tax liabilities	(17.183)	11.115
Net cash from/(used) in operating activities	**209.964**	**216.769**
Cash flows from investment activities		
Net (investments)/disposals in property, plant and equipment	(18.987)	(12.107)
Net (investments)/disposals in intangible assets	(9.216)	(17.526)
Net (increase)/decrease in equity investments	(137.138)	(156.233)
Net (increase)/decrease in other non-current assets	(189.273)	6.998
Income from investments	(128.138)	(135.162)
Dividends received	128.138	135.162
Net cash from/(used) in investment activities	**(354.614)**	**(178.868)**
Cash flows from financing activities		
Borrowings – due after one year	423.768	153.591
Dividends distributed	(190.916)	(178.887)
(Purchase)/sale of treasury stock	26.186	(149.551)
Transactions with equity settled share-based payments	3.770	2.391
Change in personnel leaving indemnities according to IAS 19	(357)	(940)
Repayment of loans	(66.855)	(46.924)
Lease liability payments	(1.511)	0
Change in other short-term loans	2.583	(13.729)
Change in other short-term payables	(19.662)	43.274
Net cash from/(used in) financing activities	**177.006**	**(190.775)**
Net change in cash and cash equivalents	**32.356**	**(152.874)**
Net cash and cash equivalents at beginning of year	51.280	204.154
Net cash and cash equivalents at end of year	83.636	51.280

* The Company adopted IFRS 16 as of 1st January 2019 using the modified retrospective approach whereby comparative information is not recalculated and any cumulative effect of initial application, which is not significant for the Company, is not significant for the Company, is recognised within retained earnings at the date of first-time adoption. See note 2 for further details.

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

RECORDATI S.p.A.

INCOME STATEMENT IN ACCORDANCE WITH CONSOB RESOLUTION No. 15519 OF 27TH JULY 2006

Income Statement

Amounts in euro	2019	of which related parties	2018	of which related parties
Revenue	**440,918,589**	**221,149,760**	**448,740,256**	**223,223,330**
Other income:	5,964,192	51,200	2,000,889	72,610
Total income	**446,882,781**		**450,741,145**	
Raw materials costs	(127,098,137)	(21,037,292)	(119,270,855)	(21,288,480)
Personnel costs	(85,524,132)		(80,716,836)	
Depreciation and amortisation	(24,439,173)		(22,080,464)	
Other operating expenses	(85,936,976)	(2,859,500)	(81,829,556)	(5,721,551)
Changes in inventories	8,180,143		5,331,736	
Operating income	**132,064,506**		**152,175,170**	
Income from investments	128,138,195	128,138,195	135,162,189	135,162,189
Write-down of investments	(2,244,000)		(6,200,000)	
Financial income (expense), net	(17,178,097)	(1,387,059)	(17,241,615)	(1,914,006)
Pre-tax income	**240,780,604**		**263,895,744**	
Taxes	311,345		(46,565,450)	
Net income for the year	**241,091,949**		**217,330,294**	

RECORDATI S.p.A.

BALANCE SHEET IN ACCORDANCE WITH CONSOB RESOLUTION N. 15519 OF 27TH JULY 2006

Assets

Amounts in euro	31st December 2019	of which related parties	31st December 2018	of which related parties
Non-current assets				
Property, plant and equipment	61,869,186		51,854,651	
Intangible assets	235,923,191		242,173,970	
Investments	1,085,275,905		928,900,151	
Loans and receivables	192,379,763	191,008,205	3,106,777	3,000,000
Deferred tax assets	21,872,245		27,853,549	
Total non-current assets	**1,597,320,290**		**1,253,889,098**	
Current assets				
Inventories	74,893,425		66,713,282	
Trade receivables	95,181,737	53,953,456	89,393,672	53,014,549
Other receivables	45,815,114	32,776,925	6,851,845	786,347
Other current assets	1,518,966		927,018	
Fair value of hedging derivatives (cash flow hedges)	9,948,918		6,414,332	
Other short-term receivables	78,719,613	78,719,613	81,302,003	81,302,003
Cash and cash equivalents	85,908,328		58,737,501	
Total current assets	**391,986,101**		**310,339,653**	
Total assets	**1,989,306,391**		**1,564,228,751**	

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BALANCE SHEET IN ACCORDANCE WITH CONSOB RESOLUTION N. 15519 OF 27TH JULY 2006

Equity and Liabilities

Amounts in euro	31st December 2019	of which related parties	31st December 2018	of which related parties
Equity				
Share capital	26,140,645		26,140,645	
Additional paid-in capital	83,718,523		83,718,523	
Treasury stock	(93,479,688)		(145,607,941)	
Statutory reserve	5,228,129		5,228,129	
Other reserves	268,887,583		238,407,302	
Revaluation reserve	2,602,229		2,602,229	
Interim dividend	(98,763,641)		(91,760,954)	
Net income for the year	241,091,949		217,330,294	
Total shareholders' equity	**435,425,729**		**336,058,227**	
Non-current liabilities				
Loans	979,875,934	62,310,842	694,819,367	61,135,371
Personnel leaving indemnities	8,663,140		9,355,571	
Other non-current liabilities	3,255,646		3,255,646	
Total non-current liabilities	**991,794,720**		**707,430,584**	
Current liabilities				
Trade payables	62,650,316	5,888,009	49,372,645	8,274,010
Other current payables	25,533,454	177,439	25,155,139	118,349
Tax liabilities	2,349,033		19,532,019	7,883,869
Other current liabilities	1,272,728		1,622,727	
Provisions	5,829,217		9,580,054	
Fair value of hedging derivatives (cash flow hedges)	10,787,600		9,746,339	
Loans – due within one year	140,297,060		67,517,681	
Bank overdrafts and short-term loans	2,272,509		7,457,274	
Other short-term borrowings	311,094,025	311,094,025	330,756,062	330,756,062
Total current liabilities	**562,085,942**		**520,739,940**	
Total equity and liabilities	**1,989,306,391**		**1,564,228,751**	

RECORDATI S.p.A.
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st December 2019

1. GENERAL INFORMATION

These financial statements, available at the headquarters of our Company have been prepared by Recordati Industria Chimica e Farmaceutica S.p.A., with registered office at 1, Via Matteo Civitali, Milan and they were approved by the Board of Directors on 18th March 2020, which authorised their publication.
The separate company annual financial statements comprise the income statement, the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and these notes to the financial statements.
The separate annual financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") issued or reviewed by the International Accounting Standards Board ("IASB") and endorsed by the European Union and also by regulations issued to implement Art. 9 of Legislative Decree No. 38/2005. Details of the accounting standards adopted by the Group are given in note 2 to the financial statements.
The presentation adopted by the Company for the income statement in the separate company annual financial statements classifies revenues and expenses by nature. The distinction between the principle of current and non-current was adopted for the presentation of assets and liabilities in the balance sheet. The indirect method was used to prepare the cash flow statement.
These financial statements are presented in euro (€) and all amounts in the notes to the statements are rounded to the nearest thousand euro unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In compliance with Legislative Decree No. 38 of 28th February 2005 (which implements the options provided for by Art. 5 of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19th July 2002 concerning the application of international accounting standards) the separate company financial statements have been prepared by applying the International Financial Reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and endorsed by the European Union and also the regulations issued in implementation of Art. 9 of Legislative Decree No. 38/2005.
Details of the accounting standards adopted by the Company are given in the remaining part of this note.

Adoption of new standards

As of 1st January 2019 the Company has applied the new accounting standard IFRS 16 "Leases". This replaces accounting standard IAS 17 and the relative interpretations and eliminates the classification of leases as operating or finance for the purposes of the preparation of financial statements by companies that operate as lessees. According to IFRS 16, a contract is a lease, or contains a lease, if it conveys the right to use an identified asset for a period of time in exchange for consideration. At the date on which a lease contract takes effect it is necessary to recognise an asset representing the right-of-use and a liability representing the obligation to make payments in accordance with the contract and also the effects of the amortisation of the asset and recognition of the interest expenses on the financial liability in the income statement.
At the start of a contract or on the date of the new valuation of a contract that contains a lease component, the consideration for the contract is allocated to both the lease and the non-lease components on the basis of the relative prices. The Company has estimated the life of the leases for some of the contracts in which it acts as the lessee and which contain a renewal option. The assessment of whether or not it is reasonably certain that an option will be exercised affects the estimate of the life of the lease, with an impact on the

amount of the lease liability and the right-of-use asset that is recognised. As permitted by the accounting standard, it was decided not to recognise right-of-use assets and the relative lease liabilities for assets with low values, inclusive of IT equipment. For these leases the payments are recognised as an expense on a straight-line basis over the lease term.
The Company states right-of-use assets within the item "Property plant and equipment" (the same item that is used to state assets of a similar nature that it holds) and lease liabilities within the item "Loans" and "Current portions of medium to long-term loans" in the balance sheet. Right-of-use assets are measured at cost on initial recognition and subsequently at cost net of depreciation and any permanent cumulative impairment.
Lease liabilities are measured at the present value of the payments due at the date of inception, discounted using the interest rate implicit in the lease or, where it is not easily possible to determine that rate, the incremental borrowing rate is used. The Company generally uses the incremental borrowing rate. Lease liabilities are subsequently increased by the interest accruing on them and decreased by the payments made.

At the date of the transition to the new standard, the modified retrospective approach was applied, which involves recognition of the possible cumulative effect as an adjustment to equity at 1st January 2019, without restating the comparative figures. As permitted by the standard, at the date of initial application of IFRS 16 the Company opted to apply it solely to contracts that had previously been identified as leases on the basis of IAS 17 and IFRIC 4.
Again at the date of initial application, for those leases classified as operating leases according to IAS 17, the lease liabilities were measured at the present value of the remaining payments due, discounted using the incremental borrowing rate of the Company at 1st January 2019. The Company has identified specific incremental borrowing rates based on the life of the leases. The rates identified range between 0.55% and 4.31%. The right-of-use assets were measured at an amount equal to the lease liabilities adjusted for any cumulative advanced payments made.

The Company used the following practical procedures to apply IFRS 16 to leases previously classified as operating leases according to IAS 17:

- it applied the exemption from recognition of right-of-use-assets and lease liabilities to contracts with a life of less than 12 months;
- it excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application;
- it based its determination of the life of leases containing renewal or early termination options on the basis of hindsight.

No significant effects were encountered at 1st January 2019, the date of initial application. More specifically, the Company recognised right-of-use assets and the corresponding lease liabilities amounting to € 3,939 thousand.

Further right-of-use assets and the corresponding lease liabilities were recognised as at 31st December 2019 amounting to € 1,083 thousand and repayments came to € 1,511 thousand. Furthermore, depreciation of € 1,530 thousand was recognised together with financial charges of € 57 thousand in place of lease instalments.

Use of estimates

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

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

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

  Generally methods for measuring the fair value of financial instruments for accounting or disclosure purposes are summarised below with reference made to the main categories of financial instruments to which they apply:
    - derivative instruments: appropriate pricing models are used based on market values for interest rates;
    - loans and borrowings and unlisted financial assets: the discounted cash flow method (based on the present value of expected cash flows in consideration of current interest rates and credit ratings) is used for financial assets with maturities of greater than one year for measurement of the fair value on first-time recognition. Subsequent recognition is carried out using the amortised cost method;
    - listed financial instruments: the market price as at the reporting date is used.

  IFRS 13 requires the fair value of financial instruments to be measured by classifying them on the basis of a hierarchy of levels laid down by the standard itself, which reflects the degree of observability of the market inputs used in the calculation of the fair value. The following levels are identified:
    - Level 1: unadjusted quotations recorded on active markets for assets or liabilities subject to measurement;
    - Level 2: inputs that are not quoted prices as per level 1, but which are observable on the market, either directly (as in the case of prices) or indirectly (i.e. because they are derived from prices);
    - Level 3: inputs that are not based on observable market data.

Balance Sheet

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

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

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

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

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

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

Leases – The Company has applied IFRS 16 using the modified retrospective approach.
Accounting model for the lessee
At the start of a contract or when changes are made to a contract that contains a lease component, the Company allocates the consideration for the contract to each lease and non-lease component on the basis of the relative prices. At the date of inception of a lease contract, the Company recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost inclusive of the amount of the initial lease liability, adjusted for payments due for leasing carried out at the date of or before the date of inception, plus the direct costs incurred and an estimate of the costs that the lessee will have to bear for disassembly and removal of the underlying assets and to restore the underlying assets or the site in which it is located, net of lease incentives received.
The right-of-use asset is subsequently depreciated on a straight-line basis from the date of inception until the end of the lease contract unless the lease transfers ownership of the underlying asset to the Company at the end of the lease contract or, considering the cost of the right-of-use asset, it is expected that the Company will exercise its purchase option. In this case, the right-of-use asset will be depreciated over the useful life of the underlying asset, calculated on the same basis as that used for property, plant equipment. Furthermore, standard practice is followed to reduce the value of the right-of-use asset for impairment and it is adjusted to reflect any changes resulting from subsequent measurements of the lease liability.
The Company measures lease liabilities at the present value of the payments due for the lease not paid at the date of inception, discounted using the interest rate implicit in the lease. If it is not possible to calculate that rate easily, the Company uses the incremental borrowing rate. Generally, the Company uses the incremental borrowing rate as the discount rate.
The Company's incremental borrowing rate is calculated on the basis of interest rates obtained from various external sources of financing, which are then adjusted to reflect the terms and conditions of the lease and the type of asset leased.
Payments due for the lease included in the measurement of the lease liability are comprised of:

- fixed payments (including in-substance fixed payments);
- variable lease payments due that depend on an index or a rate, initially measured using an index or rate as at the commencement date;

- amounts expected to be payable by the lessee under residual value guarantees; and
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, the payments due for a lease period where the Company has the option to extend it if the Company is reasonably certain to exercise that option and payments of penalties for terminating the lease in advance, unless the Company is reasonably certain that it will not terminate the lease in advance.

Lease liabilities are measured at amortised cost using the effective interest rate criteria and are measured again: if there is a change in the future payments due for the lease resulting from a change in an index or rate; if there is a change in the amount that the Company expects will be due under residual value guarantees; or if the Company changes its assessment of whether or not it will exercise a purchase, extension or termination option; or if there is a change in the in-substance fixed payments due.
When a lease liability is remeasured, the lessee makes a corresponding change to the relative right-of-use asset. If the carrying amount of a right-of-use asset is reduced to zero, the lessee recognises that change in net income for the year.
The Company recognises right-of-use assets which do not satisfy the requirement to be defined as investment property within the item "Property, plant and equipment" in the balance sheet and lease liabilities within the item "Loans" and "Current portions of medium to long-term loans".

Short-term leases and low-value leases

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

Criterion applicable before 1st January 2019

For contracts signed before 1st January 2019, the Company established whether the agreement was or contained a lease by checking the following:

- performance of the agreement depended on the use of one or more specific assets: and
- the agreement transferred the right to use an asset. An agreement transferred the right to use an asset if one of the following underlying conditions was met:
  - the acquirer had the ability or the right to operate the asset or control more than an insignificant amount of its production;
  - the acquirer had the ability or the right to control physical access to the asset, while it obtained or controlled more than an insignificant amount of its production; or
  - the facts and circumstances indicated that there was a remote possibility that one or more parties other than the acquirer acquired more than an insignificant amount of the production, and the price per unit of the product was neither fixed per unit of the product nor equal to the current market price per unit of the product.

In the comparative year, the Company, as the lessee, classified leases that transferred substantially all the risks and rewards connected with ownership as finance leases. In this case, the assets acquired under a lease were measured initially at their fair value, or if lower, at the present value of the minimum lease payments due. The minimum lease payments due were payments requested from the lessee during the lease, net of potential lease instalments. The assets were subsequently recognised on the basis of the accounting standards adopted for each asset.
Other lease assets were classified as operating leases and were recognised in the balance sheet of the Company. Payments for operating leases were recognised as an expense on a straight-line basis while lease incentives paid to the lessee were recognised as an integral part of the overall lease over the lease term.

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

Impairment - At each balance sheet date, or more frequently if necessary, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets

have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.
The recoverable amount is the greater of net selling price and value in use. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of the money and the risks specific to the asset.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.
Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised. A reversal of an impairment loss is recognised as income immediately.

Investments in subsidiaries – Investments in subsidiaries, which are those entities over which the Company holds control, are recognised at cost of purchase adjusted for impairment. Positive differences arising at the time of purchase between the purchase cost and the quota of the equity at present values held in the subsidiary attributable to the Company are therefore included in the carrying amount of the investment.
Investments in subsidiaries are subject to impairment testing annually or more frequently if necessary in order to test for possible loss of value. Where evidence exists that the value of these investments has been impaired, this is recognised through profit or loss as an impairment loss. Where an impairment loss subsequently reverses or reduces, this is recognised through profit or loss as a reversal of impairment within the limits of the cost of acquisition.

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

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

Classification and subsequent measurement
Financial assets
On initial recognition, a financial asset is classified on the basis of its measurement: amortised cost; fair value recognised through the comprehensive income (FVOCI) – debt security; (FVOCI) – equity; or at fair value recognised through profit or loss (FVTPL).
Financial assets are not reclassified after their initial recognition unless the Company modifies its business model for the management of financial assets. In this case all the financial assets concerned are reclassified on the first day of the financial year after the business model is changed.
A financial asset must be measured at amortised cost if both the following conditions are met and it is not designated as at FVTPL:

- it is held as part of a business model the objective of which is to hold it with the objective of collecting the relative contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding to be repaid.

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

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

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

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

Financial assets: subsequent measurement and profits and losses

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

Financial liabilities: classification, subsequent measurement and profits and losses

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

Derecognition

Financial assets

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

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

Financial liabilities

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

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

Offsetting

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

Derivatives and hedges (hedge accounting)

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

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

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

Cash flow hedges

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

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

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

Hedging for net investments

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

Inventories - Inventories are stated at the lower of cost or the net realisable value.
Inventories of raw materials and supplies are measured at their average weighted purchase cost including costs incurred in bringing the inventories to their location and condition at year-end.
Inventories of work-in-process and finished goods are measured at their average weighted manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production, exclusive of general expenses.
Inventories are written down if the net realisable value is lower than cost as described above or in the case of obsolescence resulting from slow moving stocks.

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

Equity - Equity instruments issued by the Company are recognised at the amount of the proceeds received.
Dividends declared by the Company are recognised as a liability at the time of approval of the resolution to distribute them.
The cost and selling prices of treasury shares are recognised directly in equity and therefore gains and losses on sales are not recognised through profit or loss.

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

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

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

Income Statement

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

Revenues - Revenues are measured with account taken of the consideration specified in the contract with the customer. They are recognised when control over the goods or services is transferred and they are stated net of returns, discounts and rebates.
Information on the nature and timing of the satisfaction of performance obligations in contracts with customers and the relative policies for recognition of revenues is given below.
Revenues are mainly comprised of the sales of products and income from license agreements. Sales of products are shown by the net amount of the invoice, less the estimated amounts for discounts and returns, and they are recognised when the control of the goods has been transferred to third parties. This usually occurs when ownership passes to the customer, on shipment or on receipt of the goods, depending on the specific conditions of the sale.
Revenue arising from licensing agreements includes income generated by agreements to collaborate on products for which the Company has granted determined rights under licence but in which it retains a significant economic interests, through, for example, the ordinary sale of finished products. The revenue may take the form of up-front payments, profit-sharing and royalties. When control of the right to use intangible assets is transferred at the beginning of an agreement, the revenue is recognised in one single amount. If the substance of an agreement gives the right of access to intangible assets, the revenues are recognised over time, usually on a straight-line basis for the entire term of the contract. If the Company provides services, such as for example the supply of products, the revenues are recognised for the entire period of the service provision. Revenue linked to the achievement of a sales target by a licensee is recognised in one single amount when the target is reached. Revenue for royalties is recognised in one single amount when the right to receive them vests.

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

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

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

Financial income and expense – These include interest income and expense, foreign exchange gains and losses, both realised and unrealised, and differences arising from the valuation of securities. Interest income and expense is recognised through profit and loss for the period to which it relates using the effective interest rate method.

Taxation - Taxation for the year constitutes the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year and tax rates in force at the date of the

balance sheet are applied.
Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be used. Such assets and liabilities are not recognised if the temporary difference arises from goodwill.
Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is recognised directly through profit or loss, except when it relates to items recognised directly in equity, in which case the deferred tax is also recognised in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Earnings per share - Earnings per share is the net income for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period.
Diluted earnings per share is calculated by adjusting the average weighted number of outstanding shares for the effects of all the potential dilutive ordinary shares.

3. REVENUE

In 2019 revenue came to € 440,919 thousand (€ 448,740 thousand in 2018) and was composed as follows:

€ (thousands)	2019	2018	Change 2019/2018
Net sales	411,584	423,315	(11,731)
Royalties and up-front payments	1,819	1,174	645
Revenue from services	27,516	24,251	3,265
Total revenue	**440,919**	**448,740**	**(7,821)**

Net sales revenue is as follows:

€ (thousands)	2019		2018	
	Italy	Abroad	Italy	Abroad
Pharmaceuticals	198,283	166,669	191,715	189,642
Pharmaceutical chemicals	2,848	42,970	2,724	37,681
Others	376	438	242	1,311
Total revenue for net sales	**201,507**	**210,077**	**194,681**	**228,634**

Revenue from pharmaceuticals in Italy was € 198,283 thousand, up € 6,568 thousand on the same period of the previous year. Prescription pharmaceuticals saw growth in sales of Cardicor® and Urorec®.
Sales abroad in the pharmaceutical sector fell by € 22,973 thousand compared with the previous year, attributable in particular to lower sales of metoprolol based products and of lercanidipine as well as to the pipelines for the launches of Reagila® (cariprazine) which took place in the previous year.
Sales abroad of pharmaceutical chemicals rose by € 5,289 thousand due in particular to higher sales of manidipine and aciclovir.

Revenue from net sales by geographical area was as follows:

€ (thousands)	2019	2018	Change 2019/2018
Europe	410,027	422,828	(12,801)
of which Italy	*205,781*	*199,040*	*6,741*
Australasia	15,013	10,419	4,594
The Americas	14,656	13,937	719
Africa	1,223	1,556	(333)
Total	**440,919**	**448,740**	**(7,821)**

In 2019, as also in 2018, no concentrations of revenue of greater than 10% were recorded for a single customer outside the Group.

Net sales revenues included € 192,190 thousand (€ 198,195 thousand in 2018) for sales of products to subsidiaries:

€ (thousands)	2019	2018	Change 2019/2018
Recordati Ireland Ltd.	102,289	102,402	(113)
Innova Pharma S.p.A.	25,521	22,278	3,243
Laboratoires Bouchara Recordati S.a.s.	16,918	14,299	2,619
Casen Recordati S.L.	1,434	1,433	1
Jaba Recordati S.A.	3,251	2,792	459
Recordati Pharma GmbH	17,540	28,875	(11,335)
Recordati Ilaç	504	1,644	(1,140)
Recordati Rare Diseases S.a.r.l.	4,147	3,421	726
Opalia Pharma S.A.	30	15	15
Recordati Hellas Pharmaceuticals S.A.	1,072	1,065	7
Herbacos Recordati s.r.o.	6,789	7,793	(1,004)
Recordati Romania S.r.l.	3,615	3,300	315
Recordati Polska Sp. z o.o.	4,694	4,299	395
Recordati AG	3,413	4,165	(752)
Recordati BVBA	193	141	52
Recordati AB	284	92	192
Recordati Pharmaceuticals Ltd.	399	181	218
Recordati Rare Diseases Inc.	97	0	97
Total	**192,190**	**198,195**	**(6,005)**

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

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

€ (thousands)	2019	2018	Change 2019/2018
Services and royalties to subsidiaries:			
Recordati Rare Diseases Italy S.r.l.	40	40	0
Innova Pharma S.p.A.	797	823	(26)
Recordati Ireland Ltd.	13,576	14,239	(663)
Laboratoires Bouchara Recordati S.a.s.	675	700	(25)
Recordati Pharma GmbH	1,240	883	357
Casen Recordati S.L.	366	302	64
Jaba Recordati S.A.	225	271	(46)
Recordati Ilaç	309	293	16
Recordati Hellas Pharmaceuticals S.A.	91	95	(4)
Herbacos Recordati sro	101	103	(2)
Recordati Romania S.r.l.	86	76	10
Recordati Rare Diseases Sarl	2,114	1,624	490
Recordati Rare Diseases Inc.	2,429	1,838	591
Rusfic LLC	59	44	15
Recordati Polska Sp. z o.o.	129	133	(4)
Italchimici S.p.A.	2,537	3,373	(836)
Natural Point S.r.l.	565	137	428
Recordati AG	3,362	47	3,315
Recordati BVBA	70	4	66
Recordati A.B.	158	1	157
Recordati Pharmaceuticals Ltd.	20	2	18
Recordati Ukraine LLC	10	0	10
Total services and royalties to subsidiaries	**28,959**	**25,028**	**3,931**
Services and royalties to third parties			
Royalties and up-front payments	375	397	(22)
Total services and royalties to third parties	**375**	**397**	**(22)**
Total revenue from services and royalties	**29,334**	**25,425**	**3,909**

The revenue from royalties and services to subsidiaries related principally to the "Group Service Agreement" for services performed on behalf of subsidiaries during the year.
Revenues from Recordati Ireland Ltd. included € 12,674 million (€ 13,012 thousand in 2018) for adjustments to intercompany transfer prices made on the basis of the same criteria defined by the tax authorities for prior years and incorporated in a "Commercial and Management Service Agreement".
Revenue from Recordati Rare Diseases Sarl and from Recordati Rare Diseases Inc. was attributable to R&D work carried out on behalf of those subsidiaries.
Revenues from Italchimici S.p.A. related above all to the continuation of co-promotion carried out on behalf of the subsidiary as well as to a service contract.
Revenue from Recordati AG relates in particular to a payment made in the form of a "success fee" for a service of an extraordinary nature provided by Recordati S.p.A. in relation to an agreement made by this Swiss subsidiary with companies belonging to the Novartis Group located in Switzerland regarding the acquisition of rights on the products Signifor® and Signifor® LAR® and a perpetual license on the osilodrostat development programme.

Services and royalties to third parties, which amounted to € 375 thousand, included € 350 thousand in relation to the adoption from 1st January 2018 of the new accounting standard IFRS 15 for up-front payments resulting from licence and distribution contracts received in prior years.

4. OTHER REVENUE AND INCOME

Other revenue and income came to € 5,964 thousand in 2019, compared with € 2,001 thousand in 2018. It included charges to employees for the use of hired cars, other indemnities, non-recurring income, prior year income and gains on the sale of non-current assets.
There were also the charges passed on to licensees for the "1.83% discount" due on request from AIFA (Italian Medicines Agency) from the holder of the AIC (marketing authorisation).
Steps were taken during the year to recover the VAT incorporated in "pay-back" payments made in prior years as permitted by the Budget Law of 27th December 2017.
That recovery generated recognition of prior year income amounting to € 688 thousand.

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

€ (thousands)	
2015	12
2016	6
2017	1
2018	0
2019	0
Total	**19**

The item also included € 51 thousand for income from property investments.

Income from property investments includes the rent of properties to the subsidiary Fimei S.p.A. amounting to € 4 thousand, the rent of premises at the Milan site to Innova Pharma S.p.A. amounting to € 12 thousand and the rent of part of the offices in via Marostica in Milan to Recordati Rare Diseases Italy S.r.l. for € 35 thousand.

5. RAW MATERIALS COSTS

These were composed as follows:

€ (thousands)	2019	2018	Change 2019/2018
Raw materials and goods:			
from licensing-in agreements	41,940	35,952	5,988
from others	71,020	65,829	5,191
	112,960	101,781	11,179
Goods for resale	1,295	3,176	(1,881)
Packaging materials	7,194	7,500	(306)
Others and consumables	5,649	6,814	(1,165)
Total	**127,098**	**119,271**	**7,827**

The change in purchases of raw materials, goods and other materials correlates with the changes in the sales mix for each product.
Costs from others include purchases of metoprolol for € 16,027 thousand and raw materials from Recordati Ireland Ltd for € 10,942 thousand, from Innova Pharma S.p.A. for € 5,906 thousand, from Casen Recordati S.L. for € 2,818 thousand and from Italchimici S.p.A. for € 1,372.

6. PERSONNEL COSTS

Personnel costs were composed as follows:

€ (thousands)	2019	2018	Change 2019/2018
Wages and salaries	58,287	56,302	1,985
Social security costs	18,761	17,790	971
Salary resulting from stock option plans	3,166	2,392	774
Other costs	5,310	4,233	1,077
Total personnel costs	**85,524**	**80,717**	**4,807**

The expense for stock option plans is a result of the application of IFRS 2, which requires the valuation of those options as a component of the wages of the beneficiaries and recognition of the cost determined in that manner in the income statement.

During the year some employees of the Recordati Group have been designated as beneficiaries of an incentive scheme, with a vesting period of five years, under which they have purchased shares of Rossini Luxembourg S.àr.l. at face value, an indirect shareholder of Recordati S.p.A., and they will receive a return at the end of the life of the scheme. On the basis of the accounting standard IFRS 2, recognition of this in the accounts for the period ended 31st December 2019 resulted in an expense in the income statement amounting to € 604 thousand.

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

Average workforce figures for the Company were as follows:

	2019	2018	Change 2019/2018
Executives	69	70	(1)
Office workers	594	579	15
Manual workers	385	378	7
Total	**1,048**	**1,027**	**21**

7. DEPRECIATION AND AMORTISATION

This is composed as follows:

Amortisation of intangible assets

€ (thousands)	2019	2018	Change 2019/2018
Patent rights and marketing authorisations	10,064	10,066	(2)
Distribution, licence, trademark and similar rights	5,403	4,801	602
Total	**15,467**	**14,867**	**600**

The increase in the amortisation of intangible assets compared with the previous year is attributable to Reagila® (cariprazine).

Depreciation of property, plant and equipment

€ (thousands)	2019	2018	Change 2019/2018
Industrial buildings	1,233	1,232	1
General plant	604	552	52
Accelerated depreciation machinery	2,776	2,607	169
Normal depreciation machinery	1,343	1,314	29
Miscellaneous laboratory equipment	985	938	47
Office furnishings and machines	66	59	7
Electronic equipment	425	492	(67)
Vehicles for internal transport	9	20	(11)
Rights of use (IFRS 16)	1,531	0	1,531
Total	**8,972**	**7,214**	**1,758**

The table shows the impact of first-time application of the new IFRS 16 accounting standard.

8. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

€ (thousands)	2019	2018	Change 2019/2018
Pay-back and discount of 1.83%	6,069	6,693	(624)
Meetings and scientific publications, market surveys and expenses for medical and scientific communications and advertising	10,339	9,923	416
Pharmacological clinical trials	4,694	3,319	1,375
Commissions on sales paid to agents and logistics commissions	5,275	5,832	(557)
Recordati Rare Diseases commissions	80	86	(6)
Transport and storage	2,438	2,306	132
Utilities and similar (motor fuel, gas, water, etc.)	5,628	5,209	419
Destruction of industrial waste and cleaning	2,845	1,939	906
Innova co-promotion service	1,861	2,117	(256)
Italchimici co-promotion service	0	289	(289)
Maintenance	3,979	3,822	157
Insurance premiums	493	645	(152)
Professional consulting services	4,297	4,502	(205)
Directors’ fees	2,939	682	2,257
Statutory auditors’ fees	141	127	14
Sundry personnel costs	3,563	3,298	265
Legal, judiciary and notary expenses	383	591	(208)
Sundry services and expenses charged back to subsidiaries	8,505	5,902	2,603
Postal and telecommunications expenses	321	319	2
External processing	9,373	7,565	1,808
Laboratoires Bouchara external processing	684	216	468
Royalties payable	4,662	3,960	702
Recordati Ireland royalties payable	71	57	14
Natural Point Royalties payable	24	0	24
Rent of premises	394	352	42
Car hire expenses	930	2,370	(1,440)
Membership fees	301	258	43
Prior year expenses	90	69	21
Sundry taxation	1,621	1,780	(159)
Bad debt allowances	22	96	(74)
Provisions for sundry risks	272	295	(23)
Provisions for agent customer indemnities	66	149	(83)
Company and product acquisition costs	72	1,592	(1,520)
Service expenses and charges made by subsidiaries	139	2,956	(2,817)
IT system services	2,203	1,605	598
Other operating expenses	1,163	909	254
Total	**85,937**	**81,830**	**4,107**

The pay-back cost totalled € 6,069 thousand which, in addition to the 1.83% discount, included the quota paid for the year for the renewal of the contract agreement signed with AIFA (Italian Pharmaceutical Agency) on 29th September 2015 (the “Urorec Agreement”), as well as a provision to cover the risk of reductions to balance National Health Service expenses.

Expenses for sundry services included the auditors’ fees.

Details of that remuneration are provided in Attachment 7 in compliance with Art. 149-*duodecies* of the Consob Issuers' Regulations.

Sundry services and charge backs to subsidiaries included, amongst other things, R&D costs incurred on behalf of Recordati Rare Diseases Sarl and Recordati Rare Diseases Inc. and then charged back to the subsidiaries. The increase compared with 2018 is attributable to costs incurred for the acquisition from Novartis AG of the rights on Signifor® and osilodrostat with the part relating to it then charged back to Recordati AG.

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

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

No use was made of finance lease assets in 2019.

The increase in royalties paid compared with 2018 relates to sales on the market of Reagila® (cariprazine).

The item "sundry taxation" amounting to € 1,621 thousand (€ 1,780 thousand in 2018) relates to the following:

€ (thousands)	2019	2018	Change 2019/2018
Contribution under Decree Law No. 269/2003	182	172	10
Government licence tax	588	720	(132)
Municipal property and service taxes	310	311	(1)
Stamp duties and similar	12	16	(4)
Non-deductible taxes	47	59	(12)
Sundry taxes	482	502	(20)
Total	**1,621**	**1,780**	**(159)**

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

Services and amounts charged by subsidiaries included services received from the subsidiaries Herbacos Recordati s.r.o., amounting to € 10 thousand (€ 977 thousand in 2018) and Recordati A.G., amounting to € 129 thousand (€ 184 thousand in 2018), mainly in relation to the remaining activities carried out by subsidiaries for metoprolol. Services were no longer charged by Recordati Polska Sp. zo.o in 2019 (€ 1,795 thousand in 2018).

9. CHANGES IN INVENTORIES

Details of changes in inventories are as follows:

€ (thousands)	2019	2018	Change 2019/2018
Raw materials, ancillary materials, consumables and supplies	3,417	(1,201)	4,618
Intermediates and work-in-process	5,461	481	4,980
Finished products and goods	(698)	6,052	(6,750)
Total	**8,180**	**5,332**	**2,848**

10. INCOME FROM INVESTMENTS

Income from investments came to € 128,138 thousand (€ 135,162 thousand in 2018) and related to subsidiaries.
This income consisted of dividends declared and distributed by Bouchara Recordati S.A.S. (€ 29,000 thousand), Recordati Ireland Ltd. (€ 60,000 thousand), Recordati Orphan Drug S.A.S (€ 4,104 thousand), Recordati Pharma GmbH (€ 31,900 thousand), Herbacos Recordati s.r.o. (€ 1,191 thousand) and Recordati Romania S.r.l. (€ 1,943 thousand).

11. WRITE-DOWN OF INVESTMENTS

The write-down of investments, amounting to € 2,244 thousand (€ 6,200 thousand in 2018) relates to the investment in Recordati Pharmaceuticals Ltd., as commented on in note 16.

12. FINANCIAL (EXPENSE)/INCOME, NET

The balance on net financial income (expense) was negative by € 17,178 thousand in 2019 (€ 17,242 thousand in 2018). The main items are summarised in the table below.

€ (thousands)	2019	2018	Change 2019/2018
Foreign exchange gains (losses)	(2,419)	(139)	(2,280)
Interest income from subsidiaries	1,288	734	554
Interest expense payable to subsidiaries	(2,675)	(2,648)	(27)
Interest expense on loans	(5,722)	(2,207)	(3,515)
Interest expense on bond debt	(5,540)	(5,332)	(208)
Net interest on short-term financial positions	(590)	(6,649)	6,059
Bank charges	(1,356)	(886)	(470)
Interest cost in respect of defined benefit plans (IAS 19)	(107)	(115)	8
Interest expense on lease liabilities (IFRS 16)	(57)	0	(57)
Total	**(17,178)**	**(17,242)**	**64**

The balance on foreign exchange differences for transactions in foreign currency in 2019 was an expense of € 2,419 thousand compared with an expense of € 139 thousand in 2018. More specifically, the loss for the year consisted of € 2,185 thousand on transactions concluded during the year and a loss of € 234 thousand resulting from the translation as at 31st December 2019 of assets and liabilities in foreign currency. Art. 2426, point 8-*bis* is therefore applicable to that income, by which, if a net gain arises from the foreign exchange translation performed at the end of the year, that amount is allocated to a special reserve that is not distributable until the gain is actually realised.

Interest income from subsidiaries is as follows:

€ (thousands)	2019	2018	Change 2019/2018
Italchimici S.p.A.	48	125	(77)
Recordati AG	772	0	772
Recordati Rare Diseases Australia Pty Ltd.	3	0	3
Recordati Polska Sp. z.o.o.	4	7	(3)
Casen Recordati S.L.	220	398	(178)
Rusfic LLC	0	9	(9)
Opalia Pharma S.A.	0	44	(44)
Recordati Rare Diseases SA de C.V.	13	10	3
Recordati Ireland Ltd.	132	82	50
Laboratoires Bouchara Recordati S.a.s.	67	38	29
Bouchara Recordati S.a.s.	14	0	14
Recordati Romania S.r.l.	0	21	(21)
Recordati A.B.	11	0	11
Recordati Rare Diseases Japan K.K.	4	0	4
Total	**1,288**	**734**	**554**

Interest income relates to loans granted to subsidiaries during the year (€ 1,016 thousand) and to the centralised cash pooling treasury system in operation at the Parent Company since 2007 on the basis of which monthly interest receivable and payable is recognised at market rates (€ 272 thousand).

Short-term loans were outstanding as at 31st December to Recordati Rare Diseases SA de C.V. (MXN 3,000,000), Recordati Rare Diseases Australia Pty Ltd. (AUD 300,000) and long-term loans were outstanding to Casen Recordati S.L. (€ 3,000 thousand) and Recordati AG (CHF 228,919,880).

Interest expense paid to subsidiaries was as follows:

€ (thousands)	2019	2018	Change 2019/2018
Casen Recordati S.L.	80	77	3
Laboratoires Bouchara Recordati S.a.s.	0	9	(9)
Fic Medical S.a.r.l.	1	0	1
Innova Pharma S.p.A.	40	51	(11)
Jaba Recordati S.A.	6	5	1
Recordati Ireland Ltd.	2	8	(6)
Recordati Rare Diseases Spain S.L.	5	5	0
Recordati Rare Diseases Sarl	30	68	(38)
Recordati Pharma GmbH	25	60	(35)
Recordati Rare Diseases Inc.	2,133	2,082	51
Recordati AG	7	2	5
Recordati Hellas Pharmaceuticals S.A.	4	6	(2)
Recordati Rare Diseases Germany GmbH	13	11	2
Recordati Romania S.r.l.	18	0	18
Recordati Rare Diseases Italy S.r.l.	20	21	(1)
Recordati BVBA	2	3	(1)
Bouchara Recordati S.a.s.	6	17	(11)
Recordati A.B.	0	2	(2)
Rusfic LLC	198	132	66
Recordati Rare Diseases Middle East FZ LLC	11	15	(4)
Recordati Orphan Drugs S.a.S.	52	66	(14)
Natural Point S.r.l.	22	8	14
Total	**2,675**	**2,648**	**27**

Interest expense relates to loans granted by subsidiaries during the year (€ 2,185 thousand) and to the centralised cash pooling treasury system amounting to € 490 thousand.

As at 31st December short-term loans were outstanding from the company Recordati Rare Diseases Middle East FZ LLC for € 11,400 thousand, from Herbacos Recordati s.r.o. for € 1,000 thousand and from Recordati Romania S.r.l. per RON 15,000,000, while a long-term loan was outstanding from Recordati Rare Diseases Inc. for USD 70,000,000.

13. TAXES

Taxes recognised in the income statement were composed as follows:

€ (thousands)	2019	2018	Change 2019/2018
Current taxation:			
IRES (corporate income tax)	24,967	34,272	(9,305)
IRAP (regional tax on production)	5,714	7,421	(1,707)
"Patent box" tax relief	(35,348)	0	(35,348)
Provisions for risks resulting from tax inspections	0	5,308	(5,308)
Prior year taxation	(816)	3,926	(4,742)
R&D tax credit	0	(4,751)	4,751
Total current taxation	**(5,483)**	**46,176**	**(51,659)**
Deferred taxation:			
Movement in deferred tax assets/liabilities, net	(504)	(1,006)	502
Use of prior year deferred tax assets/liabilities	5,676	1,395	4,281
Total deferred tax liabilities	**5,172**	**389**	**4,783**
Total	**(311)**	**46,565**	**(46,876)**

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

With regard to the electronic submission made by Recordati S.p.A. in 2015 of an application for the optional subsidised taxation regime on income generated by the use of intangible assets ("patent box" tax relief), we report that on 19th December 2019 the Company signed a preliminary agreement to determine the economic contribution in the event of the direct use of intangible assets with the Preliminary and Dispute Agreements Office of the tax authority with effect from the tax years 2015 to 2019. The legislation provides tax relief for five years from 2015 to 2019, calculated by excluding increasing quotas from taxable income of revenues generated from the use of intangible assets covered by the subsidy amounting to 30% and 40% in 2015 and 2016 and to 50% in the three following years. The tax relief for the company over the five-year period 2015-2019, amounting to approximately € 35.3 million, of which € 27.0 million relating to prior years and € 8.3 million relating to 2019, has been recognised for the financial year 2019.

The provision for deferred tax (assets)/liabilities of €504 thousand is composed as follows:

	2019		2018	
	Temporary differences	Tax Effect	Temporary differences	Tax Effect
DEFERRED TAX ASSETS				
- Provisions	(1,365)	(328)	(3,464)	(831)
- Costs relating to future years	(214)	(51)	(728)	(175)
- Write-down of inventories	(522)	(125)	0	0
TOTAL	**(2,101)**	**(504)**	**(4,192)**	**(1,006)**
DEFERRED TAX ASSETS/LIABILITIES, NET		**(504)**		**(1,006)**

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

	2019 %	2018 %
Tax rate applicable for IRES (corporate income tax)	24	24
Dividends from subsidiaries	(12.1)	(11.7)
Write down of interest held in	0.2	0.6
Contributions to congresses	0.2	0.2
Sundry items	(0.1)	0
Tax rate applicable for IRES (corporate income tax)	**12.2**	**13.1**
IRAP (regional tax on production)	2.7	2.8
Provisions for risks resulting from tax inspections	0	2.0
R&D tax credit	0	(1.8)
"Patent box" tax relief	(14.7)	0
Prior year taxes	(0.3)	1.5
Tax rate on pre-tax income	**(0.1)**	**17.6**

IRAP (regional tax on production) as a percentage of pre-tax profit was 2.6% because the tax is calculated on a different tax basis which includes interest and some extraordinary items.

14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, as at 31st December 2019 and 2018 amounted to € 61,869 thousand and € 51,855 thousand respectively (€ 46,961 thousand as at 31st December 2017) and it included the value of right-of-use assets for assets that are leased. Changes in this item are given below.

€ (thousands)	Land and buildings	Plant and machinery	Other fixtures	Construction in progress	Total
Cost of acquisition					
Balance as at 31.12.17	**39,476**	**160,806**	**37,042**	**6,425**	**243,749**
Additions	197	2,293	831	8,814	12,135
Disposals	(9)	(11)	(606)	0	(626)
Reclassifications	589	1,890	1,009	(3,496)	(8)
Balance as at 31.12.18	**40,253**	**164,978**	**38,276**	**11,743**	**255,250**
First-Time Application of IFRS 16	1,211	267	2,461	0	3,939
Balance as at 1st January 2019	41,464	165,245	40,737	11,743	259,189
Additions	95	1,141	1,954	11,858	15,048
Disposals	(53)	(532)	(1,375)	0	(1,960)
Reclassifications	215	3,371	1,124	(4,710)	0
Balance as at 31.12.19	**41,721**	**169,225**	**42,440**	**18,891**	**272,277**
Accumulated depreciation					
Balance as at 31.12.17	**30,046**	**135,287**	**31,455**	**0**	**196,788**
Depreciation for the year	1,232	4,473	1,508	0	7,213
Disposals	(9)	(11)	(586)	0	(606)
Balance as at 31.12.18	**31,269**	**139,749**	**32,377**	**0**	**203,395**
Depreciation for the year	1,483	4,924	2,565	0	8,972
Disposals	(53)	(532)	(1,374)	0	(1,959)
Balance as at 31.12.19	**32,699**	**144,141**	**33,567**	**0**	**210,408**
Carrying amount					
As at 31st December 2019	**9,022**	**25,084**	**8,872**	**18,891**	**61,869**
As at 31st December 2018	8,984	25,229	5,899	11,743	51,855
As at 31st December 2017	9,430	25,519	5,587	6,425	46,961

In 2019 additions amounted to € 15,048 thousand (of which € 1,083 thousand due to the application of the accounting standard IFRS 16) and related mainly to investments of € 7,852 thousand in the Milan plant and headquarters and to work done on the Campoverde di Aprilia plant amounting to € 6,114 thousand.

Depreciation for the year amounted to € 8,972 thousand and was calculated on all depreciable assets using rates which are held to be representative of the estimated useful life of the assets.
The depreciation includes € 1,530 thousand relating to the application of IFRS 16.

The table below shows the amounts for right-of-use lease assets determined according to the accounting standard IFRS 16 (see note 2).

€ (thousands)	Land and buildings	Plant and machinery	Other fixtures	Total
Cost of acquisition				
Balance as at 31.12.18	0	0	0	0
First-Time Application of IFRS 16	1,211	267	2,461	3,939
Balance as at 1st January 2019	1,211	267	2,461	3,939
Additions	0	0	1,083	1,083
Disposals	0	0	(188)	(188)
Reclassifications	0	0	0	0
Balance as at 31.12.19	**1,211**	**267**	**3,356**	**4,834**
Accumulated depreciation				
Balance as at 31.12.18	0	0	0	0
Depreciation for the year	250	200	1,080	1,530
Disposals	0	0	(188)	(188)
Reclassifications	0	0	0	0
Balance as at 31.12.19	**250**	**200**	**892**	**1,342**
Carrying amount				
As at 31st December 2019	**961**	**67**	**2,464**	**3,492**
As at 31st December 2018	0	0	0	0

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

15. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortisation, as at 31st December 2019 and 2018 amounted to € 235,923 thousand and € 242,174 thousand respectively (€ 239,515 thousand as at 31st December 2017). Changes in this item are given below.

€ (thousands)	Patent rights and marketing authorisations	Distribution, licence, trademark and similar rights	Other	Assets under construction and advances	Total
Cost of acquisition					
Balance as at 31.12.17	**212,280**	**42,237**	**13,234**	**41,465**	**309,216**
Additions	0	8,771	0	8,748	17,519
Reclassifications	0	39,726	0	(39,718)	8
Balance as at 31.12.18	**212,280**	**90,734**	**13,234**	**10,495**	**326,743**
Additions	0	2,822	0	6,394	9,216
Reclassifications	0	7,435	0	(7,435)	0
Balance as at 31.12.19	**212,280**	**100,991**	**13,234**	**9,454**	**335,959**
Accumulated amortisation					
Balance as at 31.12.17	**32,039**	**24,429**	**13,234**	**0**	**69,702**
Amortisation for the year	10,066	4,801	0	0	14,867
Balance as at 31.12.18	**42,105**	**29,230**	**13,234**	**0**	**84,569**
Amortisation for the year	10,064	5,403	0	0	15,467
Balance as at 31.12.19	**52,169**	**34,633**	**13,234**	**0**	**100,036**
Carrying amount					
As at 31st December 2019	**160,111**	**66,358**	**0**	**9,454**	**235,923**
As at 31st December 2018	170,175	61,504	0	10,495	242,174
As at 31st December 2017	180,242	17,808	0	41,465	239,515

The additions to intangible assets amounting to € 9,216 thousand relate mainly to the licensing agreement with Gedeon Richter for the rights on Reagila® (cariprazine).
All intangible assets have a defined useful life and are amortised over a period not exceeding 20 years.

16. INVESTMENTS

Investments amounted to € 1,085,276 thousand as at 31st December 2019, an increase of € 156,376 thousand on 2018, as reported in the table in Attachment 1. The percentage of ownership and the number of shares or quotas possessed are reported in Attachment 2.
A comparison between the carrying amount of investments in subsidiaries and their valuation using the equity method, in accordance with Art. 2426 of the Italian Civil Code, is reported in Attachment 3.

IAS 27 - Separate financial statements - requires recognition of investments in subsidiaries according to the cost method or, as an alternative, using the fair value in accordance with IFRS 9. Recordati S.p.A. has adopted the cost criterion and therefore, where there are indications that part or all of the cost cannot be recovered, the carrying amount must be reduced to the relative recoverable amount,

in compliance with IAS 36 (Impairment of assets). Where that impairment subsequently reverses or reduces, the carrying amount is increased to the amount of the new estimate of the recoverable amount which, however, cannot exceed the original cost. For the calculation of reversals for investments in companies that are not listed and that is where no reliable market value (fair value less disposal costs) can be determined, the recoverable amount is determined by the calculation of the value in use of the investments. The expected results forecast in the business plans of each investment were taken into consideration in the calculation of the value in use, increased by their "terminal value" appropriately adjusted to take account of risks and uncertainties intrinsic to the assumptions on which the plans were based. Those results and the "terminal value" were discounted to present values by applying the current cost of capital of the companies in compliance with the method recommended in IAS 36.
Furthermore, we report that, where possible, an impairment test was carried out at consolidated level on the Group as the unit both to verify the recoverability of the equity investments recognised in the separate financial statements of Recordati S.p.A. and also to verify the recoverability of the goodwill arising in the consolidated financial statements of the Recordati Group. It is therefore considered that the impairment test carried out at consolidated level also provides indications concerning possible impairment at the level of the separate financial statements and therefore for the purposes of testing the carrying amounts of equity investments for impairment.

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

Investment	*Discount rate*
Recordati Pharmaceuticals Ltd.	4.31%
Recordati Hellas Pharmaceuticals S.A.	6.02%
Recordati Rare Diseases Canada Inc.	4.96%
Recordati Rare Diseases S.A. DE C.V.	8.40%

Reference is made for the further rates used to the same section in the consolidated financial report.

Forecasts of operational cash flows for the specific period (2020-2022) used for the calculation were taken from the 2020 budget approved by the Board of Directors of the Company on 19th December 2019 and, for the years 2021 and 2022, from specific forecasts for the investments subject to impairment tests, approved by the Board of Directors on 18th March 2020.

The value in use, determined according to the procedures described for each of the investments, was examined and approved by the Board of Directors. With regard to the subsidiary Recordati Pharmaceuticals Ltd., the comparison between the recoverable value of the investment and the carrying amount for the Company resulted in the need to write down its value of € 2,244 thousand to the limit of its fair value calculated as its worth using the equity method.

According to IFRS 2, stock option plans for the employees of subsidiaries constitute an increase in the value of the relative investments. That increase in value consists of the fair value of the options on the grant date and it is recognised as an increase in the investments at constant rates over the period between the grant and the vesting date, with the balancing entry recognised directly in equity. The cost of the stock options granted to employees of foreign companies was recognised as an increase in the value of the relative investments amounting to € 3,883 thousand.

The value of the investments in other undertakings relates to that in the English Company PureTech Health plc, specialised in start-up companies dedicated to innovative therapies, medical devices and new research technologies. The shares of this company have been admitted for listing on the London stock market since 19th June 2015 and the total fair value as at 31st December 2019 of the 9,554,140 shares held was € 35,598 thousand. The value of the investment was consequently increased by € 17,601 thousand, compared with that recognised as at 31st December 2018 with the balancing entry, net of tax, recognised in other comprehensive income (in equity) in line with the accounting treatment in previous years.

A detailed summary of both directly and indirectly controlled subsidiaries is given in Attachment 4 with the sales revenue and net income for each company.
All the investments reported regard share capital with voting rights.

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

17. LOANS AND RECEIVABLES (non-current)

Non-current loans and receivables as at 31st December 2019 amounted to € 192,380 thousand (€ 3,107 thousand as at 31st December 2018) and related mainly to be non-current portion of the loan granted to Recordati AG (€ 182,540 thousand due in 2024).
That the loan was granted under normal market conditions.
Tax credits amounting to € 9,730 thousand were recognised during the year in relation to the "patent box" tax relief for the quotas recoverable starting from 2021 as commented on in note 13.

18. DEFERRED TAX ASSETS

These amounted as at 31st December 2019 to € 21,872 thousand (€ 27,854 thousand as at 31st December 2018), an increase of € 5,982 thousand.

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

€ (thousands)	2019	2018
Balance as at 1st January	**27,854**	**27,783**
Increases	504	1,806
Uses	(6,486)	(1,735)
Balance as at 31st December	**21,872**	**27,854**

€ (thousands)	Balance as at 31/12/2018	Provision	Use	**Balance as at 31/12/2019**
Adoption of IFRS 15	453	0	(98)	**355**
Relief on goodwill	22,198	0	(4,440)	**17,758**
Valuation of derivatives instruments	2,652	0	(711)	**1,941**
Provisions for risks	2,449	328	(947)	**1,830**
Write-down of inventories	58	125	0	**183**
Valuation of investment in the former Lux	(53)	0	(211)	**(264)**
Other	97	51	(79)	**69**
Total	**27.854**	**504**	**(6.486)**	**21.872**

The item includes deferred tax assets relating to components of profits and losses recognised in equity amounting to €810 thousand as at 31st December 2019 (€ 460 thousand as at 31st December 2018).

19. INVENTORIES

Inventories as at 31st December 2019 and 2018 amounted to € 74,893 thousand and € 66,713 thousand respectively, as shown in the following table:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Raw materials, ancillary materials, consumables and supplies	17,844	14,426	3,418
Intermediates and work-in-process	20,339	14,878	5,461
Finished products and goods	36,710	37,409	(699)
Total	**74,893**	**66,713**	**8,180**

Inventories increased by € 8.2 million to meet future expected requirements.

20. TRADE RECEIVABLES

Trade receivables as at 31st December 2019 and 2018 amounted to € 95,182 thousand and €89,394 thousand respectively, as shown below.

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Trade receivables from subsidiaries	53,953	53,015	938
Trade receivables from others:			
Italy	32,868	30,546	2,322
Abroad	9,508	7,006	2,502
	96,329	**90,567**	**5,762**
less:			
Allowance for doubtful accounts	(1,147)	(1,173)	26
Total trade receivables	**95,182**	**89,394**	**5,788**

The exposure calculated on receivables from others stood at 66 days outstanding as at 31st December 2019, in line with a year earlier.
The adjustment of receivables in non-euro currencies resulted in the recognition of negative exchange rate differences of € 71 thousand. The receivables are recognised inclusive of those adjustments.

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

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Innova Pharma S.p.A.	4,599	4,363	236
Recordati Ireland Ltd.	25,216	28,315	(3,099)
Laboratoires Bouchara Recordati S.a.s.	2,418	1,834	584
Jaba Recordati S.A.	487	832	(345)
Recordati Pharma GmbH	2,123	5,675	(3,552)
Casen Recordati S.L.	309	435	(126)
Recordati Ilaç	330	1,431	(1,101)
Recordati Rare Diseases Italy S.r.l.	23	23	0
Recordati Hellas Pharmaceuticals S.A	138	120	18
Herbacos Recordati S.A.	63	1,865	(1,802)
Recordati Rare Diseases Sarl	4,027	2,008	2,019
Recordati Romania S.r.l.	792	341	451
Recordati Polska S.p. z.o.o.	371	1,149	(778)
Recordati Rare Diseases Inc.	2,452	0	2,452
Recordati Pharmaceuticals Ltd.	10	0	10
Recordati Ukraine Ltd.	12	0	12
Recordati Rare Diseases SA de C.V.	11	0	11
Opalia Pharma S.A.	6	11	(5)
Rusfic LLC	73	54	19
Italchimici S.p.A.	2,711	3,733	(1,022)
Recordati A.B.	66	0	66
Recordati AG	6,822	652	6,170
Recordati BVBA	34	26	8
Natural Point S.r.l.	860	148	712
Total	**53,953**	**53,015**	**938**

The trade receivables from Recordati Ireland Ltd. include an invoice for amounts charged back under a Commercial and Management Service Agreement amounting to € 12,674 thousand (€13,012 thousand in 2018).

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

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

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

Changes in the allowance for doubtful accounts are as follows:

€ (thousands)	2019	2018
Balance as at 1st January	1,173	1,109
Use for losses on receivables	(48)	(32)
Addition for the year	22	96
Balance as at 31st December	**1,147**	**1,173**

The Company uses a matrix to measure losses on trade receivables from individual customers, which is composed of a very high number of small balances. Losses on receivables are estimated by using a method based on the probability of the deterioration of the receivables through the different stages of default. It considers exposures in different categories based on the credit risk characteristics they hold in common, such as for example geographical area and duration of the relationship with the customer. The following table provides information on exposure to credit risk for trade receivables from third parties as at 31st December 2019.

€ (thousands)	Gross receivables
Current (not past due)	40,292
1-30 days past due	633
31-60 days past due	169
61-90 days past due	0
90 days past due	1,282
Total trade receivables, gross	**42,376**

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

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

	31.12.2019		31.12.2018	
	Currency	€(000)	Currency	€(000)
Receivables in US$	6,456,621	5,822	2,898,904	2,532
Receivables in CHF	1,067,928	980	734,323	646
Receivables in RON	3,535,575	740	1,183,053	254

21. OTHER RECEIVABLES

Other receivables amounted to € 45,815 thousand (€ 6,852 thousand as at 31st December 2018). The composition is given in the table below.

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Tax income	41,519	2,479	39,040
From parent companies	26	24	2
From subsidiaries	648	762	(114)
Advances to employees and agents	1,602	2,089	(487)
Others	2,020	1,498	522
Total other receivables	**45,815**	**6,852**	**38,963**

Tax receivables as at 31st December 2019 amounted to € 41,519 thousand (€ 2,479 thousand in 2018) and they were composed as follows:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Receivables from Fimei for current taxes (IRES – corporate income tax)	11,311	0	11,311
Receivables from Fimei S.p.A. for "patent box" tax relief (IRES)	20,792	0	20,792
Receivables for current taxes IRAP (regional tax on production)	2,112	0	2,112
Receivables for "patent box" tax relief (IRAP)	4,825	0	4,825
Refund requested from tax authorities	43	43	0
VAT	2,279	2,350	(71)
Receivables for foreign VAT tax authorities	144	86	58
Sundry receivables	13	0	13
Total tax receivables	**41,519**	**2,479**	**39,040**

The receivables from the parent company FIMEI S.p.A. for current taxes are composed as follows:
- tax assets for current taxation relating to taxes for the year calculated on the basis of estimated taxable income which were found to be lower than the amounts paid on account. Those assets were transferred by Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.
- receivables for tax refunds requested relating to an application for an IRES (corporate income tax) tax refund because it had not made an expense based deduction from IRAP (regional tax on production) relating to personnel expense for employees for the years 2007 until 2011 in accordance with Art. 2, paragraph 1-*quater* of Decree Law 201 of 2011;

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

The VAT tax credit for which a refund had been applied for on 18th October 2007 in relation to VAT on motor vehicles amounting to € 521 thousand was received during the year.

Receivables from subsidiaries amounted to € 648 thousand (€ 762 thousand in 2018) and related to VAT transferred under Group procedures from the company Innova Pharma S.p.A. (€ 600 thousand) and to sundry receivables amounting to € 48 thousand from the company Italchimici S.p.A..

Advances to employees and agents as at 31st December 2019 and 2018 came to € 1,602 thousand and € 2,089 thousand respectively. They consisted of advances to employees, expense accounts for medical representatives and loans granted to employees who exercised stock option rights amounting to € 1,128 thousand for the purchase of 73,500 shares resulting from the options granted on 29th July 2014 and 13th April 2016.

Receivables from others as at 31st December 2019 amounted to € 2,020 thousand (€ 1,498 thousand as at 31st December 2018) and included, amongst other things, advances to suppliers.

22. OTHER CURRENT ASSETS

Other current assets amounted to € 1,519 thousand (€ 927 thousand as at 31st December 2018) and related mainly to prepaid expenses. These were advance instalments on periodic services covering two financial years.

23. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGES) (current assets)

These amounted to € 9,949 thousand (€ 6,414 thousand as at 31st December 2018).

The market value (fair value) as at 31st December 2019 of the cross currency swaps entered into by the Company to hedge a bond issued for $ 75 million on 30th September 2014 gave rise to an asset totalling € 9,949 thousand. That value represents the potential benefit resulting from a lower value in of the future cash flows in United States dollars in terms of principal and interest, due to an appreciation of the foreign currency with respect to the time of finalising the loan and acquiring the hedge instruments. More specifically, the fair value of the derivative to hedge the $ 50 million tranche of the loan granted by Mediobanca was positive by € 6,745 thousand, while that of the instrument to hedge the $ 25 million tranche of the loan granted by Unicredit was positive by € 3,204 thousand.

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

24. OTHER SHORT-TERM RECEIVABLES

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

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Casen Recordati S.L.	3,004	6,011	(3,007)
Bouchara Recordati S.a.s.	586	0	586
Laboratoires Bouchara Recordati S.a.s.	67	9,461	(9,394)
Recordati A.B.	3,421	0	3,421
Recordati Ireland Ltd.	42,081	50,546	(8,465)
Recordati Polska sp. z.o.o.	0	351	(351)
Recordati Rare Diseases SA de C.V.	152	141	11
Italchimici S.p.A.	47	14,331	(14,284)
Recordati Rare Diseases Japan	0	461	(461)
Recordati AG	29,130	0	29,130
Recordati Rare Diseases Australia Pty Ltd.	191	0	191
Tonipharm S.A.S.	40	0	40
Total	**78,719**	**81,302**	**(2,583)**

The receivables above are attributable to: the cash pooling treasury system in operation at the Parent Company amounting to € 46,242 thousand; the current portion of long-term loans granted to Casen Recordati S.L. (€ 3,004 thousand) and to Recordati AG (€ 29,130 thousand); and also to short-term loans to Recordati Rare Diseases SA de C.V. (€ 152 thousand) and to Recordati Rare Diseases Australia Pty Ltd. (€ 191 thousand). Interest is paid on these receivables at market rates.

25. CASH AND CASH EQUIVALENTS

These are composed as shown in the following table.

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Deposits in bank current accounts	85,077	57,924	27,153
Cash on hand	3	2	1
Proceeds from derivative instruments	828	812	16
Total	**85,908**	**58,738**	**27,170**

Cash and cash equivalents as at 31st December 2019, consisted of current accounts and short-term bank deposits.

26. SHAREHOLDERS' EQUITY

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

Share capital - The share capital as at 31st December 2019 amounting to € 26,140,645, is fully paid up and consists of 209,125,156 ordinary shares with a par value of € 0.125 each.
It remained unchanged during the course of 2019.

Additional paid-in capital
Additional paid-in capital as at 31st December 2019 amounted to € 83,718 thousand and was unchanged compared with 31st December 2018.
The adoption of international accounting standards resulted in the elimination of revaluation reserves amounting to € 68,644 thousand. The tax obligation on these (untaxed – taxation suspended) was transferred to the additional paid-in capital reserve.

Treasury stock
As at 31st December 2019 this amounted to € 93,480 thousand, consisting of 3,308,571 treasury shares held in portfolio.
The net decrease was € 52,128 thousand and was due to the sale of 1,845,000 shares for use in the 2010-2013 and 2014-2018 and 2018-2022 stock option plans.

Statutory reserve
This amounted to € 5,228 thousand and was unchanged compared with 31st December 2018, because the limit set by Art. 2430 of the Italian Civil Code had been reached.

Other reserves
Other reserves totalled € 268,888 thousand. Details are as follows:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Gain on merger	29,813	29,813	0
Extraordinary reserve	76,729	73,184	3,545
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	99	0
Extraordinary VAT concession reserve	517	517	0
Research and investment grants	17,191	17,191	0
Non-distributable reserve for investments in southern Italy	3,632	3,632	0
International accounting standards reserve	147,052	122,370	24,682
Total	**275,033**	**246,806**	**28,227**
Fair value of derivative instruments	(6,145)	(8,398)	2,253
Total other reserves	**268,888**	**238,408**	**30,480**

- *Gain on merger*
  This amounted to € 29,813 thousand (unchanged compared with 2018) and it relates to the merger gain generated in 2017 following the merger of the former subsidiary Recordati S.A. Chemical and Pharmaceutical Company into the Company.

- *Extraordinary reserve*
  As at 31st December 2019 and as at 31st December 2018 this amounted to € 76,729 thousand and € 73,184 thousand respectively. The reserve increased by a total of € 3,545 thousand as result of the following:
  - the allocation of part of profit for the year amounting to € 29,486 thousand in accordance with a shareholders' resolution dated 11th April 2019;
  - the difference between the amount paid by Group employees who exercised options as part of stock option plans and the carrying amount of the treasury stock recognised in the balance sheet amounting to € 25,941 thousand, which was charged as a decrease to the extraordinary reserve in accordance with international accounting standards.

- *Reserve under Art. 13, paragraph 6 of Legislative Decree 124/1993*
  This amounted to € 99 thousand as at 31st December 2019 and remained unchanged compared with the previous year.

- *Extraordinary VAT concession reserve*
  This reserve (Laws 675/1977, 526/1982, 130/1983 and 64/1986), amounting to € 517 thousand, relates to special VAT allowances on investments and is unchanged compared with the previous year.

- *Research and investment grants*
  These amount to € 17,191 thousand and are unchanged compared with the previous year.
  The grants are subject to taxation if they are used for purposes other than to cover losses, which, however, is not planned by the Company. The assets corresponding to the grants received from the Ministry of Industry and Commerce (formerly Asmez) have been mainly fully depreciated.
- *Non-distributable reserve for investments in southern Italy*
  This amounted to € 3,632 thousand and is unchanged compared with the previous year.

- *International accounting standards reserve*
  This amounted to € 147,052 thousand (€ 122,370 thousand as at 31st December 2018) and is composed as follows:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Reversal of fixed asset revaluations	40,479	40,479	0
Revaluation of investments	43,054	43,054	0
Inventories	463	463	0
Personnel leaving indemnities	(634)	(276)	(358)
Stock options	20,020	16,855	3,165
Adjustment to investments for stock options	15,202	11,319	3,883
Stock options – Rossini Luxembourg S.à r.l. Incentive scheme	604	0	604
Reserve to adjust entries for the merged company	24	24	0
Financial instrument adjustment reserve	27,840	10,452	17,388
Total	**147,052**	**122,370**	**24,682**

Changes that occurred in the items in 2019 included the following:

- *Personnel leaving indemnities*

the valuation of the personnel leaving indemnities provision in accordance with IAS 19 generated a negative reserve as at 31st December 2019 amounting to € 634 thousand;

- *Stock options*
  the amount of € 20,020 thousand relates to the labour expense for stock options issued and granted after 7th November 2002 and not yet exercised, valued in accordance with IFRS 2. The amount of € 15,202 thousand relates to the cost for the stock options of employees of subsidiaries, the valuation of which, in agreement with IFRS 2, was recognised as an increase in the value of the investments in the companies in which those employees work;

- *Stock options – Rossini Luxembourg S.à r.l. Incentive scheme*
  The amount of € 604 thousand relates to the personnel cost for shares of Rossini Luxembourg S.à r.l., an indirect shareholder of Recordati S.p.A., purchased at face value by some employees of the Company.

- *Financial instrument adjustment reserve*
  That reserve, amounting to € 27,840 thousand, is a result almost entirely of the adjustment as at the value date, net of tax, of the value of the investment in PureTech Health p.l.c..

- *Reserve for fair value movements in derivative instruments*
  In accordance with the provisions of IFRS 9, this reserve is comprised of the following: the balancing entry of the amounts for the assets resulting from measurement at market value of cross currency swaps of a cash flow nature, the balancing entry of the amount recognised through profit or loss to offset movements in the exchange rate at the end of the year relating to a hedged loan in foreign currency and the liabilities resulting from the measurement at the market value of interest rate swap transactions also of a cash flow hedge nature. The amount as at 31st December 2019, net of tax, was negative by € 6,145 thousand.

Revaluation reserve
This amounted to € 2,602 thousand (unchanged compared with 2018) and consisted of revaluation balances within the meaning of Law 413/1991.

Untaxed (suspended taxation) reserves at 31st December 2019 amounted to € 87,826 thousand and consisted of € 15,964 thousand of reserves for grants received net of the taxed portion, € 517 thousand of the VAT concession reserve and € 99 thousand of the reserve formed pursuant to the Law regulating pension funds and € 71,246 thousand of the revaluation reserves net of the substitute taxes. Revaluation reserves amounting to € 68,644 thousand were eliminated in compliance with international accounting standards and the non-taxability was transferred to the additional paid-in capital reserve. No deferred tax provisions were recognised in respect of those reserves, because, in accordance with IAS 12, these deferred tax provisions are recognised in the year in which the distribution is declared.

Incentive schemes

As at 31st December 2019 there were three stock option plans in place in favour certain Group employees: the 2010-2013 plan with options granted on 9th February 2011, 8th May 2012, 17th April 2013 and 30th October 2013, the 2014-2018 plan, with options granted on 29th July 2014 and 13th April 2016 and the 2018-2022 plan with options granted on 3rd August 2018. The exercise price of the options is the average of the Company's listed share price during the 30 days prior to the grant date. The options vest over a period of five years and options not exercised within the eighth year of the date of grant expire. Options cannot be exercised if the employee leaves the Company before they are vested.

Details of stock options outstanding as at 31st December 2019 are given in the table below.

	Strike price (€)	Options outstanding as at 01.01.2019	Options granted during 2019	Options exercised during 2019	Options cancelled and expired	Options outstanding as at 31.12.2019
Grant date						
9th February 2011	6.7505	73,500	-	(73,500)	-	0
8th May 2012	5.3070	427,500	-	(185,000)	-	242,500
17th April 2013	7.1600	25,000	-	(0)	-	25,000
30th October 2013	8.9300	15,000	-	(10,000)	-	5,000
29th July 2014	12.2900	2,171,000	-	(1,032,500)		1,138,500
13th April 2016	21.9300	2,961,500	-	(544,000)	(199,500)	2,218,000
3rd August 2018	30.7300	4,818,000		-	(239,500)	4,578,500
Total		**10,491,500**	**0**	**(1,845,000)**	**(439,000)**	**8,207,500**

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

27. LOANS

The composition of medium to long-term loans as at 31st December 2019 and 2018 is shown below.

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Loan granted by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual instalments by 2022	20,454	27,273	(6,819)
Bond subscribed in dollars by the investor Pricoa Capital Group (Prudential)	66,762	65,502	1,260
Loan granted by Unicredit at a floating interest rate repayable in semi-annual instalments by 2020	5,000	15,000	(10,000)
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual instalments by 2020	3,750	11,250	(7,500)
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2020	12,500	25,000	(12,500)
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2021	16,667	25,000	(8,333)
Loan granted by Recordati Rare Diseases at a fixed interest rate repayable in semi-annual instalments by 2025	62,311	61,135	1,176
Bond subscribed in by the investor Pricoa Capital Group (Prudential)	125,000	125,000	0
Loan granted by Mediobanca at a floating interest rate repayable in annual instalments by 2024	54,000	64,500	(10,500)
Loan granted by UBI Banca at a floating interest rate repayable in a single instalment in 2022	50,000	50,000	0
Loan granted by Unicredit at a floating interest rate repayable in a single instalment by 2021	50,000	50,000	0
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2025	64,286	75,000	(10,714)
Loan granted by Banca Passadore at a floating interest rate repayable in annual instalments by 2022	15,000	15,000	0
Loan granted by Banca del Mezzogiorno - Mediocredito Centrale at a fixed and floating interest rate repayable in semi-annual instalments by 2021.	3,002	4,279	(1,277)
Loan granted by Mediobanca at a floating interest rate repayable in semi-annual instalments by 2023	150,000	150,000	0
Loan granted by a pool of banks with Mediobanca as the agent at a floating interest rate repayable in semi-annual instalments by 2024	400,000	0	400,000
Loan granted by ING Bank at a floating interest rate repayable in semi-annual instalments by 2024	22,500	0	22,500
Total amortised cost of loans	**1,121,232**	**763,939**	**357,293**
Portion due within one year	(139,115)	(67,518)	(71,597)
Portion due after one year	**982,117**	**696,421**	**285,696**
Expenses relating to loans	(4,569)	(1,602)	(2,967)
Total loans due after one year net of costs	**977,548**	**694,819**	**(282,729)**
Long-term lease liabilities (IFRS 16)	2,328	0	2,328
Total	**979,876**	**694,819**	**285,057**

This item includes liabilities resulting from the application of the new financial reporting standard

IFRS 16, which represents an obligation to make payments under existing lease contracts (see note 2). As at 31st December 2019 these liabilities amounted to € 2,328 thousand (€ 2,626 thousand at the date of first-time adoption of the standard).

As at 31st December 2019 medium to long-term loans, inclusive also of the current portions (see note No. 36), amounted to € 1,120,173 thousand. The net increase of € 357,836 thousand compared with 31st December 2018 was the result of new loans for € 418,746 thousand, of repayment instalments for the period amounting to € 66,855 thousand, an increase in lease liabilities in application of IFRS 16 amounting to € 3,510 thousand and the effect of foreign currency translations (an increase of € 2,435 thousand).

The portions of the medium to long-term debt due after 31st December 2019 will be repaid, on the basis of the repayment schedules, in the following years:

€ (thousands)

2021	199,646
2022	207,005
2023	164,470
2024	169,833
2025	82,989
2026 in subsequent years	153,606
Total loans	**977,548**
Long-term lease liabilities (IFRS 16)	2,328
Total	**979,876**

Details of loans outstanding as at 31st December 2019

A loan agreement signed by the Company on 30th November 2010 with Centrobanca, for a three-year programme of investments in Research & Development. The loan, which Centrobanca funded through a loan from the European Investment Bank, amounted to € 75.0 million of which € 30.0 million was disbursed in 2010 and € 45.0 million in the first quarter of 2011. The main terms and conditions were a floating interest rate and a life of 12 years with repayment in semi-annual instalments of the principal from June 2012 and through December 2022. The remaining debt at as at 31st December 2019 was € 20.4 million. In June 2012 the loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 2.575%. Measurement of the fair value of the derivative instrument as at 31st December 2019 was negative by € 641 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants are as follows:

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

Those conditions were fulfilled.

A bond subscribed by the Company on 30th September 2014 for a total of $ 75 million, divided into two tranches: $ 50 million at a fixed rate of 4.28% per annum, repayable semi-annually from 30th March 2022 and maturing on 30th September 2026; and $ 25 million at a fixed rate of 4.51% per

annum, repayable semi-annually from 30th March 2023 and maturing on 30th September 2029. The conversion of the debt as at 31st December 2019 determined an increase in liabilities of € 1,260 thousand compared with 31st December 2018, due to an appreciation of the United States dollar against the consolidation accounting currency.
The loan was hedged at the same time by two cross currency swap transactions, which involved transformation of the debt into a total of € 56.0 million, of which € 37.3 million at a fixed interest rate of 2.895% per annum for the tranche maturing in 12 years and € 18.7 million at a fixed interest rate of 3.15% per annum for that maturing in 15 years. The measurement of the hedging instruments at fair value as at 31st December 2019, was positive on aggregate by € 9,949 thousand and was recognised directly as an increase in equity and an increase in the asset item "Fair value of hedging derivatives – cash flow hedges" (see note 23).
The bond loan is subject to covenants and failure to comply with them may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

A loan agreement signed by the Company in May 2015 with UniCredit for € 50.0 million. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread of 80 basis points and a life of five years with semi-annual repayments of the principal from November 2015 and until May 2020. The remaining debt as at 31st December 2019 was € 5.0 million.
The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

A loan agreement with ING Bank for € 30.0 million, originally signed by the Company on 8th January 2014 and renegotiated on 12th June 2015 with a change made solely to the interest rate. The new terms and conditions are for a floating interest rate equal to the six month Euribor plus a spread of 85 basis points (compared with 190 basis points under the previous agreement), while the semi-annual repayments of the principal from July 2016 and until January 2020 remain unchanged. The remaining debt as at 31st December 2019 was € 3.8 million. The loan was fully hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 1.913% after the renegotiation described above. Measurement of the fair value of the derivative instrument as at 31st December 2019 was negative by € 27 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
The loan agreement with ING Bank contains financial covenants which, if not complied with, may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

On 8th November 2016, the Company signed a loan agreement with the subsidiary Recordati Rare Diseases, in order to centralise cash generated by the subsidiary, for a total loan of $ 70.0 million divided into two tranches: $ 30 million at a fixed rate of 3.35% per annum, repayable in a single instalment due on 13th June 2023 and $ 40 million at a fixed rate of 3.50% per annum, repayable in a single instalment due on 13th June 2025. The translation of the debt as at 31st December 2019 determined an increase in liabilities of € 1,176 thousand compared with 31st December 2018, due to an appreciation of the United States dollar against the consolidation accounting currency. The loan was fully hedged with two cross currency swap transactions, which involved transformation of the debt into a total of € 62.9 million, at a fixed interest rate of 1.56% per annum for the tranche maturing in seven years and at a fixed interest rate of 1.76% per annum for that maturing in nine years. The measurement of the fair value of the hedging instruments as at 31st December 2019 gave a total negative result of € 1,678 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).

A loan agreement for € 25.0 million was signed by the Company in December 2016 with Banca Nazionale del Lavoro. The main terms and conditions of the loan were a floating interest rate equal to the 6-month Euribor plus a spread of 40 basis points and a life of four years, with semi-annual repayments of the principal by September 2020 commencing from March 2019. The remaining debt as at 31st December 2019 was € 12.5 million. The loan was fully hedged at the same time by an interest rate swap (a cash flow hedge), which transformed the debt to a fixed interest rate of 0.41%. Measurement of the fair value of the derivative instrument as at 31st December 2019 was negative by € 35 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

A loan agreement for € 25.0 million was signed by the Company in December 2016 with Intesa Sanpaolo. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread of 60 basis points and a life of five years, with semi-annual repayments of the principal by December 2021 commencing from June 2019. The remaining debt as at 31st December 2019 was € 16.6 million. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the debt to a fixed interest rate of 0.68%. Measurement of the fair value of the derivative instrument as at 31st December 2019 was negative by € 81 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants are as follows:

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

Those conditions were fulfilled.

A bond was issued by the Company in May 2017 for a total of € 125.0 million, at a fixed rate of 2.07% per annum, repayable annually from 31st May 2025 and maturing on 31st May 2032.
The bond loan is subject to covenants and failure to comply with them may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

A loan agreement for € 75.0 million was signed by the Company in July 2017 with Mediobanca. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread of 95 basis points and a life of seven years with annual repayments of the principal commencing in July 2018 and continuing until July 2024. The remaining debt as at 31st December 2019 was € 54.0 million. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 1.29%. Measurement of the fair value of the derivative instrument as at 31st December 2019 was negative by € 965 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

A loan agreement for € 50.0 million was signed by the Company in July 2017 with UBI Banca. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread of 50 basis points, with semi-annual repayments of the interest and repayment of the principal in a single instalment on 7th September 2022. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 0.714%. Measurement of the fair value of the derivative instrument as at 31st December 2019 was negative by € 719 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants are as follows:

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

Those conditions were fulfilled.

A loan agreement for €50.0 million signed by the Company in September 2017 with UniCredit. The main terms and conditions are a floating interest rate equal to the 6-month Euribor plus a spread of

55 basis points, with semi-annual repayments of the interest and repayment of the principal in a single instalment on 29th September 2021. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 0.698%. Measurement of the fair value of the derivative instrument as at 31st December 2019 was negative by € 468 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

A loan agreement for € 75.0 million was signed by the Company in October 2017 with Intesa Sanpaolo. The main terms and conditions are a floating interest rate equal to the 6-month Euribor plus a spread of 95 basis points, the semi-annual payment of interest and a life of 8 years with semi-annual repayments of the principal by October 2025 commencing from June 2019. The remaining debt as at 31st December 2019 was € 64.1 million. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 1.305%. Measurement of the fair value of the derivative instrument as at 31st December 2019 was negative by € 1,097 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

A loan agreement for €15.0 million was signed by the Company in November 2017 with Banca Passadore. The main terms and conditions are a floating interest rate equal to the 3-month Euribor plus a spread of 65 basis points, quarterly payment of interest and a life of 5 years with annual repayments of the principal from November 2020 and until November 2022.
The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

A loan granted by Banca del Mezzogiorno-Mediocredito Centrale to the Company in July 2018 for € 4.3 million to support investments in research, of which € 3.9 million at a subsidised fixed interest rate of 0.50% to be repaid in six semi-annual instalments from 30th June 2019 and by 31st December 2021 and € 0.4 million at a floating interest rate equal to the 6-month Euribor plus a spread of 220 basis points, to be repaid in two instalments on 30th June and 31st December 2021. The remaining debt as at 31st December 2019 totalled € 3.0 million.

A loan agreement for € 150.0 million signed by the Company in November 2018 with Mediobanca, at a floating interest rate equal to the 6-month Euribor plus a spread of 130 basis points with quarterly payments of interest and a life of 5 years with semi-annual repayments of principal starting from November 2020 and until November 2023. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 1.619%. Measurement of the fair value of the derivative instrument as at 31st December 2019 was negative by € 2,171 thousand and this was recognised directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 35).
The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants are as follows:

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

Those conditions were fulfilled.

In June 2019 the Company negotiated a loan for €400.0 million, designed to support the Group’s growth strategy. This financing, initially underwritten by Mediobanca, Natixis and Unicredit was subsequently syndicated with the involvement of a pool of national and international banks. The main terms and conditions are a floating interest rate equal to the 6-month Euribor (with a zero floor) plus a spread of 135 basis points and a life of five years, with repayments of the principal in semi-annual instalments starting from 30th June 2020 and continuing until June 2024. Disbursement, net of up-front commissions, took place on 30th July 2019. The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

In August 2019 the Company signed a loan agreement with ING Bank for € 22.5 million and a floating interest equal to the 6-month Euribor plus a spread of 135 basis points, with semi-annual payments of interest and repayment of the principal, again on a semi-annual basis, starting from 2021 and until December 2024. The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan.
The financial covenants are as follows:

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

Those conditions were fulfilled.

28. PERSONNEL LEAVING INDEMNITIES AND OTHER BENEFITS

The balance as at 31st December 2019 amounted to € 8,663 thousand (€ 9,356 thousand as at 31st

December 2018). Changes in the item were as follows:

€ (thousands)	2019	2018
Balance as at 1st January	9,356	10,860
Additions during the year	107	115
Use for the year	(1,238)	(769)
Change in fair value of the personnel leaving indemnity fund (IAS 19)	438	(850)
Balance as at 31st December	**8,663**	**9,356**

The valuation of the personnel leaving indemnity fund in accordance with IAS 19 generated a liability as at 31st December 2019 of € 8,663 thousand. The calculations made, which used actuarial parameters updated as at 31st December 2019, found a greater liability and resulted in the recognition of an adjustment of € 438 thousand to the fund compared with the figure as at 31st December 2018 which was stated, net of tax, in the statement of comprehensive income recognised in equity, as required by the relative accounting standard.

29. OTHER NON-CURRENT LIABILITIES

The balance as at 31st December 2019 amounted to € 3,256 thousand, unchanged compared with 31st December 2018 and it relates to the long-term portion of the liability for the acquisition of the investment in Opalia Pharma S.A..

30. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include end-of-year provisions for invoices to be received, amounted as at 31st December 2019 and 2018 to € 62,650 thousand and € 49,373 thousand respectively. Details are as follows:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Suppliers, subsidiaries	5,888	8,274	(2,386)
Suppliers, Italy	28,308	17,348	10,960
Suppliers, Italy for invoices to be received	7,237	7,810	(573)
Suppliers, abroad	18,161	8,984	9,177
Suppliers, abroad for invoices to be received	3,056	6,957	(3,901)
Total trade payables	**62,650**	**49,373**	**13,277**

Details for subsidiaries are as follows:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Recordati Rare Diseases Inc.	10	1,076	(1,066)
Laboratoires Bouchara Recordati S.a.s.	226	107	119
Innova Pharma S.p.A.	3,155	2,421	734
Italchimici S.p.A.	634	289	345
Recordati Ireland Ltd.	1,321	2,922	(1,601)
Casen Recordati S.L.	475	1,056	(581)
Recordati AG (former Pro Farma AG)	0	99	(99)
Herbacos Recordati S.r.o.	0	217	(217)
Recordati Pharmaceuticals Ltd	0	52	(52)
Recordati AB	0	35	(35)
Jaba Recordati S.A.	40	0	40
Recordati BVBA	3	0	3
Natural Point S.r.l.	24	0	24
Total payables to subsidiaries	**5,888**	**8,274**	**(2,386)**

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

The adjustment of trade payables in non-euro currencies resulted in the recognition of net positive exchange rate differences of € 183 thousand.

The largest trade payables in foreign currency were as follows:

	31.12.2019		31.12.2018	
	Currency	€(000)	Currency	€(000)
Payables in US$	5,692,508	5,255	2,806,309	2,583
Payables in GBP	471,962	561	79,303	101

31. OTHER CURRENT PAYABLES

Other current payables as at 31st December 2019 amounted to € 25,533 thousand (€ 25,155 thousand as at 31st December 2018) and they were composed as follows:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Payables to third parties for the acquisition of Opalia Pharma S.A.	655	655	0
Employees	10,194	8,902	1,292
Social security	7,154	6,962	192
Commissions to agents	905	717	188
Payables to AIFA (Italian Medicines Agency)	984	4,247	(3,263)
Others	5,641	3,672	1,969
Total other borrowings and payables	**25,533**	**25,155**	**378**

The debt to third parties regards the short-term portion of the debt for the acquisition of the investment in Opalia Pharma S.A.

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

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

Amounts payable to agents include € 478 thousand in commissions for foreign agents.

The payable to AIFA relates to the provision for the second half instalment of the pay-back (1.83 %).

Other payables include those to shareholders for dividends to be paid as at 31st December 2019 (€ 4,017 thousand) and those for credit notes to be issued (€ 1,031 thousand). We also report € 177 thousand of payables to Recordati Rare Diseases Italy S.r.l. in relation to VAT transfers within the Group.

32. TAX LIABILITIES

Tax liabilities amounted to € 2,349 thousand as at 31st December 2019 (€ 19,532 thousand as at 31st December 2018).

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Liabilities payable to Fimei S.p.A. for IRES (corporate income tax)	0	7,884	(7,884)
Liabilities for current taxation	0	8,328	(8,328)
VAT liabilities	23	634	(611)
Liabilities for employee withholding taxes	2,049	2,483	(434)
Liabilities for self-employed and associate workers withholding taxes	277	202	75
Other tax liabilities	0	1	(1)
Total tax liabilities	**2,349**	**19,532**	**(17,183)**

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

33. OTHER CURRENT LIABILITIES

Other current liabilities, amounting to € 1,273 thousand (€ 1,623 thousand as at 31st December 2018), reflect adjustments resulting from the application of the accounting standard IFRS 15, to up-front payments resulting from licence and distribution contracts received in prior years but relating to the following years.

34. PROVISIONS

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

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
For agent customer indemnities	1,595	1,630	(35)
Other risks	4,234	7,950	(3,716)
Total other provisions	**5,829**	**9,580**	**(3,751)**

The change in the provision for other risks is due to uses of € 5,012 thousand and additional provisions of € 1,296 thousand.
Uses related mainly to the work carried out for the "Buzzi Project", to the release of the excess portion of the provision made for the risk of reductions in National Health Service spending, to the conclusion of employment legal proceedings and to the payment of notice indemnities to employees.
Additions to provisions related mainly to the provision for the year for labour litigation risks as well as for the pay-back risk.

35. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGES) (current assets)

The balance as at 31st December 2019 amounted to € 10,788 thousand (€ 9,746 thousand as at 31st December 2018).
The interest rate swaps to hedge the cash flows related to medium and long-term loans measured at fair value as at 31st December 2019 gave rise to a € 6,204 thousand liability which represents the unrealised benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans. The fair value measurement relates to interest rate swaps entered into by the Company to hedge interest rates on loans granted by Centrobanca (€ 641 thousand), Banca Nazionale del Lavoro (€ 35 thousand), ING Bank (€ 27 thousand), Unicredit (€ 468 thousand), Intesa Sanpaolo (€ 1,178 thousand), Mediobanca (€ 3,136 thousand) and UBI Banca (€ 719 thousand).
The market value (fair value) as at 31st December 2019 of two cross currency swaps entered into to hedge currency risks on loans to the United States company Recordati Rare Diseases, for a total nominal value of $ 70.0 million, was negative on aggregate by € 1,678 thousand and was recognised directly as a reduction in equity.
The market value (fair value) as at 31st December 2019 of forward contracts entered into to hedge currency risks on loans to the company Recordati AG for CHF 228,919 thousand nominal were negative by € 2,905 thousand, with the balancing entry in the income statement.

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

36. LOANS – DUE WITHIN ONE YEAR

The current portions of medium and long-term loans due within one year as at 31st December 2019 and 2018 were composed as follows:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Loan granted for research by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual instalments by 2022.	6,818	6,818	0
Loan granted by Unicredit at a floating interest rate repayable in semi-annual instalments by 2020	4,996	9,905	(4,909)
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual instalments by 2020	3,750	7,470	(3,720)
Loan granted by Mediobanca at a floating interest rate repayable in annual instalments by 2024	10,500	10,500	0
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2025	19,048	19,048	0
Loan granted by Banca Passadore at a floating interest rate repayable in annual instalments by 2022	5,000	0	5,000
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2020	12,490	12,500	(10)
Loan granted by Banca del Mezzogiorno - Mediocredito Centrale at a fixed and floating interest rate repayable in semi-annual instalments by 2021.	1,284	1,277	7
Loan granted by Mediobanca at a fixed and floating interest rate repayable in semi-annual instalments by 2023	21,429	0	21,429
Loan granted by a pool of banks with Mediobanca as the agent at a floating interest rate repayable in semi-annual instalments by 2024	53,800	0	53,800
Total loans due within one year	**139,115**	**67,518**	**71,597**
Current portion of lease liabilities (IFRS 16)	1,182	0	1,182
Total	**140,297**	**67,518**	**72,779**

37. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans as at 31st December 2019 and 2018 amounted to € 2,273 thousand and € 7,457 thousand respectively.

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Current account overdrafts	24	47	(23)
Expenses on derivative instruments	938	975	(37)
Interest on loans	368	506	(138)
Interest on bond debt	943	929	14
Very short-term lending	0	5,000	(5,000)
Total	**2,273**	**7,457**	**(5,184)**

38. OTHER SHORT-TERM BORROWINGS

The balance on other short-term payables consisted entirely of amounts due to subsidiaries and amounted to € 311,094 thousand (€ 330,756 thousand as at 31st December 2018).

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Bouchara Recordati Sas	0	6,418	(6,418)
Casen Recordati S.L.	97,427	54,573	42,854
Fic Médical S.a.r.l.	584	489	95
Herbacos Recordati s.r.o.	1,000	0	1,000
Innova Pharma S.p.A.	33,536	37,393	(3,857)
Italchimici S.p.A.	4,873	0	4,873
Jaba Recordati S.A.	6,081	4,575	1,506
Laboratories Bouchara Recordati Sas	353	0	353
Natural Point S.r.l.	22,275	10,304	11,971
Recordati A.B.	0	792	(792)
Recordati AG	0	1,777	(1,777)
Recordati BVBA	2,122	2,373	(251)
Recordati Hellas Pharmaceuticals S.A.	5,141	4,262	879
Recordati Orphan Drugs	52,314	49,196	3,118
Recordati Pharma GmbH	12,518	55,308	(42,790)
Recordati Rare Diseases Germany Gmbh	17,176	11,636	5,540
Recordati Rare Diseases Inc.	103	101	2
Recordati Rare Diseases Italy Srl	22,241	18,592	3,649
Recordati Rare Diseases Middle East FZ LLC	11,404	11,609	(205)
Recordati Rare Diseases s.a.r.l.	11,042	56,666	(45,624)
Recordati Rare Diseases Spain S.L.	6,595	3,934	2,661
Recordati Romania S.R.L.	3,154	0	3,154
Rusfic LLC	1,155	758	397
Total	**311,094**	**330,756**	**(19,662)**

The payables consist of € 295,436 thousand for the centralised cash pooling system and of € 15,658 thousand for loans from Recordati Rare Diseases Middle East FZ LLC (€ 11,404 thousand), Herbacos Recordati (€ 1,000 thousand), Recordati Romania S.r.l. (€ 3,154 thousand) and Recordati Rare Diseases Inc (€ 103 thousand).

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

As prescribed by IFRS 7, a comparison of the carrying amounts as at 31st December 2019 and the fair values of financial assets and liabilities is given below.

€ (thousands)	Carrying amount	Fair value
Financial assets		
Other short-term receivables	78,720	78,720
Cash and cash equivalents and other current assets	87,427	87,427
Trade receivables	95,182	95,182
Other receivables	45,815	45,815
Fair value of hedging derivatives (cash flow hedges)	9,949	9,949
Financial liabilities		
Loans		
- at fixed interest rates	124,896	132,558
- at fixed rate hedged by cross currency swaps (CCS)	128,864	134,465
- at floating rate hedged with interest rate swaps (IRS)	862,902	862,902
- liability for the application of IFRS 16	3,511	3,511
Other non-current liabilities	3,256	3,256
Trade payables	62,650	62,650
Other current payables and tax liabilities	27,882	27,882
Other current liabilities	1,273	1,273
Fair value of hedging derivatives (cash flow hedges)	10,788	10,788
Bank overdrafts and short-term loans	2,273	2,273
Other short-term borrowings	311,094	311,094

40. DISCLOSURE OF FINANCIAL RISKS

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

The company aims to achieve a balanced and prudent financial structure as a fundamental condition for financing internal and external growth, thereby reducing financing costs to a minimum, while maximising returns. Speculative investments in shares, funds or financial assets which might impair the value of companies is not permitted.
The only financial investments admissible are investments in risk free assets and/or funds issued by major financial institutions.
The Company monitors the financial risks to which it is exposed in order to take immediate mitigation action, when necessary, in compliance with the applicable legislation and regulations and it transacts only with banks with a strong credit rating.

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

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

Liquidity risk

The liquidity risk to which the Company could be exposed is the inability to raise sufficient funds for its ongoing business and for the development of its industrial and commercial activities.
The two main factors which determine the Company's liquidity are, on the one hand, the resources generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions.
The terms and conditions of the Company's loans and its financial assets are set out in notes 24, 26, 34 and 35 which address, respectively, short-term financial investments, cash and cash equivalents, medium to long-term loans and the current portions of medium to long-term loans and bank loans and overdrafts.
The Company believes that the funds and credit facilities currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts on their natural due dates.

Credit risk

The Company closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. As at 31st December 2019 the credit exposure was not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. More specifically, as at 31st December 2019 gross trade receivables, inclusive of those receivable from subsidiaries, totalled € 96,329 thousand and the relative allowance for doubtful accounts of € 1,147 thousand recognised is considered to be sufficient in relation to the risk of insolvencies.

Interest rate risk

The Company raises funds using debt and invests excess cash in money market funds and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Company’s net financial charges.
The Company’s policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest rate loans or floating interest rate loans. Any floating rate loans are promptly hedged by using derivative instruments (e.g. interest rate swaps – IRS), used solely for hedging and not speculative purposes.
This hedging policy allows the company to minimise the risk attaching to fluctuations in interest rates (as illustrated in note 27).

Foreign currency risk

The Company is exposed to foreign currency fluctuations which can affect its operating results.
In particular, the Company is exposed to foreign currency fluctuations on its international sales and financing denominated in currencies other than the euro.
The Company also enters into forward contracts for the purchase and sale of currency in order to hedge amounts at risk. It does this for hedging purposes only and not for speculation.

41. SEGMENT INFORMATION

Reporting by business segment and geographical area, presented in compliance with IFRS 8 – Operating segments – has been performed according to the same accounting policies employed in the presentation of the consolidated financial statements of the Group where, following the acquisition of Orphan Europe (now renamed Recordati Rare Diseases), two main segments have been identified: the Specialty and Primary Care segment and the rare diseases pharmaceuticals segment, which relates to the whole of Recordati Rare Diseases. Consequently the only business segment that exists for Recordati S.p.A. is the Specialty and Primary Care segment. Furthermore, the pharmaceutical chemicals business is considered an integral part of the Specialty and Primary Care segment because from an organisational and strategic viewpoint it is involved principally in the production of the active ingredients required to produce pharmaceuticals.

42. LITIGATION AND CONTINGENT LIABILITIES

In December 2015 the Milan Tax Police Unit of the Guardia di Finanza (finance police) served notice that it was commencing a general inspection on indirect taxes for the tax years 2009 to 2014 directly into the Recordati Group company located in Ireland, Recordati Ireland Ltd. The declared objective of the inspections was to assess the operating context of foreign companies in order to verify whether this company is in reality only formally located abroad, but in substance managed and administered from Italy. Furthermore, on 28th February 2017, the Guardia di Finanza extended its inspection to cover direct taxes for the tax year 2015. Once the fact-finding stage consisting of the acquisition of documents and analysis of that information was concluded, the Guardia di Finanza made its final report to Recordati Ireland Ltd. on 6th September 2017 of the grounds that led it to consider that the Irish company was liable to pay taxes in Italy on corporate income in the tax years considered, with the consequent determination of claimed taxes due in Italy amounting to € 109.4 million, and those already paid in Ireland, amounting to € 51.8 million. Recordati Ireland Ltd. filed defence documents against the claims made in the aforementioned reports within the legal time limits. In 2018 Regional Department for Lombardy of the tax authorities, with jurisdiction for Recordati S.p.A., reviewed the claims made in the aforementioned “record of findings” and carried out further investigations into the relations between Recordati S.p.A. and its Irish subsidiary in the tax years 2009 to 2015. Following those investigations, the tax authorities concluded (in confirmation of the validity of the Company’s arguments) that in the tax years running from 2009 to 2015, the Irish company had not operated as an “offshore dummy company”. Nevertheless, according to the tax authorities, part of the profits earned in those years by the Irish subsidiary should be attributed to Recordati S.p.A., on the basis of an alleged “management support” provided by the Italian Parent to its Irish subsidiary. On that basis the tax authorities made a proposal of “tax assessment by mutual consent”, for IRES (corporate income tax) and IRAP (regional tax on production) purposes, for the tax years running from 2009 to 2015, on the basis of which it demanded additional payment of taxes totalling € 21.0 million, in addition to € 4.9 million of interest and € 2.5 million of fines. In view of the reduced penalties, in November 2018 Recordati S.p.A. agreed to the proposal and paid the amount demanded. Finally, with regard to the same business relationships between Recordati S.p.A. and its Irish subsidiary in the tax years 2016 and 2017, the tax authorities made a proposal of “tax assessment by mutual consent”, with agreement on the basis of the same criteria applied in the previous tax years and it demanded additional tax for IRES and IRAP, fully covered by provisions made in prior years, totalling €4.8 million in addition to € 0.2 million of interest, with no fines imposed. In June 2019, the Company, again in view of the reduced penalties, agreed to the proposal and paid the amounts demanded. The same criteria defined by the tax authorities for the previous tax years have been applied since 2018 and incorporated in a Commercial and Management Service Agreement.

43. NET FINANCIAL POSITION

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

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Deposits in bank current accounts and cash on hand	85,908	58,738	27,170
Short-term loans to Group companies	78,720	81,302	(2,582)
Cash and cash equivalents and current receivables	**164,628**	**140,040**	**24,588**
Bank overdrafts and short-term loans	(2,273)	(7,457)	5,184
Loans – due within one year	(140,297)	(67,518)	(72,779)
Short-term borrowings from Group Companies	(311,094)	(330,756)	19,662
Short-term borrowings	**(453,664)**	**(405,731)**	**(47,933)**
Net current financial position	**(289,036)**	**(265,691)**	**(23,345)**
Loans and receivables – due after one year	182,649	3,107	179,542
Borrowings – due after one year[(1)]	(972,182)	(693,100)	(279,082)
Net financial position	**(1,078,569)**	**(955,684)**	**(122,885)**

[(1)] Including the recognition at fair value of derivative instruments to hedge foreign exchange rate risk (cash flow hedges).

44. NON-RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

In compliance with Consob communication of 28th July 2006 a summary is given in the table below of the main events, transactions and actions which are non-recurring and which do not repeat frequently in the usual course of business. The overall net effect of such occurrences on the profit and loss, balance sheet and cash flow of the Company amounts to € 35,348 thousand.

€ (thousands)	2019	2018	Change 2019/2018
"Patent box" tax relief	35,348	0	35,348
Company acquisition costs	0	(1,592)	1,592
Total non-recurring operating income/(expense)	**35,348**	**(1,592)**	**36,940**

45. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In compliance with CONSOB communication of 28th July 2006 the Company performed no atypical and/or unusual transactions in 2019 as defined in that same communication, according to which atypical and/or unusual transactions are those which because of their significance or importance, the nature of the counterparties, the content of the transaction, the way in which the transfer price is decided and the timing of the event (close to the end of the financial year) might give rise to doubts concerning: the accuracy and completeness of the information in the financial statements, a conflict of interests, the security of the company's assets, the protection of the interests of minority shareholders.

46. RELATED-PARTY TRANSACTIONS

As at 31st December 2019, intercompany accounts with Group companies and the parent company Fimei S.p.A. showed payables of € 379,469 thousand and receivables of € 356,458 thousand. The most significant items were as follows:

- receivables of € 215,017 thousand for loans granted to Group companies;
- payables of € 77,969 thousand for loans received from Group companies;
- trade receivables of € 53,953 thousand from subsidiaries;
- trade payables to subsidiaries of € 5,888 thousand;
- receivables from subsidiaries for the management of the centralized cash pooling treasury system amounting to € 46,243 thousand;
- payables to subsidiaries for the management of the centralised cash pooling treasury system amounting to € 295,435 thousand;

Sales and services supplied to Group companies in 2019 amounted to € 221,149 thousand.
Dividends received during the year were as follows: € 31,900 thousand from Recordati Pharma GmbH, € 29,000 thousand from Bouchara Recordati S.a.s., € 60,000 thousand from Recordati Ireland Ltd, € 4,104 thousand from Recordati Orphan Drugs, € 1,943 thousand from Recordati Romania SRL and € 1,191 thousand from Herbacos Recordati S.r.o..

Short and long-term tax receivables include those from the parent company Fimei S.p.A. amounting to € 40,571 thousand, which relate to the following:

- receivables for tax refunds requested relating to an application for an IRES (corporate income tax) tax refund because it had not made an expense based deduction from IRAP (regional tax on production) relating to personnel expense for employees for the years 2007 until 2011 in accordance with Art. 2, paragraph 1-*quater* of Decree Law 201 of 2011;
- tax assets for current taxation relating to taxes for the year calculated on the basis of estimated taxable income. Those assets were transferred by Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.
- the tax credit for obtaining “patent box” tax relief.

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

Percentage of transactions with related parties		Related parties	
€ (thousands)	Total	Amount	%
Percentage of transactions or positions in the balance sheet with related parties			
Trade receivables and other	140,997	86,730	61.51
Long-term financial assets	192,380	191,008	99.29
Short-term financial assets	78,720	78,720	100.00
Trade payables and other	90,533	6,065	6.70
Long-term financial liabilities	979,876	62,311	6.36
Short-term financial liabilities	451,391	311,094	68.92

Percentage of transactions or positions in the income statement with related parties			
Revenue	446,883	221,200	49.50
Income from investments	128,138	128,138	100.00
Costs of purchases and service provision	213,035	23,896	11.22
Financial income/(expense), net	(17,178)	(1,387)	8.07

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

In compliance with disclosure obligations set out in Art. 38 of Legislative Decree No. 127/91, we report that fees paid to directors and statutory auditors for carrying out their functions during the course of 2019 amounted to € 2,608 thousand and € 146 thousand respectively.

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

€ (thousands)	2019	2018
Fixed remuneration	4,100	3,688
Non-monetary benefits	20	20
Bonuses and other incentives	1,973	611
Share-based payments	1,192	733
Total	**7,285**	**5,052**

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

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

The direct parent of the Company is FIMEI S.p.A., which since 2018 is owned by a consortium of investors controlled by CVC Capital Partners. FIMEI S.p.A. has its headquarters in Milan, via Vecchio Politecnico 9, Italy and prepares the consolidated financial statements of which the Company is a part.

47. IMPORTANT EVENTS AFTER THE REPORTING PERIOD

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

As from the month of February Italy and all the main countries in which the Company operates are impacted by 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, restrictions to the circulation of people and provisions to support companies' economic activities have been introduced. The Company is implementing all possible measures and initiatives to guarantee the supply of medicines to its patients and the safety of its employees. Given the complex and constantly evolving situation it is not possible to predict possible future impacts at this time.

48. PROPOSAL FOR THE ALLOCATION OF PROFIT FOR THE YEAR

A proposal is made for the profit for the year, amounting to € 241,091,949, to be allocated as follows:

- distribution to the shareholders of a dividend of € 0.52 per share, in full balance of the interim 2019 dividend of € 0.48, to be paid to all shares outstanding at ex-dividend date, excluding those in treasury stock on that date, as from 20 May 2020 (record date 19 May 2020), with ex-dividend on 18 May 2020 (against presentation of coupon no. 25). The full 2019 dividend is therefore of € 1.00 per share (€ 0.92 per share in 2018);
- allocation to the extraordinary reserve of the remaining profit.

RECORDATI S.p.A.

ATTACHMENT 1

STATEMENT OF CHANGES IN DIRECT INVESTMENTS

€ (thousands)	Balance as at 31st Dec 2018	Share capital sales and redemptions	Mergers	Acquisitions subscriptions	(Write-downs) Write-ups	IFRS valuation	IFRS 2 stock option valuation	Balance as at 31st Dec 2019
Investments in subsidiaries								
Casen Recordati S.L. – Spain	270,947	-	-	-	-	-	1,011	271,958
Innova Pharma S.p.A. – Italy	10,566	-	-	-	-	-	-	10,566
Bouchara Recordati S.a.s. – France	56,690	-	-	-	-	-	689	57,379
Recordati Pharmaceuticals Ltd. – United Kingdom	16,403	-	-	-	(2,244)	-	16	14,175
Recordati Hellas Pharmaceuticals S.A. – Greece	4,840	-	-	-	-	-	57	4,897
Herbacos Recordati S.r.o. – Czech Republic	19,690	-	-	-	-	-	95	19,785
Recordati Polska Sp. z.o.o. – Poland	19,586	-	-	-	-	-	241	19,827
Italchimici S.p.A. – Italy	106,294	-	-	-	-	-	-	106,294
Natural Point s.r.l. - Italy	83,597	-	-	-	-	-	-	83,597
Recordati AG (former Pro Farma AG) – Switzerland	16,256	-	-	137,111	-	-	259	153,626
Recordati Rare Diseases Canada Inc. - Canada	245	-	-	-	-	-	-	245
Recordati Rare Diseases Inc. – United States	2,306	-	-	-	-	-	391	2,697
Recordati Rare Diseases S.A. DE C.V. – Mexico	838	-	-	-	-	-	25	863
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	215	-	-	-	-	-	(9)	206
Recordati Ireland LTD - Ireland	1,008	-	-	-	-	-	238	1,246
Recordati Orphan Drugs S.A.S. - France	53,226	-	-	-	-	-	643	53,869
Opalia Pharma S.A. - Tunisia	19,982	-	-	-	-	-	-	19,982
Recordati Romania Srl - Rumania	1,513	-	-	-	-	-	36	1,549
Recordati Pharma GMBH - Germany	87,277	-	-	-	-	-	191	87,468
Accent LLC – Russian Federation	66,707	-	-	-	-	-	-	66,707
Tonipharm S.A.S. - France	72,636	-	-	-	-	-	-	72,636
Recordati Bulgaria Ltd– Bulgaria	-	-	-	26	-	-	-	26
	910,822	**-**	**-**	**137,137**	**(2,244)**	**-**	**3,883**	**1,049,598**
Investments in other companies:								
Sifir S.p.A. – Reggio Emilia	-	-	-	-	-	-	-	-
Consorzio Dafne – Reggello (Florence)	2	-	-	-	-	-	-	2
Consorzio Nazionale Imballaggi – Rome	-	-	-	-	-	-	-	-
DGT - United States	-	-	-	-	-	-	-	-
Codexis Inc. - United States	71	-	-	-	-	3	-	74
Puretech Health p.l.c. - United States	17,997	-	-	-	-	17,601	-	35,598
Fluidigm Corp. - United States	8	-	-	-	-	(4)	-	4
	18,078	**-**	**-**	**-**	**-**	**17,600**	**-**	**35,678**
TOTAL	**928,900**	**-**	**-**	**137,137**	**(2,244)-**	**17,600**	**3,883**	**1,085,276**

RECORDATI

RECORDATI S.p.A.

SUMMARY STATEMENT OF DIRECT INVESTMENTS

ATTACHMENT 2

€ (thousands)	Balance as at 31st Dec 2019	Percentage ownership	Number of shares or quotas possessed
Investments in subsidiaries			
Casen Recordati S.L. – Spain	271,958	100.00	2,389,660
Innova Pharma S.p.A. – Italy	10,566	100.00	960,000
Bouchara – Recordati S.a.s. – France	57,379	100.00	10,000
Recordati Pharmaceuticals Ltd. – United Kingdom	14,175	100.00	15,000,000
Recordati Hellas Pharmaceuticals S.A. – Greece	4,897	100.00	1,005,000
Herbacos Recordati S.r.o. – Czech Republic	19,785	100.00	2,560
Recordati Polska Sp. z.o.o. – Poland	19,827	100.00	90,000
Italchimici S.p.A. – Italy	106,294	100.00	7,646,000
Natural Point s.r.l. - Italy	83,597	100.00	1
Recordati AG (formerly Pro Farma AG) - Switzerland	153,626	100.00	30,000
Recordati Rare Diseases Canada Inc. - Canada	245	100.00	1,000
Recordati Rare Diseases Inc. - United States	2,697	100.00	100
Recordati Rare Diseases Ukraine LLC - Ukraine	0	0.01	1
Recordati Rare Diseases S.A. DE C.V. – Mexico	863	99.998	49,999
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	206	99.398	166
Recordati Ireland LTD - Ireland	1,246	100.00	200,000
Recordati Orphan Drugs S.A.S. - France	53,869	90.00	51,300
Opalia Pharma S.A. - Tunisia	19,982	90.00	612,000
Recordati Romania Srl - Rumania	1,549	100.00	500,000
Recordati Pharma GMBH - Germany	87,468	55.00	1
Accent LLC – Russian Federation	66,707	100.00	1
Tonipharm S.A.S. - France	72,636	100.00	2,577
Recordati Bulgaria Ltd - Bulgaria	26	100.00	50
	1,049,598		
Investments in other companies:			
Sifir S.p.A. – Reggio Emilia	0	0.04	1,304
Consorzio Dafne – Reggello (Florence)	2	1.16	1
Consorzio Nazionale Imballaggi – Rome	0	n,s,	1
DGT - United States	0	n,s,	n,s,
Codexis Inc. - United States	74	n,s	5,203
PureTech Health p.l.c. – United Kingdom	35,598	4.02	9,554,140
Fluidigm Corp. - United States	4	n,s	1,019
	35,678		
TOTAL	**1,085,276**		

RECORDATI S.p.A. ATTACHMENT 3

COMPARISON BETWEEN THE CARRYING AMOUNT OF DIRECT INVESTMENTS IN SUBSIDIARIES AND THEIR VALUATION USING THE EQUITY METHOD

€ (thousands)	Share capital	31.12.2019 Equity	Profit (loss)	% Ownership	Corresponding pro-rata equity (A)	Carrying amount (B)	Valuation Art. 2426 (C)
Investments							
Casen Recordati S.L. - Spain	238,966	418,531	47,607	100.00	418,531	271,958	404,164
Innova Pharma S.p.A. - Italy	1,920	41,512	2,256	100.00	41,512	10,566	40,244
Bouchara Recordati S.a.s. - France	4,600	26,922	20,135	100.00	26,922	57,379	124,911
Recordati Pharmaceuticals Ltd - United Kingdom	17,630	14,545	(2,109)	100.00	14,545	14,175	14,175
Recordati Hellas Pharmaceuticals S.A. – Greece *	10,050	4,736	(180)	100.00	4,736	4,897	4,091
Herbacos Recordati s.r.o. - Czech Republic	1,008	12,340	2,814	100.00	12,340	19,785	27,422
Recordati Polska S.p.z.o.o. – Poland *	1,057	6,098	3,219	100.00	6,098	19,827	19,353
Italchimici S.p.A. – Italy	7,646	68,941	10,732	100.00	68,941	106,294	139,830
Natural Point S.r.l. – Italy	10	23,577	8,770	100.00	23,577	83,597	92,658
Recordati AG – Switzerland	13,820	153,771	4,095	100.00	153,771	153,626	161,533
Recordati Rare Diseases Canada Inc. – Canada *	240	(151)	175	100.00	(151)	245	(1,143)
Recordati Rare Diseases Inc. – United States	10,663	206,921	42,419	100.00	206,921	2,697	202,394
Recordati Rare Diseases S.A. DE C.V. – Mexico *	766	308	207	99.998	308	863	(146)
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	0	463	128	99.398	461	206	462
Recordati Ireland LTD - Ireland	200	124,157	61,485	100.00	124,157	1,246	106,518
Recordati Orphan Drugs S.A.S. - France	57,000	101,671	6,361	90.00	91,504	53,869	231,551
Opalia Pharma S.A. - Tunisia	3,076	15,921	2,897	90.00	14,329	19,982	34,158
Recordati Romania S.R.L. - Rumania	1,045	8,741	3,641	100.00	8,741	1,549	8,310
Recordati Pharma GMBH - Germany	600	108,933	12,639	55.00	59,913	87,468	95,709
Accent LLC – Russian Federation*	0	406	30	100.00	406	66,707	30,963
Tonipharm S.A.S. - France	258	22,274	4,305	100.00	22,274	72,636	75,559
Recordati Bulgaria Ltd - Bulgaria	26	34	8	100.00	34	26	33
	370,581	**1,360,651**	**231,634**		**1,299,869**	**1,049,598**	**1,812,749**

Difference A-B	**250,271**
Surplus C-B	**763,151**

* The carrying amount of the investment has not been adjusted to bring it into line with the amount calculated using the equity method because, amongst other things, the results of the annual impairment test showed that the difference was not to be considered an indicator of permanent impairment.

RECORDATI S.p.A.

SUMMARY INFORMATION ON SUBSIDIARIES

ATTACHMENT 4

Subsidiaries	Headquarters	Currency	Share capital	Profit (loss) 2019	Equity as at 31/12/2019	Revenue 2019
INNOVA PHARMA S.p.A. *Marketing and sales of pharmaceuticals*	Italy	€(000)	1,920	2,256	41,512	48,337
CASEN RECORDATI S.L. *Marketing and sales of pharmaceuticals*	Spain	€(000)	238,966	47,607	418,531	101,630
BOUCHARA RECORDATI S.A.S. Research, production and sales of pharmaceuticals	France	€(000)	4,600	20,135	26,922	17,370
REC.RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA. *Dormant, holds pharmaceutical marketing rights in Brazil*	Brazil	BRL(000)	0	577	2,093	5,901
RECORDATI RARE DISEASES Inc. *Research, production and sales of pharmaceuticals*	U.S.A.	USD(000)	11,979	47,654	232,455	139,010
RECORDATI IRELAND LTD *Research, production and sales of pharmaceuticals*	Ireland	€(000)	200	61,485	124.157	318,645
LABORATOIRES BOUCHARA RECORDATI S.A.S. *Research, production and sales of pharmaceuticals*	France	€(000)	14,000	13,478	31,361	192,160
RECORDATI PHARMA GmbH *Marketing and sales of pharmaceuticals*	Germany	€(000)	600	12,639	108,933	126,252
RECORDATI PHARMACEUTICALS LTD *Marketing and sales of pharmaceuticals*	United Kingdom	GBP(000)	15,000	(1,794)	12,375	1,337
RECORDATI HELLAS PHARMACEUTICALS S.A. *Marketing and sales of pharmaceuticals*	Greece	€(000)	10,050	(180)	4,736	17,987
JABA RECORDATI S.A. *Marketing and sales of pharmaceuticals*	Portugal	€(000)	2,000	4,605	12,111	43,589
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. *Marketing of pharmaceuticals*	Portugal	€(000)	50	141	238	810
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. *Marketing of pharmaceuticals*	Portugal	€(000)	50	326	832	2,287
RECORDATI ORPHAN DRUGS S.A.S. *Holding company*	France	€(000)	57,000	6,361	101,671	2,147
RECORDATI RARE DISEASES MIDDLE EAST FZ LLC *Marketing and sales of pharmaceuticals*	United Arab Emirates	€(000)	20	5,637	18,867	11,855
RECORDATI A.B. *Marketing and sales of pharmaceuticals*	Sweden	SEK(000)	100	13,510	21,360	157,125
RECORDATI RARE DISEASES S.A.R.L. *Research, production and sales of pharmaceuticals*	France	€(000)	320	19,208	107,369	83,006
NATURAL POINT S.r.l. *Marketing and sales of pharmaceuticals*	Italy	€(000)	10	8,770	23,577	18,251
PRO FARMA GmbH *Marketing and sales of pharmaceuticals*	Austria	€(000)	35	(18)	352	357
TONIPHARM S.A.S *Marketing and sales of pharmaceuticals*	France	€(000)	258	4,305	22,274	22,737
RECORDATI RARE DISEASES UNITED KINGDOM LTD *Marketing and sales of pharmaceuticals*	United Kingdom	GBP(000)	50	2,186	2,368	5,779
RECORDATI BULGARIA LTD * *Marketing and sales of pharmaceuticals*	Bulgaria	BGN(000)	50	16	66	920

Subsidiaries	Headquarters	Currency	Share capital	Profit (loss) 2019	Equity as at 31/12/2019	Revenue 2019
RECORDATI RARE DISEASES GERMANY GmbH *Marketing and sales of pharmaceuticals*	Germany	€(000)	26	5,578	15,248	14,671
RECORDATI RARE DISEASES SPAIN S.L. *Marketing and sales of pharmaceuticals*	Spain	€(000)	1,775	3,320	8,124	8,563
RECORDATI RARE DISEASES ITALY S.R.L. *Marketing and sales of pharmaceuticals*	Italy	€(000)	40	4,056	23,301	10,414
RECORDATI BVBA *Marketing and sales of pharmaceuticals*	Belgium	€(000)	19	1,612	4,566	10,023
FIC MEDICAL S.A.R.L. *Marketing of pharmaceuticals*	France	€(000)	174	37	1,231	2,313
HERBACOS RECORDATI s.r.o. *Research, production and sales of pharmaceuticals*	Czech Republic	CZK(000)	25,600	71,495	313,546	673,686
RECORDATI SK s.r.o. *Marketing and sales of pharmaceuticals*	Slovak Republic	€(000)	33	24	325	810
RUSFIC LLC *Marketing and sales of pharmaceuticals*	Russian Federation	RUB(000)	3,560	1,004,941	2,680,588	6,984,860
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. *Marketing of pharmaceuticals*	Turkey	TRY(000)	10	(166)	70	533
RECORDATI ROMANIA S.R.L. *Marketing and sales of pharmaceuticals*	Rumania	RON(000)	5,000	17,416	41,807	60,470
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. *Research, production and sales of pharmaceuticals*	Turkey	TRY(000)	180,000	81,258	395,156	539,400
RECORDATI POLSKA Sp. z o.o *Marketing and sales of pharmaceuticals*	Poland	PLN(000)	4,500	13,702	25,959	159,437
ACCENT LLC *Holds pharmaceutical marketing rights*	Russian Federation	RUB(000)	20	2,066	28,398	3,600
RECORDATI UKRAINE LLC *Marketing of pharmaceuticals*	Ukraine	UAH(000)	1,032	55,932	91,301	413,877
CASEN RECORDATI Portugal Unipessoal Ltd *Marketing and sales of pharmaceuticals*	Portugal	€(000)	100	89	576	551
OPALIA PHARMA S.A. *Research, production and sales of pharmaceuticals*	Tunisia	TND(000)	9,656	9,095	49,977	65,363
OPALIA RECORDATI SARL *Marketing of pharmaceuticals*	Tunisia	TND(000)	20	1,242	2,648	4,001
RECORDATI RARE DISEASE S.A. DE CV *Marketing of pharmaceuticals*	Mexico	MXN(000)	16,250	4,387	6,530	39,186
RECORDATI RARE DISEASE COLOMBIA S.A.S *Marketing of pharmaceuticals*	Colombia	COP(000)	150,000	6,996,527	12,570,838	32,254,092
RECORDATI RARE DISEASE CANADA INC. *Marketing of pharmaceuticals*	Canada	CAD(000)	350	255	(221)	9,071
RECORDATI RARE DISEASE JAPAN K.K. *Marketing of pharmaceuticals*	Japan	JPY(000)	10,000	142,090	209,407	1,557,391
RECORDATI RARE DISEASE AUSTRALIA Pty Ltd. *Marketing of pharmaceuticals*	Australia	AUD(000)	200	(320)	(410)	2,347
ITALCHIMICI S.p.A. *Marketing and sales of pharmaceuticals*	Italy	€(000)	7,646	10,732	68,941	41,019
RECORDATI AG *Marketing and sales of pharmaceuticals*	Switzerland	CHF(000)	15,000	4,445	166,903	34,565

* Formed in 2019.

RECORDATI

RECORDATI S.p.A.

ATTACHMENT 5

DETAILS OF ITEMS IN SHAREHOLDERS' EQUITY

€ (thousands)	Amount	Possibility of use	Amount available	Amount distributable without tax effects	Amount distributable with tax effects	Summary of uses over the preceding three years		Notes
						Replenish-ment of losses	Other reasons	
Share capital	26,141							
Additional paid-in capital reserve	83,718	A B C	83,718	15,074	68,644			1
Revaluation reserve	2,602	A B C	2,602	0	2,602			
Statutory reserve	5,228	B	0	0	0			
Treasury stock reserve	(93,480)		(93,480)	(93,480)	0			
Other reserves								
Gain on merger	29,813	A B C	29,813	29,813	0			
Extraordinary reserve	76,729	A B C	76,729	76,729	0		(91,904)	2
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	A B C	99	0	99			
Research and investment grants	17,191	A B C	17,191	1,227	15,964			3
Extraordinary VAT concession reserve	517	A B C	517	0	517			
Southern Italy investment fund	3,632							
IAS reserve	140,908	A B C	140,908	140,908	0			
Interim dividends	(98,764)		(98,764)	(98,764)	0			
Net income (loss) for the period	241,092	A B C	241,092	241,092				
Total shareholders' equity	**435,426**		**400,425**	**312,599**	**87,826**			

Legend:

A for share capital increase

B to replenish losses

C to distribute to shareholders

Notes:

1 The additional paid-in capital reserve may be distributed when the statutory reserve has reached one fifth of the share capital

2 The decrease consists of € 34,280 thousand for the distribution of a dividend approved in 2017 and of € 57,624 as the difference between the amount paid by Group employees who exercised options as part of stock option plans and the carrying amount of the treasury stock recognised in the balance sheet over the last three years.

3 The research and investment grant reserve has already been subject to taxation of € 1,227 thousand.

SUMMARY OF THE LAST FINANCIAL STATEMENTS APPROVED BY THE COMPANY THAT EXERCISES MANAGEMENT AND CO-ORDINATION

Financial statements of the company Rossini Luxembourg S.àr.l.
(14/05/2018 - 31/12/2018)

		amounts in euro 31/12/2018
INCOME STATEMENT		
REVENUE		0
OPERATING EXPENSES		(49,405)
PROFIT (LOSS) FOR THE YEAR		**(49,405)**
ASSETS		
NON-CURRENT ASSETS		1,021,578,000
CURRENT ASSETS		821,494
TOTAL ASSETS		**1,022,399,494**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1,030,118	
Reserves	1,021,045,628	
Profit (loss) for the year	(49,405)	
TOTAL SHAREHOLDERS' EQUITY		**1,022,026,341**
LIABILITIES		
CURRENT LIABILITIES	373,153	
TOTAL LIABILITIES		**373,153**
TOTAL EQUITY AND LIABILITIES		**1,022,399,494**

RECORDATI

RECORDATI S.p.A. ATTACHMENT 7

DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

Amounts in euro

Type of service	*Firm providing the service*	*Remuneration*
Accounting audit	Auditor of the Company	130,700
Certification services	Auditor of the Company	44,000
Due diligence	Auditor of the Company	115,349
Other Services	Auditor of the Company	70,000

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

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

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

of the administrative and accounting procedures applied in the preparation of the separate company financial statements for the financial year 2019.

2. Furthermore, it is certified that:

2.1 The financial statements as at and for the year ended 31st December 2019:

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

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

Milan, 18th March 2020

Chief Executive Officer	Manager responsible for preparing the Company's financial reports
Andrea Recordati	*Fritz Squindo*