Annual Report 2020

Thank you to everyone.

RECORDATI

Annual Report 2020

RECORDATI

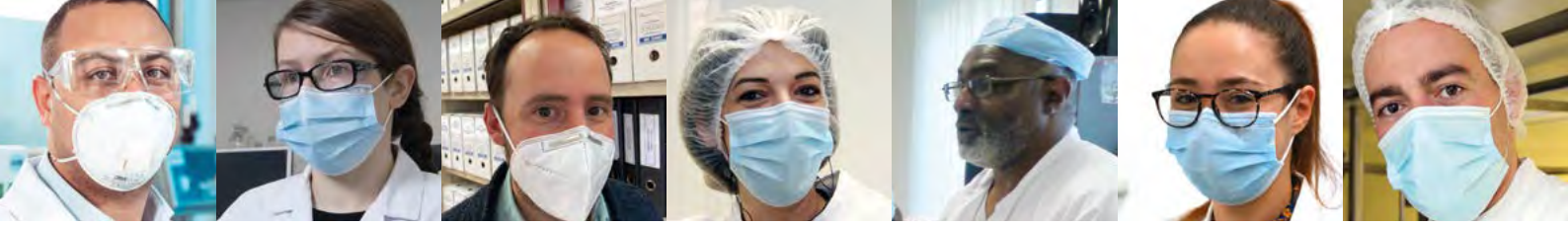


TABLE OF CONTENTS

Recordati, an international group

REVENUE
1,448.9
Million Euros

NET INCOME
355.0
Million Euros

EMPLOYEES
Exceed
4,300

Recordati is a well-established international pharmaceutical group listed on the Italian Stock Exchange since 1984. The Recordati group is based in Milan and is one of Italy's oldest pharmaceutical companies.

Since it was founded in 1926, Recordati has grown consistently for more than ninety years thanks to the success of its products and its growth and development strategy based on internationalisation and diversification, implemented on the basis of an ongoing acquisition strategy initiated in the 1990s. The Group is committed to seeking new opportunities and faces the challenges of a constantly changing marketplace with determination. In 2020, revenue of € 1,448.9 million was generated with a staff component of 4,362 employees.

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

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

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

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

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

The broad geographical coverage achieved by the Group, its own efficient network of medical sales representatives, in addition to its well-established experience in regulatory formalities and its expertise in managing highly specialised products, make the Recordati group an ideal partner to develop and market new products in all the territories where it has a presence with its own sales organizations.

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

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

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

Letter to our shareholders

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

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

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

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

Despite the drop in revenue, the Group's operating and financial results were largely positive. EBITDA, at € 569.3 million, continued to grow by 4.7% over 2019, 39.3% of revenue, thanks to the improvement in the gross margin and operating expenses coming down due to less activity on the ground as a consequence of the health emergency. Operating income, at € 469.0 million, increased by 0.8% over the previous year, at 32.4% of revenue. Growth was lower than the levels recorded for EBITDA due to increased amortization associated with the new product acquisitions in 2019 and non-recurring costs for € 6.6 million, mainly referring to the aforementioned donations and other costs related to the COVID-19 pandemic. Net income equalled € 355.0 million, at 24.5% of revenue, compared to € 368.9 million in 2019 and, excluding the non-recurring tax benefits component related to the Patent Box agreements for € 2.0 million in 2020 and € 27.0 million the previous year, net income grew by 3.2% thanks to the increase in operating income and reduction in financial expenses.

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

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

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

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

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

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

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

In August, the U.S. Food and Drug Administration (FDA) granted approval to market Cystadrops® (cysteamine ophthalmic solution) 0.37% in the U.S.A., which was subsequently launched on the market. Cystadrops® is a new, viscous eye drop solution that depletes corneal cystine crystal deposits in people living with cystinosis. Cystadrops® has been shown to significantly reduce cystine crystal deposits in the cornea and is the first and only FDA-approved cysteamine drop formulation administered in a practical dosage four times a day. Cystinosis is a rare congenital condition that leads to cystine crystal buildup throughout the body, causing widespread tissue and organ damage and impacting significantly on the eyes.

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

use and needle-free route of administration. If it is used at the first signs of an allergic reaction, it could provide patients and their families with a preventive solution to anaphylactic progression. In November, the European Medicines Agency (EMA) accepted ARS Pharmaceuticals' submission of a marketing authorisation for ARS-1.

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

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

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

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

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

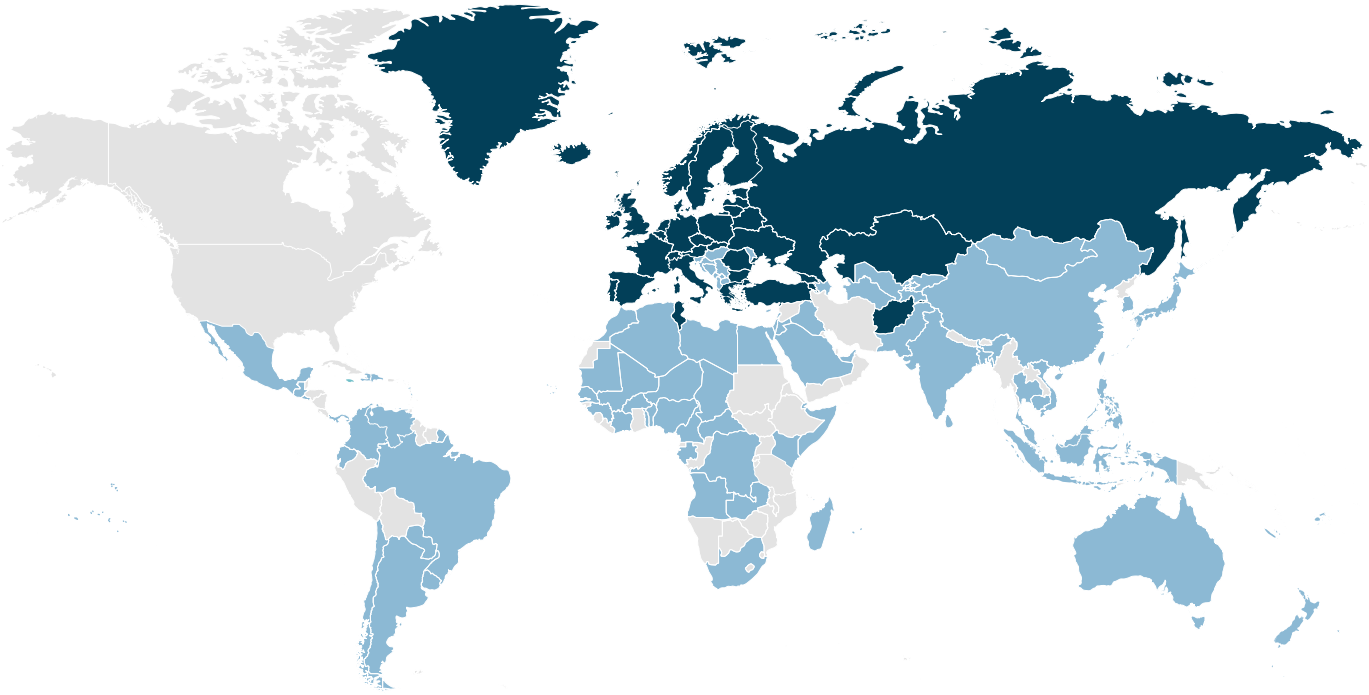
DIVIDENDS

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

ANDREA RECORDATI
Chief Executive Officer

Geographical presence

SPECIALTY AND PRIMARY CARE

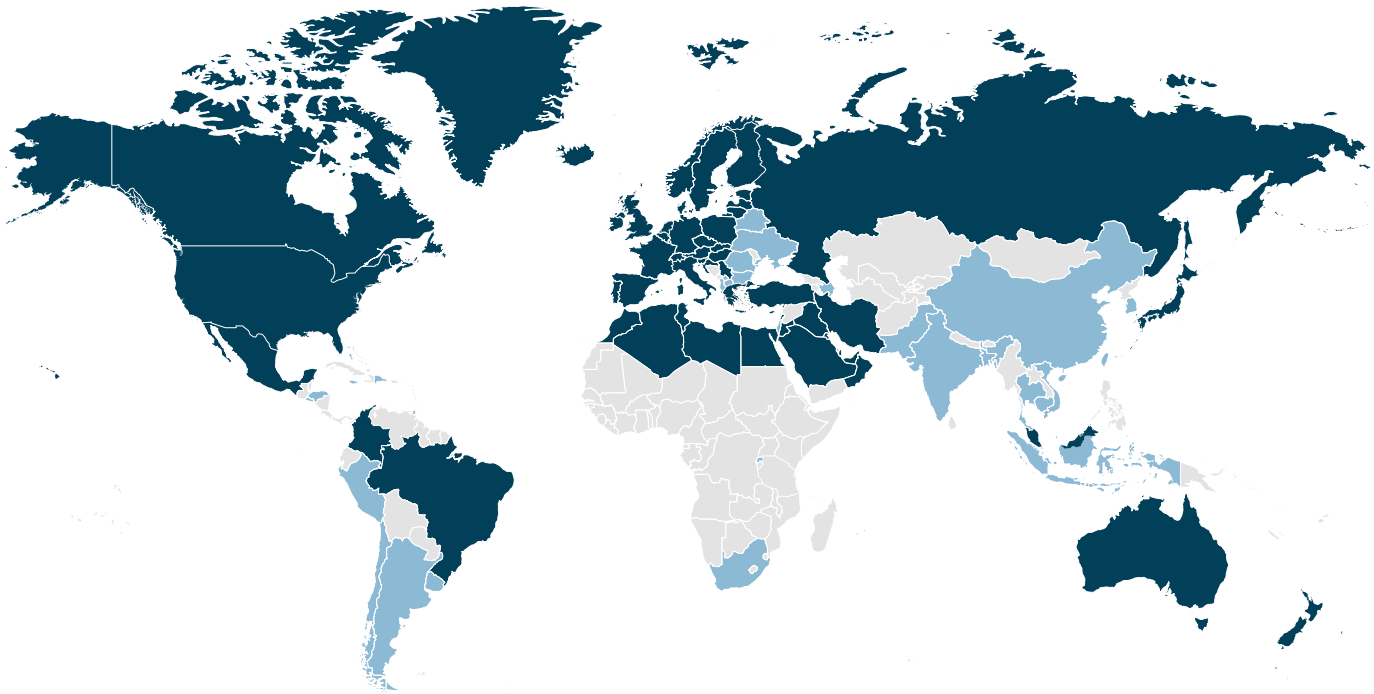


Subsidiaries and direct selling organizations

Countries where Recordati products are sold (under license or export)

About 150
COUNTRIES

TREATMENTS FOR RARE DISEASES

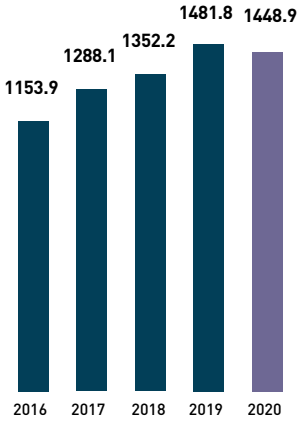


Subsidiaries and direct presence of orphan drug representatives

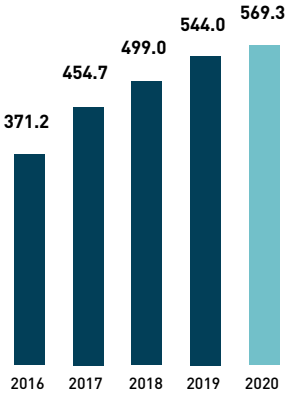
Commercial agreements and direct delivery

The Group in figures

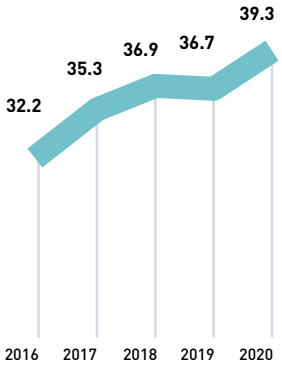
REVENUE
Millions of Euro



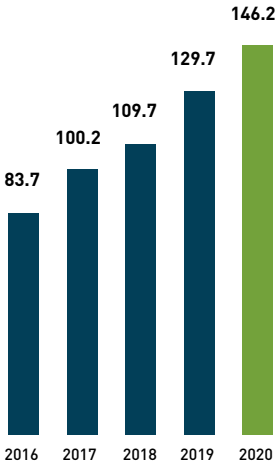
EBITDA*
Millions of Euro



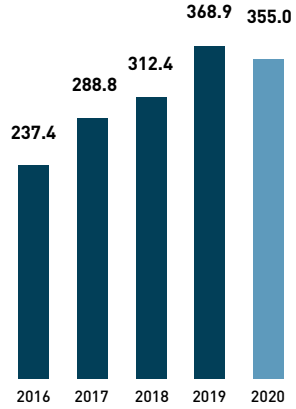
EBITDA AS % OF REVENUE*



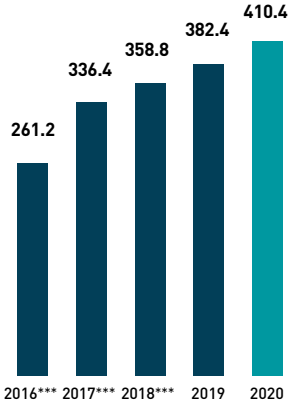
R&D EXPENSES
Millions of Euro



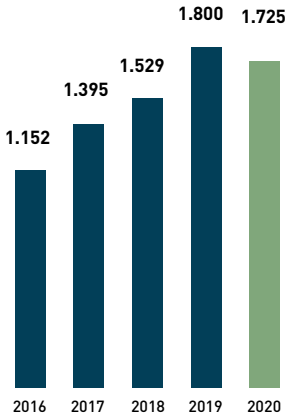
NET INCOME
Millions of Euro



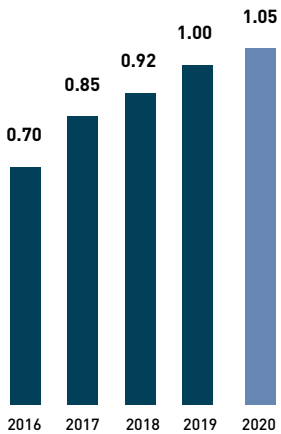
ADJUSTED NET INCOME**
Millions of Euro



NET INCOME PER SHARE
Euro



DIVIDEND PER SHARE
Euro

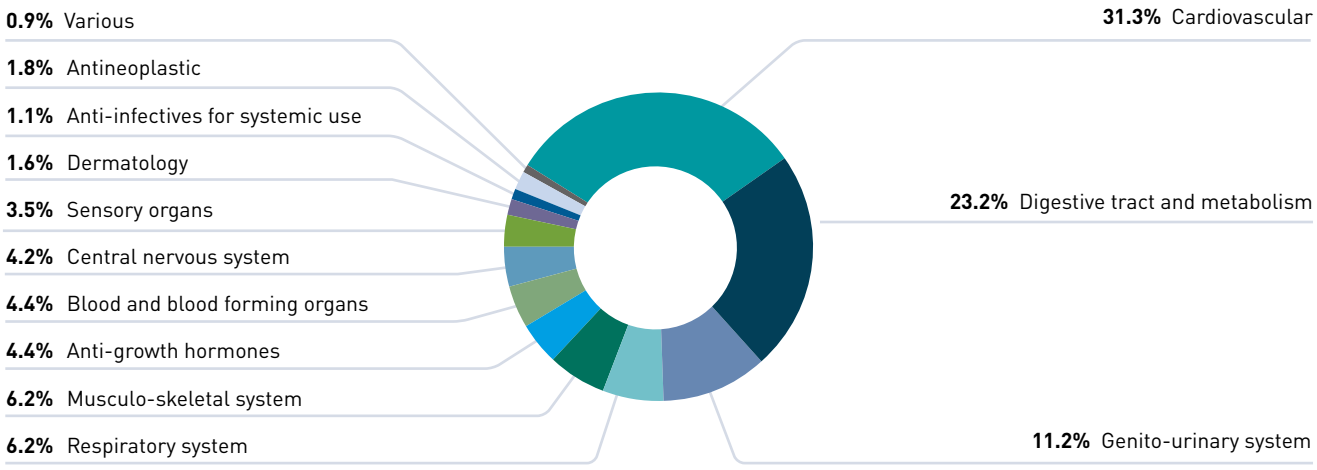


* *Net income before income taxes, financial income and expenses, depreciation, amortization and write-downs of property, plant and equipment, intangible assets and goodwill, and non-recurring items.*

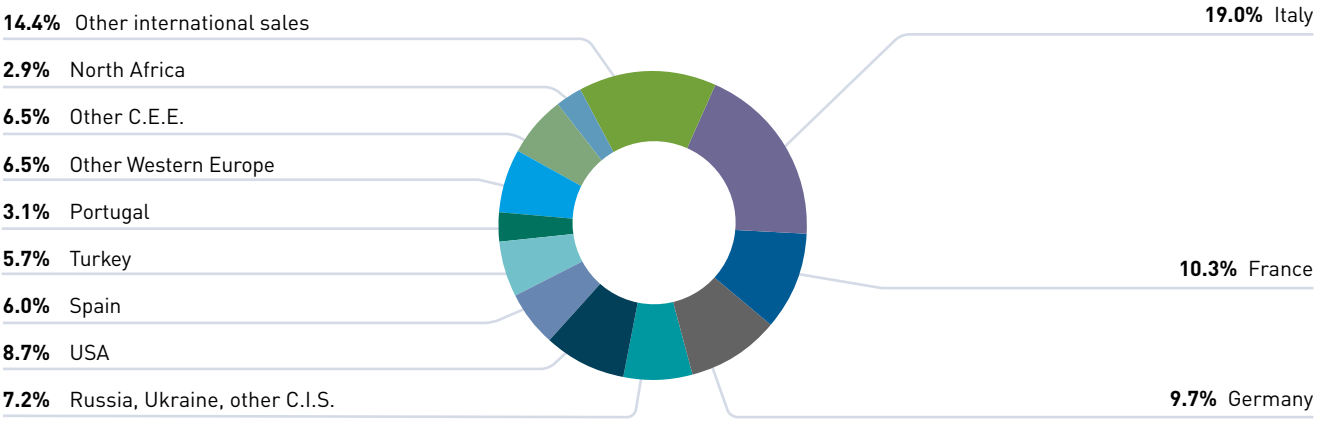
** *Net income excluding amortization and write-downs of intangible assets (except software) and goodwill, and non-recurring items, net of tax effects.*

*** *Pro-forma, not reported in relevant year financial accounts.*

PHARMACEUTICAL SALES BY THERAPEUTIC AREA

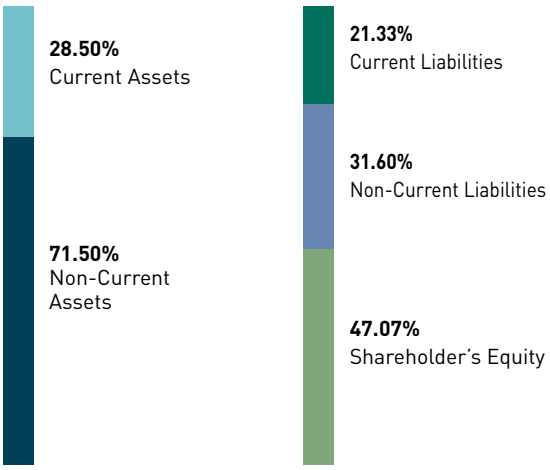


GEOGRAPHICAL COMPOSITION OF PHARMACEUTICAL SALES



BALANCE SHEET

at 31 December 2020



SHAREHOLDER'S EQUITY

1,276.20

Millions of Euro

NET FINANCIAL POSITION

(865.8)

Millions of Euro

The Recordati share

THE RECORDATI SHARE
at 31 December 2020

Listing:	Borsa Italiana, Blue Chip segment, healthcare
ISIN Code:	It 0003828271
Ticker:	Bloomberg REC IM, Reuters RECI.MI
Index:	FTSE MIB, FTSE Italia All-Share Health Care Index, FTSE Italia All-Share Pharmaceuticals & Biotechnology Index, FTSE4Good Index Series, STOXX Europe 600, Euro STOXX Health Care, MSCI Indexes
Share Capital:	n. 209,125,156 common shares
Nominal value:	€ 0.125 per share
EPS (diluted):	€ 1.698
Dividend per share:	€ 1.05

COMPARED TO FTSE ITALIA ALL-SHARE

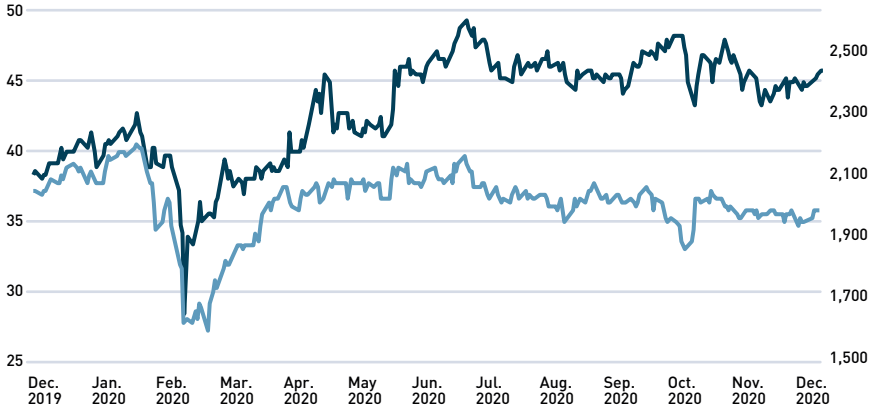
Source: FactSet

Recordati Industria Chimica e Farmaceutica S.p.A. (L)

FTSE Italia All-Share (R)

COMPARED TO STOXX 600/HEALTHCARE

Source: FactSet

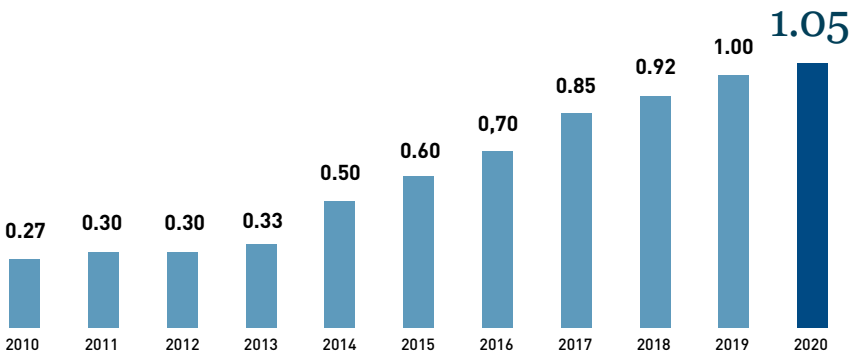


Recordati Industria Chimica e Farmaceutica S.p.A. (L)

STOXX Europe 600 Optimised / Health Care - SS (R)

DIVIDEND

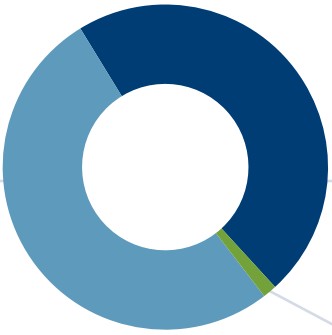
(Euro per Share)



PRINCIPAL SHAREHOLDERS

at 31 December 2020

51.8% Consortium of investment funds controlled by CVC Capital Partners



46.8% Free float

1.4% Treasury Stock

Health, a global objective

The World Health Organisation (WHO) defines health as a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.

The World Health Organisation (WHO) defines health as a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.

To improve health, it is therefore necessary to intervene on a number of determining factors, such as the social, physical and economic conditions in which people are born, live and work, including the health care system. In this context, besides institutions and governments, pharmaceutical companies are also called upon to develop strategies to improve the health care system, in terms of the availability, accessibility and quality of health care structures and the goods and services provided.

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

Health care expenditure is a significant indicator of the growing attention on the subject of health. The value of health care expenditure is around 10% of GDP globally.

Global spending on medicines is expected to increase from 2% to 5% annually up until 2024, exceeding US$1.1 trillion net compared to the 4.2% growth rate recorded over the last five years.

There are currently approximately 1.8 trillion daily doses of medicine consumed globally, compared to the 1.6 trillion five years ago. The volume is rising fastest in the drugs used to treat non-communicable diseases, which include cardiovascular disease, diabetes, respiratory disorders, and cancer (https://www.biospace.com/article/iqvia-report-spending-on-drugs-globally-to-exceed-1-1-trillion-by-2024).

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

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

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

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

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

Research and Development

In 2020, Research and Development activities concentrated primarily on the rare diseases segment.

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

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

PRODUCT DEVELOPMENT PIPELINE

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

SPECIALTY AND PRIMARY CARE SEGMENT

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

ARS-1

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

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

Urorec®/Silodyx®/Silodosin Recordati (silodosin)

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

Fortacin™ (lidocaine/prilocaine)

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

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

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

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

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

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

Reagila® (cariprazine)

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

Methadone

Zoryon® capsules have been launched in France for the treatment of moderate and severe oncological pain in patients who do not respond adequately to other opioids.

Work is continuing on the commitments undertaken with the French Authority at the time that the Zoryon® approval was issued for the treatment of oncological pain. A file is being prepared for the submission of a new registration application based on the mutual recognition procedure in other European countries. The protocol of a phase IV study in real life has been submitted for evaluation by the French Authority. The Environmental risk assessment study is about to start, and the development and validation of an updated analytical procedure for the detection of degradation products is underway.

Lomexin® (fenticonazole)

Fenticonazole is a topical antimycotic drug originated by Recordati. A number of different projects were conducted in support of the development of the product, given its increase in sales and the potential associated with its change of status from prescription to over-the-counter in various European countries as well as the scientific evidence supporting the fenticonazole molecule as a treatment for vaginal infections with different etiology. Regarding the "vaginal capsule" pharmaceutical form, the finished product specifications and analytical methods for all registrations worldwide were updated. The Danish Authority (RMS) endorsed the work sharing procedure to update and harmonize the safety information in the product specification characteristics and information leaflet in Europe for the different forms of fenticonazole for the gynaecological indication. A change in the prescription-based status to an over-the-counter regime has been authorised in Latvia, Lithuania and Russia for the vaginal capsules and in Ukraine for the dermatological cream. In 2020, the studies required by the Danish regulatory authority have begun on the environmental risk assessment of fenticonazole. The final report will be available during the first quarter of 2022.

The Recordati BV branch has been appointed as local representative and has started distributing the vaginal-use formulation in Belgium, Luxembourg and the Netherlands.

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

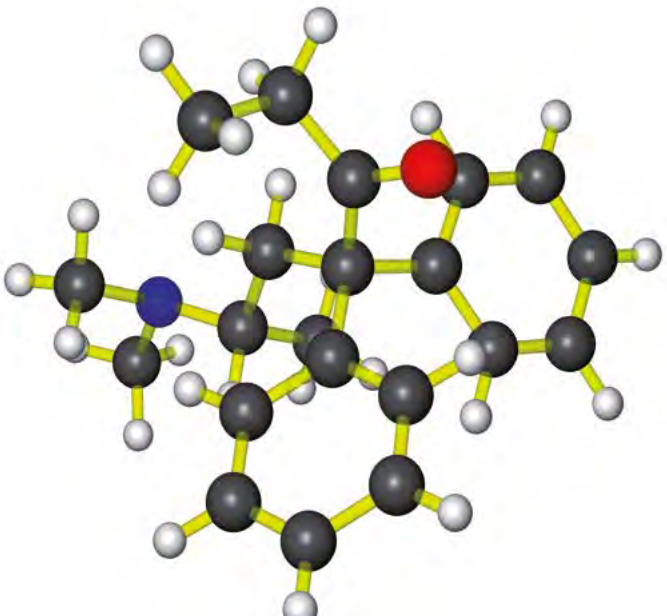
Livazo® (pitavastatin)

Pitavastatin is indicated for the reduction of elevated total cholesterol (TC) and LDL cholesterol (LDL-C) in adults, adolescents and children aged 6 years or older with primary hypercholesterolemia, including heterozygous familial hypercholesterolemia, and combined (mixed) dyslipidemia, when the response to diet and other non-pharmacological measures is inadequate.

A Scientific Advice application has been submitted to the AEMPS (Spanish Medicines Agency) to develop the fixed-dose combination of pitavastatin 2 mg and fenofibrate 160 mg for the treatment of patients with combined dyslipidemia and suitably controlled LDL-cholesterol levels based on monotherapy with pitavastatin 2 mg/day, but with high triglyceride levels and low HDL-cholesterol levels.

Proctoglyvenol® (tribenoside + lidocaine)

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



TREATMENTS OF RARE DISEASES

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

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

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

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

The working group, comprising professionals from different companies in the Recordati Group and employees from an international CRO, have liaised with Novartis to finalize the activities needed to transfer these studies, manage the independent studies sponsored by researchers and the requests for compassionate use.

In addition to supporting the studies above, the working group provides support to the process underway to register Isturisa® in other countries and assess extending the current indications.

Carbaglu® (carglumic acid)

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

Cystadrops® (cysteamine hydrochloride)

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

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

REC 0559

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

REC 0545

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

Various therapeutic approaches exist, but to date, none is specifically approved to manage the acute phases. Preliminary data show that REC 0545 acts quickly on the built-up amino acids and their metabolites, thus considerably reducing symptoms and the patient mortality rate. In 2019, positive results were obtained in a retrospective clinical study on patients suffering from Marple syrup urine disease (MSUD). Formulation development was completed in 2020, and the regulatory approval process requirements are being finalised.

Operational and financial reviews 2020

Financial highlights

NET REVENUE

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

KEY CONSOLIDATED P&L DATA

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

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

KEY CONSOLIDATED BALANCE SHEET DATA

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

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

PER SHARE DATA

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

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

Review of operations

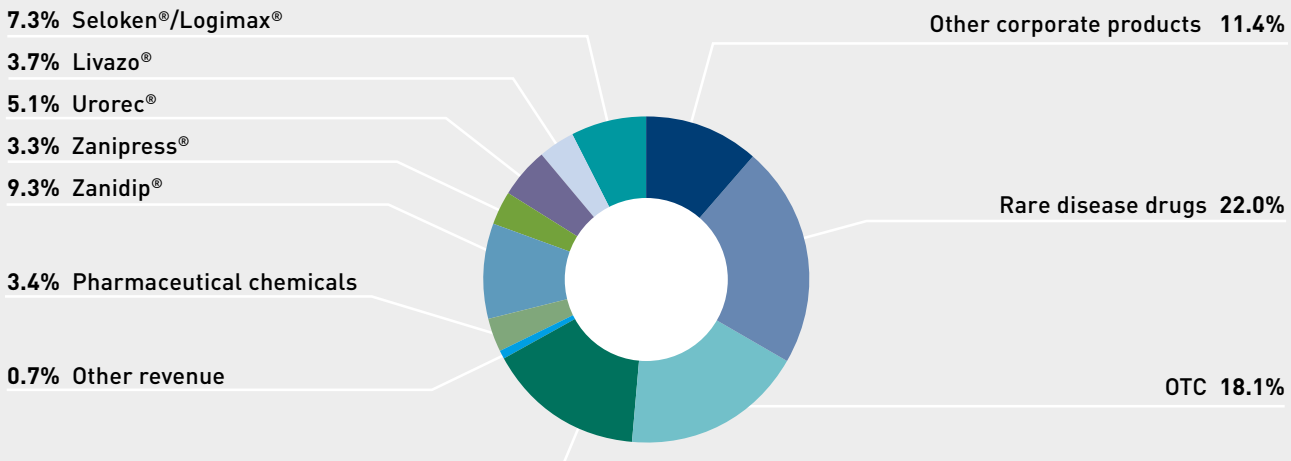
The Group's primary business involves the production and marketing of specialty medicines, which are divided into two categories: Specialty and Primary Care medicines and treatments for rare diseases. Business also includes Pharmaceutical Chemicals, where Recordati produces a number of active ingredients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

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

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

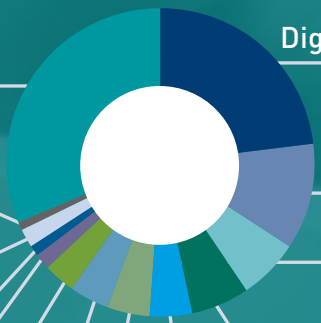
The Group's turnover, especially from the second quarter, was affected by the impact of the pandemic on reference markets, which was particularly severe in the Specialty and Primary Care segment, especially for the effect of the reduction of promotional activities on field, due to mobility restrictions.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

BREAKDOWN OF REVENUE



Pharmaceuticals

PHARMACEUTICAL SALES BY THERAPEUTIC AREA IN 2020:



CORPORATE PRODUCTS

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

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

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

Zanidip® (lercanidipine)

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

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

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

Zanipress® (lercanidipine+enalapril)

is a drug developed by Recordati to treat hypertension. It associates lercanidipine, a latest-generation calcium channel blocker, with enalapril, a widely prescribed ACE inhibitor, allowing the simultaneous administration of two active ingredients and increasing treatment compliance by the patient. Combination therapy is considered a first-line treatment for hypertensive patients at high risk for cardiovascular events. The benefits of the combination of these two active ingredients have been confirmed by the results of a number of clinical trials which have shown its significant antihypertensive efficacy, excellent tolerability in addition to renal and vascular protection from the damage caused by hypertension. This product is successfully marketed directly by Recordati or by its licensees in 30 countries.

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

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

Urorec® (silodosin)

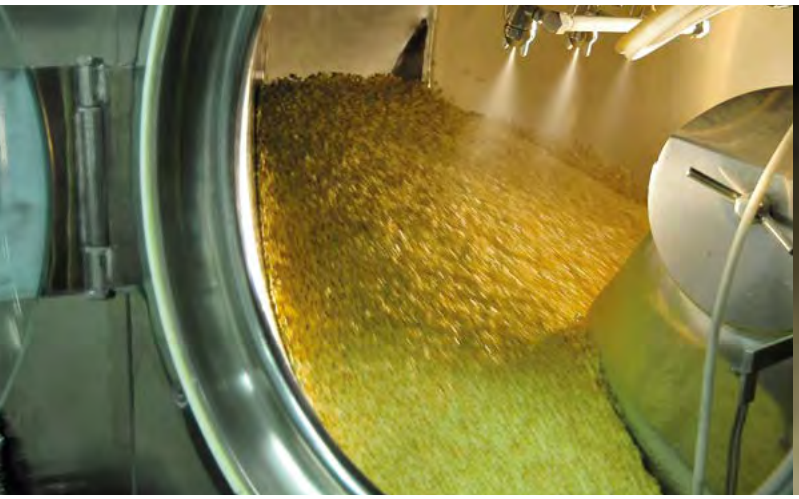
is a drug indicated for the treatment of the symptoms of benign prostatic hyperplasia (BPH, enlargement of the prostate). BPH manifests with problems linked to urination. It frequently occurs in men over the age of fifty, and its symptoms significantly reduce quality of life. This disorder is becoming more prevalent with the ageing of the population. Clinical evidence shows that patients receiving silodosin benefited from a significant reduction in symptoms associated with BPH and an improvement in quality of life within the first week of treatment. Symptom improvement is maintained during long-term treatment. A recent study (Fusco et al, 2020), found that silodosin improves symptoms and quality of life in patients with severe lower urinary tract symptoms related to benign prostatic obstruction.

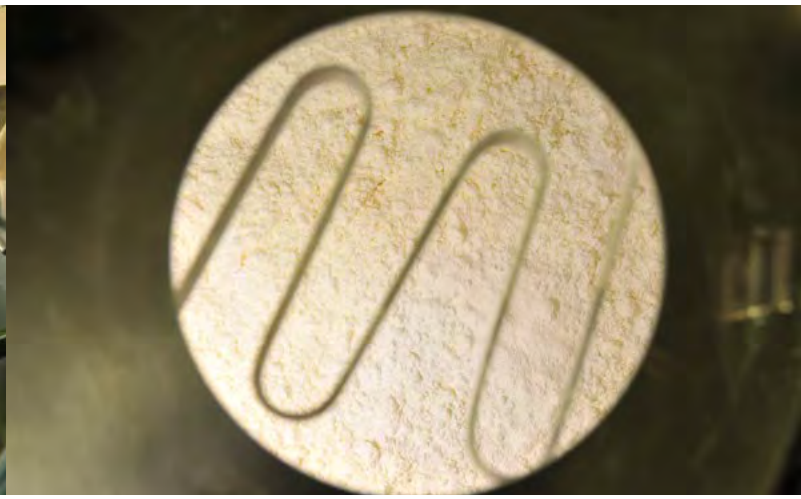
The safety and tolerability of silodosin has been widely assessed with positive results. The low incidence of orthostatic and vasodilatory side effects makes it a well-tolerated treatment, even in patients taking antihypertensive medication. Silodosin was originally developed by Kissei Pharmaceutical Co. (Japan) and was obtained under license by Recordati for development and marketing in Europe and a further 18 countries in the Middle East and Africa. Currently, the product is successfully marketed in 40 countries, including France, Germany, Italy, Spain, Portugal, the CIS countries, Tunisia and Switzerland. Silodosin based products are sold directly by our subsidiaries under the Urorec® brand and by our licensees under the Silodyx™ brand.

During 2020, sales for € 74.1 million were recorded, down by 30.8%, in line with forecasts, due to competition from the generic version of the product, following the expiry in February 2020 of the exclusivity on marketing, especially in Italy, France, Spain and Germany. Urorec® is performing well in Turkey and Switzerland where there are no generic versions available.

Livazo® (pitavastatin)

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





Seloken®/Seloken® ZOK (metoprolol)

are metoprolol-based medicines belonging to the beta blocker class of drugs that are widely used in the treatment of angina pectoris, myocardial infarction and cardiac rhythm disorders, as well as hypertension and functional heart disorders. These drugs have been widely studied in large and important clinical trials such as MAPHY and MERIT-HF and are frequently used in primary care and by cardiologists to treat cardiac disorders and hypertension. Long-term mortality studies (Seloken®/Seloken® ZOK Core Data Sheet) have shown that the use of metoprolol reduces the rates of general mortality, cardiovascular mortality, sudden death and the progression of heart failure. Recordati acquired the marketing rights for the drug in Europe. The product is available under the international Seloken® brands, in 100 and 200 mg dosage forms, and Seloken® ZOK/ Betaloc® ZOK, in 23.75 mg, 47.5 mg, 95 mg and 190 mg forms.

Logimax® (metoprolol+felodipine)

is a fixed association of metoprolol with felodipine which, over the years, has shown high antihypertensive efficacy. The use of metoprolol together with felodipine reduces possible episodes of reflex tachycardia induced by the calcium channel blocker, while felodipine associated with metoprolol facilitates vasodilation by reducing peripheral vascular resistance. This action mechanism explains why a therapy based on the association of a beta blocker with a calcium channel blocker, administered to patients suffering from hypertension associated with ischemic cardiopathy, is one of the most cited and recommended therapeutic combinations by European ESH/ESC guidelines.

The European marketing rights for **Seloken®/Seloken® ZOK** (metoprolol) and **Logimax®** (metoprolol+felodipine), belonging to the class of beta blockers widely used in the treatment of different cardiovascular conditions, were acquired from AstraZeneca in 2017. The products are sold directly in around 20 countries and through distribution agreements in other European countries.

In 2020, sales of € 105.7 million were recorded, up by 7.5% compared to the previous year, attributable mainly to increased sales in Central and Eastern European countries.

OTHER CORPORATE PRODUCTS

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

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

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

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

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

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

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

€ 20.3 million, down by 4.8% compared to the previous year, mainly due to sales in Poland.

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

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

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

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

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

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

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

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

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

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

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

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

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

TREATMENTS OF RARE DISEASES

Rare diseases bring great suffering to millions of affected people worldwide. They are predominantly genetic disorders that can affect patients of any age, gender and ethnicity, involving all medical specializations. These diseases are chronic, fatal or severely debilitating, strongly impacting patients, their families and society as a whole. In most cases, they affect newborns, children and young adults.

An orphan drug is a medicinal product specifically developed to treat a rare disease. According to the European definition, a rare disease is defined as one that affects fewer than five in 10,000 people or, based on the American definition, fewer than 200,000 people in the United States of America. Over 30 million people are affected in Europe alone. There are currently over 7,000 known rare diseases, but approved treatment only exists today for less than 10% of them.

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

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

The Recordati group operates in the rare disease segment worldwide through Recordati Rare Diseases, its group of subsidiaries entirely dedicated to the research, development and marketing of medicines for the treatment of rare diseases which share the conviction that every person with a rare disease has the right to the best possible treatment.

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

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

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

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

Name	Active ingredient	Indication
SIGNIFOR® and SIGNIFOR® LAR	pasireotide	Treatment of Cushing's disease and acromegaly
ISTURISA®	osilodrostat	Treatment of Cushing's disease (United States of America) and Cushing's syndrome (European Union, Switzerland)

In 2020, sales on products for the treatment of rare diseases, marketed directly in Europe, the Middle East, the U.S.A., Canada, Mexico and some countries in South America, Japan, Australia and through partners in other territories, generated sales of € 319.4 million, increasing by 27.9%, and included revenue from Signifor®, Signifor® LAR and Isturisa® for a total of € 79.0 million.

The contribution of these new products, together with consistent growth in Carbaglu®, Cystadrops®, Cystadane®, Ledaga® and Juxtapid® more than compensated for the decrease in Panhematin® (injectable hemin for the treatment of recurrent attacks of acute intermittent porphyria) sales in the U.S.A., which were affected by the difficulties experienced by patients in accessing infusion centers due to the COVID-19 emergency and the introduction of a new competing product. Sales in the U.S.A. increased by 11.8%, whereas sales in the rest of the world grew by 40.4%.

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

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

which leads to the production of insulin-like growth factor-1. The most common cause of acromegaly is a pituitary adenoma.

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

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

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

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

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

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

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

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

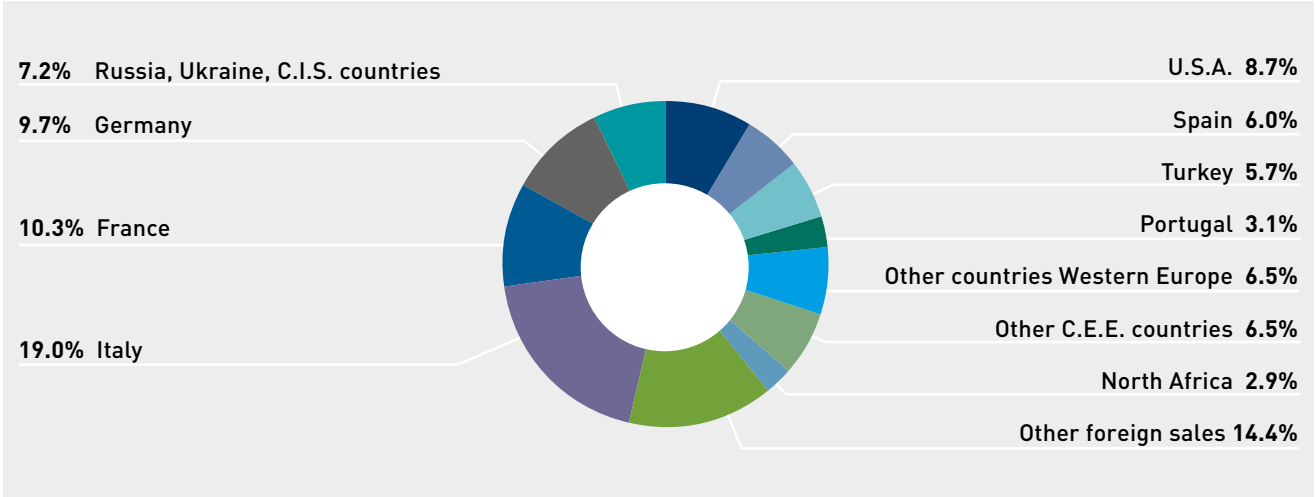
PHARMACEUTICAL SALES BY GEOGRAPHIC AREA

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

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

Net revenue includes the sales of products and miscellaneous revenue.

BREAKDOWN OF PHARMACEUTICAL PRODUCTS BY GEOGRAPHIC AREA IN 2020:



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

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

ITALY

The Recordati group offers a wide range of treatment options in Italy through Recordati S.p.A., Innova Pharma S.p.A., Recordati Rare Diseases Italy S.r.l., Italchimici S.p.A. and Natural Point S.r.l. It has an established presence in the cardiometabolic field, with two antihypertensive products that were fully developed in its research laboratories, Zanedip®/Lercadip® (lercanidipine) and Zanipril®/Lercaprel® (lercanidipine + enalapril), with two drugs that belong to the beta blocker category, Cardicor® (bisoprolol), and Seloken® (metoprolol) and Rextat®/Lovinacor® (lovastatin). The Italian product portfolio also has a consolidated offering primarily in urology, with Urorec® (silodosin), Recoprox® and Fortacin®, gastroenterology, with Peptazol® (pantoprazole), Reuflor® (lactobacillus reuteri protectis-based supplement), Peridon® (domperidone), PeridoNatural®, Citrafleet® (sodium picosulfate), Casenlax® (macrogol) and Lacdigest®.

In the ENT area (ear, nose throat), Recordati offers Isocef® (ceftibuten) for the antimicrobial treatment of respiratory tract conditions, combined with the Unicexal™/Cexidal® (ciprofloxacin and corticosteroid for topical use) line, Aircort® (budesonide) a corticosteroid based line and Rupafin® (rupatadine) an antiallergy antihystamine. In the pain and inflammation area, it offers a non-steroidal anti-inflammatory drug Tora-Dol® (keterolac tromethamine). Completing the product portfolio in this treatment area is Naprosyn® (naproxen), belonging to the non-steroidal anti-inflammatory/anti-rheumatic class (NSAIDs) with an effective treatment action in controlling chronic pain. As from December 2018, Recordati entered the psychiatric area, launching Reagila® (cariprazine), a new drug for the treatment of schizophrenia.

Under the self-medication products, Recordati has a wide range of offerings in oral hygiene, eye, nose and throat care and gastrointestinal treatments. The historic brands include Alovex®, Proctolyn®, Eumill®, Dentosan®, Imidazyl®, TransAct® LAT, Clismafleet® and Losipaco®. With the acquisition of Natural Point S.r.l. in 2018, Recordati entered the food supplements market, with the main product Magnesio Supremo®.

Recordati is also involved in treatments for rare diseases, primarily those of metabolic and endocrinological origin.

The Italian pharmaceutical production site is situated in Milan, covering a surface area of around 5,000 sq. m., extending over several floors for a total of 21,000 sq. m. and produces over 59 million packs per year. The plant specializes in the manufacture and packaging of solid oral forms, liquids, injectables and products for topical use.

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

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

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

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

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

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

Self-medication pharmaceuticals generated sales for € 81.0 million, down on the previous year due to the weak demand caused by the health emergency. The products TransAct® LAT, symptomatic relief of localized pain involving the musculoskeletal system and Reuflor®, a food supplement indicated for the rebalancing of intestinal bacterial flora, were more significantly affected. Better results in the sales of Alovex™, indicated for the treatment of oral cavity aphthae, Magnesio Supremo®, a magnesium-based supplement, with sales of € 16.2 million and for Proctolyn® (hemorrhoid treatment) with sales of € 7.4 million (+4.3%).

Eumill® (eye drops and nasal spray) also performed well and leads the segment (with a market share of 24.8%), generating sales of € 7.5 million, up by 16.6%, as did Imidazyl®, with sales of € 4.0 million, up by 13.0%. Dentosan®, a line of oral care products, generated sales of € 4.3 million (+2.4%).

FRANCE

Laboratoires Bouchara Recordati S.A.S. is solidly established in the French pharmaceutical market thanks to a number of prescription drugs and a historical presence in the market for self-medication products, a market in which Tonipharm S.a.s., acquired at the end of 2018 and consolidated as from 1 January 2019, operates. It markets products covering a wide range of treatment areas, such as the cardiovascular area with Zanextra® (lercanidipine + enalapril), Logimax® (metoprolol succinate+felodipine), Seloken® (metoprolol tartrate) and Selozok® (metoprolol succinate), the urology area with Urorec® (silodosin) and Leptoprol® (leuprorelin acetate), the anti-allergy area with Wystamm® (rupatadine) and gastroenterology area with Citrafleet® and Colopeg®, Transipeg® and TransipegLib®.

Methadone, a synthetic opioid analgesic used as a substitute for heroin in abstinence syndromes, in detoxification from opiates and in maintenance programs, is Laboratoires Bouchara Recordati's most important product. Highly specialized staff and dedicated resources underpin the success of the detoxification programs. The benefits of treatment with methadone are universally recognized. The most important are the decrease in deaths resulting from the use of narcotics, the reduction in the spread of viral infections (HIV, HCV), reduced health, legal and social costs related to the use of drugs and improvements in the health and rehabilitation of addicts. A new capsule formulation has contributed to expanding its use. Zoryon® (trade name for methadone in this indication) was launched towards the end of the year for the treatment of chronic cancer pain. Zoryon® is recognized as an effective alternative treatment that provides pain relief and improves quality of life.

Laboratoires Bouchara Recordati has a historical presence in the French OTC market, and in this regard, we note the Hexa line (Hexaspray®, Hexalyse®, Hexamer® and Haxatoux®), Exomuc® (mucolytic containing N-acetyl cysteine), the Ginkor® brand products, a ginkgo biloba-based food supplement and Alodont®, an oral hygiene product.

Recordati Rare Diseases S.à.r.l, a company dedicated exclusively to treatments for rare diseases, is headquartered in France.

The French pharmaceutical production plant is in Saint Victor, covering a surface area of 6,750 sq. m. and specializes in the production and packaging of liquid, solid oral and spray formulations. The site produces around 32 million packs per year. Furthermore, the Group operates a manufacturing site in Nanterre, covering 1,200 sq. m. and entirely dedicated to the packaging, storage and shipping of rare disease products. An area of 400 sq. m. is office space. The site delivers, upon short notice, more than 27,000 orders annually to more than 60 countries worldwide thanks to its highly qualified staff and a modern GMP (Good Manufacturing Practice) certified logistics platform.

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

The performance of the main products is shown below:

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

Of note is the good performance in sales of methadone, which reached € 33.2 million in 2020, up by 5.8% compared to the previous year, Seloken®/Seloken® ZOK/ Logimax® (+3.3%) in addition to the significant growth in the sale of treatments for rare diseases totalling € 31.7 million, increasing by 73.0%, and including the newly acquired endocrinology products Signifor®, Signifor® LAR and Isturisa®.

Sales include those of Lercapress® (lercanidipine+enalapril), now marketed by our subsidiary following the expiry of the license agreement with Pierre Fabre. Sales of lercanidipine-based products decreased due to competition from the generic versions of the drug. Regarding self-medication products, sales of Ginkor® and Alodont® recorded growth over the year.

Sales in the Hexa line, a leader in the treatment of seasonal winter illnesses, fell by 16.5% and were impacted by the drop in certain illnesses related to the reduced activity in the population imposed by the health emergency.

GERMANY

In addition to its consolidated presence in the cardiovascular therapeutic area with a range of treatments from the calcium channel blocker antihypertensives Corifeo® and Zanipress® to the beta blocker Beloc® ZOK, Beloc® and Mobloc® (metoprolol), Recordati Pharma GmbH is one of the most esteemed German pharmaceutical companies in the field of orthopedics, where it has developed a strong presence and supplies quality products to specialists in this segment. The most important of these includes Ortoton® (methocarbamol), a muscle relaxant used for back pain, considered the gold standard for this condition. Recosyn® (hyaluronic acid), for arthritis treatment regimens, Lipotalon® (dexamethasone palmitate), used to alleviate pain in the presence of inflammation of the joints, and Binosto® (alendronic acid) effervescent tablets used to treat osteoporosis that presents with the onset of menopause, are also very popular.

Recently, Recordati Pharma began marketing Fortacin® in the urology segment, a treatment area where it has established its presence, and offers additional products such as Urorec® and Kentera®. With the launch of Reagila® (cariprazine), the German subsidiary entered a new treatment area, psychiatry. Another important aspect for the German branch is its business in the gastroenterology area, and specifically in the treatment of chronic inflammatory intestinal conditions with the product Claversal® (mesalazine). Citrafleet® and Fleet Phospho-soda® are products extending the offering of the German branch in this area. The German subsidiary markets a line of self-medication products with a specific sales force operating in a growing market and is dedicated to marketing a number of well-known brands in the country, including Rhinopront® for rhinitis, JHP-Rödler® for coughs and colds, Laxbene® junior and the scar healing Mirfulan® line. Operations in the segment dedicated to rare diseases in this country are carried out by Recordati Rare Diseases Germany GmbH.

Sales in Germany reached € 135.7 million, down by 2.1% compared to the same period the previous year, attributable to competition from the generic version of Oroton® (methocarbamol).

The performance in the main products is as follows:

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

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

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

Rusfic LLC, Fic Médical S.à r.l. and Recordati Ukraine LLC, are the Recordati group companies that operate in Russia and in other markets of the Commonwealth of Independent States (C.I.S.), in Ukraine and in Central Asia. Our organisations' success in these regions is based largely on the progressive affirmation of the main corporate portfolio products, including Procto-Glyvenol®, Urorec®, Zanidip®, Lomexin® Livazo® that were launched in these regions, as well as the anti-infective products like Tergynan®, and Polydexa® and Isofra®, products indicated for the treatment of ENT disorders, as well as a portfolio of popular self-medication products. These refer mainly to the well-known food supplements like Alfavit® and Qudesan®, the oral anti-bacterials in the Hexa line, Hexalyse® and Hexaspray® and the intestinal absorbent product (enterosorbent) White Carbo®. Fic Medical, with its four representative offices in Kazakhstan, Belarus, Georgia and Armenia ensures the Group's direct presence in the C.I.S., the Caucasus region and Central Asia, territories where geographic coverage has increased significantly.

Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) was € 100.2 million, down by 16.6% compared to the same period the previous year and includes estimated currency exchange losses of € 12.1 million. In addition to the devaluation in the ruble, this area was severely impacted by the COVID-19 epidemiological emergency. Revenue realized in Russia, in local currency, was RUB 6,460.3 million, down by 5.7 % on the same period the previous year, mainly due to reduced sales in seasonal infection products.

The table below shows overall sales of the main products in Russia in local currency.

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

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

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

UNITED STATES OF AMERICA

The Group's pharmaceutical business in the U.S.A. is dedicated exclusively to marketing products for the treatment of rare diseases through our subsidiary Recordati Rare Diseases Inc. The main products are Panhematin® (hemin for injection) used for recurrent attacks of acute intermittent porphyria, Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonemia associated with NAGS deficiency, Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers, Cystadane® (betaine anhydrous oral solution), used in the treatment of homocystinuria to reduce the high level of homocysteine in the blood and Cystadrops® (cysteamine ophthalmic solution) 0.37%, approved in August 2020 by the U.S. Food and Drug Administration (FDA) for the treatment of corneal cystine crystal deposits in adults and children from 2 years of age with cystinosis.

A dedicated business unit was created in 2020, to develop the newly acquired endocrinology products, Signifor® and Signifor® LAR (pasireotide) for the treatment of Cushing's disease and acromegaly, and support the launch of Isturisa® (osilodrostat) for Cushing's syndrome.

Sales reached € 122.5 million in 2020, up by 11.8% and by 14.0% in local currency. Growth mainly reflected the contribution of the new products Signifor® and Signifor® LAR, the launch of Isturisa® (osilodrostat), together with the ongoing growth in Carbaglu®, which was authorized by the FDA in January 2021 for the treatment of acute hyperammonemia due to propionic acidemia and methylmalonic acidemia, as well as Cystadane® and Cystadrops®. Sales of Panhematin® were down on the other hand, due to the entry of a competing drug and the difficulties experienced by patients in accessing infusion centers due to the COVID-19 pandemic.

SPAIN

Casen Recordati S.L., the Spanish subsidiary of the Recordati group, with headquarters in Madrid and production facilities in Utebo (Zaragoza), markets an extensive and substantial portfolio of Specialty and Primary Care products belonging to the cardiovascular, urological, gastrointestinal, pediatric, and as from 2019, psychiatric treatment areas. It is particularly well known for its products for bowel cleansing and oral rehydration, which belong to markets where the Company is an undisputed leader. Of note among the main products on the listing are Citrafleet®, indicated as a bowel cleanser used before any diagnostic procedure which requires emptying of the intestines, and Bi-OralSuero®, the *lactobacillus reuteri protectis* drops formulation, Reuteri® and Casenbiotic®. Products added in 2019 include Reagila®, an antipsychotic for schizophrenic patients and Elebiotic®, a product used to prevent recurring otitis in newborns. In Spain, Recordati Rare Diseases Spain S.L. markets the portfolio of products for the treatment of rare diseases.

The Spanish production plant is situated near Zaragoza, covering 7,100 sq. m., and specializes in the production and packaging of solid and liquid oral and topical formulations. In particular, it manufactures a line of gastroenterological products. The plant produces around 19 million packs a year. Recently, a project was finalized for the installation of a new line for the packaging of tablets in bottles, which has increased the annual volumes by around 7-8 million packs.

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

The table below shows sales of the main products:

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

Of note is the good performance by Reagila®, Casenlax® and Zanipress®, as well as the increased sales of products for the treatment of rare diseases at €11.7 million (+27.7%).

Sales of Cidine® (cinitapride) have grown slightly despite the presence of generic competition in the market.

TURKEY

Recordati Ilaç, the Group's Turkish subsidiary, is one of the top 25 pharmaceutical companies in Turkey. It continues to strengthen its position on the Turkish pharmaceutical market and has a strong, consolidated presence in the fields of urology, cardiology, gynecology and in rehabilitation. The branch markets the corporate products Lercadip®, Zanipress®, Alipza®, Urorec®, Gyno-Lomexin®, Procto-Glyvenol® and Phospho-soda®, together with the local brands Mictonorm® and Mictonorm SR® (propiverine hydrochloride), used for the treatment of hyperactive bladder and urinary incontinence, Cabral® (phenyramidol hydrochloride), a muscle relaxant,

Krerval® (butamirate citrate), a cough suppressant, Aknetrent® (isotretinoin), used for the treatment of severe acne, Pankreoflat® (pancreatin), a treatment for dyspepsia, Prepagel® (escin, diethylamine salicylate), for use in cases of bruises, sprains, hematoma, and the antibiotic Ciprasid® (ciprofloxacin). The Turkish product portfolio was extended in 2020 with the addition of the Alipza® (pitavastatin) line and launch of the 1 mg formulation.

Recordati Ilaç has undertaken an important investment program for the construction of a new production plant in Çerkezköy, built on 45,000 sq. m. of land, and covering approximately 11,300 sq. m., with a total production capacity of 80 million packs annually. It currently produces 57 million packs per year of solid oral and liquid formulations and products for topical use, of which 20% are for other pharmaceutical companies. The Çerkezköy plant was certified GMP compliant by the Turkish authorities in 2016 and has also been confirmed compliant with current Good Manufacturing Practices (cGMPs) by the European Union, Azerbaijan, Libya and Kenya in 2019 and the Russian Federation in 2020. The plant continued operating without interruption in 2020, whilst respecting the strict COVID-19 prevention measures.

Sales in Turkey were at € 79.2 million, down by 10.6%, and included a negative currency exchange effect estimated at € 19.7 million. The Turkish branch's sales in local currency were up by 11.6% thanks to a generalised price increase and the good performance by all corporate products, in particular Livazo® (sold in Turkey under the Alipza® brand), Urorec®, Lercadip®, Zanipress® and Procto-Glyvenol®, and the local products Mictonorm® (propiverine), Cabral® (phenyramidol hydrochloride) and Colchicum® (colchicine).

The table below shows overall sales of the main products in local currency.

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

PORTUGAL

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

Jaba Recordati S.A. has recently moved its office to Tagus Park.

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

The table below shows the main products:

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

OTHER CENTRAL AND EASTERN EUROPEAN COUNTRIES

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

Poland

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

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

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

Czech Republic and Slovakia

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

and cracked skin recommended after using hand disinfectant products and Veral®.

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

Romania and Bulgaria

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

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

Baltic states

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

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

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

OTHER WESTERN EUROPEAN COUNTRIES

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

Switzerland

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

Sales for € 21.3 million were realized at the Swiss branch, up 4.1% thanks to the good performance by Livazo®, Reagila® and Urorec®.

Greece

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

Sales in Greece were € 18.9 million, up 5.5% thanks to the good performance by Livazo®, Lopresor® and Urorec®.

United Kingdom

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

Ireland

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

Nordic countries and BeNeLux

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

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

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

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

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

NORTH AFRICA

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

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

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

OTHER INTERNATIONAL SALES

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

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

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

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

Pharmaceutical chemicals and Plants

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

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

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

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

A vast range of technologies, skills and expertise in the field of organic synthesis is employed, making it possible to quickly and effectively develop new processes for the production of active ingredients, from their synthesis to purification and finishing, through the various research stages, scale up and final industrialization. The Research and Development laboratories are fitted with the latest equipment such as a high containment HP-API pharmaceutical isolator (glove box) and a micro reactor for the development of new continuous production processes. An extremely versatile pilot plant is also available, equipped for the small-scale production of active ingredients, in accordance with cGMP (current Good Manufacturing Practices). The plant operates in compliance with current Good Manufacturing Practices (cGMP) and is regularly inspected by national and international authorities such as AIFA (Agenzia Italiana del Farmaco), FDA (Food and Drug Administration), ANVISA (the Brazilian agency), PMDA (the Japanese Ministry of Health), KFDA (Korean Food and Drug Administration). The plant's environmental management system has been certified according to the UNI EN ISO 14001:2004:2015 standards by Det Norske Veritas Italia (DNV), an internationally accredited body, and is inspected on an annual basis.

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

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

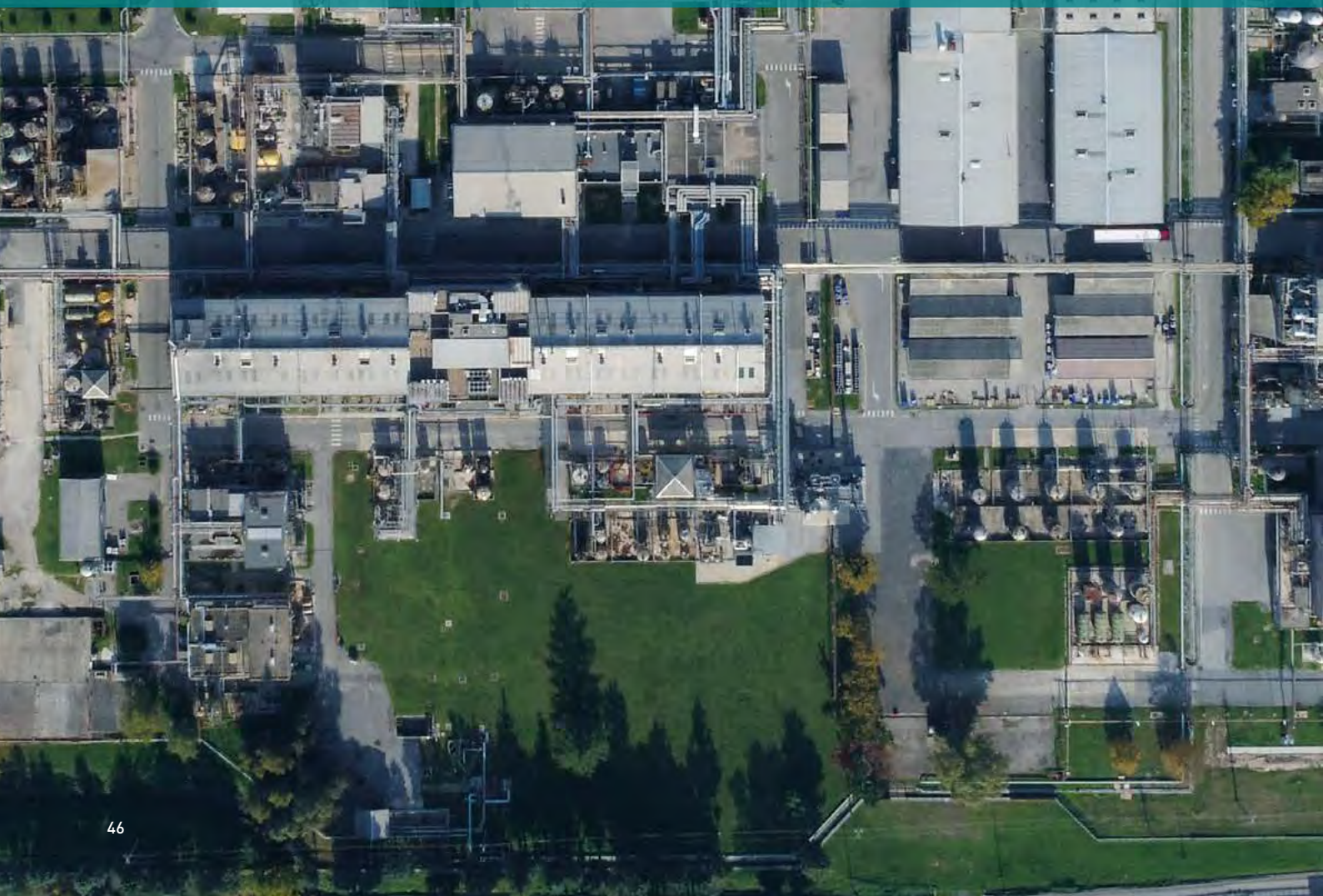
The sales of active ingredients by geographical area are shown below:

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

Health, Safety and Environment

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

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



2020 proved to be a particularly difficult year for the entire world, which found itself facing an unprecedented health emergency with the COVID-19 epidemic.

Since the beginning of the emergency, the pharmaceutical world has been under immense pressure due to its role as an "essential service for the community". The Group reacted immediately and decisively, adopting all measures necessary to manage the emergency, with the goal of reducing the spread of the virus and therefore protecting the health and safety of all employees whilst ensuring business continuity.

These measures ranged from smart working implemented for office personnel to the launch of new organisational models for our sales network through the remote provision of scientific information, also supported by specific training programmes. A series of measures were adopted in production and distribution facilities, in full compliance with provisions issued by the Authority, which allowed the Group to continue production and guarantee the health and safety of production personnel.

While observing all measures necessary to ensure the health and safety of its employees, Recordati never suspended its production and distribution activity, guaranteeing continuous availability of its products in the market, many of which are used in the treatment of serious and chronic illnesses.

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

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

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

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

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

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

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

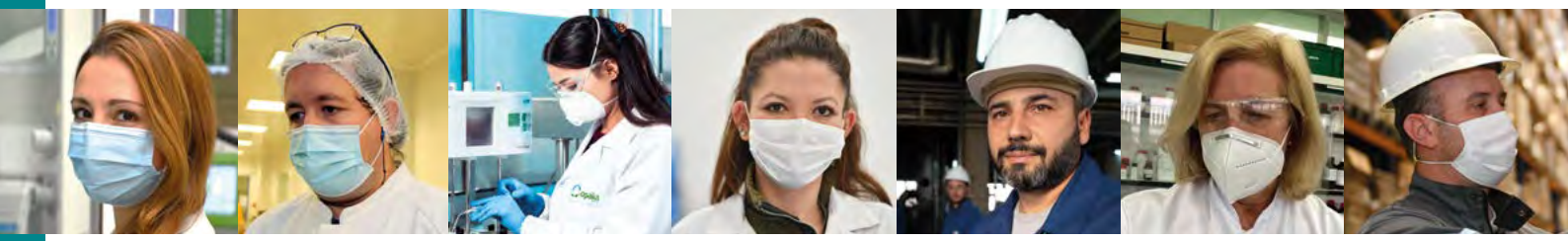
The environmental factor is controlled and managed in the pharmaceutical chemicals plants by an environmental management system that is part of the general management system. It includes the organizational structure, planned activities, responsibilities, practices, procedures and resources to formulate,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

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

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

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

Financial review



INCOME STATEMENT

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

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

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

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

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

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

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

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

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

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

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

Labor costs include wages, related expenses and additional costs.

(a) Data per employee is calculated on the average number of effective personnel: 4,278 in 2020 and 4,141 in 2019.

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

while at the same time, continuing to focus on the development of managerial skills distinctive to Recordati.

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

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

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

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

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

The breakdown of EBITDA by business segment is reported below.

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

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

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

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

Income taxes amounted to € 100.6 million, up by € 25.4 million compared to the previous year, mainly as a result of the positive effects of the "Patent Box" in 2019. Following the advance agreement signed with the Advance Agreement and Disputes Office of the Italian Tax Authorities on 19 December 2019, which allows the Parent Company to benefit from a discount on taxable income connected with the direct use of intangible assets for the tax years 2015 to 2019 (which had resulted in an overall benefit the previous year of € 35.3 million, of which € 27.0 million related to 2015-2018 and € 8.3 million to 2019), the Parent Company opted to subscribe (instead of renewing the agreement) to the new optional reverse charge mechanism provided for by Art. 4 of Italian Legislative Decree No. 34 of 30 April 2019 and therefore directly determine the discount on taxable income provided by the "Patent Box" for the current year, using the same criteria agreed with the Tax Authorities for the preceding five years. The relevant benefit for 2020, totalling € 8.1 million, was recognized to reduce the tax amount.
On 16 December 2020, an additional advance agreement was signed on the "Patent Box", based on the same application procedures as the one for the previous year, between the Tax Authority – Regional Lazio Department and the subsidiary Italchimici S.p.A. The relevant tax benefit for the five years from 2015-2019 of € 2.0 million was recognized to reduce the tax amount for the 2020 period.
Net income equalled € 355.0 million, at 24.5% of revenue, compared to € 368.9 million in 2019 and, excluding the non-recurring Patent Box tax benefit for € 2.0 million in 2020 and € 27.0 million the previous year, net income grew by 3.2% based on the increase in operating income and reduction in financial expenses.

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

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

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

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

NET FINANCIAL POSITION

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

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

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

During 2020, US$90 million (€ 81.6 million) was paid to Novartis following the approval to market Isturisa® in Europe and the U.S.A. and the launch in Germany, € 15 million was paid to ARS Pharmaceuticals for the ARS-1 license and € 2.5 million to Helsinn for the Ledaga® license. Treasury shares were purchased for a total of € 12.2 million, net of disposals due to exercise of stock options, and dividends were paid for a total of € 212.7 million. The financial position analysis confirms the Group's solid cash generation, which net of these effects, amounted to approximately € 360 million.

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

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

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

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

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

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

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

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

€ (thousands)	Shareholders' equity		Net income	
	31.12.2020	31.12.2019	2020	2019
Recordati S.p.A.	464.010	435,426	234.664	241,092
Consolidation adjustments:				
- Elimination margins in inventories	(76,552)	(59,066)	(17,486)	(655)
- Related tax effect	21,704	16,618	5,086	322
- Other adjustments	(16,689)	(13,726)	(2,705)	(4,014)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already recognized by Recordati S.p.A.	835.142	708,217		-
Net income for onsolidated subsidiaries, net of amounts already recognized by Recordati S.p.A.	265,671	257,974	265,671	257,974
Dividends received from consolidated subsidiaries	-	-	(132,785)	(128,138)
Write-down of holdings in subsidiaries	-	-	2.539	2,244
Translation adjustments	(217,303)	(146,866)	-	-
Consolidated financial statements	**1,275,983**	**1,198,577**	**354,984**	**368,825**

RELATED-PARTY TRANSACTIONS

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

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

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

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

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

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

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

SUBSIDIARIES OUTSIDE THE EUROPEAN UNION

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

SIGNIFICANT TRANSACTIONS, DISCLOSURE REQUIREMENTS DEROGATION

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

ATYPICAL AND/OR UNUSUAL TRANSACTIONS

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

MAIN RISKS AND UNCERTAINTIES

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

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

Results

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

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

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

RISKS ASSOCIATED WITH THE EXTERNAL CONTEXT

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

The ongoing situation caused by the COVID-19 virus broadly falls into this risk category. While on one hand the spread of the virus has underlined the importance of health and the role of the pharmaceutical sector, creating an urgent demand for pharmaceuticals, on the other hand it continues to impact business operation in the various stages of the product life cycle. The pharmaceutical sector is, therefore, not immune to the impact associated with the numerous emergency measures (lockdowns, health care restrictions, social distancing, etc.) introduced by the health authorities in the various countries in which the Group operates. These measures have impacted various business activities: research and development, with delays to patient enrolment during clinical trials, to production activities with the restructuring of shifts and production processes, to medical and scientific data, where relations with the medical community have been profoundly remodelled, and to office work with the extensive use of remote working. The Recordati Group reacted swiftly to the new conditions arising from the emergency health measures adopted, implementing operating plans that would enable business continuity while ensuring the safety of the people involved (employees, clients, suppliers and other stakeholders). In particular, the Company adopted a Coronavirus Pandemic Plan aimed at ensuring business continuity and protecting the safety of its employees. New management protocols were implemented, and business processes were modified to ensure the continuous operation of production plants in compliance with the new COVID-19 health regulations. Guidelines for the safe management of human resources were issued by the Parent Company to all of its subsidiaries. The "Safely back to work" project was developed in collaboration with external consultants, aimed at defining the most effective and efficient measures to protect employee health; these included an employee information and training campaign, the provision and use of personal protective equipment (PPE), changes to the layout of workspaces, the introduction of static and dynamic social distancing in the workplace, the installation of protective barriers, and the provision of sanitizers. The operating guidelines issued to External Operating Personnel regarding medical and scientific information were redefined. With reference to medical and scientific information, the Company constantly monitors and coordinates representatives' activities in order to ensure the adoption of the most effective measures and alternative approaches to enable effective interaction with the medical community, including through the use of digital tools, in compliance with COVID-19 regulations.

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

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

Group sales consist predominantly of products subject to medical prescription which are reimbursed by national health

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

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

Risks associated with business expansion into emerging markets

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

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

Risks associated with market competition

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

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

RISKS ASSOCIATED WITH STRATEGY AND OPERATIONS

Risks associated with the internationalization of the Group

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

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

Risks associated with the expiry of patents

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

Risks associated with investments in research and development

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

Given the complexity, length of time involved and the intrinsic nature of these initiatives, it is not possible to be certain that investments in research and development will always produce the expected results, because the research conducted may fail

or the necessary authorisations to market products may not be obtained or the pricing and reimbursement conditions may not be satisfactory.

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

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

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

Risks associated with the launch of new products

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

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

Risks associated with pharmacovigilance

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

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

Following the introduction of even more stringent regulatory requirements, internal organizations, instruments, training, procedures are constantly reinforced.

Coordination with subsidiaries and partners has improved and includes the centralized evaluation of all information relating to pharmacovigilance.

Risks associated with the production process

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

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

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

Risks associated with the interruption of the production process

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

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

Furthermore, the Group uses only reliable suppliers, approved as complying with the relevant technical standards. It also constantly monitors the availability of raw materials and strategic excipients, in order to promptly identify potential local or worldwide "out-of-stock" situations and to take the necessary action (supply and/or production backups) to guarantee production autonomy. In addition, the Company has reinforced its organization within the Procurement, Supply Chain and Contract manufacturing areas with the presence of dedicated professional staff.

Furthermore, in order to reduce losses resulting from potential interruptions or damage to production cycles, the Group has taken out "All risk property" insurance policies which cover direct damages (such as damages to buildings, machines and goods) as well as indirect damages (such as a loss in profit as a consequence of accidents).

Risks associated with health, safety and the environment

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

The Company's control and governing bodies are periodically informed by the responsible functions of any accidents that occurred and the activities undertaken to mitigate such accidents.

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

The current pervasiveness of information technology for the management of business and the necessary connection between Company information systems and external information infrastructures (web and networks) exposes said systems to potential risks, both related to the availability, integrity and confidentiality of the data as well as to the availability and efficiency of the information systems.

In order to guarantee effective operational continuity, the Group has implemented a disaster recovery and business continuity system which ensures the immediate replication of the principal legacy systems' workstations.

Furthermore, the active safety of the Company's data and software is guaranteed by multiple protection levels of a physical and logical nature, at both server and client level.

The risk catalogue includes and monitors the risk of cyber attacks and cyber fraud. To combat this risk the Group has already introduced technological and organisational control measures.

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

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

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

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

FINANCIAL RISKS

Credit Risk

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

Interest Rate Risk

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

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

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

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

Foreign Currency Risk

The Group operates in an international context and is affected by assets and transactions denominated in foreign currency other than euro. It is therefore exposed to risks of foreign currency fluctuations which can affect its operating results and the value of its equity. The diversification strategy enacted by the Group results in a progressive higher exposure to trade transactions in foreign currency with respect to the Group's business volume. Many of the Recordati group companies are exposed to a limited level of exchange risk linked to operations, because in each country, most of cash flows generated both by

sales and by expenses are denominated in the currency of the relative country. For the sole purpose of hedging and not for speculation, the Group engages in forward contracts for the purchase and sale of currencies to cover amounts at risk.

Liquidity Risk

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

The Group has at its disposal readily available liquidity for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions.

The terms and conditions of the Group's loans and its financial assets are set out in Notes 18, 21 and 31 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are sufficient to meet investment needs, working capital requirements and the repayment of debts at their natural due dates, despite the difficult environment as a result of COVID-19 pandemic.

LEGAL AND COMPLIANCE RISKS

Risks associated with product liability

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

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

Risks associated with compliance

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

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

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

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

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

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

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

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

Risks associated with legal action

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

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

BUSINESS OUTLOOK

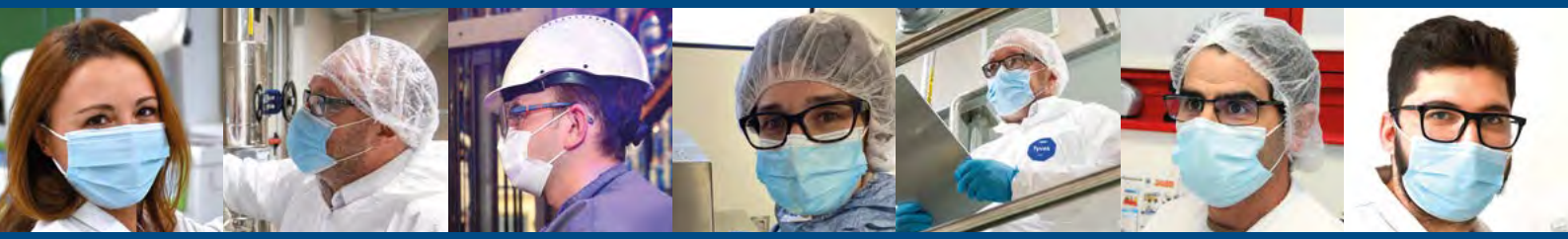
On 22 February, the Company announced the following financial targets for 2021, which include the contribution of the new licence agreements finalized at the beginning of the year and are based on the expectation of a gradual recovery in reference markets post the COVID-19 pandemic during the second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

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

Milan, 18 March 2021

for the Board of Directors
Chief Executive Officer
Andrea Recordati

Consolidated financial statements 2020



Consolidated financial statements

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

INCOME STATEMENT

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

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

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

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2020 AND 31 DECEMBER 2019

ASSETS

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

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

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2020 AND 31 DECEMBER 2019

SHAREHOLDERS' EQUITY AND LIABILITIES

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

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

RECORDATI S.p.A. AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME RECOGNISED IN SHAREHOLDERS' EQUITY FOR FINANCIAL YEARS ENDED AT 31 DECEMBER 2020 AND 31 DECEMBER 2019

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

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

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

RECORDATI S.p.A. AND SUBSIDIARIES

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

	SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT										
€ (thousands)	**Share capital**	**Share premium reserve**	**Treasury shares**	**Reserve for derivative instruments**	**Translation reserve**	**Other reserves**	**Profits carried forward**	**Net income**	**Interim dividend**	**Non-contr. interests**	**Total**
Balance at 31.12.2018	**26,141**	**83,719**	**(145,608)**	**(8,399)**	**(154,146)**	**43,081**	**897,990**	**312,376**	**(91,761)**	**193**	**963,586**
Allocation of 2018 net income							312,376	(312,376)			0
Dividend distribution							(187,844)		91,761		(96,083)
Change in share-based payments						4,574	2,475				7,049
Sale of treasury shares			52,128				(25,941)				26,187
Interim dividend									(98,764)		(98,764)
Other changes							652				652
Comprehensive income				3,042	7,280	16,996		368,825		41	396,184
Balance at 31.12.2019	**26,141**	**83,719**	**(93,480)**	**(5,357)**	**(146,866)**	**64,651**	**999,708**	**368,825**	**(98,764)**	**234**	**1,198,811**
Allocation of 2019 net income							368,825	(368,825)			0
Dividend distribution							(205,423)		98,764		(106,659)
Change in share-based payments						160	4,718				4,878
Purchase of treasury shares			(47,871)								(47,871)
Sale of treasury shares			53,835				(18,134)				35,701
Interim dividend									(103,143)		(103,143)
Other changes							1,359				1,359
Comprehensive income				2,698	(70,437)	5,896		354,984		43	293,184
Balance at 31.12.2020	**26,141**	**83,719**	**(87,516)**	**(2,659)**	**(217,303)**	**70,707**	**1,151,053**	**354,984**	**(103,143)**	**277**	**1,276,260**

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

RECORDATI S.p.A. AND SUBSIDIARIES

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

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

** The 2019 amounts were redetermined after adopting the new method (See Note 1).*
*** In 2019, the amounts net of short-term debts to banks and other lenders were shown, equal to €16,905 thousand at 31 December 2018 and € 13,392 thousand at 31 December 2019.*

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

RECORDATI S.p.A. AND SUBSIDIARIES

Notes

TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

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

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

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

The consolidated financial statements at 31 December 2020 comprise those of the Parent Company and all its subsidiaries. The companies included in the consolidation scope, the consolidation method applied, their percentage of ownership and a description of their activity are set out in Note 40.

During 2020, the consolidation scope did not change.

On 1 October 2020, the Company's Board of Directors approved the reverse merger by incorporation of Rossini Investimenti S.p.A. and FIMEI S.p.A. in Recordati S.p.A. (the "Transaction" or the "Merger") and the documentation preparatory to implementation of the Merger, including the relevant merger plan, which is available on the Company's website (www.recordati.com, under "Investors"/"Shareholders' Meetings/Reverse merger into Recordati S.p.A. 2020-2021") for further information.

The Merger, which is part of the overall process for the indirect acquisition of Recordati S.p.A. by Rossini Investimenti S.p.A., achieved through the acquisition of the entire share capital of FIMEI S.p.A. (to which it is closely and intrinsically connected), aims to achieve a shortening the chain of control with respect to the operating companies, obtaining, for the benefit of the majority shareholders and the entire Group, a simplification of the Group's corporate structure and the reduction of administrative costs associated with maintaining the companies to be incorporated (Rossini Investimenti S.p.A. and FIMEI S.p.A.) and, for the incorporating Company (Recordati S.p.A.), lower taxes due to transfer of tax incentives from Rossini Investimenti, subject to Italian tax ruling.

The Merger will not entail any change to the share capital of the incorporating Company, nor is any balancing cash payment planned. Furthermore, the balance sheet and earnings profile of Recordati S.p.A. after the Merger will be substantially in line with that of the Company at present and, in particular, the Merger will not alter the net financial position and, therefore, the investment capacity of Recordati or the strategy or its capital allocation policy.

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

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

2. SUMMARY OF ACCOUNTING STANDARDS

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

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

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

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

Application of new accounting principles

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

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

- **Amendments to IAS 1 and IAS 8: Definition of material**
  The amendments provide a new definition of materiality which states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".
  Materiality depends on the nature or the significance of the information or on both. The entity assesses whether the information, alone or in combination with other information, is material in the context of the financial statements, considered as a whole.
  Information is obscured if it is communicated in such a way as to have, for primary users of the financial statements, a similar effect to that of omitting or misstating the same information.
  These amendments had no impact on the consolidated financial statements, nor is any future impact for the Group foreseen.

- **Conceptual Framework for Financial Reporting issued 29 March 2018**
  The Conceptual Framework is not a standard, and none of its concepts takes priority over the concepts or requirements of a standard. The purpose of the Conceptual Framework is to support the IASB in developing standards, help preparers develop uniform accounting policies when existing standards do not apply to specific circumstances and help all parties involved understand and interpret the standards.
  The revised version of the Conceptual Framework includes some new concepts, gives updated definitions and reporting criteria for assets and liabilities and clarifies some important concepts. These changes did not have any impact on the Group's consolidated financial statement.

- **IFRS 16 COVID-19-Related Rent Concessions amendment**
  On 28 May 2020, the IASB published an amendment to IFRS 16. The amendment permits a lessee not to apply the IFRS 16 requirements for the accounting effects of lease modifications for any reduction in lease payments granted by the landlord which are a direct consequence of the COVID-19 pandemic. The amendment introduces a practical expedient according to which the lessee can choose not to assess whether the reduction in lease payments is a lease modification. A lessee electing to use this expedient reports payment reductions as if it were not a lease modification in terms of IFRS 16.
  The modifications apply to financial statements for the accounting period beginning 1 June 2020 or later. Prior adoption is permitted. These changes did not have any impact on the Group's consolidated financial statement.

Use of estimates

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

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

- ***Goodwill:*** according to the accounting standards applied by the Group, goodwill is subject to annual impairment testing in order to ascertain whether a reduction in value has occurred. These tests require, on the part of management, subjective evaluations based on available information within the Group and from the market, as well as historical experience. They also depend on factors that could change over time, influencing the valuations and estimates made by management. Furthermore, when it has been determined that a potential reduction in value may have occurred, the Group proceeds to determine it by using the evaluation methods deemed to be most adequate.

- ***Provisions for risks:*** the identification of the existence or not of a current obligation (legal or implicit) is not easy to determine in some cases. Management evaluates these events on a case-by-case basis together with an estimate of the amount of financial resources required to comply with the obligation. When management considers that the generation of a liability is only possible, the risks are disclosed in the appropriate information section on risks and liabilities, and no accruals are made.

- ***Deferred tax assets:*** lrecording is supported by a recovery plan based on hypotheses and assumptions which management considers to be reasonable.

- ***Inventories:*** inventories which appear to be obsolete or slow-moving are periodically tested and written down if their recoverable value in less than their book value. Write-downs are based on assumptions and estimates which derive from experience and the historical results obtained.

- ***Financial instruments:*** trade receivables are reduced by their relative provision for bad debts in order to take into account their effective recoverable value. The determination of the amounts to be written down requires that management make subjective evaluations which take into account past events, current conditions and expectations of future economic conditions.
  In general, the methods for the calculation of the fair value of financial instruments, for accounting or disclosure purposes, are summarized below with regard to the main categories of financial instruments:
  - Derivative financial instruments: pricing models are adopted based on the market values of the interest rates;
  - Receivables and payables and unlisted financial assets: for financial instruments with maturity at more than 1 year, the discounted cash flow method was applied (discounting to the present the expected cash flows in consideration of the current interest rate conditions and creditworthiness) to determine the fair value on "first recognition". Further measurements are made based on the amortized cost method;
  - Listed financial instruments: the market value at the reporting date is used.

In relation to financial instruments measured at fair value, IFRS 13 requires the classification of these instruments according to the standard's hierarchy levels, which reflect the significance of the inputs used in establishing the fair value. The following levels are used:

- Level 1: unadjusted assets or liabilities subject to valuation on an active market;
- Level 2: inputs other than prices listed at the previous point, which are observable directly (prices) or indirectly (derivatives from the prices) on the market;
- Level 3: input which is not based on observable market data.

Basis of consolidation

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

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

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

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

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

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

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

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

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

a. elimination of the book value of investments in consolidated companies against the related shareholders' equity and the assumption at the same time of all their assets and liabilities;

b. elimination of intercompany payables and receivables and transactions, as well as intragroup profits and losses not yet realized;

c. any excess of the cost of acquisition over the value of equity at the date of acquisition is recognized as goodwill;

d. non-controlling interests in the equity of consolidated subsidiaries are shown separately under equity, while non-controlling interests in the net income of these companies are shown separately in the consolidated income statement.

The financial statements of foreign subsidiaries expressed in currencies other than Euro are translated into Euro as follows:

- assets and liabilities, with the exception of shareholders' equity, at year-end exchange rates;
- shareholders' equity at historical exchange rates, for year of formation;
- income and expense items at the average exchange rates for the year;
- the goodwill resulting from the acquisition of a foreign company is recognized in the currency of the country in question and translated at year-end exchange rates.

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

Balance Sheet

Property, plant and equipment - Property, plant and equipment is sated at purchase cost less accumulated depreciation and any recognized impairment loss. Reviews are performed when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on impairment).
Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets:

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

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

Leasing - The Group applied IFRS 16, using the modified retrospective approach.

Accounting model for lessee - At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of its related stand-alone price. The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In this case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis of those of property, plant and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted to reflect any changes deriving from remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interests rate implicit in the lease. If that rate cannot be readily determined, the Group uses the incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the assets leased.

The payments due for the lease included in the measurements of the lease liability comprise:

- fixed payments (including substantially fixed payments);
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset. If the carrying amount of the right-of-use asset has been reduced to zero, the lessee recognises the change in the profit/loss for the year. The Group presents right-of-use assets that do not meet the definition of investments property in "Property, plant and equipment" and lease liabilities in "Loans" in the balance sheet.

Short-term leases and leases of low value assets - The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

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

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

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

Impairment - At each reporting date, or more frequently if necessary, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If these indications exist, the recoverable amount of these assets is estimated to determine the amount of the write-down. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

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

Financial instruments

Recognition and measurement

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

Classification and subsequent measurement
Financial assets

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This choice is made for each asset. All financial assets not classified as measured at amortized cost or at FVOCI, as indicated above, are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: subsequent measurement and gains and losses

- **Financial assets measured at FVTPL**
  These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss for the year.
- **Financial assets measured at amortized cost**
  These assets are subsequently measured at amortized cost in conformity with the effective interest criterion. The amortized cost is decreased by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss, as are any gains or losses on derecognition.
- **Debt investments measured at FVOCI**
  These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

- **Equity securities measured at FVOCI**
  These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Financial liabilities: classification, subsequent measurement and gains and losses

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

Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Group enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the assets transferred are not derecognized.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group derecognizes a financial liability also in the case of a change in the related contractual terms and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognized at fair value on the basis of the modified contractual terms.
On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Offsetting

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

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivative instruments are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss. The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the cost of the non-financial item on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Net investment hedges

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

Inventories - Inventories are stated at the lower of cost and net realizable value, where the market value of raw materials and subsidiaries is their substitution cost while that related to finished goods and work-in-process is their net realizable value. Inventories of raw materials, supplies and promotional material are valued at their average acquisition cost including costs incurred in bringing the inventories to their location and condition at year end.
Inventories of work-in-process and finished goods are valued at their average manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production. Inventories are written-down if market value is lower than cost as described above or in the case of obsolescence resulting from slow moving stocks.

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

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

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

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

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

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

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

Income statement

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

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

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

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

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

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

Financial income and expenses - These include interest income and expenses, foreign exchange gains and losses, both realized and unrealized, and differences arising from the valuation of securities. Interest income and expenses are recognized in profit and loss using the effective interest method.

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

Deferred taxes are taxes expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are generally recognized all taxable temporary differences, while deferred tax assets are recognized to the extent to which it is considered probable that there will be taxable fiscal results in the future that will enable the use of the deductible temporary differences. Assets and liabilities are not recognized if the temporary differences derive from goodwill.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognized in equity.

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

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

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

3. NET REVENUE

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

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

Revenue can be detailed as follows:

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

Revenue for up-front payments is related to the activity of licensing and distribution of products in the portfolio and is recognized when it accrues along the time horizon of collaboration with customers. Revenue for up-front payments of € 4.8 million recorded in 2020 refers mainly to marketing agreements for Pitavastatin (€ 1.4 million), Lercanidipine (€ 1.1 million), Cystadrops® (cysteamine hydrochloride) (€ 0.7 million), for the combination Lercanidipine+Enalapril (€ 0.6 million) and for Silodosin (€ 0.5 million). The remaining balance of amounts already paid in advance by customers, which will be recognized for accounting purposes as revenue in future periods, is recognized under current liabilities (see Note 21), and amounted to € 10.3 million (€ 11.9 million at 31 December 2019).

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

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

PRODUCT OR PRODUCT CLASS

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

GEOGRAPHIC AREA BY COUNTRY

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

4. OPERATING EXPENSES

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

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

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

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

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

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

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

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

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

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

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

Total operating expenses are analyzed by nature as follows:

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

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

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

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

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

5. NET FINANCIAL INCOME AND EXPENSES

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

The main items are summarized as follows:

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

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

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

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

6. INCOME TAXES

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

Following the advance agreement signed with the Advance Agreement and Disputes Office of the Italian Tax Authorities on 19 December 2019, which allows the Parent Company to benefit from a discount on taxable income connected with the direct use of intangible assets for the tax years 2015 to 2019 (which had resulted in an overall benefit the previous year of € 35.3 million, of which € 27.0 million related to 2015-2018 and € 8.3 million to 2019), the Parent Company opted to subscribe (instead of renewing the agreement) to the new optional reverse charge mechanism provided for by Art. 4 of Italian Legislative Decree No. 34 of 30 April 2019 and therefore directly determine the discount on taxable income provided by the "Patent Box" for the current year, using the same criteria agreed with the Tax Authorities for the preceding five years and providing documentation supporting the calculation.
The relevant benefit for 2020, totalling € 8.1 million, was recognized to reduce the tax amount.

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

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

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

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

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

7. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

8. INTANGIBLE ASSETS

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

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

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

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

9. GOODWILL

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

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

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

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

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

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

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

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

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

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

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

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

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

10. OTHER EQUITY INVESTMENTS AND SECURITIES

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

€ (thousands)	Book value		Percentage stake	
	31.12.20	31.12.19	31.12.20	31.12.19
PureTech Health p.l.c. - United Kingdom	42,509	35,597	3.3%	3.3%
Erytech Pharma S.A. - France	3,064	2,888	2.1%	2.4%
Codexis Inc. - United States of America	-	73	-	n.s.
Fluidigm Corp. - United States of America	5	5	n.s.	n.s.
Other	3	3	n.s.	n.s.
Total equity investments and securities	**45,581**	**38,566**		

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

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

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

11. OTHER NON-CURRENT ASSETS

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

12. DEFERRED TAX ASSETS

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

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

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

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

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

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

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

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

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

13. INVENTORIES

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

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Raw materials and supplies	74,790	66,286	8,504
Semi-finished goods and work in process	32,663	35,067	(2,404)
Finished goods	143,799	125,532	18,267
Total	**251,252**	**226,885**	**24,367**

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

14. TRADE RECEIVABLES

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

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

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

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

15. OTHER RECEIVABLES

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

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Tax receivables	39,724	71,302	(31,578)
Advances to employees and agents	2,329	2,582	(253)
Other	5,238	6,065	(827)
Total other receivables	**47,291**	**79,949**	**(32,658)**

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

16. OTHER CURRENT ASSETS

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

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

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

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

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

18. CASH AND CASH EQUIVALENTS

A breakdown is shown in the following table:

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Demand current account deposits	175,196	141,346	33,850
Short-term time deposits	13,003	46,539	(33,536)
Cash on hand	31	38	(7)
Total cash and cash equivalents	**188,230**	**187,923**	**307**

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

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

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

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

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

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

Reserve for derivative instruments measured at fair value - In accordance with the provisions of the international accounting standard IFRS 9, this shareholders' equity reserve contains the contra entry for the value of the assets and liabilities resulting from the measurement at market value of the cross-currency swaps

qualifying as cash flow hedges, the contra entry for the recognition in the income statement offsetting the valuation at year-end exchange rates of the foreign currency loans hedged, and the assets and liabilities resulting from the measurement at market value of the interest rate swaps also qualifying as cash flow hedges. At 31 December 2020 this value, net of the tax effect, was negative € 2.7 million.

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

Profits carried forward and net profit - At 31 December 2020, retained profits amounted to € 1,151.1 million, up by € 151.3 million compared to 31 December 2019 and the Group's net profit was € 355.0 million, down by 3.8% compared to € 368.8 million in 2019. Some of the shareholders' equity reserves recognised in the Group's Italian companies are in tax suspension and, according to the fiscal rules, their distribution is subject to taxation. These reserves, net of the substitute taxes already paid of € 16.6 million, amounted to € 101.1 million. In accordance with the international accounting standard IAS 12, deferred taxes are not recognized on these suspended reserves until their distribution is resolved.

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

Incentive plans - At 31 December 2020, two stock option plans were active in favour of a number of the Group's employees: the 2014-2018 plan, with the grant of 29 July 2014 and 13 April 2016 and the 2018-2022 plan, with the grant of 3 August 2018. The strike price for the options is the average of the Parent Company's listed share price during the 30 days prior to the grant date. The options are vested over a period of five years, and those not exercised within the eighth year of the grant date expire. Options cannot be exercised if the employee leaves the Company before they are vested.
Stock options outstanding at 31 December 2020 are detailed in the following table:

	Strike price (€)	Quantity 1.1.2020	Granted 2020	Exercised in 2020	Cancelled and expired	Quantity 31.12.2020
Grant date						
08 May 2012	5.3070	242,500	-	(237,500)	(5,000)	-
17 April 2013	7.1600	25,000	-	(25,000)	-	-
30 October 2013	8.9300	5,000	-	(5,000)	-	-
29 July 2014	12.2900	1,138,500	-	(360,000)	-	778,500
13 April 2016	21.9300	2,218,000	-	(578,000)	(52,500)	1,587,500
03 August 2018	30.7300	4,578,500	-	(557,000)	(180,500)	3,841,000
Total		**8,207,500**	**-**	**(1,762,500)**	**(238,000)**	**6,207,000**

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

20. SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

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

21. LOANS

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

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

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

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

€ (thousands)	31.12.2020	31.12.2019
GRANTED TO RECORDATI S.P.A.:		
Loan from UBI Banca, at fixed interest rate, repayable in a lump sum in 2021	*39,974	-
Loan from ING Bank, at variable interest rate, repayable in semi-annual installments starting 2021 through 2024	*22,416	*22,395
Loan from Mediobanca, Natixis and Unicredit, syndicated involving a pool of Italian and international banks, at variable interest rate, repayable in semi-annual installments starting 2020 through 2024	*343,651	*396,722
Loan from Mediobanca, at variable interest rate hedged by an interest rate swap, repayable in semi-annual installments starting 2020 through 2023	*128,178	*149,471
Loan from Medio Credito Centrale, at subsidised interest rate, repayable in semi-annual installments starting 2019 through 2021	*1,714	*2,995
Loan from Banca Passadore, at variable interest rate - 3-month Euribor plus a fixed spread - repayable in annual installments starting 2020 through 2022	*9,997	*14,996
Loan from Intesa Sanpaolo, at variable interest rate hedged by an interest rate swap, repayable in semi-annual installments starting 2019 through 2025	*53,435	*64,122
Loan from Unicredit, at variable interest rate hedged by an interest rate swap, repayable in a lump sum in 2021	*49,986	*49,967
Loan from UBI Banca, at variable interest rate hedged by an interest rate swap, repayable in a lump sum in 2022	*49,983	*49,972
Loan from Mediobanca, at variable interest rate hedged by an interest rate swap, repayable in annual installments starting 2018 through 2024	43,500	54,000
Guaranteed senior notes privately placed with international institutional investors in 2017 at a fixed interest rate, repayable in annual installments starting 2025 through 2032	*124,905	*124,896
Loan from Banca Nazionale del Lavoro, at variable interest rate, repayable in semi-annual installments starting 2019 through 2021	6,250	*12,490
Loan from Intesa Sanpaolo, at variable interest rate hedged by an interest rate swap, repayable in semi-annual installments starting 2019 through 2021	*8,318	*16,637
Guaranteed senior notes privately placed in 2014 with international institutional investors, structured in two tranches: US$50 million at fixed interest rate repayable in semi-annual installments starting 2022 through 2026, converted with cross currency swap into a debt of € 37.3 million at fixed interest rate, US$25 million at fixed interest rate repayable in semi-annual installments starting 2023 through 2029, converted with cross currency swap into a debt of € 18.7 million at fixed interest rate	*60,938	*66,553
Loan from Centrobanca, at variable interest rate hedged by an interest rate swap, repayable in semi-annual installments starting 2012 through 2022	*13,593	*20,389
Loan from Unicredit, at variable interest rate partially hedged by an interest rate swap, repaid in 2020	-	*4,997
Loan from ING Bank, at variable interest rate hedged by an interest rate swap, repaid in 2020	-	3,750
Liabilities for leases granted to Recordati S.p.A.	3,091	3,511
GRANTED TO OTHER GROUP COMPANIES:		
Loan from UBS Switzerland AB to Recordati AG for CHF 75.0 million, at variable interest rate, repayable in semi-annual installments starting 2020 through 2025	62,489	-
Loan from IFC-World Bank to Recordati Ilaç for TRY 71.6 million, at variable interest rate, repayable in quarterly installments starting 2016 through 2022	*2,195	*4,763
Various interest-free loans granted to Casen Recordati S.L. repayable within 2029	281	339
Liabilities for leases granted to the other Group companies	23,598	24,196
Total amortized cost of loans	**1,048,492**	**1,087,161**
Loans due within one year, classified among current liabilities	270,254	149,817
Loans due after one year, classified among non-current liabilities	778,238	937,344

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

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

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

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

The main loans outstanding are:

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

These parameters are being observed.

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

c) Loan for € 22.5 million taken out by the Parent Company in August 2019 with ING Bank at a variable interest rate of the 6-month Euribor plus a variable spread based on a step up/step down mechanism on changes in the Leverage Ratio, with repayments of principal, again on a semi-annual basis, starting December 2021 through December 2024.
The loan includes covenants which, if not observed, could lead to a request for immediate repayment.
The financial covenants, measured semi-annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

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

These parameters are being observed.

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

These parameters are being observed.

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

g) Loan for € 15.0 million taken out by the Parent Company in November 2017 with Banca Passadore. The main conditions provide for a variable interest rate of the 3-month Euribor plus a fixed spread, quarterly payments of interest and a duration of 5 years with annual repayments of principal from November 2020 through November 2022. The total debt outstanding at 31 December 2020 amounted to € 10.0 million.
The loan includes covenants which, if not observed, could lead to a request for immediate repayment.
The financial covenants, measured annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

h) Loan for € 75.0 million taken out by the Parent Company in October 2017 with Intesa Sanpaolo. The main conditions provide for a variable interest rate of the 6-month Euribor plus a fixed spread, semi-annual interest payments and a duration of 8 years with semi-annual repayments of principal from June 2019 through October 2025. The debt outstanding at 31 December 2020 amounted to € 53.4 million. The loan was hedged with an interest rate swap, qualifying as a cash flow hedge, effectively converting the entire debt to a fixed interest rate. At 31 December 2020, the fair value of the derivative was measured at negative € 1.2 million, which was recognized directly as a decrease in equity and as an increase in the liability item "Derivative instruments measured at fair value" (see Note 30).
The loan includes covenants which, if not observed, could lead to a request for immediate repayment.
The financial covenants, measured annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

i) Loan for € 50.0 million taken out by the Parent Company in September 2017 with UniCredit. The main conditions provide for a variable interest rate of the 6-month Euribor plus a fixed spread, semi-annual interest payments and repayment of the principal in a lump sum on 29 September 2021. The loan was hedged with an interest rate swap, qualifying as a cash flow hedge, effectively converting the entire debt to a fixed interest rate. At 31 December 2020, the fair value of the derivative was measured at negative € 0.3 million, which was recognized directly as a decrease in equity and as an increase in the liability item "Derivative instruments measured at fair value" (see Note 30).
The loan includes covenants which, if not observed, could lead to a request for immediate repayment.
The financial covenants, measured annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

j) Loan for € 50.0 million taken out by the Parent Company in September 2017 with UBI Banca. The main conditions provide for a variable interest rate of the 6-month Euribor plus a fixed spread, semi-annual interest payments and repayment of the principal in a lump sum on 07 September 2022. The loan was hedged with an interest rate swap, qualifying as a cash flow hedge, effectively converting the entire debt to a fixed interest rate. At 31 December 2020, the fair value of the derivative was measured at negative € 0.7 million, which was recognized directly as a decrease in equity and as an increase in the liability item "Derivative instruments measured at fair value" (see Note 30).
The loan includes covenants which, if not observed, could lead to a request for immediate repayment.
The financial covenants, measured annually, are the following:
- the ratio of consolidated net financial position to consolidated EBITDA (determined for a period of twelve consecutive months) must be less than 3;
- the ratio of consolidated operating profit to consolidated net financial expenses (determined for a period of twelve consecutive months) must be more than 3.

These parameters are being observed.

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

These parameters are being observed.

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

These parameters are being observed.

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

These parameters are being observed.

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

These parameters are being observed.

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

These parameters are being observed.

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

These parameters are being observed.

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

These parameters are being observed.

22. PROVISIONS FOR EMPLOYEE BENEFITS

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

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

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

23. DEFERRED TAX LIABILITIES

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

Their changes are shown in the table below:

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

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

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

24. OTHER NON-CURRENT LIABILITIES

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

25. TRADE PAYABLES

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

26. OTHER PAYABLES

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

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Personnel	25,218	30,048	(4,830)
Social security	14,431	15,219	(788)
Agents	174	649	(475)
Other	55,848	139,790	(83,942)
Total other payables	**95,671**	**185,706**	**(90,035)**

The item "Other" includes:

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

27. TAX LIABILITIES

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

28. OTHER CURRENT LIABILITIES

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

29. PROVISIONS FOR RISKS AND CHARGES

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

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
For taxes	483	604	(121)
Future contingencies	16,630	17,329	(699)
Total other provisions	**17,113**	**17,933**	**(820)**

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

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

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

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

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

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

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

31. SHORT-TERM DEBTS TO BANKS AND OTHER LENDERS

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

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

33. DISCLOSURE OF FINANCIAL RISKS

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

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

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

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

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

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

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

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

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

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

For consolidation purposes, the income statements and balance sheets of the Group companies located outside the European Monetary Union are converted from their local currencies into euro. At 31 December 2020, the net asset values of these companies are denominated mainly in U.S. dollars (271.7 million), pounds sterling (13.6 million), Swiss francs (196.1 million), Turkish lira (466.9 million), Czech crowns (359.8 million), Romanian ron (37.0 million), Russian rubles (4,858.5 million), Polish zloty (35.5 million) and Tunisian dinars (63.4 million). The effect of exchange rate variations on the conversion of these amounts is recognized in the consolidated statement of comprehensive income and booked to the translation reserve in shareholders' equity which, at 31 December 2020, was a negative € 217.3 million.

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

34. OPERATING SEGMENTS

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

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

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

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

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

During 2019, Recordati Rare Diseases announced that its strategy aimed at establishing a direct presence in the key markets across all continents has been successfully executed. Several companies formerly operating under the name of Orphan Europe were recently renamed Recordati Rare Diseases, which is today the global brand of Recordati's organization dedicated to treatments for rare diseases and orphan drugs. Orphan Europe, founded in 1990, pioneered the development of orphan drugs in Europe and became part of the Recordati group in 2007.

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

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

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

** Includes pharmaceutical chemical operations..*

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

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

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

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

The following table shows net revenue by geographic area:

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

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

35. NET FINANCIAL POSITION

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

€ (thousands)	31.12.2020	31.12.2019	Change 2020/2019
Deposits in bank current accounts and cash on hand	175,227	141,384	33,843
Short-term time deposits	13,003	46,539	(33,536)
Cash and cash equivalents	**188,230**	**187,923**	**307**
Short-term debts to banks and other lenders	(12,567)	(13,392)	825
Loans - due within one year	(261,216)	(140,963)	(120,253)
Leasing liabilities – due within one year	(9,038)	(8,854)	(184)
Short-term borrowings	**(282,821)**	**(163,209)**	**(119,612)**
Short-term financial position	**(94,591)**	**24,714**	**(119,305)**
Loans - due after one year	(574,743)	(726,834)	152,091
Notes issued [1]	(178,839)	(181,708)	2,869
Leasing liabilities – due after one year	(17,651)	(18,853)	1,202
Non-current financial debt	**(771,233)**	**(927,395)**	**156,162**
Net financial position	**(865,824)**	**(902,681)**	**36,857**

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

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

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

€ (thousands)	Shareholders' equity		Net income	
	31.12.2020	31.12.2019	2020	2019
Recordati S.p.A.	464,010	435,426	234,664	241,092
Consolidation adjustments:				
- Elimination margins in inventories	(76,552)	(59,066)	(17,486)	(655)
- Related tax effect	21,704	16,618	5,086	322
- Other adjustments	(16,689)	(13,726)	(2,705)	(4,014)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already recognized by Recordati S.p.A.	835,142	708,217		-
Net income for consolidated subsidiaries, net of amounts already recognized by Recordati S.p.A.	265,671	257,974	265,671	257,974
Dividends received from consolidated subsidiaries		-	(132,785)	(128,138)
Write-down of holdings in subsidiaries		-	2,539	2,244
Translation adjustments	(217,303)	(146,866)	-	-
Consolidated financial statements	**1,275,983**	**1,198,577**	**354,984**	**368,825**

37. LITIGATION AND CONTINGENT LIABILITIES

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

38. RELATED-PARTY TRANSACTIONS

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

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

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

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

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

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

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

39. SUBSEQUENT EVENTS

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

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

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

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

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

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

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

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

Consolidated companies	Head office	Share capital	Currency	Consolidation method
HERBACOS RECORDATI s.r.o. Development, production, and sales of pharmaceuticals	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o. Marketing of pharmaceuticals	Slovak Republic	33,193.92	EUR	Line-by-line
RUSFIC LLC Development, promotion, and sales of pharmaceutical products	Russian Federation	3,560,000.00	RUB	Line-by-line
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. Promotion of pharmaceutical products	Turkey	10,000.00	TRY	Line-by-line
RECORDATI ROMÂNIA S.R.L. Marketing of pharmaceuticals	Romania	5,000,000.00	RON	Line-by-line
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. Development, production, and sales of pharmaceuticals	Turkey	180,000,000.00	TRY	Line-by-line
RECORDATI POLSKA Sp. z o.o. Marketing of pharmaceuticals	Poland	4,500,000.00	PLN	Line-by-line
ACCENT LLC Holds pharmaceutical marketing rights	Russian Federation	20,000.00	RUB	Line-by-line
RECORDATI UKRAINE LLC Marketing of pharmaceuticals	Ukraine	1,031,896.30	UAH	Line-by-line
CASEN RECORDATI PORTUGAL Unipessoal Lda Marketing of pharmaceuticals	Portugal	100,000.00	EUR	Line-by-line
OPALIA PHARMA S.A. Development, production, and sales of pharmaceuticals	Tunisia	9,656,000.00	TND	Line-by-line
OPALIA RECORDATI S.à r.l. Promotion of pharmaceuticals	Tunisia	20,000.00	TND	Line-by-line
RECORDATI RARE DISEASES S.A. DE C.V. Marketing of pharmaceuticals	Mexico	16,250,000.00	MXN	Line-by-line
RECORDATI RARE DISEASES COLOMBIA S.A.S. Marketing of pharmaceuticals	Colombia	150,000,000.00	COP	Line-by-line
ITALCHIMICI S.p.A. Marketing of pharmaceuticals	Italy	7,646,000.00	EUR	Line-by-line
RECORDATI AG Marketing of pharmaceuticals	Switzerland	15,000,000.00	CHF	Line-by-line
PRO FARMA GmbH Marketing of pharmaceuticals	Austria	35,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES CANADA Inc. Marketing of pharmaceuticals	Canada	350,000.00	CAD	Line-by-line
RECORDATI RARE DISEASES JAPAN K.K. Marketing of pharmaceuticals	Japan	10,000,000.00	JPY	Line-by-line
NATURAL POINT S.r.l. Marketing of pharmaceuticals	Italy	10,400.00	EUR	Line-by-line
RECORDATI RARE DISEASES AUSTRALIA Pty Ltd Marketing of pharmaceuticals	Australia	200,000.00	AUD	Line-by-line
TONIPHARM S.a.s. Marketing of pharmaceuticals	France	257,700.00	EUR	Line-by-line
RECORDATI BULGARIA Ltd [1] Marketing of pharmaceuticals	Bulgaria	50,000.00	BGN	Line-by-line

(1) Set up in 2019

PERCENTAGE OF OWNERSHIP

Consolidated companies	Recordati S.p.A. Parent Company	Recordati Pharma GmbH	Bouchara Recordati S.a.s.	Casen Recordati S.L.	Recordati Orphan Drugs S.a.s.	Recordati Rare Diseases S.à r.l.	Herbacos Recordati s.r.o.	Recordati İlaç A.Ş.	Opalia Pharma S.A.	Recordati AG	Total
INNOVA PHARMA S.P.A.	100.00										100.00
CASEN RECORDATI S.L.	100.00										100.00
BOUCHARA RECORDATI S.A.S.	100.00										100.00
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA	100.00										100.00
RECORDATI RARE DISEASES INC.	100.00										100.00
RECORDATI IRELAND LTD	100.00										100.00
LABORATOIRES BOUCHARA RECORDATI S.A.S.			100.00								100.00
RECORDATI PHARMA GmbH	55.00			45.00							100.00
RECORDATI PHARMACEUTICALS LTD	100.00										100.00
RECORDATI HELLAS PHARMACEUTICALS S.A.	100.00										100.00
JABA RECORDATI S.A.				100.00							100.00
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.				100.00							100.00
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.				100.00							100.00
RECORDATI ORPHAN DRUGS S.A.S.	90.00	10.00									100.00
RECORDATI RARE DISEASES MIDDLE EAST FZ LLC					100.00						100.00
RECORDATI AB					100.00						100.00
RECORDATI RARE DISEASES S.à r.l.					100.00						100.00
RECORDATI RARE DISEASES UK Limited						100.00					100.00
RECORDATI RARE DISEASES GERMANY GmbH						100.00					100.00
RECORDATI RARE DISEASES SPAIN S.L.						100.00					100.00
RECORDATI RARE DISEASES ITALY S.R.L.						99.00					99.00
RECORDATI BV					99.46	0.54					100.00
FIC MEDICAL S.à r.l.			100.00								100.00
HERBACOS RECORDATI s.r.o.	100.00										100.00
RECORDATI SK s.r.o.							100.00				100.00
RUSFIC LLC			100.00								100.00
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş.								100.00			100.00
RECORDATI ROMÂNIA S.R.L.	100.00										100.00
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş.				100.00							100.00
RECORDATI POLSKA Sp. z o.o	100.00										100.00
ACCENT LLC	100.00										100.00
RECORDATI UKRAINE LLC	0.01		99.99								100.00

PERCENTAGE OF OWNERSHIP

Consolidated companies	Recordati S.p.A. Parent Company	Recordati Pharma GmbH	Bouchara Recordati S.a.s.	Casen Recordati S.L.	Recordati Orphan Drugs S.a.s.	Recordati Rare Diseases S.à r.l.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Recordati AG	Total
CASEN RECORDATI PORTUGAL Unipessoal Lda				100.00							100.00
OPALIA PHARMA S.A.	90.00										90.00
OPALIA RECORDATI S.à R.L.			1.00						99.00		100.00
RECORDATI RARE DISEASES S.A. DE C.V.	99.998					0.002					100.00
RECORDATI RARE DISEASES COLOMBIA S.A.S.				100.00							100.00
ITALCHIMICI S.p.A.	100.00										100.00
RECORDATI AG	100.00										100.00
PRO FARMA GmbH										100.00	100.00
RECORDATI RARE DISEASES CANADA Inc.	100.00										100.00
RECORDATI RARE DISEASES JAPAN K.K.						100.00					100.00
NATURAL POINT S.r.l.	100.00										100.00
RECORDATI RARE DISEASES AUSTRALIA Pty Ltd						100.00					100.00
TONIPHARM S.a.s.	100.00										100.00
RECORDATI BULGARIA Ltd [1]	100.00										100.00

(1) Set up in 2019

RECORDATI S.p.A. AND SUBSIDIARIES

ANNEX 1

DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

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

RECORDATI S.p.A. AND SUBSIDIARIES

Attestation of the consolidated financial statements

UNDER THE TERMS OF ART. 154-BIS OF ITALIAN LEGISLATIVE DECREE 58/98

1.

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

- the adequacy with respect to the Company structure and;
- the effective application of the administrative and accounting procedures applied in the preparation of the consolidated financial statements during financial year 2020.

2.

The undersigned moreover attest that:

2.1

the consolidated financial statements at 31 December 2020:

- have been prepared in accordance with the applicable International Accounting Standards, as endorsed by the European Union under the terms of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July 2002;
- correspond to the amounts shown in the Company's accounts, books and records;
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

2.2

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

Milan, 18 March 2021

Chief Executive Officer
ANDREA RECORDATI

Financial Reporting Manager
LUIGI LA CORTE

REPORT OF THE INDEPENDENT AUDITORS

Recordati Industria Chimica e Farmaceutica S.p.A.

Consolidated financial statements as at 31 December 2020

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

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Building a better working world

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Other matters

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

Key Audit Matters

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

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Recoverability of goodwill	
The goodwill recognized in the consolidated financial statements of Recordati Group as of 31 December 2020 amounts to Euro 562 million. The goodwill originates from acquisitions made by the Group and it has been allocated to the individual Cash Generating Unit (CGU) identified on the basis of the business segments and the markets where acquired companies operate. At each financial statements date, or more frequently if needed, the directors verify the recoverability of goodwill by comparing the carrying amount with the related value in use of each CGU, determined discounting the expected cash flows. The processes as well as the methods of evaluation and calculation of the recoverable amount of each CGU, in terms of value in use, are based on assumptions, sometimes complex, which imply, by their nature, estimates by the directors, especially with regard to the forecast of future cash flows, the determination of the discount rates and growth rates adopted beyond the period with explicit forecasts. Considering the significance of the item, the judgment requested and the complexity of the assumptions adopted in the estimation of the recoverable amount of goodwill, we assessed this matter as a key audit matter. Financial statements disclosures related to this matter are reported in the note "2. Summary of accounting standards" and in particular in the note "9. Goodwill", which describes the composition of the balance as of 31 December 2020, as well as the allocation process to the various CGUs and the methodology applied to assess the recoverable amount of assets, with specific reference to the valuation methodology and the assumptions used.	Our audit procedures related to the key audit matter included, among the others: i. the analysis of the procedure adopted by the Company and of the methodology applied in connection with the valuation of goodwill, taking into account the impairment test procedure approved by the Board of Directors of the parent company on 18 March 2021; ii. the evaluation of the methodology used for the identification of the CGUs and the allocation of assets and liabilities to the individual CGUs; iii. the analysis of the reasonableness of the expected cash flows; iv. the assessment of the quality of forecasts as compared to the historical accuracy of the previous forecasts; v. the sensitivity analysis on key assumptions in order to identify the changes in assumptions that could have a significant impact on the valuation of the recoverable amount. Our procedures were performed with the support of our experts in valuation techniques, who analyzed the valuation methodologies adopted, verified the mathematical accuracy of the calculation models and evaluated the criteria adopted to determine the discount rates and growth rates applied beyond the period with explicit forecasts. Finally, we analyzed the disclosures provided in the consolidated financial statements of Recordati Group as of 31 December 2020.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

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

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Report on compliance with other legal and regulatory requirements

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

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

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

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

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

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

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

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

Milan, 29 March 2021

EY S.p.A.
Signed by: Renato Macchi, Auditor

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

5

Consolidated Non-Financial Statement 2020

Letter to stakeholders

The year that has just come to a close proved to be a particularly difficult one for the entire world, which found itself facing an unprecedented health emergency. The COVID-19 epidemic has been a huge challenge for both public and private organisational and economic systems. In the context of this global emergency, we immediately took special measures to implement all possible actions aimed at guaranteeing the supply of drugs to patients, to ensure the health and safety of our employees and to support communities.

During these months, which saw widespread slowdowns, closures and restructuring, we were even more driven to reflect on sustainability, resilience and future generations. New questions have arisen in terms of social equity, collective well-being, and environmental protection: elements that are ever more clearly interconnected.

In 2020, we implemented important initiatives. The Environmental, Social and Governance department was established, dedicated to supporting integration of social and environmental aspects into business processes. We also defined the first Sustainability Plan, describing our future commitments, structured with qualitative and quantitative goals for four priority areas: patient care, people care, environmental protection and responsible sourcing. These strategic areas for sustainability are supported by a fifth fundamental pillar: ethics and integrity, the principles that direct every aspect of the Group's actions on a day-to-day basis.

We also established dialogue with stakeholders in order to listen to their opinions on which sustainability topics we should prioritise in terms of reporting, projects and actions.

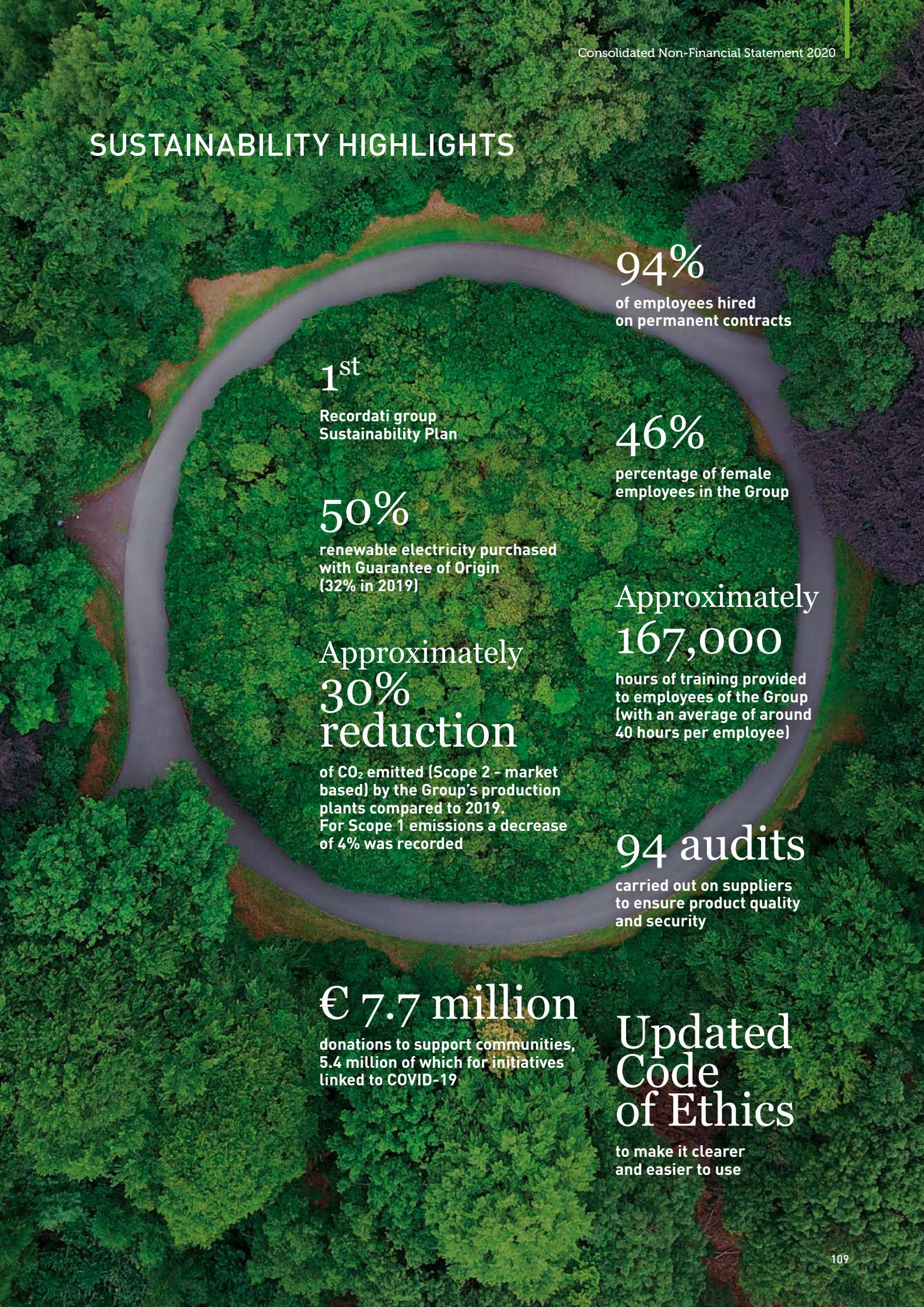
We have upheld our commitment to reducing environmental impacts, through projects to increase energy efficiency and the purchase of renewable energy. We have updated the Code of Ethics, which comprises all of the Group's fundamental values, making it even clearer and easier to use, and we have continued to support local communities, with particular attention to initiatives linked to the health emergency.

We are well aware that sustainability is not an end goal but a process of continuous improvement that requires commitment, time and innovation, yet we are confident that we have the solid fundamental values required for its pursuit.

I am grateful to our more than 4,300 strong team doing their utmost every day in our offices, production facilities and throughout our entire network, to make Recordati an example of excellence, distinguished by its values: a responsible company is a company built on people that believe in and act in accordance with responsible principles. It is to all of them in particular that I would like to express my most sincere thanks.

ANDREA RECORDATI
Chief Executive Officer

SUSTAINABILITY HIGHLIGHTS



94%
of employees hired on permanent contracts

1st
Recordati group Sustainability Plan

46%
percentage of female employees in the Group

50%
renewable electricity purchased with Guarantee of Origin (32% in 2019)

Approximately 167,000
hours of training provided to employees of the Group (with an average of around 40 hours per employee)

Approximately 30% reduction
of CO_2 emitted (Scope 2 - market based) by the Group's production plants compared to 2019. For Scope 1 emissions a decrease of 4% was recorded

94 audits
carried out on suppliers to ensure product quality and security

€ 7.7 million
donations to support communities, 5.4 million of which for initiatives linked to COVID-19

Updated Code of Ethics
to make it clearer and easier to use

1. The Recordati group

Recordati is a well-established and constantly growing international pharmaceutical group. For over 90 years, the Group has faced the challenges of a constantly evolving market with great determination, exploiting each of the opportunities best suited to its growth model.
The Recordati group operates in a wide and differentiated field which comprises primary and speciality care, self-medication, and rare diseases.
In addition to operating in the field of cardiovascular disease, and specifically hypertension, Recordati is also active in urology with treatments for benign prostatic hyperplasia and male sexual function disorders, as well as in the field of psychiatry.
The Group has developed a growing presence in the segment dedicated to rare diseases, where it researches, develops, and markets a number of orphan drugs.

EMPLOYEES

Over

4,300

REVENUE

€ 1,448.9

million

R&D SPENDING

€ 146.2

million

(this amount includes depreciation relating to the purchase of new products)

GEOGRAPHICAL PRESENCE

around

150 countries

(Speciality & Primary Care and Rare Diseases)

1.1 THE RECORDATI GROUP: OVER 90 YEARS OF SUCCESS

Established in 1926, the Recordati group is based in Milan and is one of Italy's oldest pharmaceutical companies. Since its foundation, the Group has grown consistently to become a leading international pharmaceutical group and has been listed on Borsa Italiana (now part of the London Stock Exchange) since 1984. The Group has numerous branches both in and outside Europe in the pharmaceutical and chemical-pharmaceutical sectors.

The growth of the Recordati group is the result of the quality of its products and services, as well as the implementation of the policy aimed at internationalisation and diversification, based on a focused strategy of acquisitions and targeted licensing agreements. As well as its presence in Western Europe (France, Germany, Greece, Ireland, Italy, Portugal, Spain and Switzerland) Recordati also operates directly in countries of central Europe, Russia and in other countries of the Commonwealth of Independent States (CIS), Ukraine, Turkey, Tunisia, the United States, Canada, Mexico, certain South American countries, Japan and Australia. Although the Group's principal reference market is the European Market, the second largest pharmaceutical market in the world, Recordati operates in around 150 markets, including through various licensing agreements, and markets pharmaceutical products under licence from primary pharmaceutical companies.

Recordati has six pharmaceutical production plants and one packaging and distribution plant dedicated to pharmaceuticals for rare diseases, and two chemical-pharmaceutical sites where it produces numerous active substances and intermediates. Recordati produces and promotes a wide range of innovative pharmaceuticals and its product portfolio includes general medicines as well as specialist pharmaceuticals for the treatment of rare diseases. The Group's pharmaceutical activities extend across all phases of the process and include research and development, production, packaging, storage and commercialisation. The chemical-pharmaceutical activities of the Recordati group focus on the chemical production of intermediates and active substances both for Recordati's pharmaceutical products and for the international pharmaceutical industry.

The Group's most important products include Lercanidipine-based pharmaceuticals, a latest-generation antihypertensive calcium channel blocker, and products containing a combination of Lercanidipine and Enalapril, an ACE inhibitors. Both substances are used to treat cardiovascular conditions; the Group has strengthened its presence in this sector with the acquisition in 2017 of pharmaceuticals based on the beta-blocker Metoprolol. For over forty years the Group has operated in the genito-urinary area, acquiring specific expertise and becoming the European partner of established international pharmaceutical companies.

With a view to innovation and growth, the Group has enhanced its therapeutic range, developing its own pipeline of products and entering into the rare diseases sector. In fact, Recordati develops, produces and markets pharmaceuticals for the treatment of rare diseases through the Recordati Rare Diseases group. Recordati Rare Diseases is a leading pharmaceutical company entirely devoted to the research, development and commercialisation of drugs for the treatment of rare diseases, with a portfolio of products dedicated mainly to genetic metabolic disorders. It is one of the leading companies at an international level in terms of number of products launched on the market developed specifically to treat a rare disease. In recent years, the Group's activities to develop pharmaceuticals to treat rare diseases have extended to various countries in North and South America, as well as the Middle East, Japan and Australia.

With a commitment to the discovery, development and sale of innovative products with high added-value and the objective of improving health and quality of life, the Recordati group has defined its mission as a commitment to research, innovation, quality and the creation of value for its stakeholders, all of which are distinctive elements of the Group's corporate social responsibility.

For more information on the main business activities of the Group, its products and its markets, please refer to the "Recordati, an International Group" and "Business Activities" sections of the Annual Report.

2

PHARMACEUTICAL CHEMICALS PLANTS

(Italy and Ireland)

6

PHARMACEUTICAL PRODUCTION PLANTS

(Italy, France, Turkey, Spain, Tunisia and the Czech Republic)

1

PACKAGING AND DISTRIBUTION PLANT HANDLING DRUGS FOR RARE DISEASES

(France)

1.2 THE RECORDATI GROUP'S VALUES

The new edition of the Code of Ethics, approved in 2020, reaffirms and renews Recordati's fundamental values, which guide and support the Group in the creation of shared value. These values have been formalised in the Code of Ethics and are shared and observed by all Group stakeholders, both internal and external.

INTEGRITY:

Integrity is a fundamental value at Recordati. Wherever we operate, we observe all applicable regulations. We demonstrate our leadership by setting a good example. We are honest and transparent with our shareholders and all other stakeholders.

PRODUCT QUALITY AND SAFETY:

At Recordati, we believe in innovation and devote ourselves fully to researching and developing new products. We offer patients high-quality products which comply with the requirements of the competent Authorities. We aim to constantly increase the availability of our products to anyone who needs them, while at the same time guaranteeing absolute compliance with applicable regulations in the markets where we operate.

PROTECTING PEOPLE:

At Recordati, we believe in equal opportunities and we guarantee that everyone can achieve their potential. We see diversity as a value and will not tolerate any discrimination based on ethnicity, nationality, gender, sexual orientation, disability, age, political or religious belief, or any other personal characteristics. At Recordati, we work hard to create a safe and inclusive work environment, where we all have our rights to physical and psychological integrity respected on a daily basis, as well as our right to freedom of opinion and association. We recognise that we each have a role to play in the success of our business and we implement staff development policies through which everyone's contribution and achievements can be appropriately rewarded.

CARE FOR THE ENVIRONMENT AND SUSTAINABILITY:

At Recordati, we recognise the paramount value of environmental protection and aim to make a positive contribution to sustainable development in the areas where we operate. For this purpose, we seek to implement policies which increase the environmental sustainability of the Company's activities and meet all relevant legal and regulatory requirements. We place particular importance on managing water and energy resources, reducing emissions, proper waste management, combating climate change and protecting our natural world and biodiversity.

PERFORMANCE:

At Recordati, we seek to improve management performance and create value for our shareholders. We believe that every day is an opportunity to improve on the day before and we take all the necessary steps to ensure that the Company can enjoy sustainable, long-term economic growth.

1.3 THE RECORDATI GROUP'S GOVERNANCE

The primary objective of Recordati's corporate governance system is the responsible and sustainable generation of value for shareholders, without losing sight of the social importance of the activity performed and of all the stakeholders involved.

The corporate governance structure of the Company is based on a conventional organisational model and therefore consists of the following corporate bodies: the Shareholders' Meeting, the Board of Directors, and the Board of Statutory Auditors. Accounting control is delegated, in compliance with the relative legislation in force, to an independent auditor registered in the special roll maintained by Consob. A '231' (administrative liability) Supervisory Body (ODV) has also been appointed which oversees the proper functioning of the "231 Model" and is responsible for updating it.

The Board of Directors has formed two committees from among its members with consultative and proposal-making functions: the Remuneration and Appointments Committee and the Risk, Control and CSR Committee, both consisting exclusively of non-executive and independent directors.

The Board of Directors of the Recordati group is composed of 12 members (4 of which are independent directors and 7 non-executive). Specifically, 67% of the BoD is composed of men and 33% of women. Furthermore, 25% of the members of the BoD between 40–50 years of age, while 75% are over 50. The personal and professional characteristics of each Director still in office as at 31 December 2020 range from economic, financial and managerial matters, which for some of them also include significant international experience in the business sectors in which the Company and the Group operate, to legal and corporate governance matters.

For further information, please consult the "Corporate Governance Report and Ownership Structure".

1.4 GENERATING VALUE FOR STAKEHOLDERS

During 2020, the activities of the Recordati group in the field of the research and sale of medicines represented an important profitability factor for the Group, allowing generation of various economic benefits for stakeholders.

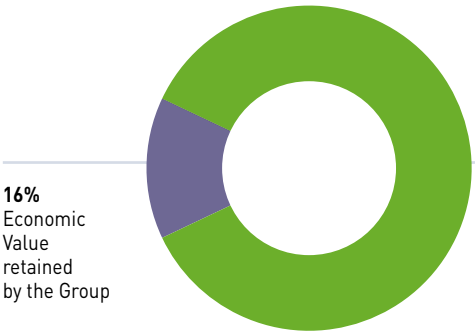
Economic value generated and distributed by the Group

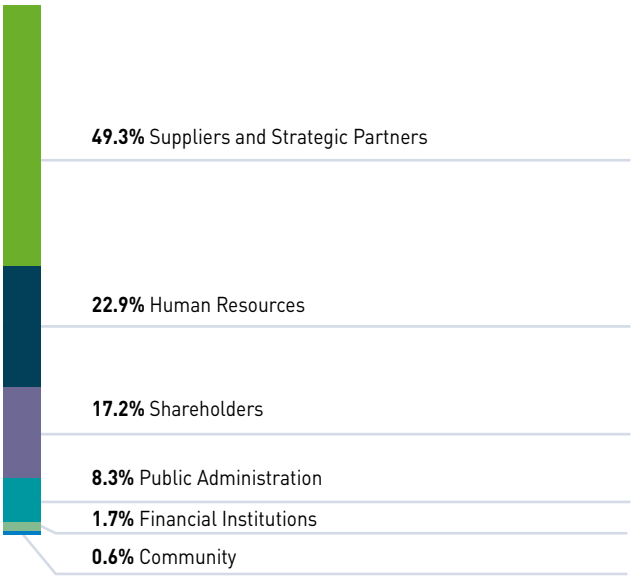
The Economic Value represents the wealth generated by the Recordati group which is then distributed in various forms to stakeholders. Data regarding the creation and distribution of the economic value provides a basic indication of how the Group has generated wealth for its stakeholders, highlighting the economic benefits generated by the Group's business management which are directly shared with the main categories of stakeholders with whom the Group interacts and maintains medium to long-term relations: suppliers and strategic partners (operating costs), human resources (remuneration of human resources: personnel costs); shareholders (remuneration of shareholders: profit distribution), financial institutions (remuneration of financial institutions: financial charges), the Public Administration (remuneration of Public Administration: taxes and duties) and local communities and associations (donations).

In 2020, of the € 1,456.2 million of economic value generated by the Recordati group, approximately 84% (equal to € 1,217.3 million) was distributed as follows:

- operating costs for suppliers and strategic partners of € 599.4 million, represented predominantly by the costs of raw materials, consumables and services;
- remuneration of human resources for a total of € 279.1 million, represented predominantly by the salaries and wages of Group personnel;
- remuneration of shareholders for a total of € 209.8 million, attributable to the distribution of dividends to shareholders[1];
- remuneration of the Public Administration, in the form of taxes, for € 100.6 million;
- remuneration of financial institutions for € 20.7 million, primarily formed of borrowing costs;
- donations disbursed during the year and various community contributions, for € 7.7 million.

Economic value generated and distributed by the Recordati group[2]





1 The value of the dividends distributed to shareholders refers to the balance for the 2019 financial year resolved in April 2020 for € 106.7 million, and the initial payment for the 2020 financial year defined in November 2020 for € 103.1 million.

2 The allocation of the Economic Value generated and distributed to various categories of stakeholder has been quantified through a reclassification of the income statement, elaborated according to the provisions of the "GRI - Sustainability Reporting Standards".

1.5 WORK OF THE RECORDATI GROUP IN THE CONTEXT OF THE COVID-19 EMERGENCY

2020 proved to be a particularly difficult year for the entire world, which found itself facing an unprecedented health emergency with the COVID-19 epidemic.

Since the beginning of the emergency, the pharmaceutical world has been under immense pressure due to its role as an "essential service for the community". The Group reacted immediately and decisively, adopting all measures necessary to manage the emergency, with the goal of reducing the spread of the virus and therefore protecting the health and safety of all employees whilst ensuring business continuity.

These measures ranged from smart working implemented for office personnel to the launch of new organisational models for our sales network through the remote provision of scientific information, also supported by specific training programmes. A series of measures were adopted in production and distribution facilities, in full compliance with provisions issued by the Authority, which allowed the Group to continue production and guarantee the health and safety of production personnel.

While observing all measures necessary to ensure the health and safety of its employees, Recordati never suspended its production and distribution activity, guaranteeing continuous availability of its products in the market, many of which are used in the treatment of serious and chronic illnesses.
Therefore, as a sign of appreciation for the outstanding professionalism and dedication shown, an extraordinary ad hoc bonus was also given to all the personnel at the Group's plants.

In fact, Recordati has also maintained ongoing dialogue with the supply chain, both recommending the adoption of strict prevention policies (access procedures, availability of personal protection equipment, segregation of shifts and flows, etc.) to protect the health and safety of individuals involved in the process and efficiently organising stock management, also differentiating the physical location of stock where possible.

Furthermore, right from the start, the Recordati group has stood alongside the communities where it operates, offering support to the health facilities involved in combating the epidemic. It has supported numerous initiatives in various different countries, largely through donations of a financial nature and of products. The Group's support for these initiatives totals more than € 5.4 million.

All of these efforts and initiatives have represented further confirmation of the robustness, resilience and responsibility of the Group.

As previously noted, on the whole, the COVID-19 pandemic did not significantly alter the economic performance of the Group, which was able to guarantee business continuity. Likewise, it should be noted that the pandemic has not significantly altered the social and environmental metrics of the Group either, for details of which see the specific chapters.

2. The Recordati group's approach to sustainability

"Recordati has a long history of entrepreneurial passion, a strong reputation and a desire to continue growing and creating value in an ethical, enduring, and sustainable way, all while respecting the laws and regulations that apply in the countries where we operate, protecting people and the environment, and supplying safe, high-quality products for our patients. In order to do this, we must work together and respect the fundamental rules and shared values that apply to all of us and all our interactions with others."

ANDREA RECORDATI

2.1 THE RECORDATI GROUP'S COMMITMENT TO SUSTAINABILITY

The Recordati group is convinced of the fundamental importance of generating value through an approach that is ethical, lasting, sustainable and shared with stakeholders. Over the years, it has launched various initiatives focused on sustainability, aligned with strategic, organisational and operational characteristics.

In fact, when defining the Group's management strategies and policies, in addition to ensuring the Group's development at an international level and focusing on the treatment of rare diseases, one of the Group's priorities is to identify the interests of all stakeholders, monitoring and managing the economic, social and environmental impacts of its work.

Through annual publication of the Consolidated Non-Financial Statement the Group undertakes to ensure disclosure and transparency regarding its economic, environmental and social performance with the goal of strengthening dialogue with internal and external stakeholders.

The Group's sustainability governance

In order to guarantee structured management of all aspects of sustainability a system of responsibilities has been defined both at the level of governance bodies and of the organisational structure.

In line with the new Corporate Governance Code for Listed Companies which Recordati has committed to adopt, the Board of Directors has the role of pursuing sustainable business success, defined as the goal of generating value in the long term to the benefit of shareholders, taking into account the interests of stakeholders which are relevant for its business.

The Board of Directors has formed a Risk, Control and CSR Committee, consisting exclusively of non-executive and independent directors. The Committee has the proposal-making and consulting duties in regard to the BoD. It provides appropriate investigation activity for evaluations of the competence of the Board of Directors, also in terms of sustainability, i.e., the processes, initiatives and activities aimed at safeguarding the Company's commitment to sustainable development throughout the value chain. Furthermore, in its work to support the Board of Directors, the Risk, Control and CSR Committee:

- analyses relevant topics for the generation of value in the long term prior to approval by the Board of the business plan for the Group companies;
- performs analysis regarding definition of the nature and level of risk compatible with the Company's strategic goals, covering all elements that may be of significance in the context of sustainable success of the Company;
- monitors sustainability topics connected to business activity and the dynamics of interaction of the latter with all stakeholders in accordance with the principle of sustainable success;
- examines Sustainability Plan guidelines and how to implement sustainability policies;
- examines the general composition of the Consolidated Non-Financial Statement and the structure of its content, as well as the completeness and transparency of information provided in this document;
- expresses, on request of the Board, an opinion on sustainability issues.

During 2020, the Recordati group strengthened its commitment towards increasingly integrated management of sustainability, through creation of the Environmental, Social & Governance department, which reports directly to the Group General Manager, for management and coordination of sustainability topics. This department encourages and supports the various departments of the Group in the adoption and integration of sustainability principles in decision-making and business processes. In collaboration with the relevant departments, it identifies risks linked to sustainability topics, and areas and projects for improvement. It proposes strategies and goals of the Sustainability Plan and prepares the Consolidated Non-Financial Statement. In addition, it promotes dialogue with stakeholders and disseminates the culture of sustainability within the Group.

Since 2017, with definition of the Group Policy for the preparation of the Consolidated Non-Financial Statement, data owners have been identified with responsibility, each for their respective area, for data and information published in the document.

CDP
DISCLOSURE INSIGHT ACTION

Confirming the Group's commitment to sustainability, during 2020 Recordati participated for the second time in the CDP Climate Change programme, significantly improving its score compared to 2019 and passing from level C "awareness" to level B "management", which recognises that the Company has taken concrete actions to tackle the various aspects of climate change.

FTSE4Good

Following the review in December 2020, the Recordati group was included in the FTSE4GOOD Index series that measure the performance of companies in terms of ESG (Environmental, Social and Governance) criteria and are used by many financial operators all around the world to develop and evaluate products focused on sustainable investment.

2.2 THE RECORDATI GROUP'S STAKEHOLDERS

Integrating corporate responsibility into a business approach means focusing on creating value for all relevant stakeholders and uniting economic, social, and environmental aspects.

In this context, the Recordati group has identified its own key stakeholders by focusing on its understanding of how the Group's social role relates to company activities, with the aim of identifying their expectations and defining actions in response to the legitimate interests expressed.

The group believes that it is fundamental to build and maintain solid and lasting relationships with stakeholders. A relationship based on constant dialogue and active involvement is essential for the generation of value in the long term. In order to engage all of our stakeholders in their activities, optimising their roles and monitoring the possible direct and indirect impacts of the Group's activities on the relevant parties, the Recordati group implements stakeholder-engagement initiatives.

During 2020, there was important dialogue with stakeholders on sustainability topics. For the purposes of updating the Materiality Matrix, around 150 stakeholders were involved, belonging to all of the different categories, through an online questionnaire. The stakeholders expressed their point of view on the importance of sustainability topics. This dialogue enabled identification of the topics considered most important by the stakeholders, guiding definition of the material topics for reporting in this Statement and the topics on which to focus actions of the Sustainability Plan. For further details, please see the paragraph "Materiality Analysis".

In the knowledge that dialogue represents an important chance for reciprocal growth and sharing, below are further examples of engagement activities between the individual departments and stakeholders with whom the Group constantly interacts:

- the organisation of awareness-raising initiatives and scientific research projects through conferences and training courses on specific themes relating to the treatment of rare diseases. Aimed at health professionals, doctors and researchers, these initiatives are designed to intensify the sharing of knowledge about the treatment of rare diseases;
- promotion of support initiatives aimed at the families of patients affected by rare diseases, with the aim of improving quality of life for both patients and their families;
- dialogue with healthcare operators, the scientific community and universities;
- relations and meetings with financial analysts and institutional investors focused on providing economic and financial information;
- internal communication initiatives and meetings with trade-union representatives;
- sharing of standards, day-to-day and institutional relations with suppliers and strategic partners;
- meetings with representatives of Local Communities and Regulators.

The Recordati group's stakeholders[3]

3 Please note that the map of stakeholders presents the macro-categories of stakeholders. Within each of these there may be further sub-categories. For example: the "Employees" category also includes Trade Unions and Workers' Representatives, and the category "Healthcare structures and operators" also includes doctors, hospitals and pharmacies. The category "Government agencies, regulators, PA" also includes industry associations, non-governmental organisations and the national health service. "Customers" includes wholesalers, distributors and all other types of customers. In addition to suppliers, the category "Suppliers and strategic partners" also includes CROs, licensees and licensors, for example.

INVOLVEMENT OF THE LOCAL COMMUNITY - EXTERNAL EMERGENCY PLAN

In February 2020, a public meeting was held at Campoverde di Aprilia on the External Emergency Plan (EEP) of the Recordati plant located there.
The meeting was called by the Chairman and Vice-Chairman of the Committee for the Protection of the Environment and Public Health upon publication on the website of the Prefecture of Latina of the new Recordati EEP pursuant to Italian Legislative Decree 105/15.
The meeting was an opportunity for constructive dialogue with the public and to present them with a summary of the prevention and protection activities carried out inside the Recordati plant so as to reduce the risks from major accidents. The meeting was also attended by the Aprilia Municipal Councillor for Production Activities and the Plant Manager. During the meeting, the draft Emergency Plan was illustrated with the possible accident events assessed in the latest Plant Safety Report and the actions to be followed by the local population in case of emergency. All the information was distributed in an information leaflet, prepared by Recordati, which was sent to the entire population of Campoverde by the Municipality of Aprilia via the Civil Protection Department.

Furthermore, given the strictly regulated nature of the pharmaceutical sector, industry associations operating in this area represent one of the most important stakeholders with whom the Recordati group interacts.
These organisations coordinate, protect and promote the interests of the pharmaceutical sector and its associated companies.

In 2020, the Recordati group participated in various industry associations located throughout its global business network, ensuring a constant and continuous flow of information.

THE RECORDATI GROUP'S MAIN INDUSTRY ASSOCIATIONS

ITALY
Farmindustria
Confindustria Dispositivi Medici
ASSONIME
UPA (Unione Pubblicità Associati)

FRANCE
LEEM (Les Entreprises du Médicament)
AFIPA (Association Française de l'Industrie Pharmaceutique pour l'Automédication)
GIE GERS
CIP (Club Inter Pharmaceutique)
Club Léonard de Vinci
CRIP (Cercle de réflexion de l'industrie pharmaceutique)

BELGIUM
Pharma.be (General national association of the pharmaceutical industry)

GERMANY
AGV Chemie-Arbeitgeberverband der Chemischen Industrie
IHK Ulm-Industrie-und Handelskammer Ulm
AKG e.V. - Arzneimittel und Kooperation im Gesundheitswesen e.V.
Camera di Commercio Italo-Tedesca (Deutsch-Italienische Handelskammer)
Pharma-Lizenz Club
Wirtschaftsrat der CDU
Senat der Wirtschaft
BPI - Bundesverband der Pharmazeutischen Industrie e.V. (The German Pharmaceutical Industry Association)
DCCV e.V.- Deutsche Morbus Crohn/ Colitis Ulcerosa Vereinigung
UND e.V. - Urologen Netz Region Düsseldorf e.V.

SWITZERLAND
Swiss Association of the Pharmaceutical Industry
Business Association Chemistry, Pharma, Biotech
Swiss Healthcare Licensing Group
Swiss Health Quality Association

AUSTRIA
PHARMIG - Verband der pharmazeutischen Industrie Österreichs

SPAIN
Farmaindustria
Anefp (National Association of OTC products)
AINFA
AELMHU

IRELAND
Bio Pharmachemical Ireland (BPPCI)
IPHA (Irish Pharmaceutical and Healthcare Association)
National Irish Safety Organization
IBEC (Irish Business Employers' Confederation)
Cork Chamber of Commerce
Institute of Environmental Management and Assessment (IEMA) – Production
Irish Exporters Membership - Logistics
PMI (Pharmaceutical Managers of Ireland)
MMRI (Medical Reps Institute of Ireland)
TOPRA (The Organization for Professionals in Regulatory Affairs)
IMVO (Irish Medicines Verification Organisation)

PORTUGAL
APIFARMA - Portuguese Pharmaceutical Association
GROQUIFAR

POLAND
Commercial Chamber "Farmacja Polska"

RUSSIA
GIM-Unimpresa

UKRAINE
EBA - European Business Association

TURKEY
Pharmaceutical Manufacturers Association of Turkey
ICC - The Istanbul Chamber of Commerce
Camera di Commercio Italo-Turca
Çerkezköy Organized Industrial Zone
Çerkezköy Chamber of Commerce and Industry
Istanbul Chemicals and Chemical Products Exporters' Association
The Union of Chambers and Commodity Exchanges of Turkey

GREECE
SFEE - Member of Hellenic association of Pharmaceutical Companies

TUNISIA
CNIP - The National Chamber of Pharmaceutical Industry
The Council of the Pharmacists Association

UNITED KINGDOM
EMIG Ethical Medicines Industry Group

UNITED STATES
American Association of Pharmaceutical Scientists
American Chemical Society
ASPN - American Society of Pediatric Nephrology
BIO - Biotechnology Innovation Organization
BioNJ
DIA - The Drug Information Association
Global Genes
Healthcare Distribution Association
International Society of Pharmaceutical Engineers
NORD corporate council
Parenteral Drug Association
RAPS - Regulatory Affairs Professional Society

CANADA
LSO - Life Sciences Ontario
RAREi - The Canadian Forum for Rare Disease Innovators
CORD - Canadian Organization for Rare Disorders

DENMARK
ENLI - Ethical Committee for the pharmaceutical industry

KAZAKHSTAN
AIPM (Association of International Pharmaceutical Manufacturers in Kazakhstan)

BRAZIL
SINDUSFARMA (Union of Pharmaceutical Products Industries)

COLOMBIA
ANDI (Asociación Nacional de Industriales)

JAPAN
Pharma Delegates

MEXICO
AMIIF (Asociación Mexicana de Industrias de Investigación Farmacéutica)

2.3 MATERIALITY ANALYSIS

For identification of strategic sustainability priorities, as well as for definition of the contents of the Consolidated Non-Financial Statement, during 2020 the Recordati group updated the materiality analysis. This is aimed at identifying, in application of the reporting standards issued by the Global Sustainability Standard Board of the Global Reporting Initiative (GRI), the material aspects of sustainability that can significantly influence the decisions and opinions of stakeholders, as well as the Company's performance.

In fact, the Materiality Matrix is an important tool to identify the most relevant sustainability topics from the perspective of the Company and of stakeholders. It forms the basis for preparation of the Consolidated Non-Financial Statement and helps to identify the ESG factors, i.e. those of an environmental, social and governance nature, on which to focus strategies and actions.

The Materiality Matrix is not a static tool but requires periodic updating on the basis of scenario evolutions, megatrends, emerging topics, and maturity level of sustainability within the company. This is why the group felt it was important, three years after the initial analysis, to launch an update procedure, in compliance with the requirements of the GRI reporting standard.

Updating of the Materiality Matrix, performed by the Environmental, Social and Governance department, with the support of a recognised specialised consulting company, necessitated the development and implementation of various project phases, and specifically:

- Preliminary analysis
- Stakeholder engagement
- Involvement of top management
- Definition and approval of the 2020 Materiality Matrix

Preliminary analysis

In this initial phase, the Group performed preliminary analysis with the goal of monitoring and identifying the main material topics at an international level and for the relevant sector.

The phase of identifying sustainability topics that are potentially relevant for the sector and for Recordati was based on analysis of various sources of information, some of the most important being: corporate documents (Code of Ethics, risk map, etc.), external documents analysing the context and research on sustainable development policies (e.g. reports prepared by the World Economic Forum), benchmarking analyses of the primary competitors and Internet research activity. Consideration was also given to multi-stakeholder initiatives and international standards for management and reporting of corporate sustainable-development policy, including the GRI and SASB standards. General analysis also took into consideration the main criteria of rating agencies and ESG analysts and the Sustainable Development Goals.

The results of this preliminary analysis, also through comparison with the material topics present in the previous Matrix, enabled the Group to define a list of potential material topics to submit for the evaluation of the stakeholders and top management.

Stakeholder engagement

Between September and November 2020, the Recordati group implemented stakeholder-engagement activity, involving and listening to the points of view of stakeholders, with the goal of making the Materiality Matrix update process even more robust, in line with best practices and the main sustainability frameworks, and specifically in compliance with the requirements of the GRI standard.
For this purpose, using the results of the preliminary analysis, an online questionnaire was prepared and sent to a panel of around 150 recipients belonging to all of the various stakeholder categories, previously identified in close collaboration with the different company departments. The stakeholders evaluated the individual topics, assigning a score to each on a scale from one to five, and therefore contributed to defining the prioritisation of the topics on the basis of the assigned relevance. The questionnaire also requested indication of any additions to the topics identified.

The stakeholder-engagement activities carried out promoted inclusion of the points of view of stakeholders in the Materiality Matrix and more precise identification of the material topics for which stakeholders of the Group expect constant commitment and tangible actions from Recordati, in compliance with the guiding principle of stakeholder inclusiveness of the Global Reporting Initiative.

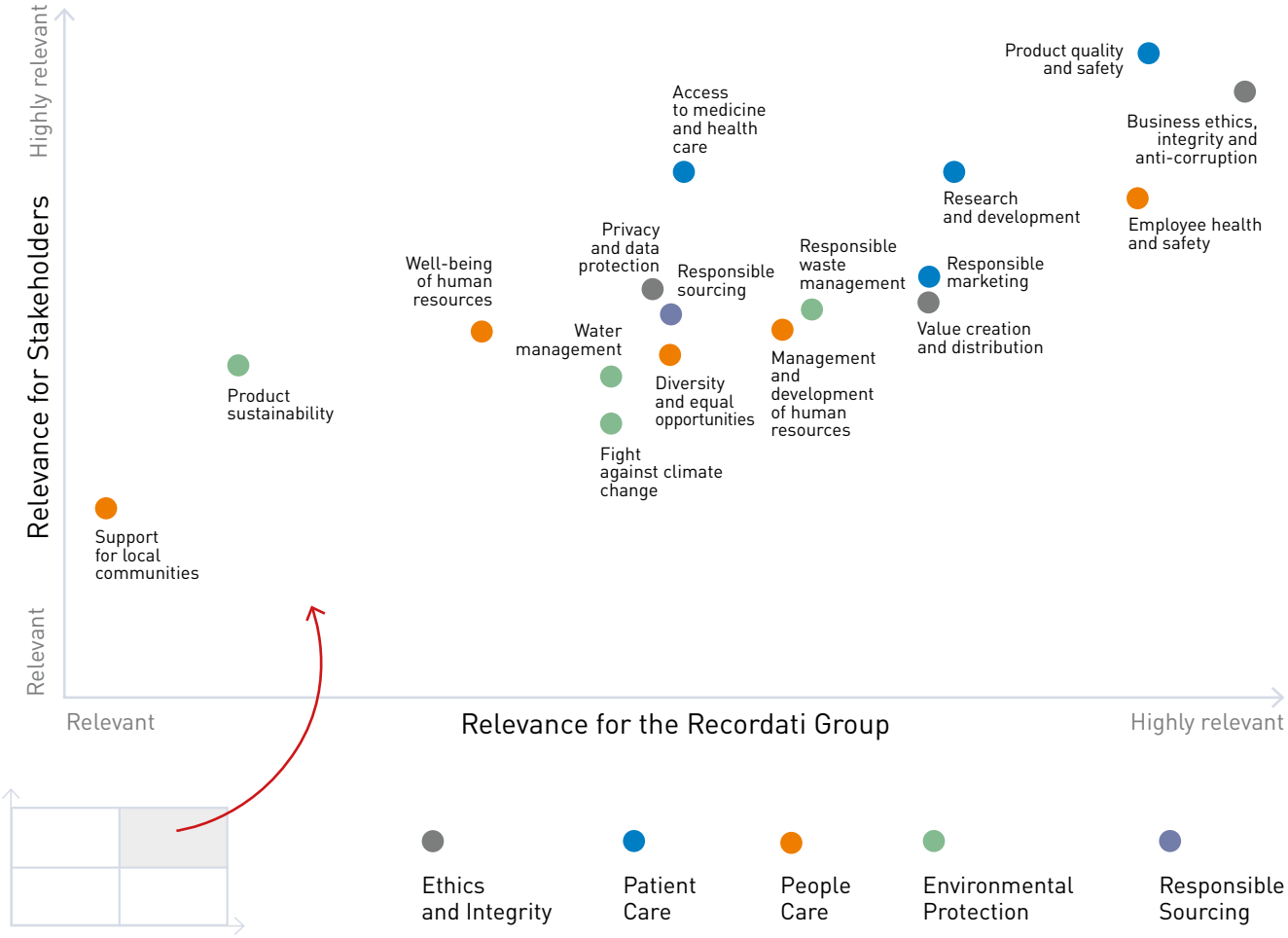
Management interviews

In addition to stakeholder engagement, the Recordati group has taken actions for engagement of Top Management, in order to identify priority material topics from the Group's perspective. Top Management engagement was implemented through one-to-one meetings and an online questionnaire. Top management was also asked to evaluate the individual topics on a scale of one to five and to indicate any proposed additions to the topics identified.

Creation of the 2020 Materiality Matrix

During the final phase of the Materiality Matrix updating process, the Group processed data and summarised results of the evaluation of material topics by stakeholders and top management. This enabled a specific ranking of material topics and prioritisation of them within the new Recordati group 2020 Materiality Matrix.
The results of analysis were discussed with executive management and subsequently the new Materiality Matrix was shared with the Risk, Control and CSR Committee and the Board of Directors.

RECORDATI GROUP'S MATERIALITY MATRIX



The Materiality Matrix represents the 17 topics[4] selected according to their economic, social and environmental relevance both for the Recordati group and for the stakeholders involved. In particular, the Matrix identifies the level of importance assigned to the topics from the perspective of management on the horizontal axis "Relevance for the Recordati group" and from the perspective of stakeholders on the vertical axis "Relevance for Stakeholders". Material topics are grouped into five specific areas according to the impacts generated for various categories of stakeholders: ethics and integrity, patient care, people care, environmental protection and responsible sourcing. The topics of relevance identified in the Materiality Matrix are discussed and explored in subsequent chapters of this Statement in compliance with the reporting standard and the provisions of Italian Legislative Decree 254/2016. It is noted that aspects linked to "Governance", "Regulatory Compliance" and "Risk management" are not included in the final proposal amongst the material topics for the Group as these aspects are considered as essential prerequisites for Recordati to continue to generate value and thus are in any case subject to reporting within this Consolidated Non-Financial Statement.

4 The main new elements of the revised Recordati group Matrix compared to the previous version, in addition to Stakeholder Engagement and prioritisation of topics, include several instances of rewording (to make certain topics more specific), greater rationalisation of the topics performed also by grouping them together (e.g. the topic of "Human Rights" has not been considered as a separated topic but is handled within other topics such as "Responsible sourcing", "Business ethics, integrity and anti-corruption", "Diversity and equal opportunities" and "Research and development") and more specific handling and definition of topics (e.g. in the environmental cluster, the specific topics "Fight against climate change" and "Water management " have emerged, which were previously included within "Environmental protection" and "Efficient use of resources"). Other new topics such as "Product sustainability" and "Privacy and data protection" have emerged from the analysis.

2.4 SUSTAINABILITY PLAN

During 2020, Recordati formalised the first Group Sustainability Plan, an essential tool that shares the future pathway with stakeholders. The Plan presents the ambitions of the Group and its commitments regarding sustainable and responsible development.

The Group is driven by the belief that every day is an opportunity to improve on the day before and takes all the necessary steps to ensure sustainable, long-term economic growth. Growth and achievement of challenging business and sustainability goals are not incompatible: on the contrary, Recordati is convinced that responsible actions and generation of shared value contribute to the long-term success of the Company.

OUR ASPIRATION

Improving people's health and quality of life is the basis of our mission, it is part of our DNA. Recordati's people have always given their utmost every day to pursue this goal.

As emphasised by the World Health Organization (WHO), health is not merely the absence of disease or infirmity, but a state of complete physical, mental and social well-being. To improve health, it is therefore necessary to intervene on a number of determining factors, such as the social, physical and economic conditions under which people are born, live and work, including healthcare systems. In this context, in addition to institutions and governments, pharmaceutical companies must also develop strategies for the improvement of the healthcare system, in terms of **availability, accessibility and quality of healthcare structures and the goods and services provided.**

We are living in a rapidly changing world that often raises concerns about sustainability for future generations. The current scenario in which we live has led us to reflect deeply on the relationship between humanity and nature and on the importance of an overall balance: **well-being and health of people and the health of the planet are closely connected.** We cannot be healthy in an unhealthy environment and with no health there is no wealth and no social equity.

With this systemic approach and in accordance with the **2030 Agenda for Sustainable Development** priorities, we wish to contribute to supporting global development, promoting human well-being and protecting the environment.

We want to continue to do our part.

The Sustainability Plan focuses on 4 priority areas:

- **Patient care**
- **People care**
- **Environmental protection**
- **Responsible sourcing**

These four strategic areas for sustainability are supported by a fifth fundamental pillar: **ethics and integrity**. These principles direct every aspect of the Group's activities on a day-to-day basis.

The Sustainability Plan, defined in accordance with the materiality analysis, also highlights the contribution to achievement of 10 of the 17 Sustainable Development Goals (SDGs) of the Agenda 2030, the common goals signed by UN member states that outline a path of collaboration and responsibility to face the complex current challenges.

PATIENT CARE

Our ambition

We are open to partnering and dedicated to discovering and developing innovative, value-added products that improve quality of life and help people to enjoy longer, healthier and more productive lives. We wish to offer our patients fast, widespread and sustainable access to our products.

PEOPLE CARE

Our ambition

We are committed to creating a safe and inclusive working environment where everyone can express their talents. Our Employees are our most important asset and, therefore, we recognise and value the role that each person plays in the success of our business.

We aim to create shared value and positively contribute to sustainable development where we operate, aware of the importance of dialogue, collaboration and respect for the community.

ENVIRONMENTAL PROTECTION

Our ambition

Improving human health is the cornerstone of our mission, but we are aware that the health and well-being of present and future generations and the health of our planet are closely interlinked.
With this in mind, we want to take conscious action by working to preserve natural resources and biodiversity and contribute to the fight against climate change by minimising our environmental impact.

RESPONSIBLE SOURCING

Our ambition

We want to build relationships based on transparency and trust, sharing our values with suppliers and strategic partners.
We are committed to constantly promoting respect for ethical, environmental and social aspects along the entire value chain.

ETHICS AND INTEGRITY

Integrity is our founding value, and we lead by example.
The principles of honesty and transparency towards our Shareholders and Stakeholders guide our daily actions.

Process for definition of the Sustainability Plan

The sustainability goals were identified by the Environmental, Social & Governance department in close collaboration with the heads of other company departments. The Plan was shared with executive management, the Risk, Control and CSR Committee and the Board of Directors.

Responsibility for achievement of the goals included in the Sustainability Plan is assigned to the representatives of the various departments involved, who have the resources, tools and expertise required for their implementation. To those involved in the implementation of the Plan, in the context of the Management by Objective (MBO) system, objectives of a social and environmental nature are assigned linked to the implementation of the Plan itself.

Furthermore, the objectives of the MBO system for the Group General Manager include the definition, implementation, management and development of the strategic plan for sustainability integrated with Group business.

For definition of the goals of the first Recordati group Sustainability Plan a gradual approach was preferred to support progressive implementation of projects aimed at continuous improvement. The Plan sets out periodic monitoring and updating. In fact, it will be updated on an annual basis in order to take account of the implementation status of existing projects and to set new goals.

ETHICS AND INTEGRITY

MACRO AREA	2021 GOALS
Business ethics, integrity, anti-corruption	Distribute the Code of Ethics and train 100% of employees
	Distribute anti-corruption policies and train 100% of employees. Specifically, distribution of and training on the new Group anti-bribery manual and country-specific anti-corruption laws (e.g. training on the 231 Model)
	Begin third-party/partner due diligence based on anti-corruption policies through an ad hoc questionnaire
Privacy and data protection	Deliver a training programme on the GDPR (privacy) aimed at approximately 1,200 employees in foreign branches
Communication and transparency	Develop a new section on the Group's website dedicated to Sustainability

PATIENT CARE[5]

MACRO AREA	2021 GOALS
Access to medicine and healthcare	Further enhance (by Recordati Rare Diseases inc.) the Patient Assistance Program (PAP) and Co-Pay Assistance Program (CAP) aimed at providing assistance to patients who are eligible to receive financial support for products
	Continue to promote initiatives and training activities (including through the Recordati Rare Diseases Foundation) aimed at improving the diagnosis and treatment of rare diseases
Anti-counterfeiting	Launch new projects to fight drug counterfeiting, focusing in particular on Brazil and other countries in relation to changing legislation

PEOPLE CARE

MACRO AREA	2021 GOALS
New work style, employee well-being and work-life balance	Define the project aimed at the full implementation of smart working for employees
	Promote programmes aimed at encouraging healthy lifestyles through initiatives to promote sport, training on health, well-being and work-life balance (e.g. healthy eating, psychological well-being, parenthood and family), consultations with nutritionists, sports coaches, psychologists and smoking cessation therapists
Management and development of human resources	Promote training activities focused on management and leadership skills and the "new" skills required to manage new work style, especially those related to smart working (e.g. digital transformation, remote team management, work/life balance in the new online dimension)
Diversity and equal opportunities	Sign the Charter for Equal Opportunities and Equality at Work, which represents a declaration of commitment to adopt inclusive human resources policies, supported by the Italian Ministry of Labour and Social Policies
Health and Safety	Reinforce a corporate culture aimed at preventing, monitoring and reducing occupational injuries through measures and initiatives to safeguard employee health and well-being (including installation of devices to facilitate and reduce the manual handling of loads, training and raising awareness)

5 Note: the table, relating to the Group's commitments to its patients, shows only some of the targets. Commitments regarding quality, product safety, research and development, etc. are intrinsically related to the business and are thus ongoing. More details on the Group's development plans are included in the Financial Statements.

Support for local communities	Support medical and healthcare organisations dedicated to assisting those suffering from medical conditions and improving the quality of life of patients and their families through research and support projects and initiatives
	Product donations to organisations that collect and distribute pharmaceuticals to healthcare facilities that regularly assist disadvantaged people who are unable to purchase medicines
	Community support through solidarity, social and cultural initiatives aimed at promoting the growth and well-being of local communities

ENVIRONMENTAL PROTECTION

MACRO AREA	2021 GOALS
Fight against climate change	100% renewable electricity purchased for our European production and packaging sites and annexed offices *Note: The Recordati group has 8 production plants (2 chemical-pharmaceutical plants and 6 pharmaceutical production plants) in addition to one production plant dedicated to packaging. Please note that 7 of the 9 production sites are in Europe and will be powered by renewable energy*
	Install 2 inverter blowers at the Campoverde production plant to control the oxygenation levels of the wastewater treatment plant, enabling the regulation - and thereby improving the efficiency - of the machine's power based on the actual needs of the treatment plant (resulting in an estimated 50% reduction in electricity consumption compared to the current operating conditions of the unit scheduled for replacement)
	Gradually replace traditional lighting systems with LED lights: • complete replacement of the existing lighting systems with LED lights in the Utebo production plant and the intermediates warehouse of the Campoverde plant (Aprilia)) • launch the project to replace the current lights with LED lights in the production department of the Milan plant (the replacement will be completed by 2023)
	Install solar panels to generate electricity on the roof of the Utebo production plant and launch a feasibility study to assess the possibility of installing photovoltaic panels at the Cork production plant
	Install specific energy consumption monitoring systems (steam and electricity use) at the production plant in Çerkezköy, Turkey and the Campoverde plant in order to obtain more accurate energy consumption data and to identify possible optimisation measures
	Install a thermal solar system to produce hot water for the changing rooms at the Campoverde production site
	Participate in the ForestaMI project, which aims to plant trees in the Milan Metropolitan Area in order to increase the amount of urban green spaces, improve citizen well-being and reduce atmospheric pollution
	Progressive incentivisation and introduction of eco-friendly vehicles in the company's fleet
Responsible waste management and circular economy initiatives	Extend initiatives to recover and reuse chemical raw materials used in production processes, taking a circular economy approach, with a consequent positive impact on waste reduction and the use of natural resources *Note: The recovered raw materials may be reintroduced into internal production processes or through partnership agreements with third-party companies*
	Feasibility study for a project to reduce certain types of hazardous waste through the installation of a system to capture certain heavy metals
Product sustainability (sustainable packaging initiatives)	Analyse possible packaging solutions with lower environmental impact

RESPONSIBLE SOURCING

MACRO AREA	2021 GOALS
Promote a responsible supply chain	Distribute the new Code of Ethics to suppliers, starting with strategic suppliers
	Roll out the Attitude Project group-wide, aimed at standardising the supplier selection and qualification process - including from an ethical and environmental standpoint - and creating a universal shared database to ensure supplier quality control
	Define a strategic supplier management and monitoring plan that also considers ethical, social and environmental aspects

3. Business ethics & integrity

The Recordati group is committed to conducting its business ethically, transparently and honestly in all the countries where it operates, respecting the applicable laws, professional codes of conduct, the Code of Ethics, the Anti-Corruption Manual and the Organisational, Management and Control Models, as well as internal procedures.

3.1 THE ORGANISATIONAL, MANAGEMENT AND CONTROL MODEL

The main sustainability topics are regulated within the Organisational, Management and Control Models pursuant to Italian Legislative Decree no. 231/2001 (the "Models"), adopted by all the Italian companies of the Recordati group and in similar Models or sets of procedures adopted by the other subsidiaries of the Recordati group.

During 2020, the parent company Recordati S.p.A. updated its Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001, including recent legislative developments regarding racism and xenophobia, incitement to corruption between private individuals, employment of illegally resident third-country nationals, market abuse, trafficking in illicit influences and tax offences.

Regarding the foreign companies of the Group, the Spanish subsidiary Casen Recordati S.L., following the adoption on 14 March 2018 of its own Organisational, Management and Control Model in compliance with Ley Orgánica 2015/1 of 30 March 2015, is continuing the activities provided for in the Model through the action of its Supervisory Body. During 2020, the Supervisory Body met three times and performed activities in accordance with its Regulations aimed at guaranteeing the adequacy, effectiveness and updating of the Model adopted by the Company.

The organisational models adopted by the Group companies are dynamic and effective tools thanks to the constant control and updating activities in part promoted by the Supervisory Bodies. All of the Organizational Models (Italian and foreign) provide for dedicated channels for reporting irregularities or breaches by employees and regular personnel training on the contents of the Models and reference standards.

The Supervisory Bodies appointed within the Group Companies are collegial and are composed of an internal member (the Director of Audit & Compliance or the Compliance Officer) and external professionals (criminal lawyers or university professors in business administration). Each Supervisory Body is internally regulated and operates according to a specific action plan. The Supervisory Bodies have their own spending budget and periodically report to the Board of Directors and the Board of Statutory Auditors (where present). These Models are constantly monitored and updated, with particular attention to crime prevention and risk assessment following the introduction of new legislation.

The Group's Italian companies, Recordati S.p.A., Innova Pharma S.p.A., Italchimici S.p.A. and Recordati Rare Diseases Italy S.r.l. annually submit their protocols for medical and scientific information and management of relationships with the medical community, which are part of their respective models pursuant to Italian Legislative Decree 231/2001, to certification by Farmindustria, through an independent inspection body (Certiquality). In 2020, the aforementioned Companies were audited by Certiquality, which renewed and confirmed the Farmindustria Certification attesting compliance of the activities related to medical-scientific information with the association's code of ethics.

Similarly, where required by law, the subsidiaries of the Recordati group also submit their medical and scientific information procedures for independent review by the associations of national pharmaceutical companies.

Further information regarding the Models, the relative procedures and the training provided on the same is available in the section *"Internal Control and Risk Management System"* of the Corporate Governance Report and Ownership Structure.

The systematic approach of the Organisational, Management and Control Models pursuant to Italian Legislative Decree no. 231/2001 is reinforced though additional models dedicated to specific company departments, such as in the context of health and safety in the workplace, environmental management and privacy.

In terms of personal data management, the Recordati group has adopted the General Data Protection Regulation (GDPR no. 2016/679). The Personal Data Management Model (the "Privacy Model") includes the measures and requirements provided for by European regulations, both at Group and local level, in Recordati's European subsidiaries. The Recordati group has a Group Data Protection Officer (DPO) and has appointed a Key Privacy Person in each European subsidiary to assist the DPO at a local level. In terms of processes and operating rules, a set of Group policies has been adopted upon which the local procedures adopted by the Group's European subsidiaries are based. The Recordati group has also equipped itself with IT applications to optimise personal data management and ensure GDPR compliance. During 2020, training sessions were held for the Key Privacy Persons in all European branches of the Group and, during 2021, there are plans to extend training in this context to around 1,200 employees of foreign branches.

Evidence of the company's commitment can be seen in the lack of demonstrated cases of data-protection breaches or loss of data in 2020.

The Recordati group Code of Ethics

During 2020, the Group approved a new version of its Code of Ethics. This update was motivated by the Recordati group's wish to further increase the accessibility and usability of this document, and was achieved through careful critical rewording and review by an inter-departmental internal team supported by external specialists and by the Recordati S.p.A. Supervisory Body. This inter-departmental method allowed the creation of a broad-reaching, shared document, capable of further strengthening guidance on ethics and compliance within the Recordati group.

As previously stated, the Code of Ethics, in its new version approved in July 2020 by the Recordati S.p.A. BoD, defines Recordati's fundamental values, which guide and support the Group in its day-to-day operations and in relations with both internal and external stakeholders.

Furthermore, the Code of Ethics sets out the responsibilities of all recipients, both internal and external, and defines "shared commitments", i.e. conduct through which Recordati's values find concrete, practical application. This section includes indications on:

- **How we manage our business, including indications regarding:**
  - Ethical and legally compliant behaviour
  - Product quality and safeguarding health
  - Our commitment to environmental protection and sustainable development
  - Conflicts of interest and protecting the Company's assets
  - Accounting transparency, confidentiality of information, personal data and social media
- **People and the workplace, including indications regarding:**
  - Protecting people
  - Fairness, equality, and the protection of human rights
  - Health and safety in the workplace
- **Relationships with our stakeholders.**

The Code is adopted by all Group Companies and applies to all employees, associates, directors, members of company bodies, commercial partners and other third parties with which the Group collaborates, including consultants, intermediaries, agents and contractors, clearly defining the expectations of the Company in terms of standards of ethics and conduct.

This document therefore serves as a reference for all Recordati stakeholders and represents the Group's commitment to conducting its business and managing both internal and external relationships in an ethical and sustainable manner.

This Code has been inspired by the main standards and guidelines for corporate governance, human rights and the environment, such as the United Nations' Universal Declaration of Human Rights, the Charter of Fundamental Rights of the European Union, the decent work standards set out in ILO (International Labour Organization) conventions, the OECD (Organisation for Economic Cooperation and Development) Guidelines for multinational enterprises, and national and supra-national Anti-Bribery legislation (e.g.: the OECD Anti-Bribery Convention, Italian Legislative Decree 231/2001, the Foreign Corrupt Practices Act, the Bribery Act, Loi Sapin 2, Ley Orgánica, etc.), as well as ISO 14001 standards on the environment.

Additionally, the principles and guidelines contained in the Code are further detailed in numerous other company documents. These documents help all recipients of the Code to put its principles into practice in their daily work. These additional documents include, for example, the Group's Anti-Corruption Manual; national organisational, management and control models and local compliance procedures; privacy management models; the product quality and clinical research management system; the Group's policies on the main corporate processes and its policies on the environment and safety in the workplace, as well as the relevant local procedures; local and Group accounting manuals; and the administrative and technical procedures which govern Company activities in detail.

The new version of the Code of Ethics defines the methods for reporting breaches (whistleblowing) and provides information on management of such reports. Recordati is committed to taking responsibility for all the reports it receives and to respond to them, guaranteeing maximum confidentiality in their management and the anonymity of the whistleblower, without prejudice to legal obligations and protection of the rights of persons accused maliciously or in bad faith. Additionally, Recordati expressly prohibits any type of retaliation against anyone lodging a report in good faith. Recordati is committed to creating a collaborative work environment, where the dignity of every person is respected and everyone can feel at ease in reporting any violations of the law, the Code or Company policies.

Following approval of the Code of Ethics, the process for its translation and distribution has been launched. The Code of Ethics is currently available in Italian, English, French, Turkish, Russian, Spanish, Portuguese, Polish, Czech and further translations will follow in 2021. The Code of Ethics is published on the Recordati group website in order to guarantee widespread availability and access, and its distribution within the Group has been carried out with involvement of the General Managers of all Group Companies.

To facilitate dissemination and comprehension of the principles contained in the Code of Ethics, a training programme has also been launched targeting all Group employees. This programme has a two-year duration, 2020–2021 and involves provision of an online training course for all Group employees with access to digital devices and distribution in hard-copy format for employees without access to such devices.

This training plan is currently available in Italian, English, French and Russian and has involved around 1,500 Group employees solely for the online version. In coming months, in order to make this course available to all Group employees, versions are planned in Turkish, Polish, Czech, Spanish, German and Portuguese.

Finally, participation in this course is also required for external parties who, although not employed directly by the Recordati group, perform activities in the name of and on behalf of the Recordati group on an ongoing basis.

THE RECORDATI GROUP'S FOCUS ON HUMAN RIGHTS THROUGHOUT THE VALUE CHAIN

As described in the Code of Ethics, with regard to human rights the Group adheres to the highest international standards, such as the UN Universal Declaration of Human Rights, the EU Charter of Fundamental Rights, and the decent work standards set out in ILO (International Labour Organization) conventions.

Recordati acts to guarantee respect of all human rights for all employees and recognises the importance of safeguarding and promoting them throughout the value chain, taking actions to ensure that their suppliers also do so.

As a pharmaceutical company, it also prioritises the need to guarantee the human rights of all subjects involved in clinical and post-marketing studies, as well as their health and safety, rights to dignity, self-determination, privacy and the confidentiality of personal data. It also recognises health and access to care as another fundamental aspect of human rights: in this context, on the basis that every patient should have access to the best possible treatment, the Group operates in the area of rare diseases around the world and is committed to improving diagnosis and management of such diseases.

The Anti-Bribery Model of the Recordati group

The Recordati group is deeply committed to conducting its business in line with the principles of transparency, honesty and ethics in all of the countries in which it operates, and to refusing all forms of corruption. To this end, since 2009 the Group has conducted an assessment of its internal control in line with international and supra-national Anti-Bribery legislation in the countries where the Group has branches and has developed a Group Anti-Bribery programme and Manual that involves both the personnel of the Parent Company and branch personnel.

The Anti-Bribery programme, contained in the respective Group Anti-Bribery Manual, consists of four main phases:

1. **assessment of local and national legislation;**
2. **assessment of local systems, procedures and models to safeguard against corruption phenomena;**
3. **analysis of existing risks and controls to identify any residual risks;**
4. **updating of the Group's Anti-Bribery Manual.**

The Group Anti-Bribery Manual is subject to periodic review. The most recent review, which involved significant additions and improvements to the contents and areas covered, with new examples of potential corruption risks and related guidelines for conduct, was performed at the end of 2019. In the context of this review, the structure of the Group Anti-Bribery Manual has also been revised for easier usage and comprehension. Currently, the new Group Anti-Bribery Manual contains 16 business areas potentially exposed to the risk of corruption, for which specific principles of conduct have been formulated to avoid corruptive phenomena[6].

The 16 areas potentially exposed to corruption risk are: Research and Development, Production, Relations with the medical community and healthcare facilities, regulatory activities, transactions with public authorities, consultancy, medical samples, courses and conferences, promotional material, contributions and donations, financial transactions, human resources and relations with politicians or political parties and procurement management, interaction with the public administration and management of entertainment expenses.

To facilitate dissemination and comprehension of the principles contained in the Group Anti-Bribery Manual, a training programme has also been launched targeting all Group employees. This programme has a two-year duration, 2020–2021 and involves provision of an online training course for all Group employees with access to digital devices and distribution in hard-copy format for employees without access to such devices.

This training is currently available in English, Turkish, Spanish, Polish and Czech and has already involved around 1,400 employees of the Group and third parties who, whilst not employed directly by the Recordati group, perform activities in the name of and on behalf of the Recordati group on an ongoing basis. In coming years, in order to make this course available to all Group employees, versions are planned in French, Russian, German and Portuguese.

During 2020, there has been a consolidation and strengthening of communication, coordination and control activities between the Parent Company and the various branches, through introduction of additional information to existing information flows on anti-corruption and anti-terrorism, allowing interception and management of potential risk situations through dedicated channels.

With regard to the detection of corruptive phenomena and internal fraud, a continuous monitoring tool based on mass analysis of transactions in the company's accounting systems went live in 2020. This tool, based on business intelligence systems, will make it possible to continuously monitor anomalous accounting transactions en mass and to plan audits with greater precision and accuracy.

The Compliance Questionnaire tool was also consolidated. This is submitted to General Managers of the Group's foreign branches and the Recordati S.p.A. Supervisory Body on a quarterly basis in order to strengthen information flows regarding ethics, compliance and the existence of potentially negative situations or events in these areas.

In terms of communication and training on anti-corruption and the contents of the Group's Anti-Bribery Manual, in 2020 all members of the Board of Directors of Recordati S.p.A. were informed of the policies and procedures adopted via periodic reporting from the Group's Internal Audit and Compliance Director.

Overall in 2020, dedicated anti-corruption training was given to 3,774 employees, 1,116 of whom in work in Italian Group Companies and approximately 2,658 located in foreign branches.

As regards to the channels for reporting breaches and anomalies regarding laws and internal procedures, for some time the Company has established dedicated whistleblowing channels as part of its organisational models pursuant to Italian Legislative Decree no. 231/2001 for Italian Companies and the Group Anti-Bribery system[7].

During 2020, the existing whistleblowing channels were further reinforced. On the basis of a 2019 pilot project that saw implementation of dedicated web portals and hotlines in the Recordati Rare Diseases France branch and in the Italian Group Companies, during 2020, these whistleblowing platforms were extended to the entire Group, going live in January 2021. Whistleblowing management has been formalised by means of internal procedures that ensure the confidentiality of the whistleblower, safeguards (non-retaliation policy) and anonymity, if desired by the whistleblower in accordance with the relevant legislation.

These tools and additional information regarding the fight against corruption are described in more detail in the "Internal Control and Risk Management System" section of the Corporate Governance Report and Ownership Structure.

No cases of corruption were reported during 2020.

In terms of internal resources assigned to compliance and anti-corruption, during 2020 the Parent Company continued to strengthen its corporate Internal Audit & Compliance structure with the hiring of a Compliance Officer for the Turkish Recordati İlaç branch that will implement the corporate supervision of the Compliance Officer for Foreign Branches. Again in 2020, in the context of the Internal Audit & Compliance Division, a GDPR Advisor was hired to support the Group DPO in management of the Organisation Model pursuant to the European General Data Protection Regulation (No. 2016/679). Finally, the corporate Internal Audit department was also strengthened with addition of a Senior Internal Auditor that will join the team from January 2021.

6 Updating of the new Anti-Bribery Manual and aspects regarding its implementation are based on Business Against Corruption: A Framework for Action - U.N. Global Compact, Transparency International. The Anti-Bribery Manual is available on the Corporate website in the Corporate Governance section.

7 Corporate Governance Code, comment to Article 7: " The Committee deems that, at least for companies belonging to the FTSE MiB index, an adequate internal control and risk management system must include an internal whistleblowing system for employees to report any irregularities or breaches to applicable legislation and internal procedures (so-called whistleblowing system) in line with national and international best practices, which guarantees a specific and confidential informational channel as well as the anonymity of the whistleblower".

3.2 INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM

The Internal Audit and Risk Management System is a structured and organic set of procedures and organisational structures aimed at preventing or limiting the consequences of unforeseen results and enabling the achievement of company objectives, compliance to legislation and regulations, and the correct and transparent disclosure of information both internally and to the market. Furthermore, this System enables the identification, measurement, management and monitoring of the main risks in order to promote the efficiency and efficacy of company processes, protect the value of the Group's activities, ensure the reliability and integrity of accounting and management information and ensure that transactions comply with all existing legislative measures.

The Internal Audit and Risk Management System is based on an Enterprise Risk Management (ERM) approach and consists of a structured risk management process, in line with the provisions of international best practices on the subject and in compliance with current legislation. The aim of this System is to facilitate activities consistent with the company goals, promoting informed decisions and ensuring the efficiency and efficacy of internal processes, as well as the reliability of financial information.

By updating a Company Risk Catalogue, the System enables identification, measurement and control of the level of exposure of all Group Companies to various risk factors, as well as the management of overall exposure, and envisages the implementation of control measures and procedures able to flag any anomalies. As described in more detail in the *"Main Risks and Uncertainties"* section of the Annual Report and the *"Internal Audit and Risk Management System"* section of the Corporate Governance Report and Ownership Structure the main risk factors to which the Group is exposed relate to the external context, strategic and operational risks (including risks related to Research and Development, the environment, health and safety, and pharmacovigilance risks), financial risks, legal risks and compliance risks.

The Group subjects its Risk Catalogue to a periodic interim review with the support of a consulting company, implementing a bottom-up approach to critical risk assessment to coincide with significant company activities, such as the definition of the budgets during the acquisition projects, the review of the organisational structure and other events that could have a potential impact on the risks to which the Company is exposed.

Specifically, during 2020 the Risk Catalogue was updated and submitted to the Board of Directors on three occasions: for two potential acquisitions and for annual updating of the Catalogue in December 2020.

Updating of the Company Risk Catalogue in 2020 was performed with particular focus on certain key areas. These included the impact of the COVID-19 pandemic and assessment of ESG topics in the Company Risk Catalogue.

The Board of Directors, also on the basis of this review, concluded that the level and nature of the risks identified by the Group Risk Catalogue, presented to the Board in the meeting of 17 December 2020, are compatible with the Group's budget and strategic goals.

The principle non-financial risks

The identification, assessment and management of corporate risks is based on an Enterprise Risk Management (ERM) approach and also includes non-financial risks related to the topics expressly specified by Italian Legislative Decree no. 254/2016.

In particular, the principle non-financial risks identified by Recordati relate to:

- Environmental management and safety in the workplace (e.g. damage caused by meteorological events and incidents, HSE risks -Health, Safety and Environment- and industrial incidents);
- Management of personnel and workers' rights (e.g. compliance with human rights, change in dimension of the organisational structure, loss of key resources, etc.);
- Supply chain (e.g. inappropriate selection of suppliers and commercial partners, interruption of supply by critical suppliers, rights of the personnel involved etc.);
- Compliance (e.g. fight against corruption, compliance with international quality standards and with legislation pertaining to drug detailing);
- Product responsibility (e.g. product recalls and impacts on patients' health).

The aforementioned risks were identified by the Group and classified as medium-low risk, in terms of residual risk, assessed in terms of the likelihood of an at-risk event and the impact of such an occurrence. In fact, in relation to such risks, the Group has adopted specific policies, management models and activities aimed at the mitigation of the same.

A brief description of the principle non-financial risks identified by the Group and related to the material topics of the Recordati group, as well as the procedures in place for their management and mitigation, is given below:

- Environmental topics: the risks in this context predominantly relate to the production process. In particular, such risks concern those deriving from industrial incidents that may have serious consequences for people and the environment, with resulting impacts in terms of economics and corporate image. The management of these risk is above all required by the quality standards provided for by the sector in which the Group operates, compliance with which is represented by the environmental certificates obtained by the Group's main production sites. Specific measures are represented by a preventative risk analysis carried out by specific and qualified personnel, an audit plan and plant maintenance activities to which significant financial resources are allocated on an annual basis. These measures enable the Group to drastically reduce its exposure to risks of this nature.
- Topics linked to HR management: these risks concern the rights, health and safety of workers as well as their professional development. In relation to health and safety in the workplace, compliance with legislation is guaranteed by the respect for technical-structural standards relative to equipment, plants, work places and chemical, physical and biological substances, as well as organisational activities such as emergency management, first aid, tendering processes and periodic safety meetings, and consultations with workers' safety representatives. Finally, health checks, information sessions and training activities for workers as well as a programme of internal audits and audits by third parties enable the Group to monitor and reduce risks in this context. In relation to workers' rights, the principle risk identified concerns the size of the organisational structure in terms of the adequacy of resources and skills, as well as the risk of losing key resources. To deal with these risks, the Human Resources Department constantly monitors the size of the workforce within the various divisions and units of the Group.

Furthermore, the Company employs a specific skills mapping process (the Group Performance Appraisal System), mapping both managerial and technical skills and enabling the identification at Group level of key resources, with an initial focus on Managers and then considering lower levels within the company.

- Topics linked to the supply chain: although the Group operates in a highly regulated sector, certain risks relating to the procurement chain have been identified, including that of establishing relationships with suppliers that do not guarantee responsible procurement processes regarding human rights, environmental protection and safety in the workplace, and the risk of being unable to source adequate commercial partners and the lack of control over performance of outsourcing contracts. The Group confronts these risks through contractual clauses that define the mutual responsibilities of the parties, the use of consolidated and qualified suppliers in line with applicable technical standards, document audit activities and on-site inspections carried out by qualified personnel. In order to protect the rights of workers in the supply chain, termination clauses are included in company contracts for failure to comply with the company Code of Ethics. Furthermore, the use of an IT platform for supplier approval, allowing relevant documentation such as certificates and declarations to be gathered organically, which further reduces the risk of partnerships with suppliers that have unsuitable technical, ethical, conduct and sustainability profiles.
- Compliance: within the scope of the compliance area, in addition to risks of committing offences against the Public Administration, these include risks related to failure to comply with international quality standards and legislation pertaining to drug detailing. To prevent non-compliance with the quality standards (Good Manufacturing Standards - GMP) that regulate chemical and pharmaceutical production activities, the Group has adopted a consolidated management model that provides for the implementation of Standard Operating Procedures and a dedicated quality control department. The model is periodically subject to inspection by national and international authorities, as well as commercial partners. Regarding medical scientific information, compliance is ensured by appropriate company procedures, by control activities conducted by independent bodies and internally by dedicated organisational departments, as well as by the continuous training of personnel on compliance with ethical standards and industry legislation. In order to promote increasingly transparent relations with the medical community and healthcare facilities, the Group's branches publicly disclose Value Transfers in relation to business meetings, consultancy and donations. Finally, the Anti-Bribery Manual also aims to promote correct conduct in the various activities relating to scientific information and more generally to relations with the medical community and the Public Administration, areas particularly exposed to corruption risk.
- Topics relating to product responsibility: these refer to Product Liability risks with the potential need for product recalls, impacts on patient health and consequent economic or reputational impacts for the company (including the risk of demands for compensation as a result of side effects caused by products). For this reason, for a number of years now the Group has introduced specific quality control personnel that carry out specific product analyses in order to identify the "robustness" and reliability of the production processes. These professional figures, required by industry legislation, such as the "Qualified Person", the "Quality Assurance Officer" and the "Quality Manager" are responsible for ensuring compliance with Good Manufacturing Practices envisaged by specific internal procedures and existing legislation. Further control measures related to the topics outlined above include inspections of the Group's production units by third party bodies, as well as the constant increase in authorisations held by the Group's pharmaceutical laboratories.

During 2020, the Group renewed its focus not only on concrete actions to reduce environmental impacts but also on the topic of climate change more generally. The Group is aware of the fact that climate change can determine various types of risks, e.g. financial risks (due to the increased cost of energy), operational risks (due to an increase in extreme phenomena such as drought or flooding in the territories in which the Group operates), health risks (due to worsening atmospheric pollution) and finally reputational risks (due to the growing awareness of stakeholders and the communities in the territories in which the Group operates). The COVID-19 pandemic has not changed the level of attention that the Group places on this issue; on the contrary, Recordati is increasingly aware of the key role that the fight against climate change will play in guaranteeing an increasingly resilient future for its business.

In this risk context, the Group's intention is to put in place policies aimed at optimizing environmental impacts and enhancement of the territories in which it operates without losing the efficiency of its resources.

As already reported in chapter 2, the Group participated in the CDP programme also in 2020, demonstrating its awareness regarding climate change and laying a foundation for further improvement actions. The CDP (formerly the Carbon Disclosure Project) is the non-profit organisation (supported by more than 500 institutional investors) most recognised worldwide for assessing company transparency in disclosures of information relating to climate change. In 2020, more than 9,500 companies reported their greenhouse gas emissions and analysed the risks and opportunities related to Climate Change through this programme.

More information on the activities carried out by the Group in relation to ESG risks is contained in the chapters "The Group's Focus on the Environment", "The Recordati group's Employees", and "Suppliers and Strategic Partners" of the Non-Financial Statement and in the "Health, Safety and Environment" section of the 2020 Annual Report.

3.3 THE GROUP'S FISCAL POLICY

Due to its strong international presence, the Recordati group contributes to the development of the countries in which it operates, providing products, services and employment and generating ethical, lasting and sustainable value in line with applicable laws and regulations in these countries, also through payment of the relevant state taxation.

The Group is aware of the primary value of such income for the collective well-being and therefore contributed actively to observing laws and regulations established by the individual fiscal jurisdictions, collaborating for payment of taxes and duties, and adopting transparent, honest and proper conduct.

Indeed, in order to develop and maintain professional and transparent relations with the Public Administration and national and international Tax Authorities, the Group guarantees access to relevant information demonstrating the comprehensive nature of fiscal processes, declarations and statements. Furthermore, the Group regularly fulfils local and foreign fiscal compliance requirements, e.g. through preparation of Transfer Pricing Documentation and the Country-by-Country Report (CbCR) in compliance with OECD Guidelines.

The global fiscal strategy implemented is aligned with the business strategy of the Group, aimed at expansion and diversification of the portfolio of activities without application of aggressive tax planning and, where applicable, using the institutes established by the various systems to collaborate with local Tax Authorities.

In the context of its fiscal approach, stakeholder engagement and management of problems of a fiscal nature, the Group pursues the following principles:

- Observation of laws and regulations and fulfilment of all requirements applicable in the countries in which it operates;
- Maintenance of a solid governance structure to properly comply with fiscal obligations and management of fiscal risk. All decisions are taken on the basis of the system of powers in force with supporting documentation justifying the decision-making process;
- Development and promotion of collaboration with Tax Authorities, based on reciprocal respect, transparency and trust. To this end, the Group has submitted various applications for rulings and prior agreements on transfer pricing;
- Guarantee of adequate legislative compliance, by observing documentary requirements under national or international law, including preparation of transfer pricing documentation of the Group companies in order to guarantee, demonstrate and support compliance with the principle of free competition relative to prices applied to intragroup transactions;
- Dialogue with governments on proposals for changes to fiscal legislation, where appropriate, directly or through representative bodies;
- As mentioned above, absence of the use of aggressive tax planning schemes involving artificial structures created solely for fiscal benefit or transactions without economic substance in order to obtain undue fiscal advantages. Use of incentives

and tax benefits, where available, is transparent and occurs in full collaboration with the Tax Authorities involved, e.g. the Patent Box incentive pursuant to Italian Law of 23/12/2014, as amended, or tax credits for research and development activity;

- Acting with integrity and not using tax havens that do not allow the exchange of information or jurisdictions with low taxation to obtain undue fiscal advantages.

Fiscal governance, control and risk management

Pursuing its fiscal strategy, the Group employs solid systems of governance, control and risk management in the fiscal context. Also through adoption of the Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001, the activities of the Supervisory Body regarding the procedures and protocols it contains and the suggestions and analyses performed by the Internal Control Committee, the Group ensures that there is an adequate and effective structure for prevention of offences, including those of a fiscal nature.

The Group's approach to fiscal risk is integrated into our broader corporate risk-management framework. The management of fiscal risk is performed in line with the requirements of applicable legislation and in the long-term best interests of shareholders, taking into account operational, economic and reputational factors.

In order to minimise fiscal risk, the Group implements specific controls to ensure correct and prompt payment and transfer of taxes in the context of transparent and exacting compliance, also aimed at preventing possible disputes. Further guarantees are provided by periodic audits performed by the Board of Statutory Auditors and the independent auditors, also through fiscal-risk-management processes.

The Group's tax department, operating under the Group Chief Financial Officer, is composed of experts in national and international taxation that regularly receive adequate training for appropriate management of fiscal strategy and the actions necessary for its implementation. Additionally, the Group also avails itself of external tax professionals for tax consulting and assistance required for correct and comprehensive interpretation of local and foreign legislation and close assessment of potential emerging risks. Fiscal risk can, in fact, also derive from unclear laws and regulations, as well as differences in interpretation.

Finally, the Group employs its whistleblowing procedure that allows all stakeholders to report critical issues regarding unethical or illicit conduct and the integrity of the Group, also in relation to fiscal considerations.

Income taxes

The provision for income taxes amounts to € 100.6 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies. IRAP is levied only on the Italian companies and is computed applying an average rate of 5.42% to a broader taxable base calculated before the deduction of interest.

Reconciliation of the current standard corporate income tax rate in Italy with the tax rate effectively incurred on consolidated pre-tax income is as follows:

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

4. People's health: Recordati's priority since the beginning

The Recordati group has always been focused on developing and offering innovative products, with the aim of improving human health and quality of life. To this end, the Group invests continuously in research and development and is committed to maintaining the highest product quality and safety standards throughout the product life cycle. In the Recordati group's strategy, the central importance of patients, including the most vulnerable, is also manifested in a constant attention to improving access to healthcare. Convinced that every single patient should have access to the best possible treatment, the Group also operates in the area of rare diseases.

4.1 RESEARCH & DEVELOPMENT AND INTELLECTUAL PROPERTY

The Group is constantly committed to Research & Development activities, implemented through the development and launch of pipeline pharmaceuticals and the acquisition of new specialities. In particular, in recent years Recordati has focused its efforts on the research and development of drugs mainly in the rare diseases sector.

Over the last few years, the development of new pharmaceuticals, partly through internal research programmes and primarily through R&D opportunities in partnership with external companies and research institutions, has been a fundamental element in enriching the pipeline and ensuring the Group's future growth.

The Group carries out research and development in accordance with good clinical and laboratory practices and legislation, guaranteeing compliance with the highest international standards. Recordati uses animals in scientific experiments only when this is strictly necessary, that is when there is no alternative and when it is expressly required by the health authorities. In such cases, Recordati makes use of specialised centres which guarantee adherence to relevant national and supra-national legislation and which effectively implement the principles of the 3Rs: Replacement (using alternative methods), Reduction (minimising the number of animals used) and Refinement (protecting animal welfare).

Recordati ensures the utmost rigour in performance of clinical studies through appropriate data management and the transparent management of results, thus avoiding any potential conflicts of interest. The health and safety of the subjects involved in clinical and post-marketing studies are our top priority, along with their human rights, including the rights to dignity, self-determination, privacy, and the confidentiality of personal data.

The subjects involved are provided with clear and comprehensive information, expressed using comprehensible, non-technical language. The Group uses trial centres and suppliers of proven reliability and professionalism and which are capable of meeting legal and regulatory requirements, as well as the applicable codes of conduct for the industry.

Protection of intellectual property

The Group's intellectual property is protected by its patents, which enable Recordati to protect its R&D investments. Following a positive outcome of the patent criteria assessment (principally relating to new products and innovative development phases) according to local laws and legislation, the award of European and international patents provides for patent protection in a great number of countries.

This protection, which varies from country to country, depends on the type of patent application and the intended objective. The patent application may be formulated to protect new compounds, manufacturing processes, medical indications, devices and the composition of materials. In countries where the Group files an application to gain patent protection, the duration of the same is generally twenty years, beginning from the date of filing. This period may be extended for a maximum of five years in certain countries, particularly in Europe and the United States, following the approval of the pharmaceutical product by the local Health Authorities.

The patent portfolio is regularly monitored in collaboration with the operational units involved, in order to identify potential breaches and take any necessary legal action. The Group also benefits from the protection of international intellectual property rights through licensing agreements for products and compounds that have been patented by other companies.

As at 31 December 2020 the Group held 1,235 patents, of which 52 were granted in 2020.

Trademarks also protect the Group's intellectual property. This protection, which varies from country to country, refers principally to their use and registration. Trademark rights are obtained based on national, international and EU registrations, and are generally granted for renewable periods of 10 years. The Group holds around 7,200 registrations for 900 trademarks filed in the name of various companies. Approximately 50% of the trademarks are currently in use.

For more information on the Group's research and development activities please refer to the "Research and Development" section of the Annual Report.

4.2 THE RECORDATI GROUP'S COMMITMENT TO IMPROVING ACCESS TO MEDICINE AND HEALTHCARE

Rare diseases and orphan drugs: a healthcare priority, a Recordati priority.

The Group is dedicated to caring for the most vulnerable. The claim "Focused on the Few" expresses Recordati's conviction that every single patient should have access to the best possible treatment.

Rare diseases are predominantly genetic disorders that can affect patients of any age, gender and ethnicity, and involve every category of medical specialisation. These are chronic, often fatal or severely debilitating diseases that have a huge impact on patients, their families and society. To treat these diseases, specialist medical products known as "orphan drugs" are developed.

A disease is defined as rare when its prevalence, understood as the number of cases in a specific population, does not exceed a set threshold. In Europe, this threshold is 0.05% of the population, corresponding to 5 cases in every 10,000 people, while in America the threshold is less than 200,000 people in the country's entire population. Over 30 million people are affected in Europe alone. There are more than 7,000 known rare diseases, but today approved treatments exist for just 10% of these. The number of patients is so small that a rare disease is often not "adopted" by the pharmaceutical industry and hence the expression "orphan drug".

Due to the broad spectrum of existing diseases and the scarcity of available information, physicians may never examine a patient with a rare disease in their entire career. For this reason, there is always the risk that when a child is born with a rare disease, a correct diagnosis may not be made and and timely appropriate treatment treatment may not be provided. The limited number

of patients and scarcity of relevant knowledge and expertise characterise rare diseases. In order to guarantee that the scarce knowledge and available resources are made available, these are often shared through international cooperation channels. In order to provide assistance to persons affected by a rare disease and encourage pharmaceutical and biotechnology companies to invest in treatments for rare diseases, governments have introduced various legal and financial incentives.

The Recordati group operates in the rare diseases segment worldwide through Recordati Rare Diseases, its dedicated group of subsidiaries which make our specialty pharmaceuticals for rare diseases available directly in Europe, the Middle East, the United States, Canada, Russia, Australia, Japan and certain countries in Latin America (Brazil, Mexico and Colombia) and through highly qualified distributors in other areas, covering over 100 countries around the world.

The Group has developed a direct distribution and packaging system capable of efficiently providing very small quantities of specialised products to people all around the world very quickly. Recordati manages a GMP-certified site in Nanterre (Paris) that is entirely dedicated to packaging, storage and shipment of products for rare diseases to all countries.

The activities carried out by Recordati Rare Diseases include support for patient associations for people affected by rare diseases, which help patients and their families, facilitating access to orphan drugs and treatment centres. Recordati's orphan drug specialists actively collaborate with the medical community to facilitate dialogue between hospitals with limited expertise in rare diseases and specialist medical centres able to diagnose and treat rare conditions in an appropriate manner. Through Recordati Rare Diseases Foundation, the Group is committed to improving diagnosis and treatment of rare diseases, also through targeted training courses.

RECORDATI RARE DISEASES FONDATION D'ENTREPRISE

Working in the field of rare diseases means we have an important responsibility towards patients and healthcare professionals and lies at the heart of Recordati's commitment.
The Recordati Rare Diseases Foundation was established to provide unconditional support to training for the scientific community in the field of rare diseases. These high-level courses are organised under the supervision of an independent scientific committee. The overall aim is to share experience in the diagnosis, management and outcome of rare disorders where individual knowledge is by its nature limited.
The Foundation gives specialists the opportunity to broaden their expertise, develop new ideas and establish scientific relationships.
A number of live events are held each year bringing together clinicians and scientists from all over the world to discuss innovations and new diagnostic and management strategies.
During the COVID-19 pandemic and consequent lockdowns, courses have been postponed and virtual meetings organised to keep up to date with developments in the scientific community.
The Foundation also offers online e-learning courses aimed at providing physicians worldwide with clinically useful information and updating them on current knowledge and treatment recommendations.

Also in the context of facilitating access to treatments, the US company Recordati Rare Diseases inc. has developed two separate programmes to provide assistance to patients that qualify to receive support for the costs related to its products: the Patient Assistance Program (PAP) and the Co-Pay Assistance Program (CAP):

- **Patient Assistance Program (PAP)**: this programme enables Recordati Rare Diseases to supply products to medical professionals or hospitals which require free product in order to treat patients who do not have adequate medical insurance to cover the cost of the drug and are able to demonstrate financial need. A case-by-case assessment is carried out by a third party on behalf of Recordati Rare Diseases in order to substantiate eligibility and register patients in the programme.
- **Co-Pay Assistance (CPA)**: this support programme, available for certain products, is administered through a third party on behalf of Recordati Rare Diseases and provides financial support to insured patients for all or part of their financial responsibilities not covered by their insurance plan. In order to benefit from this assistance, patients must fulfil certain eligibility requirements, and have a valid medical prescription for the product.

The continual growth of Recordati Rare Diseases confirms Recordati's commitment to becoming a global player in the rare diseases sector. For more information on rare diseases and orphan drugs, please refer to the relevant section of the Annual Report.

4.3 PRODUCT QUALITY AND SAFETY

In order to guarantee the highest possible levels of health and safety for patients, the Group is committed to guaranteeing product quality and safety throughout the Recordati supply chain, from the research and development phase for new products to the procurement of raw materials and the production and commercialisation of registered medicines.

During the research phase, specific clinical studies are carried out in order to ensure the efficacy and safety of the products and confirm the absence of any possible dangerous side effects. Furthermore, the results of these studies are assessed by regulatory bodies in Italy, Europe and all of the other countries around the world, before authorisation is given to introduce the medicines on the market.

Throughout the supply chain, our suppliers are selected and regularly assessed according to audit schedules in order to verify compliance with multiple criteria, from environmental factors to the quality of the ingredients. During manufacture, all medicinal products are produced in accordance with Good Manufacturing Practices in plants authorised by the relative local and non-European regulatory bodies. Our plants are constantly subject to inspections and checks to ascertain compliance with current legislation and internal regulations.

The production phase involves strict and rigorous control of all raw materials and packaging materials used in the manufacturing and packaging processes performed by the Quality-Control laboratories of production plants or by third-party laboratories. In both cases, the Quality-Control laboratories must be expressly authorised and certified, with inspections performed by national and international regulatory agencies, in order to perform these control activities. Specifically, every batch of materials received from suppliers undergoes a quality-control procedure which impedes its use until the batch has been demonstrated to be fully compliant with the defined specifications that guarantee the quality and safety of the resulting pharmaceutical process.

Furthermore, all production processes employed are validated, demonstrating their capacity to provide reproducible finished products that are compliant with the quality, safety and efficacy requirements defined in product registration processes. Validation of production processes is guaranteed through the use of certified equipment subject to periodic recalibration, specially and periodically trained personnel, and rigorous standard operating procedures, with the goal of making every production operation and control reproducible and aligned with the defined standards.

For the product-commercialisation phase, the Recordati group has implemented a system aimed at guaranteeing compliance with European, Russian, Turkish and US Directives, and those of other countries with equivalent regulations in force, regarding anti-counterfeiting, observing the measures expected by the respective authorities with regard to product serialisation and aggregation, and for the use of quality seals on packaging, always in line with applicable local legislation. Furthermore, when handling all complaints made regarding its products, the Group investigates any possibility of counterfeiting.

Finally, the Recordati group operates a post-sale pharmacovigilance policy, enabling doctors and patients to promptly notify the Group of any significant events or adverse reactions experienced during the use of Recordati medicines.

Efficiency also for production processes: the lean-manufacturing approach

Over recent years, Recordati has introduced a lean-manufacturing approach aimed at improving production platforms through analysis of procedures and "non-production" activity/actions, that may therefore be removed from the process or improved, benefiting the entire operations cycle.
Following the initial phase aimed at increasing personnel knowledge and expertise on lean practices, a project was approved to support standardisation of processes to gather production data. The Digibelt system was installed for this purpose. This collects data, allowing precise analysis of weaknesses in the process and definition of consequent improvement actions. This project was successfully completed in the second half of 2020.
There are plans to extend application of lean manufacturing to the other Group pharmaceutical plants over the coming years.

Audits and inspections

In order to ensure the quality and safety of its products and verify the compliance of its suppliers with quality, environmental, health and safety legislation and regulations, the policies implemented by the Recordati group include periodic audits, as well as continuous inspections performed by the competent regulatory authorities and self-inspections within its own production plants.

Production plant inspections and audits

The production plants of the Recordati group are regularly audited, both internally and externally by companies which are customers of the Group, or subject to inspections performed by the competent authorities, in order to verify compliance with product quality regulations.

During the production phase, every single batch of Recordati medicines is produced in accordance with the dossiers approved by the relative health authorities and is subject to controls designed to ensure their quality.

Within its own pharmaceutical plants, the Group is committed to maintaining a quality control system that fulfils all national and international requirements, guidelines and standards for the production of finished pharmaceutical products, medical devices and dietary supplements. In particular, the manufacturing plants operate in line with GMPs (Good Manufacturing Practices) and are regularly verified through inspections conducted by the competent national and international authorities. The Quality Control departments are responsible for the control of procured raw materials and the finished products in accordance with the relative procedures, approved methods and the pharmacopoeial monographs.

In 2020, a total of 98 inspections/audits were carried out at the Group's pharmaceutical production plants in order to assess product quality and safety. Of these, 66 (67%) were self-inspections carried out by the Group at its own plants, while the remaining 32 (33%) were carried out by the competent authorities (Health Ministries, Agencies, Certification Bodies, FDA and AIFA) and third-party companies.

Subdivision of quality and safety inspections/audits at pharmaceutical plants

In 2020, the pharmaceutical plants underwent inspections by regulatory bodies in order to review/grant manufacturing authorisations. Of particular interest in this regard are those that were performed:

- by Russian national authorities and by the respective certification bodies for medical devices (Eurofins, *Istituto Superiore Sanità* [Italian Institute of Health] and TUV) in Milan (Italy);
- by Russian national authorities in Çerkezköy (Turkey) for manufacturing authorisation of certain pharmaceutical forms (tablets, capsules, oral liquids and semi-solids);
- by Swiss national authorities in Basel (Switzerland) for the new site of Recordati Rare Diseases dedicated to management of special medicines in the field of endocrinology;
- by French national authorities (ANSM) at the Nanterre plant (France) for the secondary packaging of Recordati Rare Diseases products for periodic renewal of manufacturing authorisation;
- by the Czech national authorities (SUKL) in Pardubice (Czech Republic) for periodic renewal of the manufacturing authorisation.

In addition, in Utebo (Spain), inspections were performed by the competent certification bodies for periodic renewal of the manufacturing authorisation for medical devices (IMQ and UCMCP) and in Ariana (Tunisia) inspections were performed for renewal of the integrated Quality, Safety and Environment certification (SMI).

All of the inspections resulted in renewal of the existing authorisations.

In addition to the inspections received from external bodies starting in 2019, the pharmaceutical production plants are subject to internal audits carried out by the Group's internal Quality Assurance unit on an annual basis. In 2020, these activities were unfortunately negatively impacted by the spread of the COVID-19 pandemic during the year. In this regard, analysis and evaluation of alternative procedures is underway to allow execution of these activities remotely, taking advantage of new technology available.

Regarding inspections in chemical and pharmaceutical plants, it is noted that the Italian plant in Campoverde di Aprilia underwent 12 internal audits of production, quality and maintenance units performed by the Quality Assurance unit and 8 audits by customers.

Supplier audits

One of the main control measures implemented in the supply chain are the audits carried out by the Group at third-party companies which produce medicines, medical devices and dietary supplements, as well as suppliers of APIs, excipients, packaging and services. In addition to assessments at the supplier approval stage, use of suppliers is also dependent on the ongoing quality monitoring of all supplies in order to constantly verify the level of quality and compliance with agreed specifications.

In line with the current procedures for approval, all suppliers, particularly those supplying active substances, excipients, packaging materials and services, are subject to periodic audits as defined by a risk assessment. In fact, in 2020 the Pharmaceutical Division of the Recordati group conducted 94 supplier audits, of which 28% on third-party manufacturers, 22% on suppliers of active substances, 16% on suppliers of packaging, 23% on service suppliers and 11% on suppliers of excipients.

Subdivision of supplier audits conducted by the pharmaceutical division by product category

Regarding supplier inspections carried out by the chemical and pharmaceutical division, it should be noted that during 2020 the Italian Campoverde di Aprilia plant conducted six audits of suppliers of raw materials and services.

Compliance with legislation and regulations

The Recordati group operates in full compliance with legislation and regulations in various fields thanks to dedicated and qualified personnel. As indicated in the Code of Ethics, compliance of all conduct with applicable legislation and ethical regulations is a mandatory prerequisite for Recordati and its collaborators in every country in which it operates.

Key figures in the Group active in this regard include the managers of the Pharmacovigilance Department, the Scientific Department, the Clinical and Manufacturing Quality Assurance Departments and the Regulatory Affairs Department, as well as the Qualified Person, the Health, Safety and Environment Manager and the Compliance Officer. Activities aimed at ensuring compliance with legislation and regulations are undertaken in compliance with international best practices and are constantly examined through inspections conducted by commercial partners, authorities or certification bodies. In this regard, the Recordati group complies with the regulations issued by industry certification bodies and has achieved GMP (Good Manufacturing Practice) certification for product quality and safety at all its plants issued by the competent national and foreign authorities. The Campoverde di Aprilia plant is also regularly inspected by the Italian Medicines Agency, the US Food and Drug Administration, the Brazilian *Agência Nacional de Vigilância Sanitária* and the Korean Food and Drug Administration and is certified by the Japanese Ministry of Health.

During 2020, no instances of non-compliance with socio-economic legislation and regulations were recorded, but we note an outstanding legal proceeding for the cancellation of an administrative penalty, already noted in the 2019 Non-Financial Statement. With regard to the administrative penalty of € 29,000 imposed on the Turkish subsidiary Recordati İlaç Sanayi ve Ticaret Anonim Şirketi by Turkey's Social Security Institution following the alleged damage suffered as a result of the former's failure to provide prompt notification of price changes for certain products marketed by this branch in the countries concerned, it should be noted that after the objection raised by the Company with the competent government authorities regarding the lack of clarity in the countries of reference was not accepted, the Company filed legal proceedings against the local Social Security Institution for cancellation of the administrative sanction. These legal proceedings are still ongoing.

During 2020, no cases of non-compliance with legislations and/or self-regulation codes were recorded regarding impacts on the health and safety of products marketed by the Group that have led to sanctions applied to the Company.

In relation to possible recorded cases of non-compliance with legislation and/or self-regulation codes regarding information and packaging, it is noted that during 2020, Recordati did not receive significant sanctions for sold products. It is noted that during the year an error was identified in the expiry date of around 200 batches of certain products containing metoprolol and a combination of metoprolol and felodipine, caused by an incorrect manufacturing date being communicated by the manufacturer. Following communication from the manufacturer, Recordati, in its capacity as marketing authorisation holder of the relevant finished products in 26 EU countries, swiftly notified all of the Authorities of the 26 EU countries involved of this error, which in the majority of cases took no action regarding the product already on the market, as it was considered that there was no impact on safety or efficacy. Only in two cases, in Germany and the Netherlands, did the Authorities recall the batches from the market, while the Authorities in France, Latvia and Estonia are yet to respond. This issue was swiftly resolved.

Anti-counterfeiting

Recordati operates in compliance with anti-counterfeiting legislation and takes all the necessary steps to allow the unique identification of medicinal products, as required by the law regarding serialisation in pharmaceutical manufacturing.

Since 2006, the European Federation of Pharmaceutical Industries and Associations (EFPIA) has been developing a standardised medicinal products traceability system as part of the fight against counterfeiting. Working in collaboration with three other European organisations, EFPIA has been involved in the creation of an ambitious coding and serialisation system known as the European Stakeholder Model (ESM). In conjunction with this project, ESM members worked to implement the European Medicines Verification System (EMVS) which aims to regulate the dispensation of medicines to ensure product authenticity.

In this context, in February 2016 the European Parliament issued a regulation dictating the technical requirements for all prescription medicines in order to combat medicines being counterfeited. This regulation came into force in February 2019. However, certain member states, Italy included, are exempt from implementing this regulation for a further six years due to the adoption of internal anti-counterfeiting systems at national level. From such date, medicinal products that do not comply with the safety requirements established by this regulation may no longer be marketed.

In this regard, in 2015 the Recordati group launched a project to ensure that all medicinal products produced at its own production plants or those of third-party companies comply with this regulation. The project was completed in line with the implementation deadlines provided for by legislation and the packs produced for the Group have been compliant with legislative requirements since January 2019. All information generated in regard to the serialisation of individual packs are collated in a database designed to enable the in-out management of all third parties of the Group as part of a European data-collection system.

Similar initiatives aimed at combating the counterfeiting of medicinal products have been launched or are currently being implemented in various countries in which the Group operates. Specifically, in Turkey, China, the US, Korea and Russia, drugs marketed by the Recordati group are already fully aligned with these safety requirements. In Brazil, where a drug anti-counterfeiting directive has recently been issued, implementation of similar regulation is planned within the coming years. For this reason, Recordati has launched a new project to allow provision of drugs compliant with these requirements by the deadlines defined for all products marketed by the Group in this country.

4.4 RESPONSIBLE MARKETING

As set out by the Group Code of Ethics, Recordati seeks to enable doctors and healthcare operators to offer their patients the best possible therapeutic care, providing them with complete, accurate and truthful information in accordance with the applicable legislation on the promotion of medicinal products. At Recordati regulations on advertising products to the public are rigorously applied, adopting a simple, clear, and complete approach to communication and refraining from any improper and/or misleading practices.

Relationships with the medical community, healthcare operators (pharmacists, nursing staff, or other healthcare workers in public and private healthcare structures), scientific societies, and medical associations must be handled in a transparent and traceable manner, in full observance of the applicable laws and rules of conduct set out by the professional codes of national industry associations.

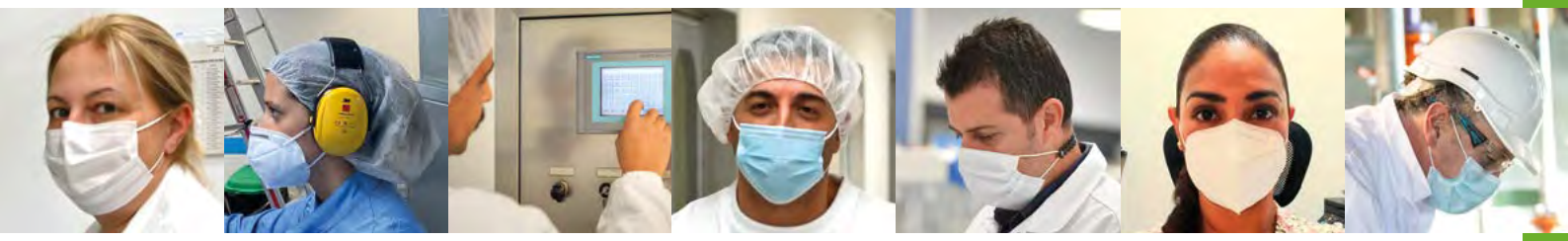
All information and promotion activities regarding drugs promoted by the Group Companies are regulated by internal procedures in compliance with supra-national and national legislation. These procedures are also aligned with the national codes of industry associations.

The marketing activities of Group Companies are periodically subject to specific internal audits in the context of the audit plan approved by the Parent Group. The Group Companies, members of industry associations, submit their marketing and scientific-information procedures and activities to independent assessment and annual certification.

The Group's field forces receive constant training on regulations regarding drug advertising and the provision of information in compliance with local legislation and specific training on ethics and anti-bribery topics in the context of the company training plans specified in the previous paragraphs.

Recordati has commercial relationships with both private customers and with customers in Public Administration. Our private customers include, for example, distributors, wholesalers, pharmacies, and the large-scale retail trade. Our customers in Public Administration include, for example, hospitals, care homes, and public pharmacies. All commercial relationships with our customers are based on fairness, honesty and mutual respect and always comply with the current regulations in the markets where the Company operates. Within these relationships, the Company guarantees full and correct fulfilment of contracts and provides high-value products and services in terms of quality, safety, and environmental impact. In terms of our commercial relationships with customers in Public Administration, in addition to respecting the aforementioned principles, the Company also guarantees correct fulfilment of all obligations related to participation in tenders organised by Public Bodies.

5. The Recordati group's employees



The Recordati group recognises the central importance of Human Resources, which represent the primary factor for successful implementation of company strategy and the generation of value in the long term.
The Group is committed to constantly safeguarding the health, security and well-being of its people, in full compliance with applicable regulations and laws.
It incentivises training and professional development.
It promotes a serene, merit-based and inclusive environment where each individual is able to fulfil potential and optimise their capabilities and talent.

5.1 THE IMPORTANCE OF OUR EMPLOYEES

The Recordati group operates in highly specialised sectors such as the specialist and general medicine pharmaceutical sector, the treatment of rare diseases and chemical pharmaceuticals sector. In order to operate effectively in these fields, it is essential to collaborate with increasingly highly qualified employees able to bring professionalism and added value to the Group and enable us to confront and overcome market challenges. For this reason, Recordati has always been committed to guaranteeing a proper management policy of human resources as a lever to pursue improved competitive performance and to promote the value of quality performance.

The Group's policy for the development and optimisation of human resources aims to incentivise professional growth and career development. This policy is founded on the belief that the Group's results are closely tied to the capacity of our employees to engage their own commitment and talent to achieve goals. The optimisation of human resources is a key priority when fulfilling company roles. The recruitment process is aimed at selecting the candidates that best respond to the profiles required by company departments in accordance with the given time frames, market cost criteria and internal fairness.

To achieve such objectives Recordati adopts a policy towards its Employees which:

- attracts and encourages the development of talents, including by collaborating with Schools and Universities and a structured employee selection procedure;
- encourages employees and collaborators to develop their skills by providing tailored training courses;
- hangs on to and motivates the most qualified employees and those with potential for development, not just by offering competitive long term remuneration to reward merit but also through a series of initiatives able to foster a sense of belonging to the Group;
- ensures employees' well-being health and safety;
- ensures social equity, equal opportunities and respect for the individual, core values for Recordati which constantly combats all forms of discrimination.

At 31 December 2020, the total number of the Group's employees was 4,362, an increase compared to 2019, of which 54% were men and 46% women.

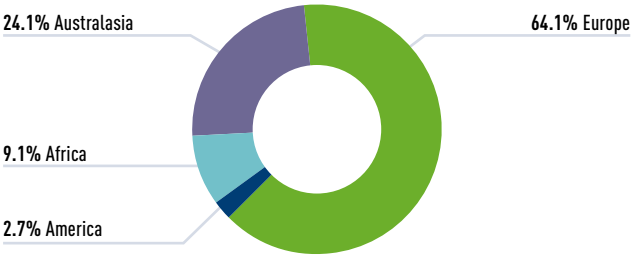
The branch with the greatest increase in terms of personnel was that in the United States, which more than doubled its personnel due to expansion of the rare-diseases business in the field of endocrinology.

The Group's workforce is also supplemented by approximately 120 people who collaborate with Recordati in various ways; approximately half of these collaborators are women.

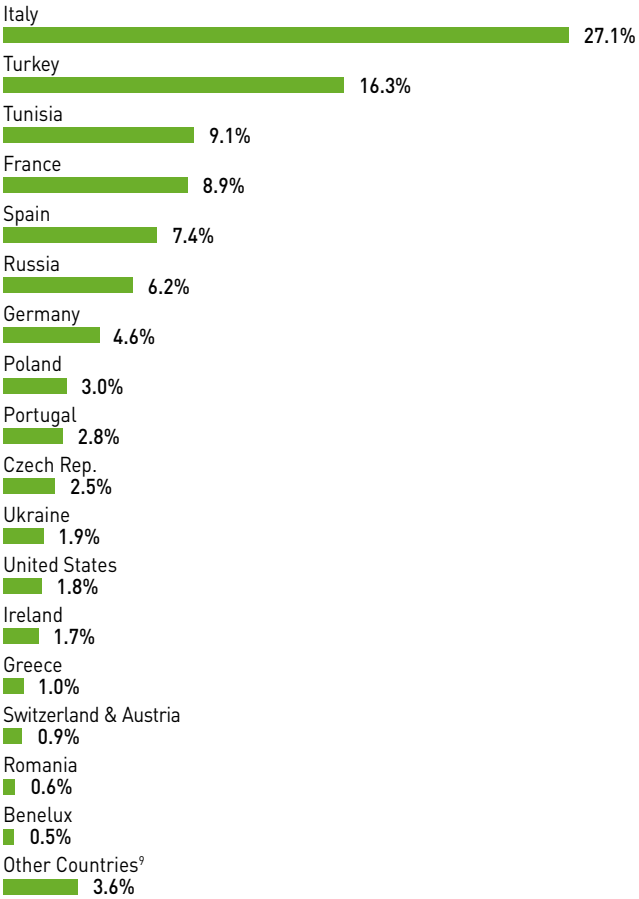
Subdivision of employees and collaborators by gender, as of 31 December 2020

	2020			2019		
Number of employees	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Employees	2,352	2,010	4,362	2,376	1,947	**4,323**
Collaborators	67	57	124	80	68	**148**
Total	**2,419**	**2,067**	**4,486**	**2,456**	**2,015**	**4,471**

Percentage breakdown of employees by location[8]



Breakdown of employees by country

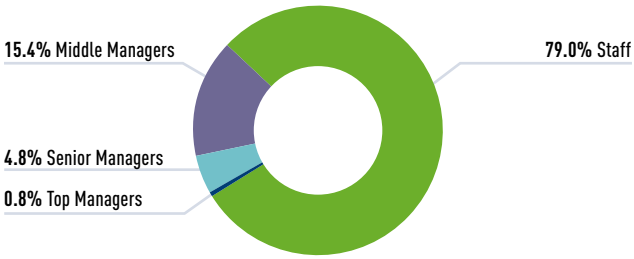


8 Australasia includes the Turkish branch (Recordati İLAÇ ve Hammaddeleri Sanayi ve Ticaret A.S.) and the Russian branch (RUSFIC LLC).

9 The item "Other Countries" includes the employees who work in Armenia, Australia, Baltic countries, Belarus, Brazil, Bulgaria, Canada, Colombia, Georgia, Hungary, Japan, Kazakhstan, Malaysia, Mexico, Sweden, the United Arab Emirates and the United Kingdom.

With regards to the breakdown of Recordati group's workforce by professional category, to facilitate ongoing comparison between the various corporate positions and give a clearer picture of the organization, the Group's employees are divided into four categories: Top Managers (Vice President, Corporate Managers and General Branch Managers), Senior Managers (equivalent to Directors in Italy), Middle Managers (equivalent to Junior Directors in Italy) and Staff (the other employees). At the end of the year, in addition to the 37 Top Managers, there were 207 Senior Managers, 670 Middle Managers and 3,448 Staff. All Top Managers and Senior Managers, which overall represent approximately 6% of the workforce, are hired locally, in line with the figure for the previous years.

Percentage breakdown of employees by professional level

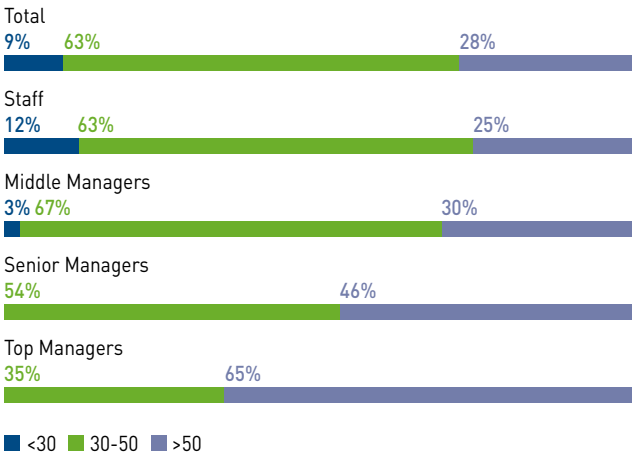


Approximately 63% of the workforce is composed of employees aged between 30 and 50; 28% are over 50 and approximately 9% are under 30.

Subdivision of Group employees by professional level and age, as of 31 December 2020

				2020				2019
Number of employees	**<30**	**30-50**	**>50**	**Total**	**<30**	**30-50**	**>50**	**Total**
Top Managers	0	13	24	**37**	0	12	23	**35**
Senior Managers	0	111	96	**207**	0	103	92	**195**
Middle Managers	17	450	203	**670**	14	439	192	**645**
Staff	393	2,177	878	**3,448**	458	2,157	833	**3,448**
Total	**410**	**2,751**	**1,201**	**4,362**	**472**	**2,711**	**1,140**	**4,323**

Percentage breakdown of employees by professional level and age



The selection process outlined in the recruitment policy can take place internally, through horizontal and vertical career paths designed to develop the technical and professional skills of employees already within the Group or externally through recruitment campaigns conducted directly or using approved recruitment agencies.

In order to optimise the development of human resources, in the case of suitable vacancies and candidates the Group prioritises the recruitment of internal employees. For junior positions, the recruitment process begins at university level, focusing on undergraduates in their final year or new graduates who have been selected according to their university or Master's specialisation. This policy offers young people the opportunity to embark on a professional path within the Group, in particular in the areas of Finance, Research and Development, Marketing and Industry. To select the best candidates, the Group uses an internal Assessment Centre that aims to assess the transferable skills and communication abilities of the young candidates through group trials and role plays.

With a view to standardising the selection of candidates, a "Recruiting Grid" has been implemented in the HR departments of the various Group companies for several years, aimed at supporting line managers involved in the selection of a new employee during the candidate's interview process. In a nutshell, this initiative provides a series of prompts aimed at exploring if, and to what extent, the candidate possesses the managerial skills that characterise employees of the Recordati group. During the interview, the manager draws on a series of suggestions on how to engage with the interviewee, such as how to pose questions and which aspects to develop further. Furthermore, the "Recruiting Grid" offers a number of positive and negative indicators to indicate whether a candidate possesses a certain skill.

In 2020, 603 new employees joined the Recordati group, with an inbound turnover rate (the ratio between the number of new employees and the total Group workforce as at 31 December 2020) of approximately 14%, while the number of employees who left the company was 564 with an outbound turnover rate (the ratio of number of people leaving the Group to total Group workforce as of 31 December 2020) of around 13%.

Subdivision of total employees entering and leaving the company by gender and age

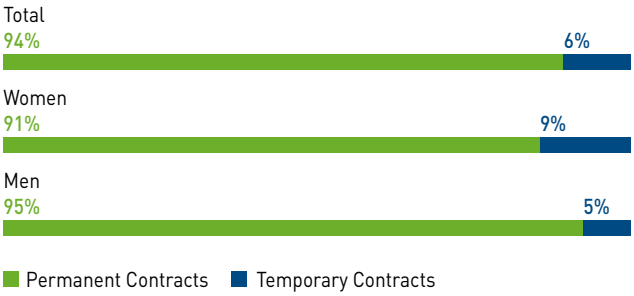
	2020					2019				
Number of employees	**<30**	**30-50**	**>50**	**Total**	**Turnover %**	**<30**	**30-50**	**>50**	**Total**	**Turnover %**
New employees entering the Group										
Men	83	142	45	270	11%	113	229	39	381	16%
Women	113	173	47	333	17%	150	209	40	399	20%
Total	196	315	92	603	14%	263	438	79	780	18%
Turnover %	48%	11%	8%	14%		56%	16%	7%	18%	
Employees leaving the Group										
Men	82	134	78	294	13%	55	164	62	281	12%
Women	87	139	44	270	13%	85	194	39	318	16%
Total	169	273	122	564	13%	140	358	101	599	14%
Turnover %	41%	10%	10%	13%		30%	13%	9%	14%	

The Recordati group believes that offering a stable and lasting working relationship is an important factor in employee motivation and is essential for the Group's growth and economic development. For this reason, 94% of all resources are recruited on permanent contracts while 6% are on temporary contracts, in line with previous years.

Subdivision of employees by contract type (permanent or temporary) and gender

	2020			2019		
Number of employees	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Permanent Contracts	2,244	1,835	4,079	2,262	1,782	4,044
Temporary Contracts	108	175	283	114	165	279
Total	2,352	2,010	4,362	2,376	1,947	4,323

Percentage subdivision of employees by contract type (permanent or temporary) and gender



In addition, at a contractual level, 81 people opted for part-time contracts, with a reduction of 9% compared to 2019. 84% of employees on part-time contracts are women.

Subdivision of employees by contract type (full or part time) and gender

	2020			2019		
Number of employees	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Part Time	13	68	81	14	75	89
Full Time	2,339	1,942	4,281	2,362	1,872	4,234
Total	2,352	2,010	4,362	2,376	1,947	4,323

In order to promote continuous improvement aimed at optimising sharing of information on human resources, it should be noted that during 2020 a preliminary analysis was conducted to outline an HR Digital Transformation project for launch in 2021, with adoption of a Human Resources Information System (HRIS) at Group level. Furthermore, in the context of harmonising HR processes at the global level, solutions were evaluated to develop a Job Architecture (understood as the definition of a system of roles at the Group level) that allows greater uniformity and creation of a Global Model for the Group.

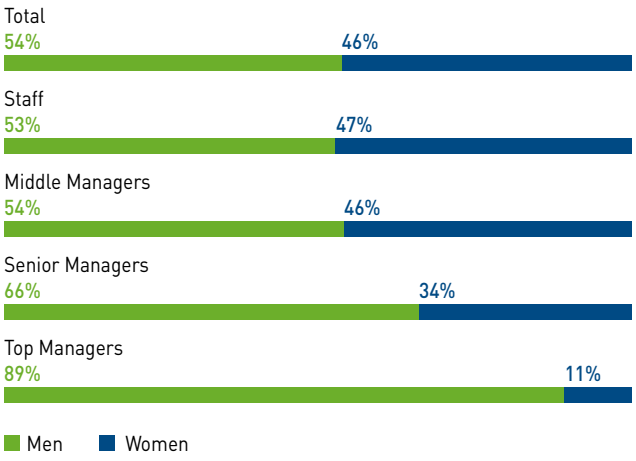
5.2 DIVERSITY AND EQUAL OPPORTUNITIES

As stated in the Code of Ethics, the Recordati group is committed to guaranteeing that there shall be no form of discrimination whatsoever in the workplace based on age, gender, sexual orientation, ethnicity, language, nationality, opinions on political or trade-union matters, religious beliefs, or any other personal characteristics. Therefore, all Group structures are committed to: adopting criteria based on merit, skills and professionalism; selecting, recruiting, training, rewarding and managing employees without discrimination; promoting the integration of employees from other countries. The Group has a good gender balance, with 54% of employees represented by men and 46% represented by women. The breakdown in terms of gender has basically remained the same as previous years.

Subdivision of employees by professional level and gender

	2020			2019		
Number of employees	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Top Managers	33	4	**37**	31	4	**35**
Senior Managers	137	70	**207**	134	61	**195**
Middle Managers	363	307	**670**	351	294	**645**
Staff	1,819	1,629	**3,448**	1,860	1,588	**3,448**
Total	**2,352**	**2,010**	**4,362**	**2,376**	**1,947**	**4,323**

Percentage breakdown of employees by professional level and gender



All company departments of the Group are committed to creating a working environment where the personal characteristics of individual employees do not form the basis for discrimination of any kind. In order to guarantee this principle, the Group has integrated a management policy which promotes the concept of inclusion, respects diversity and gives all employees a voice so that every contribution is heard and valued.

Regarding the Group's remuneration policy (ratio between salaries of women and men), please consult the paragraph entitled "Remuneration and benefit system".

Regarding human rights, in accordance with International Labour Organization conventions, the Group undertakes to prevent and refuse exploitation of labour, including and above all, that involving children, undertaking to ensure that its suppliers also do so. The Group takes steps to guarantee that the human rights of all workers are respected, combating all types of harassment, violence, threats, abuse of authority, and the exploitation of crisis situations. Managers across all company departments constantly monitor compliance with the provisions of the Code of Ethics and are committed to intervening promptly in the event of any situation that could potentially result in breaches of the conduct required and promoted by the Group.

5.3 REMUNERATION AND BENEFIT SYSTEM

The remuneration system of the Recordati group is based on the meritocratic "Pay for performance" principle and has been designed to encourage and reward high levels of performance, aligning managers' interests with those of our shareholders. The remuneration strategy aims to ensure that pay corresponds to the responsibilities of each role and to individual performance, optimising and retaining key resources while remaining in line with national employment legislation. The remuneration system is composed of basic pay, variable short-term compensation (variable annual bonus), additional benefits (pension contributions, reimbursement of medical expenses, etc.) and variable mid-to-long term compensation (principally represented by stock option plans). The variable short and mid-to-long term payments are subject to the achievement of financial results which are measurable, quantifiable and made known to beneficiaries.

In 2019, an assessment of the existing MBO system was carried out at Group level, by a leading consulting company in the compensation field; a number of important changes were introduced (in relation to the calculation mechanism, target and payout) through benchmarking with the reference market and the subsequent design, which were initially applied for Top Managers starting from 2020 and will be proportionally extended to other Managers from 2021 (in order to align bonus logic within the Group), aimed at increasingly valuing and rewarding the best performance, aligning the interests of managers with those of the shareholders, and rewarding special acquisitions and integrations.

The Group's remuneration policy aims to guarantee equal conditions for men and women across all professional levels, rewarding merit and the ability to fulfil the assigned role and meet defined objectives. In terms of remuneration, the ratio between the average basic salary of female employees and male employees is 90% at Senior Management level, 95% at Middle Management level and 98% for all other employee categories. In terms of total remuneration[10], this ratio is 90% for Senior Managers, 92% for Middle Managers and 95% for Staff. At the Top Manager level, instead, the ratio is 110% in terms of basic salary and 109% in terms of total remuneration. Specifically, for Senior Managers and Staff an improvement was recorded in values compared to 2019, with Top Managers and Middle Managers still aligned with the previous values.

10 The variable component of total remuneration differs between Italian and foreign companies. In Italy, this variable component is predominantly composed of MBO programmes (available for all Senior Managers and around half of all Middle Managers) and the participation bonus offered to all Middle Managers and employees except Senior Managers. Foreign Companies manage the variable component independently through packages similar to MBO programmes which are offered to all employees (including a portion of the Staff) in line with local regulations.

Ratio between basic salary and total remuneration for men and women by professional level, for Italian and foreign companies of the Recordati group, as at 31 December

	2020		2019	
Ratio between women and men	Basic Salary	Total Remuneration	Basic Salary	Total Remuneration
Top Managers	110%	109%	107%	110%
Senior Managers	90%	90%	87%	84%
Middle Managers	95%	92%	95%	92%
Staff	98%	95%	96%	93%

Employee benefits and welfare

The Recordati group believes that the welfare of its employees is a key element to achieving company targets. In general terms, welfare initiatives vary between countries due to the specific characteristics of different states (regulatory framework, availability of public services etc.) and the existence of previous agreements developed by the various corporate entities before they became part of the Group. The benefits offered to employees are linked to their professional category, regardless of the type of contract. At Recordati, corporate welfare is "the system of non-monetary benefits designed to increase the individual and family well-being of employees from an economic and social point of view" and is part of a wider strategy aimed at managerial innovation and corporate social responsibility and represents a tool to improve relations with employees and stakeholders within the Group.

The definition of company welfare includes both benefits, which represent resources allocated by the employer to meet the social security and welfare needs of employees (e.g. contribution to healthcare plans or additional welfare provisions), and "perks", which consist of goods or services made available to employees (e.g. company car, canteen or restaurant vouchers or coupons).

Driven by a growing demand for services from workers and in light of the significant tax benefits recognised by current legislation, the Parent Company has implemented the company welfare system provided to its employees, with a view to a total reward policy, in which monetary instruments (salary and variable remuneration) are combined with non-monetary instruments (benefits and perks) to pursue objectives of tax and contribution optimisation, loyalty, motivation and attraction of human resources and the construction of a solid and lasting "company identity".

Regardless of the format, every welfare initiative implemented by the Recordati group aims at achieving both tangible and intangible results relating to the management of employee relations. In particular, these initiatives aim at promoting:

- the maintenance of a healthy and positive working environment and life for all employees;
- the increase in engagement of human resources in the context of corporate activities and, more generally, an improvement in the quality of internal relations;
- a positive level of motivation resulting in a consistent professional contribution to individual and Group productivity;
- stable relations and a strong sense of belonging among employees;
- the reduction in turnover and, in terms of Employer Branding, an increasingly attractive and visible corporate profile on the employment market, particularly within the highly selective and competitive contexts within which the Recordati group operates.

In its approach to employee welfare initiatives, the Recordati group has always retained a strong belief in the importance of closely supporting employees and their families, offering practical assistance particularly in the case of serious health concerns.

To this end, the increased focus on employee welfare at a corporate level in recent months led the Group to commission an external consultancy firm to produce a report on the various welfare systems in Italy's pharmaceutical sector. This report highlighted that the welfare package offered by the Recordati group is in line with the other companies in the sample for its wide range of additional benefits; these include preventive medicine initiatives (such as flu vaccines and in-house specialist appointments), membership of professional institutions, agreements with suppliers (such as public transport operators), company canteens, company vehicles and various health insurance packages. Based on these findings, the short-term goal is to develop a benefits scheme that further broadens the current welfare system, ensuring constant alignment with the needs of the Group's workforce while also achieving the expected results.

The Parent company has a flexible benefits system: this system represents an alternative remuneration method for employed work consisting of a range of goods, services and non-financial benefits offered by the Group to its employees in addition to their "standard" wage package, in order to increase employees' buying power and improve their quality of life. More specifically, this system also offers the opportunity to partially or fully replace a percentage of the employee's variable remuneration package with goods and/or services which are usually purchased externally by the employee to meet their personal or family requirements (ranging from grocery or fuel vouchers and the reimbursement of medical or school fees for the employee or their family members, to membership with recreational initiatives and support for the care of elderly relatives). The term "flexible benefits" refers to a fixed allowance allocated to employees that can be "spent" freely on the goods and services which best correspond to their individual requirements.

This package has been designed to offer the broadest possible variety of options, meeting the different needs of a population characterised by diverse ages and requirements.

In the context of its welfare offer, the Company has established a contract with an external company that manages an IT platform allowing Recordati's employees to use the amounts allocated for welfare in the following ways:

- choice of a service from the Group's suppliers that have an agreement with the Company operating such services - and if there are suppliers that do not have an agreement, there is the possibility of requesting new agreements - and paying for it with the amount available in their individual account without any advance payment;
- use of a supplier not available on the platform, then "uploading on the platform" the relevant paid invoice; in this case there will be a refund of the paid receipt.

The objective, after consolidation at corporate level, is to evaluate its possible expansion to other Group concerns, again in line with the specific local regulations, so as to make it a means of further harmonization. For this reason, the launch of a project to map the benefits (and related legislation) for each country where the Group is present is being studied at Group level.

Following the health emergency that defined 2020 and the actions taken by the Group to ensure continuity of business and the well-being of its employees, in the future the Group intends to define appropriate flexible-working tools for employees with the goal of supporting a better home/work-life balance, firstly by introducing a "structural" smart working format that is not linked to the emergency. For further information on the activities and initiatives implemented in 2020 to face the health emergency, please consult the paragraph entitled "Protecting the health and safety of employees during the COVID-19 epidemic".

5.4 TRAINING AND DEVELOPMENT OF HUMAN CAPITAL

The Group considers the development of human capital as an important professional and personal process that enables employees to understand the key skills required by their role and develop their personal growth though individual training, on-the-job training, coaching, mentoring and one-to-one counselling.

In this respect, the main initiatives promoted by the Group throughout the year have aimed to define and develop the technical, managerial and linguistic skills of managers, as well as offer training programmes to develop specialised and professional skills.

In 2020, the Recordati group provided approximately 167,000 hours of training to its employees, a significant increase compared to the previous year (+46% on 2019) and equating to approximately 40 hours of training per capita. Specifically, 86% of all training hours was provided to Staff, 11% to Middle Managers and 2% to Senior Managers. Various types of training courses were offered including management skills, technical commercial skills, technical non-commercial skills, languages and health and safety. For all types, training increased compared to the previous year; particularly noteworthy are the over 100,000 hours of training, dedicated mainly to the Field Forces, one of the driving forces of Group performance.

Subdivision of per capita training times provided to employees by professional level and gender

	2020			2019		
Average number of hours	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Top Managers	6.1	5.8	**6.1**	9.5	10.8	**9.6**
Senior Managers	16.8	19.4	**17.7**	28.6	34.9	**30.5**
Middle Managers	36.8	18.7	**28.5**	40.0	32.4	**36.5**
Staff	43.1	40.2	**41.7**	27.0	21.5	**24.5**
Total	**40.1**	**36.1**	**38.2**	**28.8**	**23.6**	**26.4**

Percentage breakdown of training hours provided to employees by training type

For 2020, both in Italy and in the international branches, all training initiatives have been converted from classroom training courses to online courses, mostly using the Microsoft Teams platform, or continuing the development of digital projects which began in the previous year, such as the choice and purchase of a platform dedicated to training for the entire population of the Recordati group.

The choice to implement an e-learning platform allowed for the possibility to convert the training provided during 2020, both in Italy and abroad, despite the fact that most of the work activities were carried out remotely, because of the regulations implemented to tackle the COVID-19 pandemic.

At the parent company level, 14 online courses were produced and provided for Group employees, some of which are mandatory (such as the Pharmacovigilance course or the Code of Ethics course), with the obligation to complete a final test, to certify comprehension and learning. All classroom activities were re-designed for e-learning. This often meant a reduction in the number of consecutive hours required for a course, making it easier for more people to take part, allowing them to connect remotely and from different Group sites.

Much of the investment for training went to scientific information networks. International branches all provided many hours of training for the sales force, helping medical sales representatives to change their way of working, due to the new conditions dictated by COVID-19, to make work effective even at a distance, sharing best practices to ensure everyone's safety during the pandemic. A separate chapter should be dedicated to the online training or remote coaching sessions for Regional and Area Managers. In some international branches, ad hoc online courses have also been developed on medical and marketing topics, issued both traditionally and digitally.

Even in Italy a lot of work was done to change the way medical sales representatives work, called upon to make changes, as they were no longer able to attend appointments in person in medical practices or hospitals. For this group two tailored ad hoc and online training paths have been developed with multiple modules aimed at training the network of medical sales representatives on new methods for conducting meetings with the primary contacts remotely. Furthermore, Area Managers were involved in interactive workshops focused on remote management of the sales force. These workshops allowed identification of any critical issues that the Area Managers encountered, helping them to identify alternative methods for remote management of personnel.

With the same purpose, numerous webinars dedicated to updating marketing strategies and courses on the use of Microsoft Teams were provided, with which large portions of the population were unfamiliar, especially those dedicated to drug detailing in the area.

Many branches have seen the number of training hours increase, in favour of technical training on products or skills: many have taken advantage of the lockdown to strengthen technical skills (especially product training provided not by external suppliers but by internal trainers) for the network of medical sales representatives and for new hires.

The use of digital platforms to perform training activities was particularly welcomed also in the Corporate Marketing area, where the training issued to all colleagues of the foreign branches resulted in a high level of satisfaction not only regarding the content but also for activities that lead to the preparation of case studies that each country presented to the other participants, with a prize for the top three.

The training path within the Annual Meeting of the R&D department also took place virtually, with provision of lectured and interactive lessons and with completion of a test (Belbin test) to identify their interaction styles in order to understand and share their communication skills and to make the most of the individual contribution of each employee. Performance of the Belbin test and subsequent pooling of results, supported by remote methods, received positive feedback from all participants.

A Group initiative that began in 2020 was the preparation of a tailor-made training course for "Newly Appointed Team Managers". Together with the HR structures of the branches, a training course was designed with the aim of giving the employees involved the most suitable managerial tools and necessary professional creativity to best interpret the transition from a role of "professional" to one of "manager and developer of employee potential". The course, which will become a regular appointment for Recordati's new team managers, will be a real Leadership Academy in which resources from the entire Group will participate, chosen on the basis of their role, career path and seniority within the organisation.

Before the course, each participant will have to carry out a self-assessment of their strengths and areas for improvement, starting with the set of Managerial Skills adopted by the Group and on the basis of which all managers are assessed annually. This self-assessment will then be the starting point on which to build, after the training course has ended, an action plan to be shared with the HR function and the resource's manager. In fact, the goal of the Academy is to develop managerial skills, in line with the set of leadership behaviours that the Group has chosen: for this reason, both the self-assessment and the action plan that derives from this will be shared with Academy teachers through individual interviews; in addition, they will be shared with the direct manager and with the HR function three months after the end of the course to concretely measure the concept acquisition and the ability to implement those concepts daily.

The course will include 6 days of online classes, during which theoretical concepts will be shared together with practical tools for understanding and implementing all the main levers characterising personnel management. Starting from the individual interpretation of the role of team manager, the work will focus on a managerial style in line with the needs and characteristics of the Recordati organization. With this in mind, there will also be a series of presentations by some Top Managers of the organisation that will help participants to contextualise the theoretical tools in concrete and effective operational practices.

In addition to technical training activities, in order to uphold training and updating levels, specific requirements were identified linked to the COVID-19 emergency itself. Of course, there were numerous branches that provided ad hoc training on measures to prevent the spread of COVID-19, with learning verification tests. In addition to these activities, training was added "on the psychological impact of COVID-19," and on the impacts that the lockdown had on the well-being and emotional stability of employees and their families.

In this context, there are also crossover training initiatives, for all roles, aimed at improving soft skills. Specifically, online webinars were provided on: resilience, accountability, emotional intelligence, remote work, well-being, etc., while the German branch provided 2 management training modules, involving the first reports of the General Manager: the first on Leadership, entitled "Operational Effectiveness and Performance Management" and the second oriented to commercial skills "Multi Channel Marketing".

Performance-evaluation systems

The intense process of growth and internationalisation of the Recordati group made it necessary to develop a system to know, assess and develop the human capital present within the managerial population, starting with the identification of those distinctive skills that have marked the evolution of the Group over the years. For this reason the Recordati group has launched a skills evaluation project which is currently being consolidated in Italy and throughout the Group's international branches. The initiative aims to identify, evaluate, optimise and promote the key management skills that have characterised the Group's history and which will contribute to the Group's success as it confronts new challenges. This is not a simple assessment of performance, which could result in attitudes not in line with the spirit of the project but is a detailed assessment of distinctive and essential skills aimed at promoting the continuous development of the Group and the professional growth of each employee.

To manage the individual evaluation process, the Recordati group has implemented a cloud-based platform in order to ensure standardised procedures, ease of use and the possibility of carrying out assessments involving numerous assessors (but nonetheless respecting the corporate hierarchy) and personalising forms, fields and messages at a global Group level. The project's aim is to promote the professional growth of each employee and ensure the continued development of the Group.

Managers assess their collaborators based on skills observed during their 50 working activities. The initial assessment is then reviewed by the manager's superior or the department manager at corporate level. These behaviours (both positive and negative) relate to 5 distinctive skills identified at the basis of the company culture:

- *Leadership & Execution*
- *Proactive Improvement Attitude*
- *Business Acumen & Business Results Orientation*
- *Team Working*
- *Leading, Managing and Developing People*

At the end of the assessment period, an internal committee analyses the results and mitigates any elements of subjectivity (calibration phase). The appraisal process is concluded by a meeting between the assessor and the assessed employee in order to share and discuss the results.

The Recordati Group has also constructed a *Competency Model* that links the observed behaviour with a soft skill. Based on these evaluations by managers, the system automatically generates a development programme for each employee to develop any skills that fall below a certain threshold. Afterwards, the system automatically forwards these proposals to the assessor who is then free to make amendments, additions or alternatives to the plan. This is the truly innovative aspect of the system and has been deemed effective by the HR Innovation Practice Observatory of Milan Polytechnic University.

For "top performers", career and retention plans are defined while "poor performers" are offered programmes to improve their managerial skills. In the future, the same assessment approach will be extended to technical skills as defined by the analysis of the roles in each country. The appraisal system enables all employees to improve their understanding of their role and helps to construct an individual development plan aimed at developing and increasing their skill levels. Those who have the required skills and experience may be offered opportunities to develop their role and enhance their performance or their area of responsibility. Specific tools to assess soft and transversal skills are used to evaluate whether a change of role is appropriate and identify any training that may be required to best encourage professional development. Over time, the assessment of managerial skills of employees has become increasingly structured and finalised, making the managers themselves more and more accustomed to taking care of the development of their people and to resorting to targeted actions, starting from the areas of improvement of individuals or of the whole team. In particular, the company invests in resources with great potential, offering growth paths based on the 70/20/10 approach, in other words:

- 70% "on the job" (for example being assigned or working on projects or directly covering tasks related to a role of a higher level);
- 20% "near the job" through effective feedback (including 360° feedback on leadership skills) and mentoring and coaching activities;
- 10% through the structuring of tailor-made training activities (classroom programmes, workshops and/or e-learning courses).

In addition to constant updating of managerial personnel subject to evaluation on the basis of developments in the Group's organisational structure, 2020 saw further broadening of the scope, with the inclusion of "second-level" management[11] in Germany and branches in the Central & Eastern Europe region and the Rare Diseases Specialty & Primary Care business unit and the EMEA and LAC branches of the Rare Diseases business unit, which brought the base of assessed resources from 230 in the first edition (2015) to around 400 resources in 2020.

The company MBO system is assigned a key role aimed at guiding Group results and the efforts of Top Managers and Managers towards a common goal, through definition of clear, challenging and shared objectives. Those involved in implementation of the Sustainability Plan, in the context of MBO system, are assigned objectives of a social and environmental nature linked to implementation of the Plan itself. Through the combination of MBOs and evaluation of expertise, managers are assessed in terms of their achievements (individual targets assigned by the Group) and the way in which these achievements are attained (conduct which demonstrates the use of managerial skills).

In addition to this, in order to strengthen the development and growth of expertise within the Group, the company has another tool referred to as "360 Degrees Feedback", which allows each manager interested in their managerial development to receive feedback from their direct line manager, colleagues at their level and those reporting to them, in aggregate and anonymous form. The outcome of this feedback often forms a basis for coaching and targeted personal development.

Principle internal engagement initiatives

The Group is committed to constantly maintaining open channels of communication with its employees, which is considered necessary for the success of the business and in order to share its strategy and results achieved.

One of the most important initiatives of an informative nature is the "Inside Recordati" magazine. Presenting the Group's activities and distributed to all employees, the publication features news articles and describes important events and initiatives the Group has been involved in during the period in question.

The Group Management Meeting represents an important opportunity for dialogue. This event is organised every year in Milan and allows sharing of goals and results achieved. This meeting represents an opportunity for debate and discussion between Managers from all Group companies and features a series of presentations given by Senior Managers or important figures in the pharmaceutical industry about the Group's results, the advancement of activities, the development of the business and its products and, more generally, any new initiatives which have been launched or are in development. Achieved targets are discussed and future strategies and developments are defined and reinforced. At the end of the day, a much anticipated and appreciated awards ceremony is held to reward the best medical sales representatives from each branch.

Furthermore, the sector meetings held by each company department with representatives of foreign branches are smaller-scale but equally important method of the sharing of methods and tools. Developed as part of the launch of new projects, these events now represent an essential opportunity for debate and orientation, aiming to promote a shared approach and develop the sense of Group belonging in an increasingly complex and multicultural context. Often, training sessions are held for soft skills considered useful and interesting for the entire team involved, as well as team building, aimed at strengthening relations between members of international groups.

At a local level, conventions are organised for local management teams and staff operating in commercial facilities "in the field" (medical sales representatives and area managers), representing important opportunities for sharing best practices and discussing commercial themes and products.

In 2020, the limitations imposed by the health emergency made these initiatives impossible. The Management Meeting was nevertheless held but it was replaced by a virtual ceremony, so that Group Managers could still be thanked by the Company for their efforts.

The activities performed for employees newly hired by the Recordati group are particularly significant, being an essential tool to transmit the values, goals and mission of the Group. In fact, there is now an almost fully adopted Group induction process that, for employees of the Parent Company, involves a full day of training for new hires within the first 6 months of their employment. This enables employees to gain an initial basis of first-hand knowledge of the company structure before being guided by the HR function through a complete overview of the entire Recordati group organisation. The day course is usually introduced by the Human Resources Manager who explains the Group policies, after which presentations are given to provide background information on the organisational structure, history and characteristics of the company. The morning is brought to a close by a session centred around the Communications and Investor Relations department.

11 Second-Level Management is understood as managers of departments that report directly to members of the Country Management Team (direct reports to the Country General Manager) of each branch.

The rest of the day consists of talks given by managers of various departments to illustrate the activities and processes of the various business areas. This provides an ideal opportunity for new hires to ask questions or seek clarifications on the business model and the company's adopted policies. In the second half of the day, a visit is made to the Milan plant, offering a constructive method of learning about the organisation and its processes.

For this initiative too, the limitations imposed by the pandemic meant that it had to be postponed.

For new employees recruited to sites outside Italy, an individual induction process is carried out at corporate level each time a new employee is appointed to the local Management Team; shortly after hiring, the new member meets the managers of the main departments with whom they will interact as a result of their role, giving both parties an opportunity to get to know one another and also providing an overview of the department's key activities and priorities.

5.5 HEALTH AND SAFETY IN THE WORKPLACE

The Recordati group recognises that the protection of the health and safety of its workers is a key priority and responsibility. The Group is committed to implementing a policy to promote initiatives aimed at preventing work-related accidents and diseases, minimising the risks that may impact the health and safety of employees and other workers and providing appropriate technical, financial, human and professional resources.

As stated in the Code of Ethics, the Group is committed to disseminating and consolidating a culture of safety, raising awareness of risks, also through training activity aimed at promoting responsible behaviour and working to protect the health and safety of those operating for the Group, including by preventive measures. All company activities are carried out in compliance with current legislation regarding risk prevention and protection, with a constant focus on the improvement of workplace health and safety conditions.

The Group, in particular at its manufacturing sites, independently of the nature and purpose of the activities carried out, implements prevention measures provided for by local legislation, aimed at ensuring the constant improvement of workplace health and safety conditions. To this end, technical and organisational measures are implemented, such as:

- the introduction of an integrated risk management and security system;
- continuous assessment of the risks and critical issues and the resources to be protected;
- the continuous maintenance and adoption of advanced technologies to prevent the emergence of risks relating to workers' health and safety;
- the review and updating of working practices;
- the provision of training and communications initiatives;
- the adoption of appropriate emergency procedures and health check protocols.

All Recordati employees, particularly department managers, are constantly reminded to employ the maximum care in performing their activities, strictly observing any safety and prevention measures established and avoiding any possible risks to themselves or their collaborators and colleagues.

In this respect, the Group aims to promote responsibility among the management team through the definition and formalisation of health and safety roles and responsibilities, and each production plant has a level of independent control over its health and safety budget. Activities at each production site are controlled and monitored through inspections and audits, performed both internally and by external companies. To this end, it is noted for example that the Tunisian pharmaceutical production plant successfully transitioned from OHSAS 18001 certification to ISO 45001 certification of its health and safety in the workplace system in 2020.

The Recordati group believes that participation of employees in the identification and reporting of any issues regarding health and safety in the workplace or possible dangerous situations to which employees may be exposed is of fundamental importance and encourages such involvement.

As established by individual local legislation, periodic meetings are also held with involvement of Workers' Representatives, management representatives and the Prevention and Protection Service, in order to create and consolidate a collaborative working environment, above all regarding certain sensitive topics such as health and safety in the workplace.

Prevention, monitoring and management of risks for health and safety

The Group is constantly committed to ensuring the ongoing improvement of health and safety in the workplace, to which we constantly devote financial resources as well as carrying out continuous assessments of the risks, critical issues and resources to be protected.

The Group records injuries and occupational disease, constantly monitors the main injury rates and analyses the causes and circumstances of every incident, taking prompt improvement actions where necessary. On all manufacturing sites, there is a procedure in place for the management of accidents defined as "near misses", i.e. any work-related event that could have caused an injury or damage (illness) but did not: therefore an event that has the potential to produce an injury. The procedure involves filling in specific forms, investigating what happened and identifying the corrective measures to be implemented to avoid the occurrence of the event and reduce the related risk.

All injuries and occupational diseases are constantly recorded and monitored. Moreover, events affecting the health and safety of employees at manufacturing sites are subject to periodic review by the Group's executive management and presented to the Risk, Control and CSR Committee.

In case of accidents at work, the HSE department is promptly informed to activate the specific management procedure. An inspection is carried out at the scene of the accident to discover the causes and identify the corrective measures to be implemented. All manufacturing sites have personnel with specific first-aid training and the Italian, Spanish and Turkish plants also have an on-site nurse equipped for the management of first aid with the physical presence of qualified healthcare operators.

Constant training and awareness-raising activities, aimed at prevention, careful management of spaces and proper monitoring of the application of improvement measures have helped to limit the number of work-related injuries.

In 2020, 26 occupational injuries were recorded, significantly lower compared to the previous year. There were no fatalities.

Number of accidents and Group Employee Health and Safety indicators by gender[12]

			2020			2019[14]
Injuries and Injury rates[13]	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related injuries (No.)	18	8	**26**	38	26	**64**
of which high-consequence work-related injuries[15] (No.)	*0*	*0*	***0***	*0*	*0*	***0***
of which work-related fatalities (No.)	*0*	*0*	***0***	*0*	*0*	***0***
Commuting to/from work injuries (No.)	4	2	**6**	4	2	**6**
Hours worked (No.)	2,050,126	1,269,585	**3,319,711**	1,990,197	1,223,066	**3,213,263**
Cases of work-related diseases (No.)	0	0	**0**	0	1	**1**
Severity Index	30.6	34.0	**31.9**	90.4	65.1	**80.8**
Work-related injury rate/Frequency Rate	1.8	1.3	**1.6**	4.2	4.6	**4.4**
High-consequence work-related injury rate	0	0	**0**	0	0	**0**
Work-related fatality rate	0	0	**0**	0	0	**0**
Occupational disease rate	0	0	**0**	0	0.2	**0.1**

All Group plants provide their employees with workplace health services. Specifically, every plant appoints its own company doctor with the role of performing inspections to identify any possible cases where someone may be unfit for work. Additionally, the company doctor takes prompt action in the case of any accidents. The company doctor is responsible for the medical examinations required by applicable local laws aimed at periodic monitoring of the state of health of each employee, the frequency and type of which is defined on the basis of the age and type of work performed by each employee.

Periodic risk-assessment is conducted at all Group plants regarding health and safety and actions aimed at continuous improvement are implemented. Here are some examples:

- The Italian plant in Milan has conducted various risk-assessment activities aimed at evaluating and constantly monitoring possible risks which employees may be exposed to in the workplace. The final goal of this activity is the alignment and continuous updating, where necessary, of procedures in force and consequent planning of training courses for employees in relevant procedures. Specifically, during 2020, the Risk Assessment Document (DVR) has been updated, adding assessment of risks regarding changes implemented in the manufacturing process and in the organisation of activities, including: assessment of risks for personnel travelling abroad, risks linked to manual handling and repetitive movements, risks of asphyxiation due to exposure to technical gases, risks deriving from noise and risks from Artificial Optical Radiation (AOR), and risks linked to carcinogenic substances used in laboratories.
  In addition, in order to reduce the risk of "man-machine" contact and therefore to ensure greater safety of packaging lines, additional guards have been installed.
- Similar to the actions already applied at the French St. Victor plant since 2019, the Italian plants in Milan and Campoverde di Aprilia have adopted a specific procedure for reporting and recording of dangerous situations and issues present within plants. Specifically, the procedure establishes the information flow for dangerous or potentially dangerous situations from the employee to the plant Prevention and Protection Service;
- At the Campoverde di Aprilia plant, in order to prevent the occurrence of accidents a series of preventive measures relating to equipment, operating processes, management systems and procedures has been implemented, including a computerised control system for various devices, the installation of locking devices on certain equipment, safety valves for exhaust devices, air pollution control devices and systems to detect the presence of dangerous substances in the atmosphere. Dedicated fire-prevention systems are available on site such as firefighting trailers and portable fire extinguishers.
  Following certain improvements made in 2019 to the loading systems for critical substances and also to some product unloading systems in order to further improve the protection of operators and the product itself, periodic verification activity was conducted for the critical lines. These inspections allowed a reduction in losses from lines and injuries caused by contact with dangerous chemical substances;
- At the Irish plant in Cork, following a study of the entire thionyl chloride transportation line, leading to the identification of certain areas for improvement specific actions were implemented in recent years regarding equipment and procedures for the transportation phase of the chemical substance from its arrival on site until its deposit in its dedicated storage tank, in order to further strengthen the protection against chemical risk for

12 The scope of accidents and Health and Safety indicators, in line with 2019 reporting, includes all personnel employed at Group production plants and their offices. Data is also included for personnel from the sales network (Field Forces) within Italy and the Parent Company's offices (Milan).

13 The Severity Index represents the ratio between the number of days lost due to work-related injuries and the total number of hours worked in the same period, multiplied by 200,000. For the 2019 Severity Index, the total number of workable hours was used as reported in the 2019 Non-Financial Statement. In 2020 a total of 530 days lost due to work-related injuries were recorded (314 for male employees and 216 for female employees), down on the total 2019 figure of 1,462 (1,013 for male employees and 449 for female employees).
The work-related injury rate/Frequency rate represents the ratio between the total number of work-related injuries and the total number of hours worked in the same period, multiplied by 200,000.
The high-consequence work-related injury rate represents the ratio between the total number of high-consequence work-related injuries and the total number of hours worked in the same period, multiplied by 200,000.
The work-related fatality rate represents the ratio between the total number of fatalities and the total number of hours worked in the same period, multiplied by 200,000.
The Occupational disease rate represents the ratio between the number of cases of work-related diseases and the total number of hours worked in the same period, multiplied by 200,000.

14 The data for 2019 have been reported as published in the 2019 Non-Financial Statement. For 2019, calculation of injury rates also included commuting to/from work injuries.

15 High-consequence work-related injuries are considered injuries sustained by the worker from which he/she cannot or should not be able to recover their state of health prior to the injury within 6 months.

employees and stakeholders. Also at the Irish plant in Cork, in recent years there was a review of management activities/ measures in the area of potentially explosive atmospheres (ATEX) and plant ageing to provide a risk-based approach for future asset maintenance projects.

- In 2020, in the site in Saint Victor, France, continuing from the previous year, the plant-based chemical products inventory, the corresponding safety data sheets and the specific chemical risk assessment software (SEIRICH) were updated. The software consolidates all of the data provided on the substance safety data sheets in order to assess the relative chemical risk. The assessment highlighted a lower risk level at the chemical laboratory than the Occupational Exposure Limit Value ("OELV");

Training and information activity

The Recordati group believes that training and informing its employees is essential to ensuring the prevention of health and safety risks. The Group issues mandatory training in the field of health and safety in compliance with the time frames and methods defined by applicable local laws. Each production plant implements training plans aimed at workers exposed to specific risks.

During 2020, more than 8,600 hours of health and safety training was provided.

All personnel working within production plants, in line with local laws, receive training and continuous updating for the purposes of environmental protection and health and safety in the workplace. New employees undergo a training period supported by experienced operators and theoretical lessons delivered by qualified personnel. Following the risk assessments relative to topics of health, safety and environment risks, all personnel receive adequate training and instruction in order to mitigate the risks identified according to their role.

Amongst the main training plans, it is noted for example that training is provided to all personnel regarding use and storage of hazardous chemicals and flammable materials during manufacturing processes, the correct use of personal protection equipment and correct handling of loads and posture to adopt in working environments. For roles that involve exposure to chemical/ biological risk, specific training courses are also provided.

Protecting the health and safety of employees during the COVID-19 epidemic

From the beginning of the COVID-19 pandemic crisis, the Recordati group reacted with swift and decisive action, well-organised and determined to adopt all measures necessary for the containment and management of the epidemic, in order to combat and contain the spread of the virus, protect the health and safety of its employees and, at the same time, ensure the continuity of its business, which as a Pharmaceutical Company represents an essential public service.

Specifically, since the initial phases of the COVID-19 emergency, the Group has implemented a smartworking system for office personnel, which, throughout 2020, guaranteed that the business was fully operational. Meanwhile, in production plants, the Group committed itself to guaranteeing workplace health and safety through adoption of strict anti-contagion measures. In addition, new organisational models were implemented for Drug-Detailing networks, working on the front line in contact with doctors and hospitals. Personnel in this area were protected through specific distance-training programmes.

During the year, in accordance with the numerous local legislative actions and specific guidelines, every plant has developed and implemented specific protocols, which are constantly updated, containing specific instructions for preventing the risk of contagion in the workplace. Furthermore, employees have been constantly updated and trained on any new developments regarding protocols adopted and safety regulations applied internally.

Specifically for the Italian plants in Milan and Campoverde di Aprilia, Health and Safety Committees have been established with workers' representatives, management representatives and the Prevention and Protection Service within plants in order to create and consolidate a collaborative working environment to tackle the health emergency.

Keenly aware of the uncertainty surrounding the health emergency, Recordati is committed to reassuring and maintaining constant dialogue with its employees regarding the Group's operational changes, methods for performance of activities and possible future developments.

Following the best practices defined during the course of the health emergency and as requested by applicable legislation in the various countries where the Group operates, in all plants and all offices:

- special signage has been developed and installed within working environments providing indications set out by the protocols adopted in order to guide employees in observing health and safety rules;
- smart working has been activated for all office personnel;
- the Group has provided employees with the necessary Personal Protection Equipment (PPE), specifically hand gel, surgical face masks and gloves;
- specific rules have been defined to avoid gatherings of people. Meetings in person have been significantly reduced, replacing them with remote meetings using digital platforms provided by the Group;
- work-related travel has been suspended unless required for specific reasons and unable to be postponed;
- systems have been introduced to check body temperature for access to sites using thermal scanners or manual measurement by specially appointed personnel;
- working environments have been subject to regular sanitising in line with defined protocols and special materials have been identified and provided in order to reduce the risk of contagion, specifically with installation of plexiglas and dispensers for disinfectants, and safe distances between workstations have been guaranteed;
- where the service is present, additional shuttle buses for personnel have been provided to avoid gatherings of people.

The actions taken continue to evolve in order to guarantee a constantly adequate response to developments in the pandemic, always in full compliance with the decisions and recommendations of competent Authorities.

Confirming its constant focus on ensuring the health and safety of its employees, the Recordati group has provided specific services to support its employees during the pandemic. Specifically, the French plant in Saint Victor has offered a telephone mental-health support service, giving all employees access to psychological support aimed at improving their ability to adapt to the changing situation and their quality of life and promoting personnel well-being during this challenging period.

Finally, Recordati has decided to establish and promote a "COVID-19 Insurance Policy", aimed at all employees of all Italian Group companies and their families, completely paid for by the Group with the goal of offering employees tangible support in the management of potential health problems linked to the COVID-19 pandemic.

5.6 INDUSTRIAL RELATIONS

As regards industrial relations, the Recordati group guarantees the right to join unions and collective bargaining rights in all the Countries where it is operative in compliance with current legislation.

The Group adopts positive and constructive conduct and policies towards workers' representative organisations and trade unions. Recordati therefore guarantees the right of workers to join and form trade unions, supports alternative means of union association and collective bargaining and ensures that trade union representatives are not discriminated against in the workplace and can communicate freely with their members in full compliance with local legislation. Recordati group companies have an industrial relations system based on involving employees and their representatives in the pursuit of the company's goals, ensuring constant monitoring of the objectives to be achieved. It is based on dialogue and continued discussion, characterized by correct and transparent relations and aimed at increasing the company's competitiveness and maximum employment.

As in the previous year, in 2020 approximately 60% of the Group workforce, predominantly located in western Europe, is covered by a collective labour agreement. The solutions and behaviour adopted in the various countries in which the Group operates are in line with the social and institutional context and local legislation, and are always consistent with the fundamental principles of the Code of Ethics and with the Group's needs.

6. The Group's focus on the environment

A clean environment is essential for people's well-being: the health of the planet and the health of people is tightly interconnected. Environmental elements, such as air, water, land and climate, all have an impact on the well-being of humans. Placing a focus on people's health and being sustainable therefore also means prioritising environmental protection and a responsibility towards future generations. This is why the Group ensures that it conducts business in a socially responsible manner and in accordance with sustainable practices, national and international laws, and the expectations of stakeholders.

6.1 COMMITMENT TO ENVIRONMENTAL PROTECTION[16]

As defined in the Group Code of Ethics, Recordati is committed to implementing policies aimed at increasing the environmental sustainability of the Company's business and meeting all related legal and regulatory requirements. Everybody is required to respect the corporate procedures and standards in force and to report any deficiencies or failure to respect these in a timely fashion. In performance of its activities, the Group:

- uses advanced technologies for the purposes of environmental protection, energy efficiency, the sustainable use of resources, combating climate change and protecting our natural world and biodiversity;
- promotes initiatives in production plants aimed at minimising energy and water consumption and reducing the emission of greenhouse gases and other pollutants into the atmosphere;
- is dedicated to reducing the production of waste linked to manufacturing activities, with a particular focus on correctly disposing of chemical and pharmaceutical products. Uses materials which can be recycled or disposed of in accordance with applicable regulations;
- promotes environmental protection by providing information and holding regular training courses, appointing officers responsible for compliance with environmental management issues, and by carrying out inspections and verifications of the conformity of manufacturing sites;
- provides regular information to stakeholders regarding its environmental commitment.

All of the Group's production sites hold the necessary environmental authorisations and ensuring compliance with said authorisations is an important part of the responsibilities of the management team at each site. Demonstrating the commitment to the environmental and to continuous improvement, it is noted that the Campoverde di Aprilia chemical pharmaceutical plant and the Tunisian pharmaceutical plant have an ISO 14001 certified environmental management system. This certification attests that the manufacturing sites have a management system that is suitable for managing and mitigating the environmental impacts of their activities, and that their efforts for continuous, coherent, efficient and sustainable improvement.

Regarding the Irish chemical pharmaceutical plant in Cork, it is noted that the environmental management system was developed to ensure full compliance with environmental legislation, regulated in Ireland by the Environmental Protection Agency (EPA), and is subject to regular inspections by EPA officers. In addition, for several years, the chemical pharmaceutical plant in Cork has joined the Responsible Care initiative which aims to promote the continuous improvement in the chemical and pharmaceutical industry of all aspects that have a direct or indirect aspect on the environment, employees or the community.

The Recordati group responds to any cases of increased environmental risk by implementing a series of internal inspections. The active pharmaceutical ingredients production plants of Campoverde di Aprilia and Cork are included in the European Pollutant Release and Transfer Register (E-PRTR), established on the basis of EC Regulation 166/2006. The Campoverde di Aprilia site is included in the national inventory of plants with the potential for major accidents, based on Italian Legislative Decree 334/99, replaced by Italian Legislative Decree no. 105/2015, which transposed Directive 2012/18/EU. All the formalities arising from such inclusion are carried out regularly. Please note that, following voluntary reporting by the Company to the competent authorities in 2001 about the potential contamination of some portions of the land and water of the Campoverde di Aprilia plant resulting from past industrial production, an administrative procedure was initiated which is still pending. With regard to this procedure - now governed by Art. 242 of Italian Legislative Decree. 152/06 - in February 2021 the Company received feedback from the local authorities, which entail rewriting of part of the documentation produced so far by the Company in the proceedings, in order to take into account the technical observations made by ARPA in Lazio in January of the same year. The Company promptly took action as required, in order to move forward with the administrative procedure in question. In any case, from the initial survey of the situation subject to this procedure, the Company has continued to implement, in relation to the aforementioned past contamination, all necessary and appropriate containment measures and monitoring actions.

6.2 ENERGY USE AND EMISSIONS

Energy use

The Recordati group manages the general use of energy resources through a range of initiatives to reduce energy use, with the aim of improving energy efficiency in all of the Group's industrial and commercial operations.

The main energy resources used at the Group's production plants are electricity, natural gas and diesel. In 2020, the Group plants consumed approximately 630 TJ, in line with 2019 consumption.

Regarding electricity, demonstrating the constant commitment to the environment and to reducing atmospheric emissions, it is noted that the Group has increased the purchase of renewable electricity, reaching a quota of approximately 50% of total electricity purchased by the Group in 2020 (approximately 85% considering only the electricity purchased by European plants). The quota of renewable electricity purchased and certified by Guarantees of Origin regards total electricity purchased for the Italian plants in Milan and Campoverde di Aprilia, for the Irish plant in Cork and, for the first year, also for the Spanish plant of Utebo. Also for the French sites of St. Victor and Nanterre, in 2020 supply contracts were established for 100% renewable energy certified by Guarantees of Origin from October. These changes in supply have led to a further significant increase in the share of renewable electricity purchased, in line with the trend for 2019. It is the Group's objective to reach 100% renewable electricity purchased for our European manufacturing and packaging sites and annexed offices by the end of 2021.[17]

Consumption of diesel in 2020 fell by approximately 17% as use of this fuel within plants is tied to operation of the diesel generators when needed.

16 The scope of data regarding environmental aspects (energy use, emissions, water use and waste) include Group production plants as such aspects are not deemed significant at other sites (with the exception of the Milan plant, where the water and energy consumption and relative emissions of the annexed offices of the Parent Company were also considered).

17 The Recordati group has 8 production plants (2 chemical-pharmaceutical plants and 6 pharmaceutical production plants) in addition to one plant dedicated to packaging. Please note that 7 of the 9 manufacturing sites are in Europe and will be powered by renewable energy by 2021.

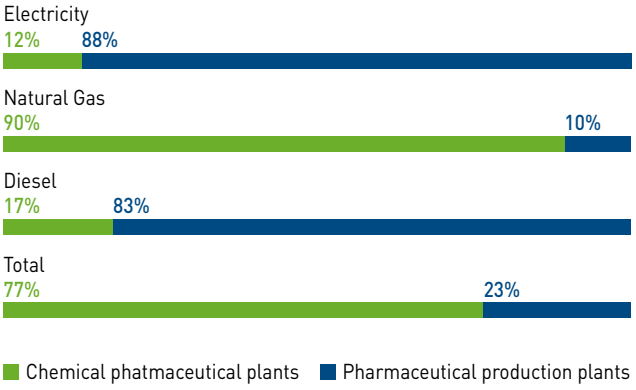
Energy use at the production plants of the Recordati group by source[18]

Type of fuel	Unit of measurement	2020	2019	% Variation
Purchased electricity	kWh	28,940,776	29,471,706	-1,8%
	GJ	104,187	106,098	
Originating from renewable sources[19]	*kWh*	*14,227,129*	*10,022,377*	*43.4%*
	GJ	*51,398*	*36,081*	
Natural Gas	m^3	14,835,915	14,684,544	1.0%
	GJ	523,426	518,409	
Diesel	Litres	57,205	69,342	-17.3%
	GJ	2,060	2,492	
Total	**GJ**	**629,673**	**626,999**	**0.5%**

Energy use at pharmaceutical production plants by fuel source

Type of fuel	Unit of measurement	2020	2019	% Variation
Purchased electricity	kWh	25,323,202	25,915,525	-2.3%
	GJ	91,164	93,296	
Originating from renewable sources	*kWh*	*10,659,555*	*8,131,023*	*32.3%*
	GJ	*38,374*	*29,272*	
Natural Gas	m^3	1,555,626	1,690,807	-8.1%
	GJ	54,884	59,691	
Diesel	Litres	47,202	54,342	-12.9%
	GJ	1,700	1,953	
Total	**GJ**	**147,748**	**154,940**	**-4.6%**

Percentage subdivision of electricity use by production plants, according to usage and type of production plant



Electricity consumption of pharmaceutical production plants was approximately 148 TJ (23% of total, slightly down compared to the 2019 value due primarily to reduced use of natural gas for heating in offices of the Parent company at the Milan plant, with reduced presence of personnel following smart working initiatives to face the health emergency. Compared to chemical pharmaceutical plants, pharmaceutical plants used higher quantities of diesel (83% of the diesel consumed by the Group) to produce electricity and more electricity was purchased from the national grid. However, in 2020 energy use by the Group's chemical pharmaceutical production plants was 482 TJ (77% of the total).

Energy use at chemical pharmaceutical production plants by fuel source

Type of fuel	Unit of measurement	2020	2019	% Variation
Purchased electricity	kWh	3,617,574	3,556,181	1.7%
	GJ	13,023	12,802	
originating from renewable sources	*kWh*	*3,617,574*	*1,891,354*	*91.3%*
	GJ	*13,023*	*6,809*	
Natural Gas	m^3	13,280,289	12,993,737	2.1%
	GJ	468,542	458,718	
Diesel	Litres	10,000	15,000	-33.2%
	GJ	360	539	
Total	**GJ**	**481,925**	**472,059**	**2.1%**

The chemical pharmaceutical plants consume higher quantities of natural gas than the pharmaceutical plants: a high proportion of this gas usage derives from the electricity generation system at the Campoverde di Aprilia plant, where a self-generation policy for electricity and thermal energy has been in place for over 20 years thanks to the installation of a co-generation system (for more details, see the "Co-Generation System of the Campoverde di Aprilia" information box). Through the use of a single fuel source (natural gas), the co-generation system enables the plant to generate enough electricity to meet its needs, sell any excess to the national grid and produce all of the steam used in the plant without the use of any additional gas or resources.

18 Lower Calorific Value of natural gas is 0.035 GJ/m3, average density of diesel is 0.84 kg/litre, Lower Calorific Value of diesel is 42.87 GJ/litre, (Source: Italian Ministry of the Environment and the Protection of Land and Sea, Table of National Standard Limits, 2020).

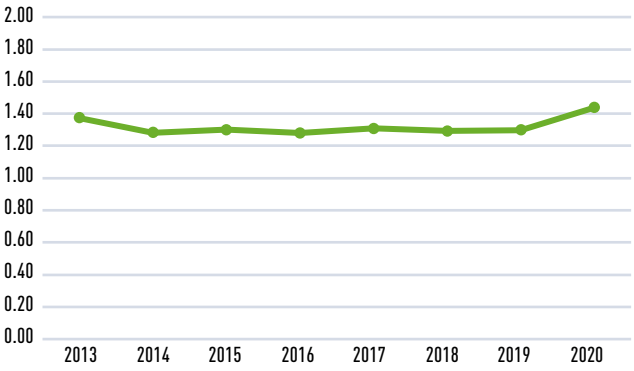
19 The proportion of renewable electricity purchased by the plants of Milan and Campoverde di Aprilia (Italy), Cork (Ireland) and Utebo (Spain) is certified by Guarantees of Origin from January to December 2020. In addition, calculation of the proportion of renewable electricity purchased also includes the electricity purchased by the plants of St. Victor and Nanterre which have established contracts for the supply of energy certified Guarantees of Origin from October 2020.

Electricity and thermal energy generated and sold by the Campoverde di Aprilia co-generation plant

	Unit of measurement	2020	2019	% Variation
Self-generated electricity	kWh	32,292,572	31,634,104	2%
Consumed internally	*kWh*	*27,973,604*	*27,762,183*	*1%*
Sold externally	*kWh*	*4,318,968*	*3,871,921*	*12%*
Self-generated and consumed thermal energy	Kg of steam	77,132,000	72,099,000	7%

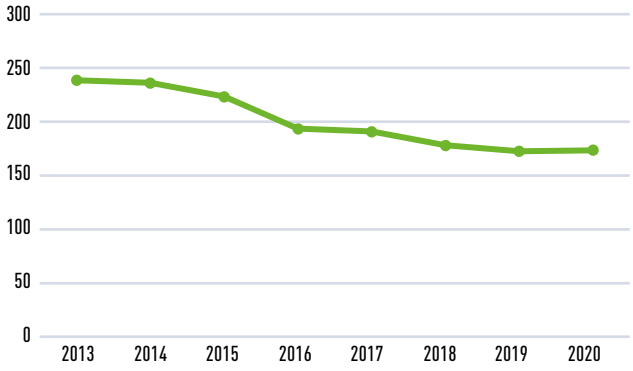
Cubic metres of methane acquired against kilograms of product processed by the Campoverde di Aprilia plant

Cubic metres of methane acquired/total kg of product processed



Cubic metres of methane acquired against turnover (in thousands of Euro) generated by the Campoverde di Aprilia plant

Cubic metres of methane acquired/€k of product invoiced



THE CO-GENERATION SYSTEM AT THE CAMPOVERDE DI APRILIA PLANT

In 1994, following the increased demand for electricity and thermal energy determined by the manufacturing facilities at the time, a feasibility study was launched and concluded to assess the installation of a steam and electricity co-generation production system at the Recordati chemical plant in Campoverde di Aprilia. Following the completion of the feasibility study, a co-generation system was installed at the site, entering into service in September 1996 and in operation ever since.

Co-generation is defined as the combined generation of electricity and heat based upon a cascade process where electricity is produced using a high temperature thermo-dynamic cycle which, in turn, releases heat and produces thermal energy. In the industrial sector, co-generation is also produced using gas-powered turbines.

The co-generation system at the Campoverde di Aprilia plant is equipped with a 15-bar methane gas turbine. In its current configuration and with an air temperature of 9°C, the system is able to generate a maximum output of approximately 4.3 MW of electricity. Gas turbines operate by burning the fuel source in a special combustion chamber and expanding it with compressed air inside the turbine itself. During expansion, the mixture of air and fuel interacts with the blades of the turbines and activates the rotational motion of the rotor to generate mechanical energy.

This mechanical energy is then converted into electricity by an alternator.

The fumes produced by the gases expanded in the turbine are emitted at very high temperatures (450–500°C) and consequently specialist heat exchangers or boilers may be used (the Recordati plant at Campoverde di Aprilia uses a steam recovery boiler) to produce hot water or steam. The use of the steam recovery boilers prevents exclusive use of methane gas to meet the plant's demand for steam for use in chemical processes and as a heating fluid. The steam recovery boiler installed in the co-generation system, which recovers the gases expanded in the turbine, enables the production of 15-bar saturated steam up to a capacity of 16 tons per hour.

Without this production of steam using the gas turbine fumes in the steam recovery boiler, an estimated 5.125 million cubic metres of gas would have been required in 2020 alone.

Principal initiatives to combat climate change implemented by the Recordati group

In order to reduced energy consumption and atmospheric emissions, the Recordati group is implementing various actions in Group plants and branches.

As confirmation of this commitment, in 2019 the Group began participating in the CDP climate change programme. The CDP climate change programme aims to reduce companies' greenhouse gas emissions and mitigate the risk of climate change. CDP requests information on climate risks and the opportunities and performance of the world's largest companies, acknowledging the companies' commitment through an annual scoring process (from A to F) based on a self-assessment of the company. In 2020, the Recordati group achieved a score of B, improving its score (C in 2019) and demonstrating its awareness and commitment in this regard.

Below is a description of the principal initiatives launched by the Group aimed at increasing energy efficiency and reducing emissions. These initiatives include, for example: purchase of renewable electricity, energy-efficiency initiatives for plants and lighting systems, continuous monitoring of consumption and feasibility studies to identify further areas for action, and progressive incentivisation of vehicles with low environmental impacts in the company fleet.

Regarding electricity consumption, evidence of the commitment to combating climate change can be seen in the Group's increased purchase of renewable energy, which reached around 50% of total energy purchased by the Group in 2020 (approximately 85% if considering only electricity purchased by European plants) and set itself the goal of 100% renewable electricity for European manufacturing and packaging sites and annexed offices by 2021. In 2020, completing activity started in 2019, the Group continued with implementation of the online portal (e.point) for management of energy-consumption data, pooling supply contracts and invoices for the Italian sites in Milan and Campoverde di Aprilia, the Spanish site in Utebo, the French sites in Saint Victor and Nanterre and the Irish site in Cork. In addition to precise monitoring and efficient management of energy consumption, the information system has allowed assessment and establishment of new supply contracts, with Guarantees of Origin certifying that 100% of the energy purchased comes from renewable sources. For the French plants, the Guarantees of Origin purchased in 2020 certify the renewable origin of energy purchased from October 2020. For the manufacturing sites and connected offices in Italy, Spain and Ireland, the purchase of 100% renewable energy and the absence of greenhouse-gas emissions linked to the purchase of electricity for 2020 was confirmed by the "Zero Emission Electricity" certificate.

In addition, with reference to renewable energy, it is noted that for 2021, there are plans for the installation of solar panels to generate electricity on the roof of the Spanish production plant in Utebo and to launch a feasibility study to assess the possibility of installing photovoltaic panels at the Irish production plant in Cork. Regarding the Italian plant in Campoverde di Aprilia, for 2021 there are plans for installation of a thermal solar system to produce hot water for the changing rooms of the manufacturing site.

In terms of lighting systems, in recent years, the Group has implemented various energy-efficiency initiatives, including the gradual, programmed replacement of lights with LED lighting systems or, in certain cases, installation of movement sensors to reduce electricity consumption. Today, many areas of Group manufacturing sites and offices are already equipped with LED lighting systems. This progressive process of replacement and efficiency actions will continue in coming years. The Group's goals include complete replacement of current lighting systems with LED lights at the Spanish manufacturing site in Utebo and the chemical intermediates warehouse of the Italian plant in Campoverde di Aprilia by 2021 and initiation of the plan for replacement of current lights with LED systems in the manufacturing area of the Milan plant, to be completed by 2023.

In recent years the Irish plant in Cork has been committed to optimising and streamlining its production chain through the use of a programming procedure and preventive maintenance. The Energy Manager at the plant has implemented actions to increase employee awareness regarding energy saving according to a training plan and projects approved at local level.

The Italian chemical pharmaceutical in Campoverde di Aprilia has also implemented various initiatives over the years to increase energy efficiency, including: installation of an air conditioning system in the office building that consumes less electricity, installation of a new low-power-consumption air-treatment unit for supply of primary air in the building, also thanks to its heat-recovery system and upgrading of the compressed-air distribution system. It is estimated that the latter project saved 131,000 KWh in 2020, therefore avoiding emission of approximately 45 tonnes of CO_2.

In order to reduce energy use, during 2021, there are plans for installation of 2 inverter blowers at the Italian Campoverde di Aprilia production plant to control the oxygenation levels of the wastewater treatment plant, enabling the regulation - and thereby improving the efficiency - of the machine's power based on the actual needs of the treatment plant resulting in a reduction in energy use (estimated 50% reduction in electricity consumption compared to the current operating conditions of the unit scheduled for replacement). The dual installation will provide continuity to this optimisation of energy use in the case of shutdown due to a fault.

With the goal of continuous improvement, Recordati is committed to measuring, evaluating and monitoring its energy consumption also through performance of energy audits by specialised third parties. In 2020, at the Spanish plant in Utebo and the French plant in Saint Victor, energy audits were preformed to identify and evaluate possible future investments aimed at reducing energy consumption.

Furthermore, at the Turkish plant in Çerkezköy, in 2020 an energy study was performed by a specialised consulting company aimed at reducing energy consumption and increasing energy efficiency. This involved measuring and current analysing energy consumption of equipment and systems used by the plant (e.g. consumption of steam boilers, pumps, cooling systems, etc.) in order to identify and implement energy-efficiency projects.

In 2020 the Group also carried out a monitoring and control activity to assess the emissions of its global fleet of company vehicles. In addition, the introduction of a software platform is in its final phase that allows a constant updating of the branches' car fleet through a connection of the renters that allows us to verify the acquisition of new rental contracts and the emissions of new cars. In 2020, a total of approximately 2,000 company cars were in use by employees of the Recordati group, while the average CO_2 emissions emitted by the vehicles was approximately 118 g/km, according to the new Worldwide Harmonized Light-Duty Vehicles Test Procedures (WLTP). In this regard, the Group proposes to launch analysis of the fleet to assess the progressive introduction of technologically advanced hybrid solutions in future which have a reduced environmental impact. It is noted that in 2020 the Milan plant installed three electric-vehicle charging stations.

Greenhouse gases and other emissions

The Recordati group's commitment to protecting the environment is also expressed through policies and initiatives aimed at reducing the emission of greenhouse gases and other air pollutants.

In addition to all of the initiatives already described in the previous chapter, in all of the Group's production plants, old equipment containing fluorinated greenhouse gases is being progressively replaced with new machinery that does not use substances which are ozone damaging. Specific initiatives for reduction of emissions include:

- At the Milan plant, all emission points with a high environmental impact are monitored annually as required by the supervisory authority. In addition, to monitor for greenhouse gas leaks from the compressed-air production system, sensors have been installed in the most critical area of the system. In 2020, a gas detection system was installed, with alarms connected to the site-manager's office, for the refrigeration units, in order to immediately identify any leaks of gases which are ozone damaging.
- In 2020, in order to constantly monitor greenhouse-gas emissions and other damaging emissions and determine the type and quantity of atmospheric pollutants generated by the plant in Turkey, measurements were performed by all emissions sources of the site by an accredited laboratory. The results demonstrated that the pollution and the effect of greenhouse gases generated in the atmosphere are sufficiently low as to not require the adoption of specific corrective measures. The plant has already defined plans to renew these measures in 2022.
- In 2020, at the Campoverde plant, in the context of continuous improvement of air quality, efficiency assessments were conducted on scrubber systems and in coming years there are plans to build a new scrubber system and develop further systems. 2020 also saw the installation of a new NOx SOx and PM emissions monitoring system for chimneys of the co-generation plant in order to track and report the levels of emissions generated and consequently implement possible actions for mitigation and reduction.
  The emissions are managed according to a specific procedure and specifically, the existing scrubber systems are included in the improvement plan, which outlines constant verification of the efficiency of the moderation system.

In 2020, Scope 1 direct emissions primarily relating to the use of energy for industrial production (natural gas and diesel) remained largely in line with those of the previous year. In addition to this, there was a lower proportion (approximately 17% of the total Scope 1 direct emissions) for consumption of the Group's vehicle fleet. In 2020 there was a significant reduction in emissions attributable to the company fleet (-23% compared to 2019) due to reduced travel following legislation in countries where the Group operates to tackle the COVID-19 pandemic.

Instead, Scope 2 indirect emissions due to the purchase of electricity from the grid decreased by 6% according to the Location based approach and by 29% under the Market based approach. This large reduction is due to the purchase of renewable energy certified by Guarantees of Origin at the majority of European plants, reaching approximately 85% of the total electricity purchased in Europe in 2020.

Greenhouse-gas emissions (tons of CO_2) of the Recordati group's production plants and car fleet[20]

	2020	2019	% Variation
Direct emissions (Scope 1)	35,524	36,904	-4%
Relating to energy consumption	*29,586*	*29,185*	*1%*
Relating to the company vehicle fleet[21]	*5,938*	*7,719*	*-23%*
Indirect emissions (Scope 2) - Location-based approach[22]	10,106	10,705	-6%
Indirect emissions (Scope 2) - Market-based approach[23]	5,798	8,201	-29%

With reference to other air pollutants, depending on the type of pollutant various thresholds have been defined; these are respected by the Group thanks to continuous monitoring and control activities of the emission points. In particular, the list of authorised emission points at the Milan plant is included by the *Autorizzazione Unica Ambientale* certification awarded in 2016. Other atmospheric emissions are mainly due to the activities of the chemical pharmaceutical sites of Cork and Campoverde di Aprilia for which, for almost all the substances listed below, more than 80% of total annual emissions are recorded.

20 Source of emission coefficient data for natural gas and diesel: Italian Ministry of the Environment and the Protection of Land and Sea, Table of National Standard Limits, 2020.

21 Scope 1 emissions relating to the use of fuel by company vehicles have been estimated based on the average mileage of each car defined in the leasing contract and the average emission factor of fleet vehicles (118 g/km). On the basis of applicable legislation and actions taken to deal with the health emergency that have led to a reduction in mobility, for 2020 a reduction of 30% was reasonably assumed compared to expected annual use.

22 The reporting standards applied (GRI Sustainability Reporting Standards 2016) provide for two different approaches for the calculation of Scope 2 emissions: "location-based" and "market-based". The location-based approach uses national average emission factors relating to the specific configuration of national electricity production (source of emission factors: TERNA, Confronti Internazionali, 2018).

23 The market-based approach uses an emission factor defined on a contractual basis with the electricity supplier and defines that the purchase of renewable electricity with Guarantee of Origin does not imply emissions of greenhouse gases calculated according to this approach. For this reason, the plants in Milan (Italy), Campoverde di Aprilia (Italy), Utebo (Spain), Saint Victor (France), Nanterre (France) and Cork (Ireland) there has been exclusion from calculation of Scope 2 emissions (according to the market-based approach) of consumption of electricity with Guarantees of Origin. For calculation of emissions using the market-based approach, the national "residual-mix" emission factors were applied (source of residual-mixes: AIB European Residual Mixes - Version 1.1 updated on 08/09/2020).

Other emissions (kg/year) from Recordati group production plants[24]

	2020	2019
Nitric oxide (NOx)	19,066	13,802
Sulphur oxide (SOx)	20	75
Persistent Organic Pollutants (POP)	0	0
Volatile Organic Pollutants (VOC)	23,168	2,586
Hazardous Air Pollutants (HAP)	6,261	1,916
Particulate Matter (PM)	435	3,848
Methane (CH_4)	0	0
Others	5,961	5,469

6.3 WATER MANAGEMENT

The Recordati group recognises the value of natural resources and in particular the value of water resources. For this reason, the Group invests its efforts in the development of manufacturing processes aimed at reducing water consumption and managing the quality of wastewater.

To this end, Group production plants are equipped with systems and procedures to monitor consumption and wastewater. The use of water resources primarily impacts the manufacturing cycle and process cooling, in addition to sanitary uses.

Regarding wastewater, if necessary or required by local laws, plants have installed or implemented waste-water treatment systems before discharging water into public drains or into the natural environment. In compliance with local and national environmental laws, plants analyse and constantly monitor the quality of wastewater in order to observe the minimum standards set by local and national environmental authorities. Specifically, all plants must observe applicable environmental laws and must hold the necessary water-discharge permits required by local authorities.

Below is a description of some initiatives implemented by the Group in order to guarantee responsible water management, both in terms of consumption and wastewater:

- at the head office in Milan, since 2016 the new heating and air conditioning unit equipped with geothermal heat pumps has used groundwater as the principle thermal carrier. The groundwater is drawn from a shaft and channelled into the system for use in the heating or air conditioning systems before being returned in its original condition to the groundwater reserves via two return channels. The quantity of water used and recycled by the heat pump in 2020 was 247,894 m^3 and corresponds to approximately 10% of the Group's annual water intake. The chemical and physical characteristics (pH, suspended solids, BOD, COD, metals, aromatic solvents, chlorinated aromatic solvents, aliphatic solvents and surfactants) of the wastewater, non-potable groundwater and potable water from the mains supply are monitored at the Milan plant on a monthly basis.
  Furthermore, in response to the problems encountered with regard to the correct flow rate from the intake well, in order to ensure the proper functioning of the heating and cooling system, a new well was excavated in 2019 and 2020 to replace the one previously in use. A project is also currently underway to reduce overloading municipal drains which reach critical levels during large storms. In fact, water from the company drain will be collected in detention tanks and progressively released into the municipal drains.
  Finally, in 2020, in order to reduce water consumption for cleaning the creams production plant, an automatic pressurised system was installed that allows a 50% reduction in water consumption compared to the previous method;
- at the Italian plant in Campoverde di Aprilia, daily monitoring is performed of water parameters. In 2020, the plant initiated and completed a project for replacement of well-water usage with river water for external cleaning of departments and for certain cooling systems, in order to minimise the impact of manufacturing activity on water resources;
- at the Cork plant in Ireland, particular focus was given to water use, particularly water used to ensure the correct operation of the scrubbers (system for filtering out pollutants from fumes). In any case, water usage is constantly monitored to identify any anomalies and facilitate prompt intervention when required. Following transposition by the Irish authorities in 2020 of EU law 2016/902, works were initiated for upgrading of the purifier currently used at the plant. Specifically, the aeration basin, which is the part where organic waste is biodegraded, was upgraded in 2020 to meet the new requirements. Meanwhile activities are underway for replacement of the sedimentation tank, which is the part of the plant where solid contaminants are separated from wastewater, and this is planned for completion in July 2021;
- at the Tunisian plant, planning is underway for various initiatives aimed at increasing awareness on consumption of water resources and their importance. In particular, assessment is in progress of the current water system, with the goal of launching constant and precise monitoring of consumption;
- at the Çerkezköy plant, industrial wastewaters are treated by the chemical pre-treatment plant on site, connected downstream to the drainage line for waste water from the Çerkezköy industrial area, to be sent to the central treatment plant. The chemical pre-treatment of wastewater used for plant processes has the tangible goal of reducing the impact of pollutants generated by the company within the municipal water system;
- at the French plant in Saint Victor, in order to reduce the amount of water disposed of as "pharmaceutical waste", water used in the first cleaning process which contains high concentrations of pollutants is recovered and stored in vats for processing as pharmaceutical waste (sludge). For disposal of the remaining wastewater from this process, the French plant has signed an agreement with the management of the purification system that allows storage of wastewater and its input into the purification system only during night-time hours, in order to avoid overloading the purification system and sewerage network.

In 2020, the overall water intake at the Group's production plants fell by 3% compared to 2019. In particular, total water intake in 2020 was 2,500 Ml, of which 31% was surface water, approximately 60% was groundwater and the remainder was drawn from the mains supply.

24 Any significant changes in other atmospheric emissions are due to the way the data are calculated, since the annual value of these emissions is calculated by multiplying the result of a single emission analysis (lasting 1 hour) and the annual operating hours.

Around 68% of Group water intake is attributable to the chemical pharmaceutical plant in Campoverde di Aprilia, located in an area subject to water stress[25]. In addition to the Italian plant, the Turkish plant and the Tunisian plant are also located in areas considered to be subject to water stress, although they do have lower water intake.

The reduction of water intake from the mains supply of 21% compared to 2019 is primarily attributable to the reduction in the consumption of water for sanitary use at the offices of the Parent Company at the pharmaceutical plant in Milan, due to legislation introduced in 2020 to tackle the COVID-19 pandemic that led to a significant reduction in the number of personnel present on site on a daily basis.

It should also be noted that in 2020, 23% of total water intake at the Group's production plants was recycled and reused internally.

All water intake of the Recordati group is composed of fresh water, defined as water with a concentration of total dissolved solids equal to or less than 1,000 mg/l.

Water intake at Recordati group production plants by source

	Unit of measurement	2020	2019[26]	% Variation
Surface water	Ml	763	854	-11%
Groundwater	Ml	1,459	1,374	6%
Mains water	Ml	231	291	-21%
Total	**Ml**	**2,453**	**2,519**	**-3%**

Percentage of recycled water at Recordati group production plants

	Unit of measurement	2020		2019	
		Total	% of total water intake	Total	% of total water intake
Quantity of water recycled and reused	Ml	571	23%	497	20%

6.4 WASTE MANAGEMENT

The Recordati group's commitment to environmental protection is also evidenced by its activities to reduce the waste produced by its activities and ensure the correct disposal of chemical and pharmaceutical products, particularly at its production sites.

The basis of waste management applied to all production sites is reduction, reuse, recycling, recovery and disposal. The classification of waste according to its origin and type (material and disposal method) is maintained within the sites, leaving the waste collected and stored separately at defined delivery points, and after temporary storage the waste is sent for recycling or disposal (according to its characteristics). All waste is treated in accordance with the relevant national regulations and for this reason each site has organised specific procedures for waste management and disposal.

Depending on the planned storage and disposal process, it is of the utmost importance that all employees working have received training in waste classification. Training courses for newcomers and refresher courses are therefore offered throughout the year.

At the Milan plant, the management of chemical-pharmaceutical waste is governed by a specific internal procedure that associates each waste element with an internal code. In particular, the various types of waste produced at the plant are classified as hazardous or non-hazardous. In accordance with internal operating procedures, all waste is assigned an EWC code which defines the relative management procedure for that type of waste.

In accordance with the provisions of Italian legislation (Legislative Decree no. 231/01), the Group's organisational model includes the appointment of various waste management officers within the company. Furthermore, waste disposal is contracted to specialist firms that hold the relative authorisations to act as carriers, intermediaries and recipients.

Correct spillage management is regulated by a specific standard operating procedure, which states that the spilled product must be collected using absorbent sheets and pads suitable for use with all types of hazardous and non-hazardous materials. Once used, the absorbent sheets are managed and destroyed in the most appropriate way, considering the hazardous nature of the product.

Other important waste disposal initiatives implemented at plants by the Group include:

- the research programme at the Campoverde di Aprilia plant to investigate the possibility of internally managing certain types of waste that have previously been disposed of externally. For some types of waste, the implementation of this strategy has led to a significant reduction in costs and a positive environmental impact due, in addition to internal management, to the reduction in the number of transports and less handling and management of packaging (polythene and steel drums).
  In a circular-economy context, various initiatives have been launched to recover and reuse chemical raw materials used in production processes, with a consequent positive impact on

25 To determine the water stressed areas, the Aqueduct tool developed by the World Resources Institute was used.
26 In the context of fine-tuning of data collection and calculation processes, 2019 data for Group water intake and water recycling at the plants has been represented compared to the data previously published in the 2019 Non-Financial Statement of the Recordati group. For previously published data, please consult the 2019 Non-Financial Statement available on the Group website.

waste reduction and less use of natural resources. The Group's goal is to continue to extend these circular-economy initiatives: the reintroduction of recovered raw materials may occur directly into internal production processes or through partnership agreements with third-party companies. A feasibility study will also be initiated in 2021 for a project to reduce certain types of hazardous waste through the installation of a system to capture certain heavy metals;

- at the Cork plant in Ireland, solid hazardous waste is segregated on site by production operators as soon as it is produced and is then sent off site for incineration by specialised contractors. Liquid hazardous waste is managed internally using closed systems: part of this waste is sent via a specialised contractor for disposal, while the majority is treated at the waste treatment plant of the Recordati Ireland branch. Biological sludge extracted by the waste treatment plant is sent for incineration by the specialist contractor. In addition, a new procedure is currently being implemented at the Cork plant to provide an emergency plan to manage the release of thionyl chloride;
- a new cardboard box compactor with an automatic lifting system for emptying boxes was installed at the St. Victor plant in 2019 to eliminate the need to lift and throw waste into the compactor. In addition, at the French site in Saint Victor, a project is underway in collaboration with Batribox aimed at the disposal and recycling of used batteries, supporting the AFM-Telethon charity for medical research into muscular dystrophy;
- at the Çerkezköy plant in Turkey, all wastes are classified according to five main categories, with a different colour assigned to each, allowing easy identification of its placement as the colours of equipment and bags for waste collection are the same as those used for the different types of waste. With this method, the plant aims to minimise potential errors in the separation of waste. These five main categories are: domestic waste (e.g. waste from the canteen), recyclable waste, chemical waste, medical waste and hazardous waste. A specific policy has been adopted at the plant to regulate waste collection, storage, recycling and transfer procedures. This procedure includes a waste tracking system which closely monitors the transfer of special waste throughout the production chain. From 2018, a new area equipped with a controlled access system was designated for the temporary storage of waste awaiting final disposal. In addition, in the wastewater treatment plant, a number of improvements have been made which have led to a reduction in the pollution values of wastewater. Furthermore, these optimisation measures also reduced the consumption of chemical substances used in treatment plants, with a consequent reduction in operating costs;
- at the Milan plant, in order to limit the number of collections made by the carrier, two waste compactors have been installed in recent years, one for paper and cardboard and one for special waste equivalent to SUW.

A total of 6,707 tonnes of waste was produced in 2020, of which 61% was hazardous waste (substances defined as hazardous in the country of origin) and 39% was non-hazardous waste (all other forms of liquid and solid waste).

Total waste produced by Recordati group plants, subdivided by type and disposal method

		2020			2019[27]		
Disposal method	**Unit of measurement**	**Hazardous waste**	**Non-hazardous waste**	**Total**	**Hazardous waste**	**Non-hazardous waste**	**Total**
Reuse	tonnes	3.0	0.3	3.3	3.0	1.0	4.0
Recycling	tonnes	43.0	557.8	600.8	38.5	599.2	637.7
Compost	tonnes	0.0	0.0	0.0	0.0	24.0	24.0
Recovery	tonnes	1,658.2	801.4	2,459.6	1,623.2	796.1	2,419.3
Incineration	tonnes	399.7	31.3	431.0	199.0	25.2	224.2
Landfill	tonnes	124.1	105.2	229.3	138.0	31.8	169.8
Storage on site	tonnes	1.8	0.0	1.8	3.3	0.0	3.3
Other[28]	tonnes	1,862.4	1,118.8	2,981.2	1,355.9	1,198.0	2,553.9
Total	**tonnes**	**4,092.2**	**2,614.8**	**6,707.0**	**3,360.9**	**2,675.3**	**6.036,2**

27 In the context of fine-tuning of data collection and calculation processes, 2019 data has been represented compared to the data previously published in the 2019 Non-Financial Statement of the Recordati group. For previously published data, please consult the 2019 Non-Financial Statement available on the Group website.

28 This category includes the disposal methods classified as D8, D9, D13, D14 and D15 used at the Campoverde di Aprilia plant and listed in Annex B of Italian Legislative Decree no. 152/06.

Taking into consideration the possible environmental risks, where necessary the Group has developed operating procedures aimed at minimising and safely managing for employees any spillages of hazardous chemical substances. At the Campoverde di Aprilia plant, in order to resolve small leaks of chemical substances, liquid chemical absorption kits are used, while for more significant leaks external drainage systems are employed. For the containment of spillages of chemical substances from containers or tanks, bunds and retention areas are used at the plant.

As regards the various disposal methods, particular emphasis was given to the recycling of packaging materials and the use of reliable suppliers of waste transportation and disposal services. In order to reduce the volume of waste produced, the Recordati group is committed, where possible, to reducing the amount of packaging entering the waste system and increasing consumer recycling activities. When coordinating these initiatives, the Group works with national recycling organisations such as CONAI (Consorzio Nazionale Imballaggi) in Italy.

With a view to reducing impacts, optimal use of resources and circular-economy principles, it is noted that during 2020 the Group, working in partnership with its suppliers, designed and adopted new display units, specifically for the specialty pharmaceuticals Transact and Proctolyn, created without the use of additional plastification, instead using water-based gloss and matt acrylic paint, allowing them to be disposed of by pharmacies as recyclable paper material. The Group aims to continue with further analysis of other possible packaging solutions with lower environmental impacts, while complying with the strict legislation in place in the pharmaceutical industry.

Promoting awareness through engagement of employees

Recordati's vision and its commitment to reducing environmental impacts is also reflected through internal engagement and raising awareness amongst its employees and through initiatives launched in its offices. In fact, the Group works actively to reduce consumption of paper, toner and energy and properly separate and recycle waste.

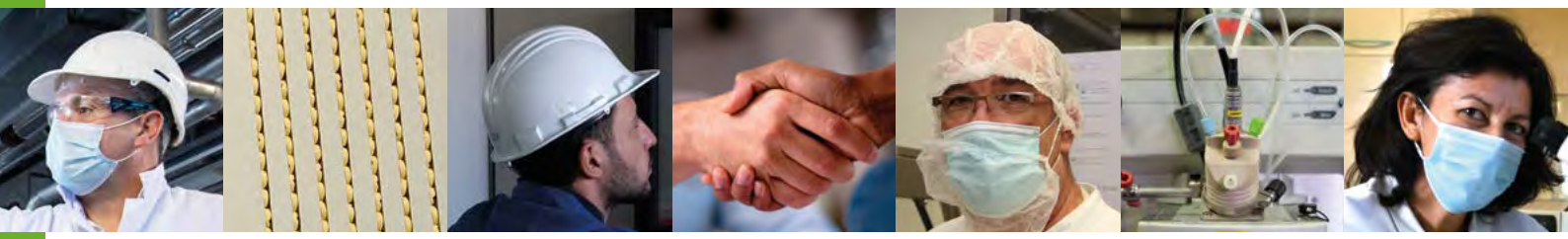
Group sites have special containers for separation of waste, to ensure disposal or recovery/recycling of these materials in a correct and efficient manner.

Regarding paper used in offices, in the context of raising awareness amongst employees on the environmental impacts of daily actions, all printers in Italy are equipped with individual codes to be used when printing documents. The purpose is to increase individual responsibility and reduce the number of documents printed, thus reducing consumption of paper and toner. In addition, it is noted that the paper used for printers in Italy and certain other Group branches originated from sustainable sources (recycled or FSC certified).

Raising awareness amongst personnel regarding good environmental practices has also led to the participation and creation of local initiatives in the areas in which Recordati operates. For example, in Ireland, through participation of certain volunteers at the Cork plant, the Company has participated in several projects during the year aimed at cleaning up urban green spaces. In 2019, various employees participated in annual initiatives within local communities organised to mark "Earth Day Clean-up". In 2020, due to the COVID-19 pandemic, it was not possible to participate in this initiative.

Additionally, for several years the Cork plant has been involved in the Ringaskiddy community project, managed by the National Biodiversity Data Centre of Ireland and aimed at protecting pollinators. In this context, approximately 200 lavender plants and 180 conifers have been planted in the area (over three years), replacing the fences that were present around the manufacturing site.

7. Suppliers and strategic partners



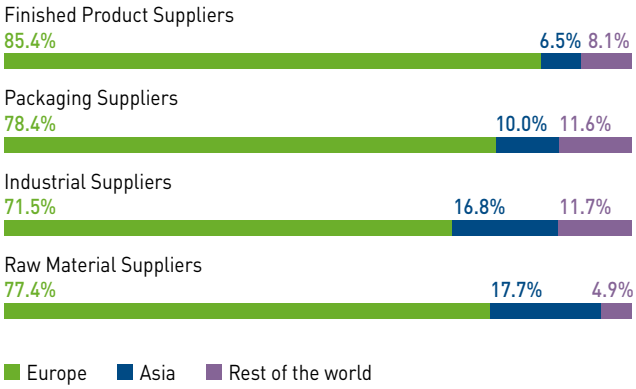
Recordati recognises the fundamental value of the supply chain in creating safe and high-quality products and is committed to working with suppliers and strategic partners that share its values and ethical principles.
Commercial relationships with other parties (suppliers, consultants and partners) are founded on respect for the principles of fairness, professionalism, efficiency, loyalty, transparency and equal opportunities. The Group establishes written agreements specifying the responsibilities of each party and requiring that the principles of the Code of Ethics be respected.

7.1 SUPPLY-CHAIN PROFILE

The Recordati group is served by approximately 13,270 suppliers, predominantly located in the countries in which the Group operates production plants or has a commercial presence. The supply chain is characterised by the purchase of direct ingredients (active substance, packaging material, excipients and chemical intermediates), finished products and indirect services required for regular operation (consultancy services, marketing, supplies, licensing, etc.). In this regard, the main purchase categories are represented by raw materials (and in particular APIs -Active Pharmaceutical Ingredients), packaging, industrial products and services and finished products.

In 2020 the Recordati group interacted with around 450 suppliers of raw materials[29], principally located in Europe and India. Approved suppliers for the packaging of medicinal products produced directly in the Group's plants numbered approximately 240, located principally in the countries in which the Group has manufacturing sites. Suppliers of industrial materials and services for use in the Group's plants numbered approximately 1,600, with a significant local presence due to the type of goods and services. Suppliers of finished products (CMOs -Contract Manufacturing Organisations) number approximately 125 at Group level, with a significant presence of European producers.

Percentage breakdown of the number of Recordati group suppliers for the main categories by geographical area



7.2 RESPONSIBLE SOURCING

Discussing sustainability implies sharing the values and ethical, social and environmental principals in which the Group believes with suppliers and strategic partners. In this context, the Group requires suppliers to accept the Code of Ethics from the approval phase and reserves the right to terminate the contractual relationship in the event of conduct incompatible with the values and principles expressed therein.

In order to operate as a supplier of the Recordati group, our suppliers are selected and approved according to two different methods for direct and indirect products. For the purchase of indirect materials and services, information regarding the suppliers' economic and financial position is collected through documentary evidence and research. For the purchase of direct materials, potential suppliers are subjected to financial checks and are required to follow a regulated documentation collection procedure in line with GMPs and GDPs (Good Manufacturing Practices and Good Distribution Practices) before undergoing a strict monitoring and auditing process.

In order to standardise the selection process, in 2015 the ATTITUDE project was launched, aimed at implementing a new purchase management policy at Group level using an eProcurement platform. The project aims to promote transparency in the procurement process in terms of supplier assessment and effective negotiation in line with the distribution of procedures and tools at a centralised and local level. This management process was successfully implemented in Italy in 2016. Recordati has set itself the target of extending the initiative to all Group Companies by the end of 2021, in order to create a unique and shared supplier database to ensure supplier quality control and compliance with Recordati values.

Parameters used in the selection of suppliers include observance of the Group Code of Ethics, which, in accordance with International Labour Organization conventions, requires the observance of fundamental Human Rights for all workers. These selection criteria are binding and all suppliers must declare their commitment to the Code and the practices contained therein. This obligation is formalised through special contractual clauses. As a result, any violation of the Code represents a breach of contract, and the Group reserves the right to assess the severity of the situation and take immediate corrective action. In the most serious cases, the group reserves the right to terminate the contractual relationship.

Furthermore, in the supplier-approval questionnaire consideration is also given to environmental and social aspects. In fact, information is requested regarding existence of health, safety and environment management systems (e.g. ISO 14001 and OHSAS 18001).

In 2020, supplier-approval questionnaires were reviewed and the Group's goods categories were refined. In addition, the new Code of Ethics was distributed through the eProcurement platform. All previously registered suppliers were therefore invited to re-apply for approval.

During 2020, certain environmental assessment parameters were also included in various tenders, including those for transport and printers, for example.

For 2021 evaluation is underway for definition of a strategic supplier management and monitoring plan that also considers ethical, social and environmental factors.

Regarding audits and inspections on the quality and safety of products and raw materials, please consult the paragraph entitled "Product quality and safety".

In order to promote the ESG culture and increasing awareness of sustainability throughout the value chain, during 2020 all personnel of the purchasing and supply chain department of the parent company participated in a training course on the principles of responsible sourcing.

29 The figure for raw materials refers to: API - Active Pharmaceutical Ingredients, excipients, starting materials, chemical intermediates.

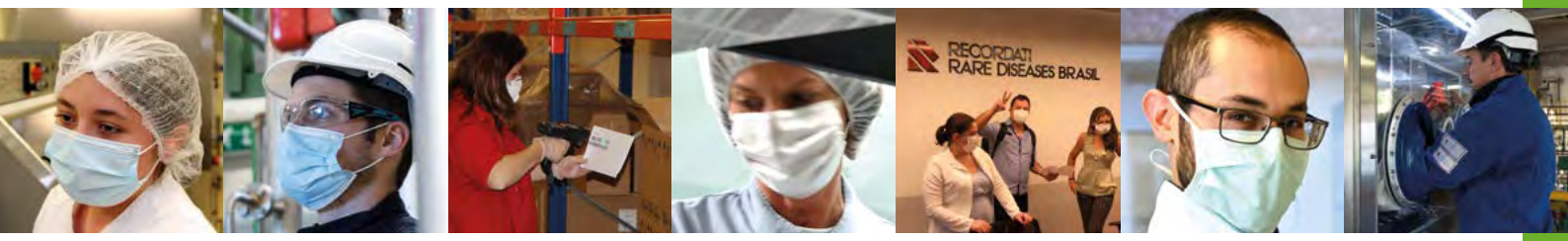
SUPPLY-CHAIN MANAGEMENT AND INITIATIVES ADOPTED DURING THE COVID-19 PANDEMIC

In the context of the global emergency connected to the COVID-19 epidemic, right from the start Recordati understood that the greatest challenge would, on the one hand, be implementation of all possible initiatives to guarantee the supply of drugs to patients and, on the other, safeguarding of the health and safety of persons involved in the process, providing recommendations and sharing with suppliers the adoption of strict prevention policies (e.g. access procedures, provision of personnel protection equipment, and segregation of shifts and flows).

The risk-assessment policies that have led the Group over the years to definition of alternative sources and back-up stocks have played an essential role in guaranteeing supply and business continuity during the health emergency. In this context, throughout the Group stock-management policies have in any case been reinforced, also differentiating in terms of the physical allocation of stock where possible.

In terms of finished products, throughout the Group, actions have been taken to accelerate product release processes and local warehouse stocks have been redistributed and rebalanced to mitigate the negative impacts deriving from lockdowns in specific areas. For raw materials strategic stocks have been built up and there has been allocation to new warehouse outside the province of Milan, for the storage of raw materials and packaging materials identified as components of products considered as strategic in the manufacturing context. This warehouse was also selected for the high level of automation offering greater continuity of restocking at the Milan plant, also in the event of the pandemic striking warehouse employees themselves. In terms of packaging, attention has been focused primarily on increasing stock of raw materials and in the context of the chemicals division, on the basis of the long lead times for procurement, back-up stocks were reinforced, extending them to 12 months for products with greater strategic value and those which are difficult to source.

8. Support for local communities



"We believe that contributing to the well-being of the community and dedicating part of our resources to acts of solidarity is not merely the fulfilment of company obligations or professional duty, but rather a moral imperative, a need that we believe is an essential part of a healthy business that is capable of growing but at the same time able to support and develop the community in which it operates and making its employees proud."

ANDREA RECORDATI

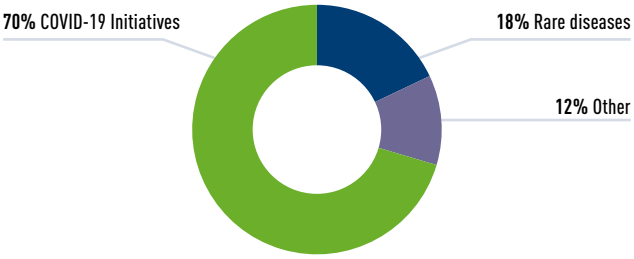
8.1 RECORDATI GROUP DONATIONS

Recordati believes that support for patient associations and local communities is fundamental.
In full compliance with ethical standards, the Group develops social projects and initiatives to support organisations operating in the medical and healthcare fields, it supports associations that are dedicated to assisting patients and improving the quality of life for them and their families, initiatives and social projects which benefit the most vulnerable members of society and those who experience disability, hardship, and difficulties.

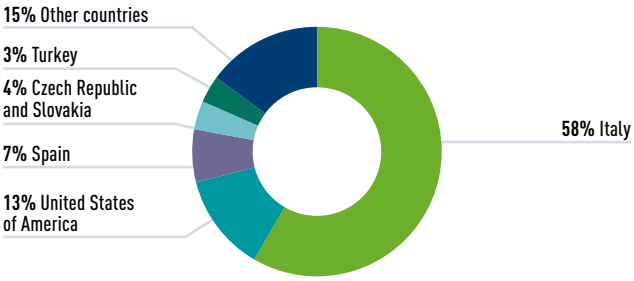
This support is mainly in the form of monetary donations, product donations, support to organisations and associations to facilitate access to healthcare through training and collaboration initiatives.

During 2020, the Recordati group disbursed over € 7.7 million[30] in support of the community.
Of particular importance are the initiatives launched by the entire Group for the epidemiological emergency caused by the COVID-19 virus. The Group's support for these initiatives, through monetary and product donations, was over € 5.4 million (equal to approximately 70% of the total donations made in 2020).
Of total donations, 18% was allocated to activities aimed at treating rare diseases, while the remaining 12% refers to contributions and donations awarded to social and cultural organisations and institutions in various countries.

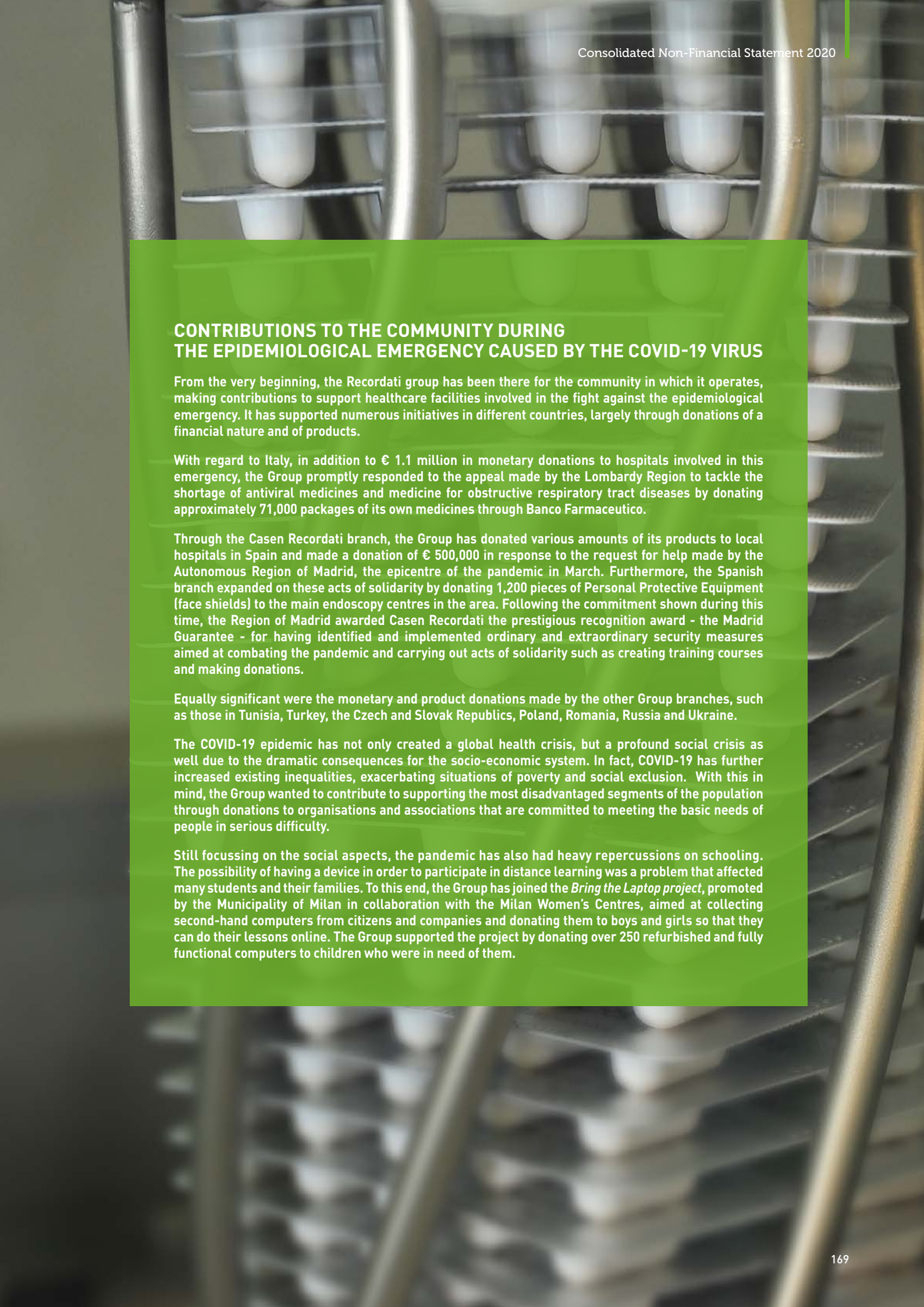
Recordati group donations by type



Recordati group donations by geographic area



30 The figure includes both monetary donations and product donations.



CONTRIBUTIONS TO THE COMMUNITY DURING THE EPIDEMIOLOGICAL EMERGENCY CAUSED BY THE COVID-19 VIRUS

From the very beginning, the Recordati group has been there for the community in which it operates, making contributions to support healthcare facilities involved in the fight against the epidemiological emergency. It has supported numerous initiatives in different countries, largely through donations of a financial nature and of products.

With regard to Italy, in addition to € 1.1 million in monetary donations to hospitals involved in this emergency, the Group promptly responded to the appeal made by the Lombardy Region to tackle the shortage of antiviral medicines and medicine for obstructive respiratory tract diseases by donating approximately 71,000 packages of its own medicines through Banco Farmaceutico.

Through the Casen Recordati branch, the Group has donated various amounts of its products to local hospitals in Spain and made a donation of € 500,000 in response to the request for help made by the Autonomous Region of Madrid, the epicentre of the pandemic in March. Furthermore, the Spanish branch expanded on these acts of solidarity by donating 1,200 pieces of Personal Protective Equipment (face shields) to the main endoscopy centres in the area. Following the commitment shown during this time, the Region of Madrid awarded Casen Recordati the prestigious recognition award - the Madrid Guarantee - for having identified and implemented ordinary and extraordinary security measures aimed at combating the pandemic and carrying out acts of solidarity such as creating training courses and making donations.

Equally significant were the monetary and product donations made by the other Group branches, such as those in Tunisia, Turkey, the Czech and Slovak Republics, Poland, Romania, Russia and Ukraine.

The COVID-19 epidemic has not only created a global health crisis, but a profound social crisis as well due to the dramatic consequences for the socio-economic system. In fact, COVID-19 has further increased existing inequalities, exacerbating situations of poverty and social exclusion. With this in mind, the Group wanted to contribute to supporting the most disadvantaged segments of the population through donations to organisations and associations that are committed to meeting the basic needs of people in serious difficulty.

Still focussing on the social aspects, the pandemic has also had heavy repercussions on schooling. The possibility of having a device in order to participate in distance learning was a problem that affected many students and their families. To this end, the Group has joined the *Bring the Laptop project*, promoted by the Municipality of Milan in collaboration with the Milan Women's Centres, aimed at collecting second-hand computers from citizens and companies and donating them to boys and girls so that they can do their lessons online. The Group supported the project by donating over 250 refurbished and fully functional computers to children who were in need of them.

9. Appendix

9.1 NOTE ON METHODOLOGY

In recent years, the Recordati group (in this document also "Recordati", the "Group" or the "Company") has taken a structured and organic approach to sustainability, considering the economic, social and environmental aspects of sustainability in a manner that is in line with its organisational structure. In order to provide a clear understanding of the business' activities, its development, its results and its impacts on sustainability, in 2020 the Group's commitment to sustainability was reiterated with the preparation of the fourth Consolidated Non-Financial Statement (also the "Non-Financial Statement" or "Statement") for the purposes of compliance with the obligations provided by Articles 3 and 4 of Italian Legislative Decree no. 254/16. As such, presented in this Statement are the principle policies adopted by the Group, its management models and the principle activities carried out by the Group in 2020 with respect to the matters expressly specified by Italian Legislative Decree no. 254/16 (environmental, social, personnel, human rights and anti-corruption), as well as the principle identified risks related to these themes.

In line with the one of the two options provided by Article 5 of Italian Legislative Decree no. 254/16, this Statement is a separate report. However, it is noted that, as stated in specific notes contained in this document, further details relative to certain non-financial information, as well as the relative management models and main identified risks, are also included in the Management Review in the 2020 Annual Report and the Corporate Governance Report and Ownership Structure.

This document represents the Consolidated Non-Financial Statement produced in compliance with Italian Legislative Decree no. 254 of 30 December 2016 in implementation of Directive 2014/95/EU, of the Companies belonging to Recordati S.p.A. and its subsidiaries, describing the initiatives and principle results in terms of the Group's performance on the subject of sustainability in 2020 (reporting period: 1 January to 31 December 2020).

The Non-Financial Statement 2020 has been prepared in accordance with the GRI Sustainability Reporting Standards published in 2016 by the Global Reporting Initiative (GRI), in line with the *"in accordance-core"* option. The reporting of data and information for 2020 relating to health and safety in the workplace and the impact on water resources has been updated in accordance with the new GRI 403 and GRI 303 Standards, published by the Global Reporting Initiative (GRI) in 2018 and replacing the versions published in 2016. In order to make it easier to find information, the table of the reported GRI indicators is annexed to this document. The Statement was prepared based on the results of the materiality analysis that was updated in 2020 through stakeholder engagement and the involvement of management. This analysis, described in paragraph 2.3, enabled identification of the material aspects for Recordati and its stakeholders considering the topics referred to in Italian Legislative Decree no. 254/2016.

The scope of the financial data referred to in this document corresponds to the data considered in the Consolidated Financial Statement 2020 of the Recordati group. The scope of the social and environmental data and information extends to Companies belonging to the Recordati group as of 31 December 2020, consolidated with the comprehensive approach in the Group's Consolidated Financial Statement. However, while ensuring the correct understanding of the company's business, it should be noted that:

- in line with previous reports, the scope of information and data regarding environmental aspects includes the Group's production plants and the offices that are part of the facility in Milan, as the other sites were deemed insignificant;
- in line with the previous reports, the scope of injury indicators includes all employees at all Group production plants and their offices. Data is also included for personnel from the sales network (Field Forces) within Italy and the Parent Company's offices (Milan).

In line with the reporting standards and the provisions of Italian Legislative Decree no. 254/16, these exceptions and any other minor limitations are expressly indicated in the document. Furthermore, in order to provide a correct representation of performance and guarantee the reliability of the data provided, estimates have been kept to a minimum and, where unavoidable, are based on the best available methods, duly indicated.

For more information regarding significant changes to the scope and share ownership of the Group during the reporting period, please refer to the *"Profile of the Issuer and general information"* and *"Ownership Structure (pursuant to Art. 123-bis, paragraph 1 of the TUF)"* sections of the Corporate Governance Report and Ownership Structure of the Recordati group as of 31 December 2020.

The Non-Financial Statement is published on an annual basis. The Non-Financial Statement is also available online at Group's website www.recordati.it.

This Statement was presented for evaluation and approval to the Risk Control and Sustainability Committee on 11 March 2021 and was approved by the Board of Directors of Recordati S.p.A. on 18 March 2021. This Statement was subject to a compliance review by an independent auditing company, which issued a separate report confirming the compliance of the information contained herein pursuant to Article 3, paragraph 10 of Italian Legislative Decree no. 254/16. The audit was carried out according to the procedures indicated in the "Independent Auditor's Report".

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9.2 ADDITIONAL INFORMATION

Human Resources - Turnover

Breakdown of employees entering and leaving the company by gender, age and location

	2020									
Number of employees	**<30**	**30-50**	**>50**	**Total**	**Turnover %**	**<30**	**30-50**	**>50**	**Total**	**Turnover %**
	Employees joining the Group - Europe					**Employees leaving the Group - Europe**				
Men	47	77	31	**155**	**10%**	55	68	61	**184**	**12%**
Women	32	101	25	**158**	**12%**	19	76	39	**134**	**11%**
Total	**79**	**178**	**56**	**313**	**11%**	**74**	**144**	**100**	**318**	**11%**
Turnover %	**51%**	**11%**	**5%**	**11%**		**47%**	**9%**	**9%**	**11%**	
	Employees joining the Group - Australasia					**Employees leaving the Group - Australasia**				
Men	28	41	0	**69**	**12%**	21	51	6	**78**	**13%**
Women	28	35	1	**64**	**14%**	21	37	1	**59**	**13%**
Total	**56**	**76**	**1**	**133**	**13%**	**42**	**88**	**7**	**137**	**13%**
Turnover %	**40%**	**9%**	**2%**	**13%**		**30%**	**10%**	**14%**	**13%**	
	Employees joining the Group - Africa					**Employees leaving the Group - Africa**				
Men	7	10	0	**17**	**10%**	6	11	3	**20**	**11%**
Women	47	18	0	**65**	**29%**	46	22	0	**68**	**30%**
Total	**54**	**28**	**0**	**82**	**21%**	**52**	**33**	**3**	**88**	**22%**
Turnover %	**51%**	**10%**	**0%**	**21%**		**49%**	**12%**	**18%**	**22%**	
	Employees joining the Group - America					**Employees leaving the Group - America**				
Men	1	14	14	**29**	**55%**	0	4	8	**12**	**23%**
Women	6	19	21	**46**	**70%**	1	4	4	**9**	**14%**
Total	**7**	**33**	**35**	**75**	**63%**	**1**	**8**	**12**	**21**	**18%**
Turnover %	**88%**	**62%**	**60%**	**63%**		**13%**	**15%**	**21%**	**18%**	

Health and safety in the workplace

Number of injuries and Health and Safety indicators for Group employees by gender, country or production plant[31]

Italy (Campoverde di Aprilia) - Chemical pharmaceutical production plant and offices

			2020			2019
Injuries and Injury Rates[32]	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related injuries (No.)	5	0	**5**	11	1	**12**
of which high-consequence work-related injuries[33] (No.)	*0*	*0*	***0***	*0*	*0*	***0***
of which work-related fatalities (No.)	*0*	*0*	***0***	*0*	*0*	***0***
Commuting to/from work injuries (No.)	1	0	**1**	2	0	**2**
Cases of work-related diseases (No.)	0	0	**0**	0	0	**0**
Severity Index	42.8	0	**39.5**	149.5	46.7	**140.3**
Work-related injury rate/Frequency rate	1.9	0	**1.8**	4.9	3.8	**4.8**
High-consequence work-related injury rate	0	0	**0**	0	0	**0**
Work-related fatality rate	0	0	**0**	0	0	**0**
Occupational disease rate	0	0	**0**	0	0	**0**

Ireland - Chemical pharmaceutical production plant and offices

			2020			2019
Injuries and Injury Rates	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related injuries (No.)	1	1	**2**	0	0	**0**
of which high-consequence work-related injuries (No.)	*0*	*0*	***0***	*0*	*0*	***0***
of which work-related fatalities (No.)	*0*	*0*	***0***	*0*	*0*	***0***
Commuting to/from work injuries (No.)	0	0	**0**	0	0	**0**
Cases of work-related diseases (No.)	0	0	**0**	0	0	**0**
Severity Index	9.8	21.1	**14.5**	0	0	**0**
Work-related injury rate/Frequency rate	2.5	3.5	**2.9**	0	0	**0**
High-consequence work-related injury rate	0	0	**0**	0	0	**0**
Work-related fatality rate	0	0	**0**	0	0	**0**
Occupational disease rate	0	0	**0**	0	0	**0**

31 The data for 2019 have been indicated as published in the 2019 Non-Financial Statement. For 2019, the calculation of the injury rates also included accidents that occurred while travelling.

32 The Severity Index represents the ratio between the number of days lost due to work-related injuries and the total number of hours worked in the same period, multiplied by 200,000. For the 2019 Severity Index, the total number of workable hours was used as reported in the 2019 Non-Financial Statement.
The work-related injury rate/Frequency rate represents the ratio between the total number of work-related injuries and the total number of hours worked in the same period, multiplied by 200,000.
The high-consequence work-related injury rate represents the ratio between the total number of high-consequence work-related injuries and the total number of hours worked in the same period, multiplied by 200,000.
The work-related fatality rate represents the ratio between the total number of fatalities and the total number of hours worked in the same period, multiplied by 200,000.
The Occupational disease rate represents the ratio between the number of cases of work-related diseases and the total number of hours worked in the same period, multiplied by 200,000.

33 High-consequence work-related injuries are considered injuries sustained by the worker from which he/she cannot or should not be able to recover their state of health prior to the injury within 6 months.

Italy (Milan) - Pharmaceutical production plant, offices and sales network personnel (medical sales representatives)

			2020			2019
Injuries and Injury Rates	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related injuries (No.)	2	3	**5**	3	1	**4**
of which high-consequence work-related injuries (No.)	*0*	*0*	***0***	*0*	*0*	***0***
of which work-related fatalities (No.)	*0*	*0*	***0***	*0*	*0*	***0***
Commuting to/from work injuries (No.)	1	1	**2**	1	1	**2**
Cases of work-related diseases (No.)	0	0	**0**	0	0	**0**
Severity Index	8.2	22.0	**13.1**	24.6	100.6	**50.9**
Work-related injury rate/Frequency rate	0.7	2.0	**1.2**	1.6	1.5	**1.5**
High-consequence work-related injury rate	0	0	**0**	0	0	**0**
Work-related fatality rate	0	0	**0**	0	0	**0**
Occupational disease rate	0	0	**0**	0	0	**0**

Czech Republic - Pharmaceutical production plant and offices

			2020			2019
Injuries and Injury Rates	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related injuries (No.)	0	1	1	0	2	*2*
of which high-consequence work-related injuries (No.)	*0*	*0*	***0***	*0*	*0*	*0*
of which work-related fatalities (No.)	*0*	*0*	***0***	*0*	*0*	***0***
Commuting to/from work injuries (No.)	0	0	**0**	0	0	**0**
Cases of work-related diseases (No.)	0	0	**0**	0	0	**0**
Severity Index	0	169.1	**112.5**	0	0	**0**
Work-related injury rate/Frequency rate	0	1.7	**1.2**	0	19.3	**15.4**
High-consequence work-related injury rate	0	0	**0**	0	0	**0**
Work-related fatality rate	0	0	**0**	0	0	**0**
Occupational disease rate	0	0	**0**	0	0	**0**

Spain - Pharmaceutical production plant and offices

			2020			2019
Injuries and Injury Rates	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related injuries (No.)	1	0	**1**	*3*	*7*	***10***
of which high-consequence work-related injuries (No.)	*0*	*0*	***0***	*0*	*0*	***0***
of which work-related fatalities (No.)	*0*	*0*	***0***	*0*	*0*	***0***
Commuting to/from work injuries (No.)	0	0	**0**	0	0	**0**
Cases of work-related diseases (No.)	0	0	**0**	0	0	**0**
Severity Index	48.0	0	**20.4**	30.2	46.4	**38.0**
Work-related injury rate/Frequency rate	4.4	0	**1.8**	2.2	5.4	**3.8**
High-consequence work-related injury rate	0	0	**0**	0	0	**0**
Work-related fatality rate	0	0	**0**	0	0	**0**
Occupational disease rate	0	0	**0**	0	0	**0**

Tunisia - Pharmaceutical production plant and offices

	2020			2019		
Injuries and Injury Rates	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related injuries (No.)	1	3	**4**	8	5	**13**
of which high-consequence work-related injuries (No.)	*0*	*0*	***0***	*0*	*0*	***0***
of which work-related fatalities (No.)	*0*	*0*	***0***	*0*	*0*	***0***
Commuting to/from work injuries (No.)	2	1	**3**	0	1	**1**
Cases of work-related diseases (No.)	0	0	**0**	0	0	**0**
Severity Index	6.2	33.8	**21.3**	43.1	9.1	**24.2**
Work-related injury rate/Frequency rate	0.5	1.3	**0.9**	4.1	2.6	**3.3**
High-consequence work-related injury rate	0	0	**0**	0	0	**0**
Work-related fatality rate	0	0	**0**	0	0	**0**
Occupational disease rate	0	0	**0**	0	0	**0**

Turkey - Pharmaceutical production plant and offices

	2020			2019		
Injuries and Injury Rates	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related injuries (No.)	5	0	**5**	5	2	**7**
of which high-consequence work-related injuries (No.)	*0*	*0*	***0***	*0*	*0*	*0*
of which work-related fatalities (No.)	*0*	*0*	***0***	*0*	*0*	*0*
Commuting to/from work injuries (No.)	0	0	**0**	0	0	**0**
Cases of work-related diseases (No.)	0	0	**0**	0	0	**0**
Severity Index	15.5	0	**10.8**	7.4	4.1	**6.4**
Work-related injury rate/Frequency rate	3.2	0	**2.2**	3.5	3.3	**3.4**
High-consequence work-related injury rate	0	0	**0**	0	0	**0**
Work-related fatality rate	0	0	**0**	0	0	**0**
Occupational disease rate	0	0	**0**	0	0	**0**

France (Bouchara) - Pharmaceutical production plant and offices

	2020			2019		
Injuries and Injury Rates	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related injuries (No.)	3	0	**3**	8	8	**16**
of which high-consequence work-related injuries (No.)	*0*	*0*	***0***	*0*	*0*	***0***
of which work-related fatalities (No.)	*0*	*0*	***0***	*0*	*0*	***0***
Commuting to/from work injuries (No.)	0	0	**0**	0	0	**0**
Cases of work-related diseases (No.)	0	0	**0**	0	1	**1**
Severity Index	342.1	0	**173.6**	386.4	418.5	**405.9**
Work-related injury rate/Frequency rate	7.9	0	**4.0**	8.0	5.2	**6.3**
High-consequence work-related injury rate	0	0	**0**	0	0	**0**
Work-related fatality rate	0	0	**0**	0	0	**0**
Occupational disease rate	0	0	**0**	0	0.6	**0.4**

France (Nanterre) - Distribution centre and offices

	2020			2019		
Injuries and Injury Rates	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related injuries (No.)	0	0	**0**	0	0	**0**
of which high-consequence work-related injuries (No.)	*0*	*0*	***0***	*0*	*0*	***0***
of which work-related fatalities (No.)	*0*	*0*	***0***	*0*	*0*	***0***
Commuting to/from work injuries (No.)	0	0	**0**	1	0	**1**
Cases of work-related diseases (No.)	0	0	**0**	0	0	**0**
Severity Index	0	0	**0**	36.7	0	**17.1**
Work-related injury rate/Frequency rate	0	0	**0**	12.4	0	**5.9**
High-consequence work-related injury rate	0	0	**0**	0	0	**0**
Work-related fatality rate	0	0	**0**	0	0	**0**
Occupational disease rate	0	0	**0**	0	0	**0**

Water management

Water withdrawal at Recordati group production plants located in water-stressed areas[34] by source

	Unit of measurement	2020	2019	% Variation
Surface water	Ml	763	854	-11%
Groundwater	Ml	887	875	1%
Mains water	Ml	78	81	-4%
Total	**Ml**	**1,728**	**1,810**	**-5%**

9.3 GRI INDEX

The following table shows the material topics identified by Recordati relating to the GRI Reporting Standards and the topics covered by Legislative Decree no. 254/2016. For these topics, the column "Scope of material topics" lists all parties who may generate an impact for each topic, both internally and externally to the Group. The column "Type of impact" indicates Recordati's role in relation to the general impact for each material topic.

34 The Group's plants located in water-stressed areas are the Italian plant in Campoverde di Aprilia, the Tunisian plant in Kelaat El Andaluu and the Turkish plant in Çerkezköy. The Aqueduct tool developed by the World Resources Institute was used to determine water-stressed areas.

Material topics of the Recordati group	Correlation with GRI Standards	Correlation with the topics covered by Legislative Decree no. 254/2016	Scope of material topics	Type of impact
Business ethics, integrity, anti-corruption	**GRI 205:** Anti-corruption	Fight against active and passive corruption	Recordati group	Caused by the Group
	GRI 206: Anti-competitive behaviour	Fight against active and passive corruption	Recordati group	Caused by the Group
	GRI 207: Tax	N/A	Recordati group	Caused by the Group
	GRI 307: Environmental compliance	Environmental	Recordati group	Caused by the Group
	GRI 419: Socioeconomic compliance	Fight against active and passive corruption	Recordati group	Caused by the Group
Value creation and distribution	**GRI 201:** Economic performance	Social	Recordati group; Investors and the financial community	Caused by the Group
	GRI 203: Indirect economic impacts	N/A	Recordati group	Caused by the Group
Privacy and data protection	**GRI 418:** Customer Privacy	Social	Recordati group	Caused by the Group
Product quality and safety	**GRI 416:** Customer health and safety	Social	Recordati group; Clients and consumers; Patients and associations	Caused by the Group
Access to medical products and healthcare	N/A	Social	Recordati group; Clients and consumers; Patients and associations	Caused by the Group
Research and development	N/A	N/A	Recordati group; Scientific organisations and Universities	Caused by the Group
Responsible marketing	**GRI 417:** Marketing and labelling	N/A	Recordati group	Caused by the Group
Employee health and safety	**GRI 403:** Occupational Health and safety	Relating to personnel	Recordati group; Employees	Caused by the Group and directly connected to its activities
Diversity and equal opportunities	**GRI 405:** Diversity and equal opportunity	Relating to personnel	Recordati group; Employees	Caused by the Group
	GRI 406: Non-Discrimination	Relating to personnel Human rights	Recordati group; Employees	Caused by the Group
Management and development of human resources	**GRI 401:** Employment	Relating to personnel	Recordati group; Employees	Caused by the Group
	GRI 404: Training and education	Relating to personnel	Recordati group; Employees	Caused by the Group
Well-being of human resources	**GRI 401:** Employment	Relating to personnel	Recordati group; Employees	Caused by the Group
Support for local communities	**GRI 202:** Market presence	Social	Recordati group, Community	Caused by the Group
Fight against climate change	**GRI 302:** Energy	Environmental	Recordati group	Caused by the Group
	GRI 305: Emissions	Environmental		
Water management	**GRI 303:** Water and Effluents	Environmental	Recordati group	Caused by the Group
Product sustainability	N/A	Environmental	Recordati group; Suppliers	Caused by the Group
Responsible waste management	**GRI 306:** Effluents and waste	Environmental	Recordati group	Caused by the Group
Responsible Sourcing	**GRI 414:** Supplier Social Assessment	Social Human rights	Recordati group; Suppliers and strategic partners	Caused by the Group and directly connected to its activities
	GRI 308: Supplier Environmental Assessment	Environmental	Recordati group; Suppliers and strategic partners	Caused by the Group and directly connected to its activities

In accordance with the "Core" option of the "GRI Sustainability Reporting Guidelines", performance indicators are presented in the table below.

Each indicator includes a reference to the section of the Non-Financial Statement where the indicator can be found or other relevant reference sources in the public domain.

Indicator		References and other information	Omissions
GRI 102: GENERAL DISCLOSURES (2016)			
Organisation Profile			
102-1	Name of the Organisation	Pages 110-111	
102-2	Activities, brands, products, and services	Pages 110-111; Annual Report, "Review of Operations" section	
102-3	Location of headquarters	Page 171	
102-4	Location of operations	Pages 110-111	
102-5	Ownership and legal form	Pages 110-111; page 171. Corporate Governance Report and Ownership Structure, "Profile of the Issuer and general information" section	
102-6	Markets served	Pages 110-111	
102-7	Scale of the organisation	Pages 110-111; page 113; page 142; Annual Report, "Financial Highlights" section; Corporate Governance Report and Ownership Structure, "Profile of the Issuer and General Information" section	
102-8	Information on employees and other workers	Page 142; pag. 144	
102-9	Supply chain	Pages 165-166	
102-10	Significant changes to the organisation and its supply chain	Page 171; Corporate Governance Report and Ownership Structure, "Profile of the Issuer and General Information" section	
102-11	Precautionary Principle or approach	Pages 130-132	
102-12	External initiatives	Page 116; pages 118-119	
102-13	Membership of associations	Pages 118-119	
Strategy			
102-14	Statement from senior decision-maker	Page 108	
102-15	Key impacts, risks and opportunities	Pages 123-125; pages 130-132	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	Page 112	
Governance			
102-18	Governance structure	Page 113; page 116; Corporate Governance Report and Ownership Structure, "Profile of the Issuer and general information" section	
Stakeholder engagement			
102-40	List of stakeholder groups	Page 117	
102-41	Collective bargaining agreements	Page 153	
102-42	Identifying and selecting stakeholders	Pages 117-118	
102-43	Approach to stakeholder engagement	Pages 117-118; page 120	
102-44	Key topics and concerns raised by stakeholder engagement initiatives	Pages 120-121	
Reporting practice			
102-45	Entities included in the Consolidated Financial Statements	Page 171	
102-46	Defining report content and topic boundaries	Page 171; pages 176-177	
102-47	List of material topics	Page 121; pages 176-177	

Indicator		References and other information	Omissions
102-48	Restatements of information	Page 171	
102-49	Changes in reporting	Pages 120-121; page 171	
102-50	Reporting period	Page 171	
102-51	Date of most recent report	*The previous Consolidated Non-Financial Statement was approved by the Board of Directors of Recordati group on 18 March 2020*	
102-52	Reporting cycle	Page 171	
102-53	Contact point for questions regarding the report	Page 171	
102-54	Chosen "in accordance" option	Page 171	
102-55	GRI content index	Pages 178-184	
102-56	External assurance	Pages 185-187	

Topic-specific standards

GRI 200: ECONOMIC SERIES (2016)			
Aspect: Economic performance			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 113	
103-3	Evaluation of the management approach	Page 113	
GRI-201: ECONOMIC PERFORMANCE (2016)			
201-1	Direct economic value generated and distributed	Page 113	
Aspect: Market presence			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Pages 142-143	
103-3	Evaluation of the management approach	Pages 142-143	
GRI-201: ECONOMIC PERFORMANCE (2016)			
202-2	Proportion of senior management hired from the local community	Page 143	
Aspect: Indirect economic impacts			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 113; pages 168-169	
103-3	Evaluation of the management approach	Page 113; pages 168-169	
GRI-203: INDIRECT ECONOMIC IMPACTS (2016)			
203-1	Infrastructure investments and services supported	Page 113; pages 168-169	
Aspect: Anti-corruption			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Pages 127-129	
103-3	Evaluation of the management approach	Pages 127-129	

Indicator		References and other information	Omissions
GRI-205: ANTI-CORRUPTION (2016)			
205-1	Operations assessed for risks related to corruption	Pages 127-129	
205-3	Confirmed incidents of corruption and actions taken	*In 2020 no cases of corruption were recorded*	
Aspect: Anti-competitive behaviour			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Pages 127-129	
103-3	Evaluation of the management approach	Pages 127-129	
GRI-206: ANTI-COMPETITIVE BEHAVIOUR (2016)			
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	*No legal action for anti-competitive behaviour, anti-trust cases or monopoly practices was reported during the year*	
Aspect: Tax			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Pages 132-133	
103-3	Evaluation of the management approach	Pages 132-133	
GRI-207: TAX (2019)			
207-1	Approach to tax	Pages 132-133	
207-2	Tax governance, control and risk management	Pages 132-133	
207-3	Stakeholder engagement and management concerns related to tax	Pages 132-133	
207-4	Country-by-country reporting	Page 133	For 2020 (the first year that Standard 207 was applied), the Company partially reported the information as required by GRI 207-4, for reasons related to the difficulty encountered in finding some data with the level of detail required for each tax jurisdiction. Therefore, the Company commits to finding the data and the necessary information to cover the information for future reporting in the coming years.
GRI 300: ENVIRONMENTAL SERIES (2016)			
Aspect: Energy			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Pages 155-159	
103-3	Evaluation of the management approach	Pages 155-159	
GRI-302: ENERGY (2016)			
302-1	Energy consumption within the organisation	Pages 156-157	

Indicator		References and other information	Omissions
Aspect: Water and effluents			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 155; pages 160-161	
103-3	Evaluation of the management approach	Page 155; pages 160-161	
GRI-303: WATER AND EFFLUENTS (2018)			
303-1	Interactions with water as a shared resource	Pages 160-161	
303-2	Management of water discharge-related impacts	Page 160-161	
303-3	Water withdrawal	Page 161; page 176	
Aspect: Emissions			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 155; pages 158-160	
103-3	Evaluation of the management approach	Page 155; pages 158-160	
GRI-305: EMISSIONS (2016)			
305-1	Direct (Scope 1) GHG emissions	Page 159	
305-2	Energy indirect (Scope 2) GHG emissions	Page 159	
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	Page 160	
Aspect: Effluents and waste			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 155; pages 161-163	
103-3	Evaluation of the management approach	Page 155; pages 161-163	
GRI-306: EFFLUENTS AND WASTE (2016)			
306-2	Waste by type and disposal method	Page 162	
Aspect: Environmental compliance			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 155	
103-3	Evaluation of the management approach	Page 155	
GRI-307: ENVIRONMENTAL COMPLIANCE (2016)			
307-1	Non-compliance with environmental laws and regulations	*In 2020 the Group did not record any cases of breaches of environmental laws and regulations Page 155*	
Aspect: Supplier Environmental Assessment			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 123; page 125; pages 164-165	
103-3	Evaluation of the management approach	Pages 164-165	
GRI-308: SUPPLIER ENVIRONMENTAL ASSESSMENT (2016)			
308-1	New suppliers that were screened using environmental criteria	Page 138; page 165	

Indicator		References and other information	Omissions
GRI 400: SOCIAL SERIES (2016)			
Aspect: Employment			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Pages 142-144; pages 145-147	
103-3	Evaluation of the management approach	Pages 142-144; pages 145-147	
GRI-401: EMPLOYMENT (2016)			
401-1	New employee hires and employee turnover	Page 144; page 172	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Pages 145-147	
Aspect: Occupational Health and safety			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 142; pages 150-153	
103-3	Evaluation of the management approach	Page 142; pages 150-153	
GRI-403: OCCUPATIONAL HEALTH AND SAFETY (2018)			
403-1	Occupational health and safety management system	Pages 150-153	
403-2	Hazard identification, risk assessment and incident investigation	Pages 150-153	
403-3	Occupational health services	Pages 150-153	
403-4	Worker participation, consultation and communication on occupational health and safety	Pages 150-153	
403-5	Worker training on occupation health and safety	Page 152	
403-6	Promotion of worker health	Pages 150-153	
403-7	Prevention and mitigation of occupation health and safety impacts directly linked by business relationships	Pages 150-153	
403-9	Work-related injuries	Page 151; pages 173-176	
403-10	Work-related ill health	Page 151; pages 173-176	
Aspect: Training and education			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 142; pages 147-149	
103-3	Evaluation of the management approach	Page 142; pages 147-149	
GRI-404: TRAINING AND EDUCATION (2016)			
404-1	Average hours of training per year per employee	Page 147	
404-2	Programs for upgrading employee skills and transition assistance programs	Pages 147-149	

Indicator		References and other information	Omissions
Aspect: Diversity and equal opportunity			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 142; page 145	
103-3	Evaluation of the management approach	Page 142; page 145	
GRI-405: DIVERSITY AND EQUAL OPPORTUNITY (2016)			
405-1	Diversity of governance bodies and employees	Page 113; page 143; page 145; Corporate Governance Report and Ownership Structure, "Board of Directors" section	
405-2	Ratio of basic salary and remuneration of women to men	Page 146	
Aspect: Non-Discrimination			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 142; page 145	
103-3	Evaluation of the management approach	Page 142; page 145	
GRI 406: NON-DISCRIMINATION			
406-1	Incidents of discrimination and corrective actions taken	*The Group did not record any incidents of discrimination in 2020*	
Aspect: Supplier Social Assessment			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 123; page 125; page 165	
103-3	Evaluation of the management approach	Page 165	
GRI-414: SUPPLIER SOCIAL ASSESSMENT (2016)			
414-1	New suppliers that were screened using social criteria	Page 138; page 165	
Aspect: Customer health and safety			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Pages 137-140	
103-3	Evaluation of the management approach	Pages 137-140	
GRI-416: CUSTOMER HEALTH AND SAFETY (2016)			
416-1	Assessment of the health and safety impacts of product and service categories	Pages 137-138	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Page 139	
Aspect: Marketing and labelling			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Pages 139-140	
103-3	Evaluation of the management approach	Pages 139-140	

Indicator		References and other information	Omissions
GRI-417: MARKETING AND LABELLING (2016)			
417-2	Incidents of non-compliance concerning product and service information and labelling	Page 139	
417-3	Incidents of non-compliance concerning marketing communications	Pages 139-140	
Aspect: Customer Privacy			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 127; page 135	
103-3	Evaluation of the management approach	Page 127; page 135	
GRI-418: CUSTOMER PRIVACY (2016)			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Page 127	
Aspect: Socioeconomic compliance			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Pages 139-140	
103-3	Evaluation of the management approach	Pages 139-140	
GRI-419: SOCIOECONOMIC COMPLIANCE (2016)			
419-1	Non-compliance with laws and regulations in the social and economic area	Page 139	
Aspect: Product sustainability			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 116; page 123, page 125; page 135	
103-3	Evaluation of the management approach	Page 116; page 135	
Aspect: Access to medical products and healthcare			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Pages 135-137	
103-3	Evaluation of the management approach	Pages 135-137	
Aspect: Research and development			
GRI-103: MANAGEMENT APPROACH (2016)			
103-1	Explanation of the material topic and its boundary	Page 121; page 171; pages 176-177	
103-2	The management approach and its components	Page 135	
103-3	Evaluation of the management approach	Page 135	

9.4 AUDITOR'S REPORT

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Independent auditors' report on the consolidated disclosure of non-financial information in accordance with Article 3, par. 10, of Legislative Decree 254/2016 and with Article 5 of CONSOB Regulation adopted with Resolution n. 20267 of January 18th, 2018

(Translation from the original Italian text)

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

We have been appointed to perform a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of CONSOB Regulation adopted with Resolution 20267/2018, on the consolidated disclosure of non-financial information of Recordati Industria Chimica e Farmaceutica S.p.A. and its subsidiaries (hereinafter the "Group" or "Recordati Group") for the year ended on December 31st, 2020 in accordance with article 4 of the Decree and approved by the Board of Directors on March 18th, 2021 (hereinafter "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" defined by GRI – Global Reporting Initiative (hereinafter "GRI Standards"), identified by them as a reporting standard.

The Directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or not intentional behaviors or events.

The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

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Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the GRI Standards. Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This principle requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant matters in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;
2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;
3. comparison of the economic and financial data and information included in the DNF with those included in the Recordati Group's consolidated financial statements;
4. understanding of the following aspects:
   - Group's management and organization business model, with reference to the management of the matters indicated in the article 3 of the Decree;
   - policies adopted by the Group related to the matters indicated in the article 3 of the Decree, results achieved and related key performance indicators;
   - main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

   With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 5. a) below;
5. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF. In particular, we have conducted interviews and discussions with the management of Recordati Industria

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Chimica e Farmaceutica S.p.A. and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.
Furthermore, for significant information, considering the Group activities and characteristics:

- at Group level
  a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- for the Milan site of Recordati Industria Chimica e Farmaceutica S.p.A., that we have selected based on its activities, relevance to the consolidated performance indicators and location, we have carried out remote interviews during which we have had discussions with management and have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Recordati Group for the year ended on December 31st, 2020 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards.

Other Information

The DNF for the years ended on December 31st, 2018 and December 31st, 2019, whose data are presented for comparative purposes, have been subject to limited assurance procedures by another auditor, who expressed unqualified conclusions on March 20th, 2019 and April 7th, 2020.

Milan, March 29th, 2021

EY S.p.A.
Signed by: Renato Macchi
(Auditor)

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

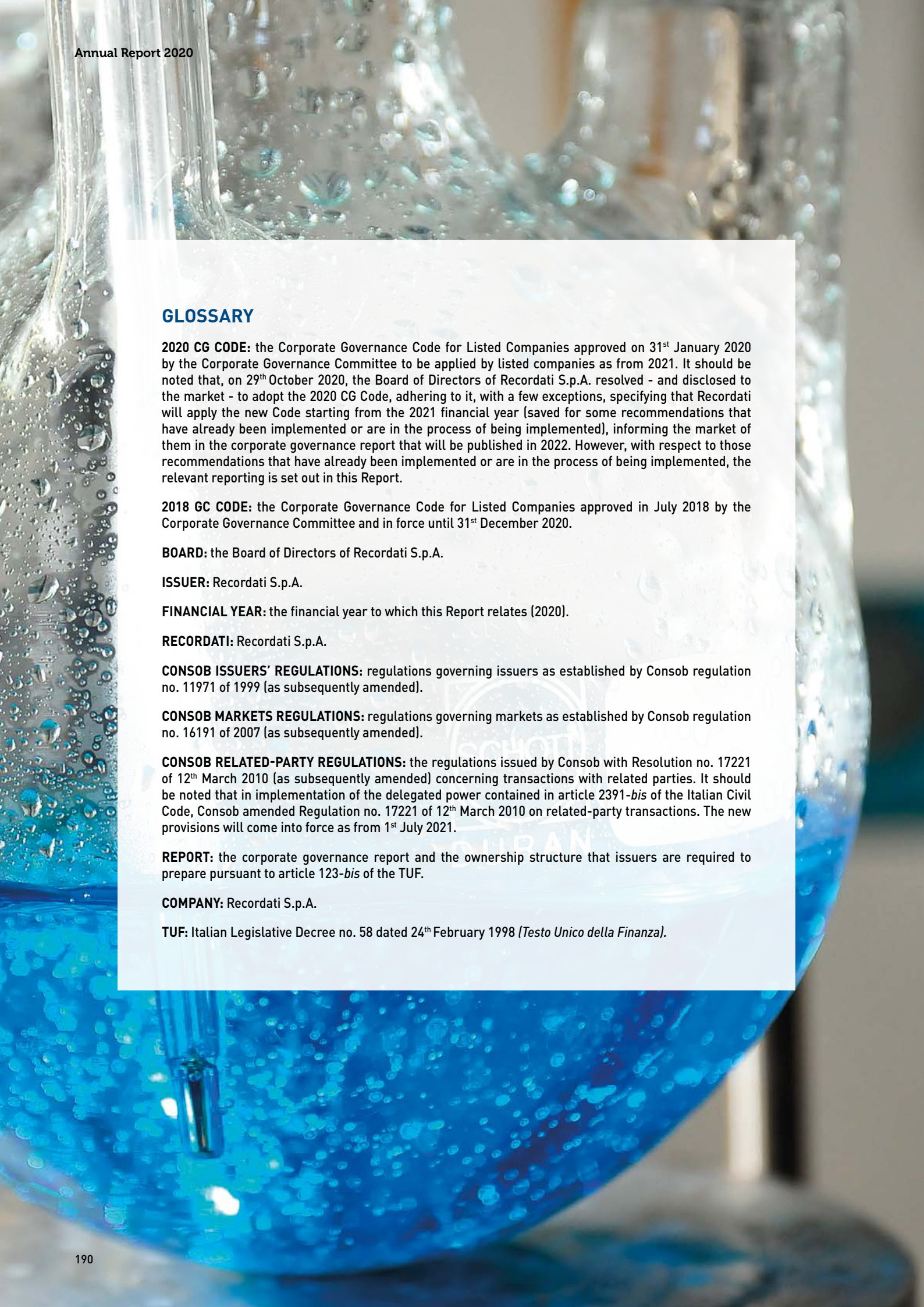
Corporate governance report and ownership structure 2020

FINANCIAL YEAR 2020

pursuant to article 123 *bis* of Italian Legislative Decree no. 58 of 24th February 1998

Approved on 18th March 2021
by the Board of Directors

www.recordati.it



GLOSSARY

2020 CG CODE: the Corporate Governance Code for Listed Companies approved on 31st January 2020 by the Corporate Governance Committee to be applied by listed companies as from 2021. It should be noted that, on 29th October 2020, the Board of Directors of Recordati S.p.A. resolved - and disclosed to the market - to adopt the 2020 CG Code, adhering to it, with a few exceptions, specifying that Recordati will apply the new Code starting from the 2021 financial year (saved for some recommendations that have already been implemented or are in the process of being implemented), informing the market of them in the corporate governance report that will be published in 2022. However, with respect to those recommendations that have already been implemented or are in the process of being implemented, the relevant reporting is set out in this Report.

2018 GC CODE: the Corporate Governance Code for Listed Companies approved in July 2018 by the Corporate Governance Committee and in force until 31st December 2020.

BOARD: the Board of Directors of Recordati S.p.A.

ISSUER: Recordati S.p.A.

FINANCIAL YEAR: the financial year to which this Report relates (2020).

RECORDATI: Recordati S.p.A.

CONSOB ISSUERS' REGULATIONS: regulations governing issuers as established by Consob regulation no. 11971 of 1999 (as subsequently amended).

CONSOB MARKETS REGULATIONS: regulations governing markets as established by Consob regulation no. 16191 of 2007 (as subsequently amended).

CONSOB RELATED-PARTY REGULATIONS: the regulations issued by Consob with Resolution no. 17221 of 12th March 2010 (as subsequently amended) concerning transactions with related parties. It should be noted that in implementation of the delegated power contained in article 2391-*bis* of the Italian Civil Code, Consob amended Regulation no. 17221 of 12th March 2010 on related-party transactions. The new provisions will come into force as from 1st July 2021.

REPORT: the corporate governance report and the ownership structure that issuers are required to prepare pursuant to article 123-*bis* of the TUF.

COMPANY: Recordati S.p.A.

TUF: Italian Legislative Decree no. 58 dated 24th February 1998 *(Testo Unico della Finanza).*

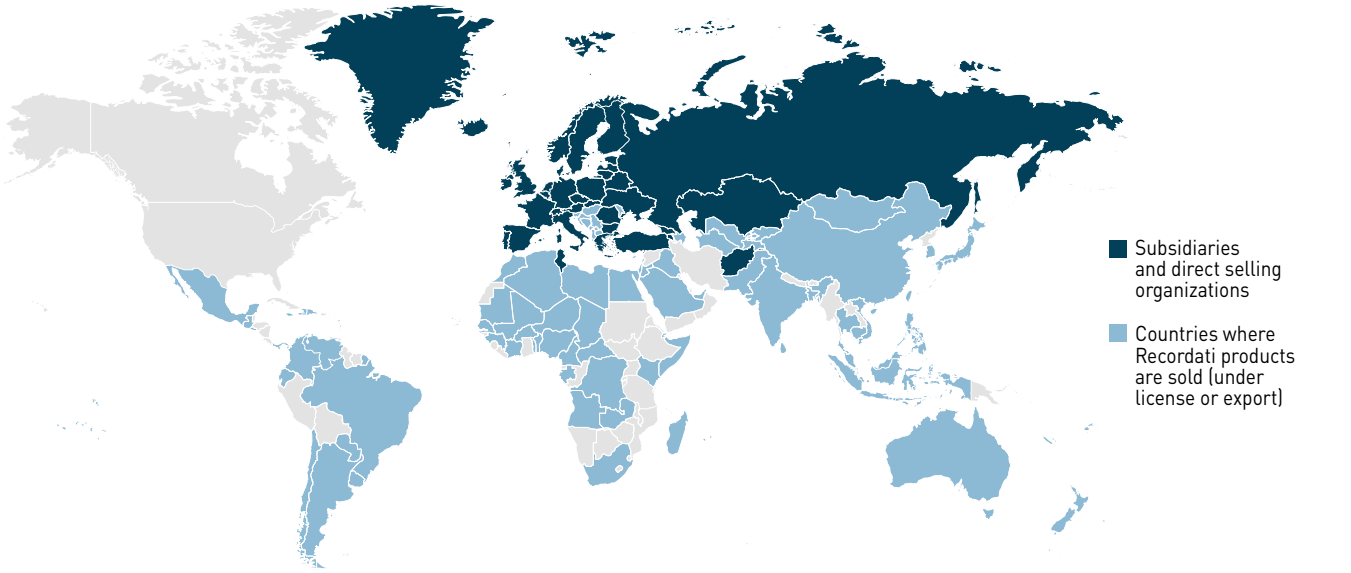
1. PROFILE OF THE ISSUER AND GENERAL INFORMATION

Recordati S.p.A. (Reuters RECI.MI, Bloomberg REC IM) was founded in 1926 and is a joint stock company listed on the *Mercato Telematico Azionario* (electronic stock exchange) operated by Italian Borsa S.p.A. (ISIN IT 0003828271).

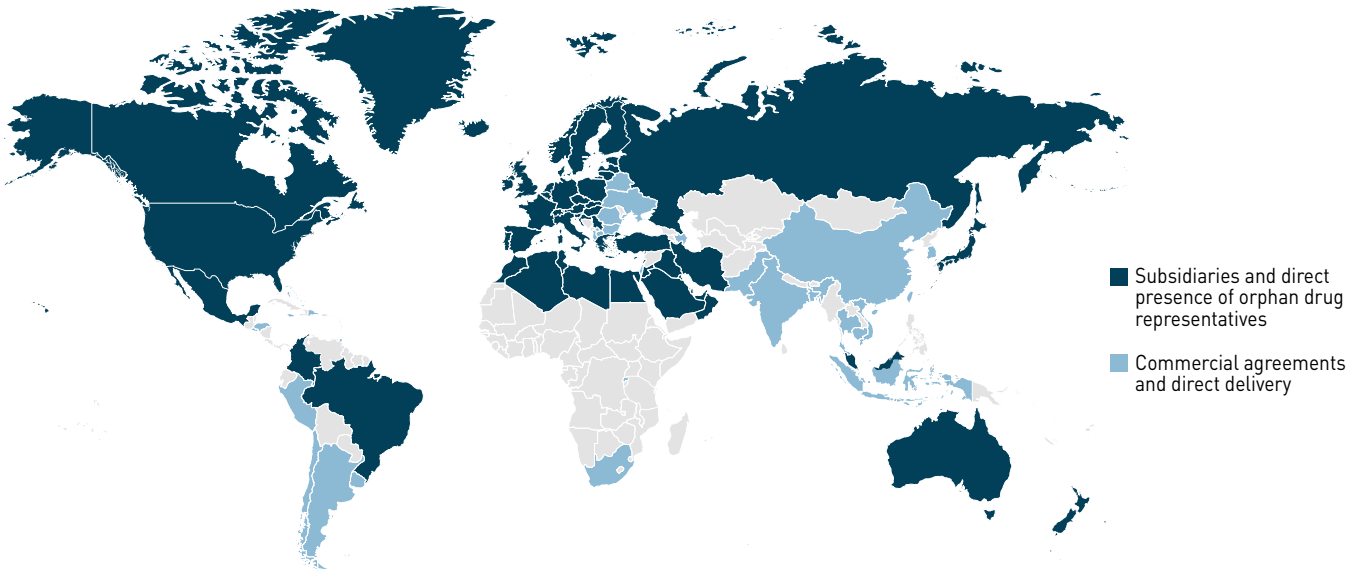
The Company and the Group that it leads has approximately 4,300 employees. They perform research and development, production, marketing and sales of pharmaceuticals – both original and licensed, belonging to different therapeutic areas including a specialised activity in rare diseases – supplements and medical devices, as well as pharmaceutical chemical products. Recordati is engaged in the research and development of innovative pharmaceuticals, particularly, therapies for rare diseases. They perform their activities in the principal European countries, including Russia, Turkey, North Africa, the United States of America, Canada, Mexico, some countries in South America, Japan and Australia.

As at 31st December 2020, the Group was composed of 46 subsidiaries (of which 4 are Italian), in addition to the Parent Company, Recordati S.p.A.

GENERAL AND SPECIALIST MEDICINE



RARE DISEASES

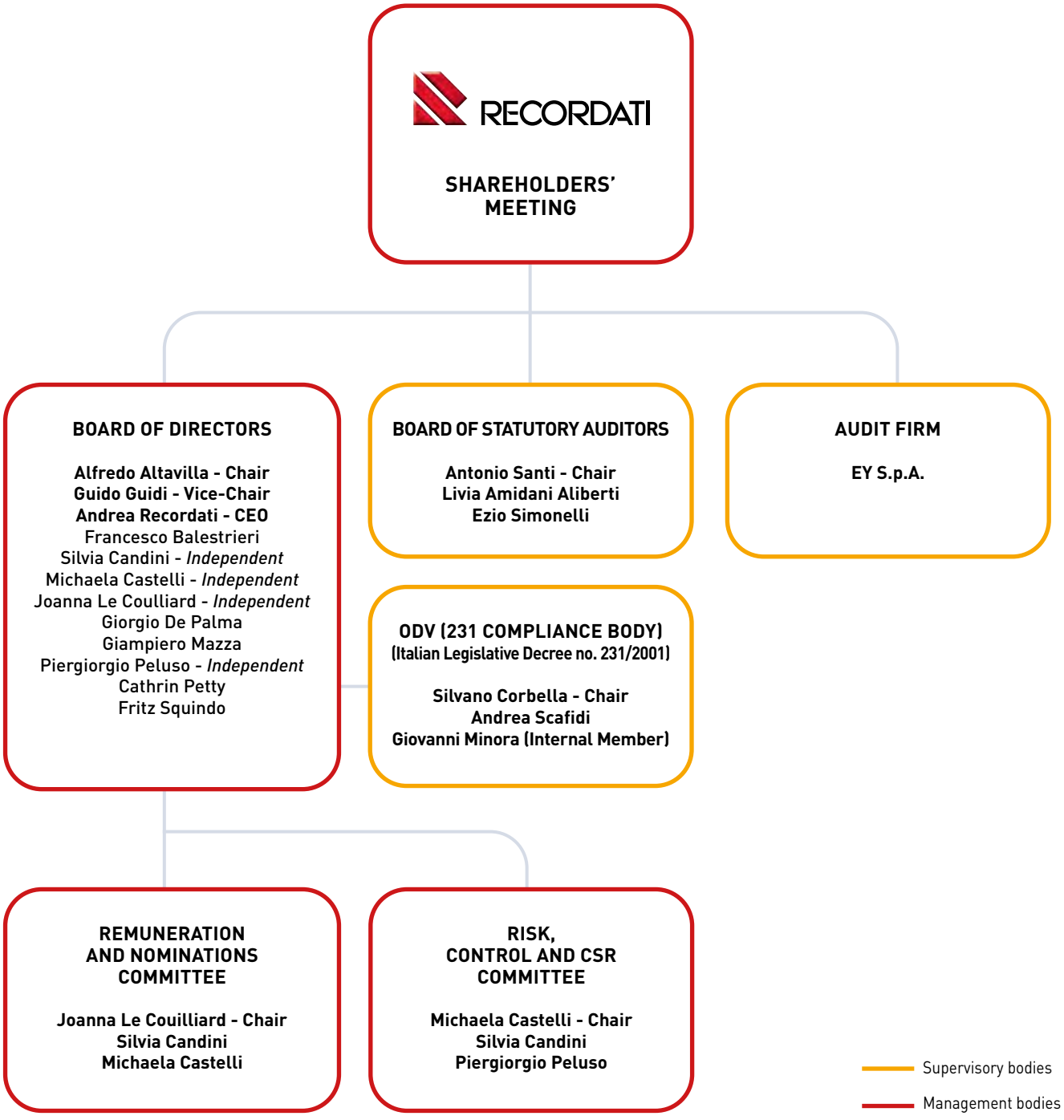


The primary objective of Recordati's corporate governance system is the creation of value for shareholders, without, however, losing sight of the social importance of the activity performed and of all the stakeholders involved. Recordati's values are identified in the Code of Ethics, updated, most recently, by the Board of Directors on 30th July 2020 (which may be consulted on the Recordati website).[1]

The corporate governance structure of the Company is based on a conventional organisational model and therefore consists of the following corporate bodies: (i) the Shareholders' Meeting, (ii) the Board of Directors, (iii) the Board of Statutory Auditors. Accounting control is delegated, in compliance with the relative legislation in force, to a firm of auditors registered in the special roll maintained by the Consob. A '231' (administrative liability) Compliance Body (ODV) has also been appointed which oversees the proper functioning of the '231 Model' and is responsible for updating it.

The Board of Directors has formed two committees from among its members with consultative and proposal-making functions: the Remuneration and Nominations Committee and the Risk, Control and CSR Committee, both consisting exclusively of independent directors.

Below is a graph representing the corporate governance structure of the Company as at 18th March 2021:



1 https://www.recordati.com/pdf/code-of-ethics-recordati-group.pdf

With respect to the 2020 Financial Year, Recordati adheres to and complies with the Corporate Governance Code for Listed Companies as published in July 2018[2] with the additions and necessary amendments resulting from the characteristics of the Group as mentioned in this Report. By a resolution adopted on 29th October 2020, the Board of Directors of Recordati S.p.A. resolved - and disclosed to the market - to adopt the Corporate Governance Code for Listed Companies, as published in January 2020[3], adhering to it, with a few exceptions, specifying that Recordati will apply the new Code as from the 2021 financial year (saved for some recommendations that have already been implemented or are in the process of being implemented), informing the market of them in the corporate governance report that will be published in 2022. However, with respect to those recommendations that have already been implemented or are in the process of being implemented, the relevant reporting is set out in this Report.

The information contained in this document, unless otherwise indicated, refers to the financial year ended on 31st December 2020 and, in relation to specific issues, updated at the date of its approval by the Board of Directors (18th March 2021).

In some cases, the Report makes reference to documents and information which may be consulted on the Company's website (www.recordati.it).

Reverse merger of Fimei S.p.A. and Rossini Investimenti S.p.A. into Recordati S.p.A.

On 1st October 2020, the Board of Directors of Recordati S.p.A. (the '**Acquiring Company**') examined and approved, by unanimous vote of those present, the reverse merger by incorporation of Rossini Investimenti S.p.A. ('**Rossini Investimenti**') and Fimei S.p.A. (**'Fimei'**) (Rossini Investimenti and Fimei are jointly also referred to as the '**Merging Companies**' into Recordati (the '**Transaction**' or the '**Merger**') and the documentation required for the implementation of the Merger itself, including the relevant merger project (the '**Merger Plan**').

The Merger, together with the merger agreement described below, has received the favourable opinion of Recordati's Risk, Control and CSR Committee (the '**Committee**'), which acts as the Committee for Related-Party Transactions in accordance with the procedure for regulating transactions with related parties of Recordati (the '**Procedure**').

The main reasons for the decision to proceed with the Merger, with the consequent benefit of the Transaction for Recordati and for the entire group to which it belongs (the '**Group**') are as follows:

a) to shorten the chain of control with respect to the operating companies and to simplify the corporate structure of the Group, in line with domestic and international practice;
b) to reduce the administrative costs associated with the maintenance of the Merging Companies with the consequent freeing up of resources for the benefit of the entire Group;
c) to obtain administrative synergies and synergies related to fixed structural costs, as well as greater efficiency from a financial point of view resulting from a shortening of the control chain, which will allow dividend flows to be realised more rapidly, with a consequent lower tax cost resulting from the elimination of additional tax levels.

As a result of the Merger, Recordati will also be able to benefit from the ACE tax benefits generated by Rossini Investimenti, as more fully described in the Merger Project and the Information Document. In this respect, as disclosed to the market on 9th December 2020, the request for an opinion submitted by the Company received a positive response from the Italian Revenue Agency.

Furthermore, it should be noted that as a result of the Merger:

- there will be no change to the share capital or the By-laws of Recordati S.p.A.;
- the shareholdings held in Recordati S.p.A. by Rossini S.à r.l. (indirectly held by CVC Capital Partners VII Limited), currently equal to 51.820% of the share capital of Recordati S.p.A. shall remain unchanged, as well as those shareholdings held by the other shareholders;
- all the Recordati shares held by Fimei will be assigned to Rossini S.à r.l. against the cancellation of all the Rossini Investimenti shares held by Rossini S.à r.l. itself;
- there will be no effect on the net financial position or on the capital allocation strategy or policy of Recordati S.p.A.;
- there will be no recognition in Recordati S.p.A.'s financial statements of goodwill or intangible assets resulting from the transaction.

With regard to the Exchange Ratio, PricewaterhouseCoopers S.p.A., appointed by the Court of Milan to prepare the report on the fairness of the Exchange Ratio pursuant to article 2501-*sexies* of the Italian Civil Code, issued (on the assumption that the relevant conditions, set out in detail in the Merger Project and the Explanatory Reports, remain unchanged) on 13th November 2020 a positive opinion on the fairness of the Exchange Ratio.

In addition, the Merger was also notified, pursuant to Italian Law Decree no. 21/2012, converted into Italian Law no. 56/2012, entitled 'Rules on special powers over corporate governance models in the defence and national security sectors, as well as for strategically important activities in the energy, transportation and communications sectors', and subsequent relevant provisions, to the Presidency of the Council of Ministers, which, on 30th October 2020, announced the closure of the related proceedings, as there was no information regarding the threat of serious prejudice to the national interest.

On 17th December 2020, the extraordinary shareholders' meetings of Rossini Investimenti, Fimei and Recordati examined and approved, without amendments or supplements, the merger project for the incorporation of Rossini Investimenti and Fimei into Recordati.

The Merger is expected to be completed during the first half of the 2021 financial year and in any case after the date of approval of the Merging Companies' financial statements for the year ended on 31st December 2020 and their closing balance sheet as at 31st March 2021. Within the strictly necessary technical timeframe immediately following the approval of the aforementioned closing balance sheets, the Participants in the Merger shall execute the Merger deed and file it with the competent Companies' Register. The transactions of the Merging Companies will be recorded in the financial statements of the Acquiring Company as from 1st April 2021 (the '**Accounting Effective Date**').

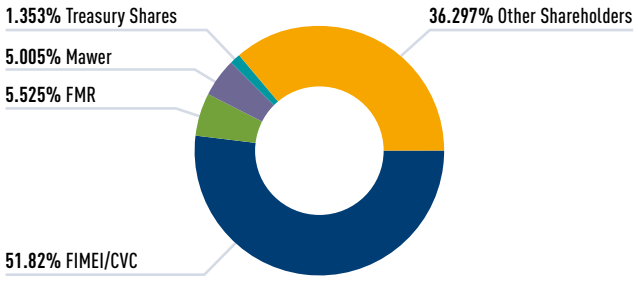
The Merger will be effective for statutory purposes from the date of the last of the registrations required by article 2504 of the Italian Civil Code (the '**Effective Date**'). As from such date, the Acquiring Company will take over all the assets and liabilities of the Merging Companies, which will be extinguished accordingly.

For further information on the terms and procedures for performing the Merger, reference should be made to the Merger Project, the Information Document and the Explanatory Reports, published on the website www.recordati.com (in the 'Investors' area, section 'Shareholders' Meetings - Reverse Merger into Recordati S.p.A. 2020/2021') and on the authorised storage mechanism 1Info https://www.1info.it

2 This may be consulted on the website of Borsa Italiana: http://www.borsaitaliana.it.
3 This may be consulted on the website of Borsa Italiana: http://www.borsaitaliana.it.

2. OWNERSHIP STRUCTURE (pursuant to article 123-*bis*, paragraph 1, of the TUF)

Below is a graph representing the ownership structure as at 31st December 2020:



a) Structure of the share capital and rights attaching to shares (pursuant to article 123-*bis*, paragraph 1, letter a) of the TUF)
The subscribed and paid-up share capital amounts to € 26,140,644.5 and is represented by 209,125,156 ordinary shares each with a par value of € 0.125 as reported in the table at the end of this section. The shares are listed on the *Mercato Telematico Azionario* (electronic stock exchange) operated by Borsa Italiana and issued under a dematerialisation regime.

The rights attaching to the shares are set out in the By-Laws. More specifically, each share entitles the holder to a proportional part of the profits allocated for distribution; article 28 of the By-Laws provides that the net profits on the balance sheet are to be distributed as follows: (a) 5% (five percent) to the legal reserve fund up to the amount established by the law; (b) the remainder, unless the Shareholders' Meeting, as proposed by the Board, resolves to allocate funds for extraordinary reserves or for other purposes, or to postpone part or all of the distribution to all shares to successive years, to be distributed to all shares. The Board of Directors may resolve to distribute interim dividends, within the limits and according to the procedures established by law. Dividends not collected within five years following the day on which they became payable shall revert to the Company and are recognised in the extraordinary reserve.

As reported in the table below, there are no other categories of shares, nor other financial instruments that assign the right to subscribe to new share issues, with the exception of the conditions indicated below in the context of stock option plans.

As concerns outstanding stock option plans and any share capital increases there may be at the service of those plans, reference is made to the information documents prepared in accordance with article 84-*bis* of the Consob Issuers' Regulations relating to each outstanding stock option plan, available on the Company website at the address:
http://www.recordati.it/en/corporate_governance/remuneration/stock_option_plans/.

The Remuneration Report pursuant to article 84-*bis* of the Consob Issuers' Regulations may also be consulted, available on the Company's website (http://www.recordati.it/en/corporate_governance/remuneration/remuneration_reports/).

Structure of the share capital

	No. Shares	% of share capital	Listed/unlisted
Ordinary shares	**209,125,156**	**100**	**Listed on the *Mercato Telematico Azionario* (electronic stock exchange) managed by Borsa Italiana**
Shares with multiple voting rights	0	0	
Shares with limited voting rights	0	0	
Shares with no voting rights	0	0	

No other financial instruments exist which give the right to subscribe newly issued shares.

b) Restrictions on transfer of securities (pursuant to article 123-*bis*, paragraph 1, letter b) of the TUF)
The By-Laws of the Company establish that the shares of the Company are freely transferable.

c) Significant investments in the share capital (pursuant to article 123-*bis*, paragraph 1, letter c) of the TUF)
On the basis of notifications received, in accordance with article 120 of Italian Legislative Decree no. 58/1998 and other information received, as at 17th March 2021, the following parties held shares, either directly or indirectly, amounting to more than 3% of the share capital ('significant shareholdings').

Significant shareholdings

Reporting entity	Direct Shareholder	Percentage (%) of ordinary share capital	Percentage (%) of voting share capital*
CVC CAPITAL PARTNERS	FIMEI S.p.A.	51.82%	51.82%
FMR LLC	Fidelity Management & Research Company LLC Fidelity Management & Research (Japan) Limited FIAM LLC FMR Investment Management (UK) Limited Fidelity Institutional Asset Management Trust Company	4.998%	4.998%
Mawer Investment Management LTD	Mawer Investment Management Ltd	5.005%	5.005%

** As is known treasury stock consists of shares on which voting rights are only temporarily suspended in accordance with the law.*

As at 17th March 2021, Recordati S.p.A. also held no. 3,499,096 treasury shares equal to 1.6732% of the capital on which voting rights are suspended in accordance with the law.

Significant shareholdings may be consulted on the Consob website (www.consob.it).

d) Securities with special rights (pursuant to article 123-*bis*, paragraph 1, letter d) of the TUF)
No securities with special rights of control have been issued.

e) Shareholding by employees: exercise of voting rights (pursuant to article 123-*bis*, paragraph 1, letter e) of the TUF)
No shareholding system exists for employees which involves the exercise of voting rights which is different from that provided for shareholders in general.

f) Restrictions on voting rights (pursuant to article 123-*bis*, paragraph 1, letter f) of the TUF)
Each ordinary share gives the right to vote without any restrictions.

g) Shareholders' Agreements (pursuant to article 123-*bis*, paragraph 1, letter g) of the TUF)
On 29th June 2018, the members of the Recordati family, then shareholders of Fimei S.p.A. - majority shareholder of the Company - announced that they had reached an agreement for the transfer to a consortium of investment funds controlled by CVC Capital Partners VII of the entire capital of Fimei S.p.A. which, on that date, held 51.79% of the Company's capital (the '**Contract**').
On 4th July 2018, this Contract was published pursuant to article 122 of the TUF, as it contains *inter alia* certain agreements (the '**Agreements**') functional to the execution of the transaction governed by the Contract itself, which can be considered as agreements of a shareholder nature and have therefore been prudently subject to the related publication formalities.
On 6th December 2018, in the performance of the aforementioned Contract, the shareholders of Fimei S.p.A. transferred their entire shareholding in Fimei S.p.A. to Rossini Investimenti S.p.A. (a company designated for this purpose under the aforementioned agreement).

Following the completion of this transfer, all the Agreements of the Contract ceased to apply.

On 29th June 2018, Rossini Holdings S.àr.l., ('**Rossini Holdings**'), executed two investment agreements with Andrea Recordati and an investment agreement with Fritz Squindo (collectively, the '**Investment Agreements**'). The aforementioned agreements govern the investment conditions of Andrea Recordati and Fritz Squindo respectively in Rossini Luxembourg S.àr.l., a subsidiary of Rossini Holdings, subject to the acquisition by Rossini Luxembourg of the entire share capital of FIMEI S.p.A., a company that holds ordinary shares representing 51.791% of the subscribed share capital of Recordati. The Investment Agreements contain, *inter alia*, certain agreements (the '**Agreements**'), functional to the execution of the transaction governed by the Investment Agreements themselves, which are likely to take on a significant shareholder nature for the purpose of fulfilling the related publication formalities.
On 4th July 2018, these Agreements were disclosed pursuant to article 122 of the TUF.
On 6th December 2018, two agreements were executed amending the aforementioned Investment Agreements, both of which were notified pursuant to article 122 of the TUF on 11th December 2018.

On 6th December 2018, Rossini Holdings S.à r.l. *société à responsabilité limitée* established under Luxembourg law, with registered office at 20 avenue Monterey, L-2163 Luxembourg, Grand Duchy of Luxembourg, R.C.S. Luxembourg: B 224480 ('**CVC Luxco**'), Rossini Luxembourg S.à r.l. *société à responsabilité limitée* established under Luxembourg law, with registered office at 20 avenue Monterey, L-2163 Luxembourg, Grand Duchy of Luxembourg, R.C.S. Luxembourg: B 224498 ('**Lux Equityco**') and Rossini Co-Invest GP Limited ('**General Partner**'), in its capacity as general partner of Rossini Co-Invest L.P. (the '**Partnership**') both having their registered office at 1 Waverley Place, Union Street, St Helier, Jersey, and Channel Islands JE1 1SG, executed with PSP Investments Holding Europe Limited with its registered office in London, 10 Bressenden Place SW1E 5DH, United Kingdom, ('**PSP**') some significant shareholders' agreements pursuant to article 122 of the TUF (the '**PSP Shareholders' Agreement**').
This PSP Shareholders' Agreement was published pursuant to article 122 of the TUF on 11th December 2018.

On 6th December 2018, Rossini Holdings S.à r.l. *société à responsabilité limitée* established under Luxembourg law, with registered office at 20 avenue Monterey, L-2163 Luxembourg, Grand Duchy of Luxembourg, R.C.S. Luxembourg: B 224480 ('**CVC Luxco**'), Rossini Luxembourg S.à r.l. *société à responsabilité limitée* established under Luxembourg law, with registered office at 20 avenue Monterey, L-2163 Luxembourg, Grand Duchy of Luxembourg, R.C.S. Luxembourg: B 224498 (**'Lux Equityco**') and Rossini Co-Invest GP Limited ('**General Partner**') in its capacity as general partner of Rossini Co-Invest L.P. (the '**Partnership**') both having their registered office at 1 Waverley Place, Union Street, St Helier, Jersey, Channel Islands JE1 1SG, executed with Finance Street SSMA C.V., AlpInvest LIVE Co C.V., ACIF VII C.V., ACIF (Euro) VII C.V., AG Co-Investment C.V., AJ Co C.V., AlpInvest GA Co 2018 C.V. and APSS Co-Investment C.V. (collectively, '**AlpInvest**') some significant shareholders' agreements pursuant to article 122 of the TUF (the '**AlpInvest Shareholders' Agreement'**).
This AlpInvest Shareholders' Agreement was published pursuant to article 122 of the TUF on 11th December 2018.

On 19th February 2019, with reference to the investment agreements executed between Andrea Recordati, on one hand, and Rossini Luxembourg S.àr.l. and Rossini Holdings S à r.l., on the other hand, on 29th June 2018 (as amended on 6th December 2018) (hereinafter referred to as the '**AR Agreements**'), which include some significant shareholders' agreements pursuant to article 122 of the TUF, paragraphs 1 and 5 and were already disclosed to public on 1st July and 11th December 2018, the following amendment was disclosed: on 14th February 2019, (i) Mr Andrea Recordati subscribed for no. 6,350,000 ordinary shares and no. 1,150,000 preference shares (the ordinary and preference shares, the '**Shares**') of Rossini Luxembourg; (ii) Mr Andrea Recordati transferred these Shares to his controlled company Indio s.s., with registered office in Milan, via Paolo Andreani 4, fiscal code 97832790154 ('**Indio**'); (iii) through the signing of certain adhesion agreements with Andrea Recordati, Rossini Luxembourg and Rossini Holdings S.àr.l. (the '**Indio Adhesion Agreements**'), Indio has adhered to the AR Agreements, taking upon itself the rights and obligations arising from the AR Investment Agreements held by Andrea Recordati, who in any case remained a party to those agreements; and (iv) the Shares are held by Cordusio Società Fiduciaria per Azioni, a company subject to the management and coordination of Unicredit S.p.A., with registered office in Milan, via Borromei, 5, registered under no. 863916 with the Companies' Register of Milan ('**Cordusio**'), in its capacity as fiduciary company (*società fiduciaria*) appointed by Indio, which has given Cordusio irrevocable instructions, as they are also conferred in the interest of Rossini Luxembourg and Rossini Holdings, to comply with the provisions of the AR Agreements and the By-laws of Rossini Luxembourg.
Through the Indio Adhesion Agreements, Indio has undertaken the rights and obligations which Andrea Recordati was entitled to on the basis of the AR Agreements, Mr Andrea Recordati remaining although part to such agreements.
Furthermore, pursuant to the Indio Adhesion Agreements, Indio has undertaken towards Rossini Holdings and Rossini Luxembourg to transfer the ordinary and privileged shares of Rossini Luxembourg held by the latter to Mr Andrea Recordati or to a related party to him, in case Indio ceases to be qualified as related party to Mr Andrea Recordati.
No amendments occurred in relation to the same agreements executed on 29th June 2018 between Fritz Squindo, on one hand, and Rossini Luxembourg S.àr.l. and Rossini Holdings S.àr.l., on the other hand, as subsequently amended on 6th December 2018 likewise the AR Agreements the '**FS Agreements**'), which were

disclosed to the market on 4th July and 11th December 2018. On 14th February 2019, the Rossini Luxembourg shares subject to the FS Agreement were subscribed by Cordusio on behalf of Mr Fritz Squindo, who granted Cordusio irrevocable instructions, as they were also granted in the interest of Rossini Luxembourg and Rossini Holdings, to comply with the provisions of the FS Agreement and the By-laws of Rossini Luxembourg.
For the sake of completeness, it should be noted that the extract of the aforementioned shareholders' agreements published pursuant to the law and the essential information on the relevant agreements mentioned above, as also possibly amended, in line with the applicable legislation, are available on the Company's website: http://www.recordati.it/en/corporate_governance/shareholders_agreements.

h) Change of control clauses (pursuant to article 123-*bis*, paragraph 1, letter h) of the TUF) and By-Laws provisions concerning public tender offers to purchase (pursuant to articles 104, paragraph 1-*ter* and 104-*bis*, paragraph 1)
The Company and some of its subsidiaries are, in relation to their business operations, parties to some licensing agreements that include a clause, which is a normal provision in international agreements, authorising the Licensor to dissolve the contracts in the event of change of direct or indirect control of the Licensee.

In addition, bonds issued by the Company (in 2014 and 2017) – for totals of US$ 75 million and € 125 million - both privately placed with international institutional investors and most of the major loan agreements executed by the Company, also as guarantor for the benefit of its subsidiaries –for a total of € 898 million – set out, as is normal in financial operations of this type, a clause, which authorises the creditors to obtain immediate repayment if the control of the Company changes.

The By-Laws of the company do not allow exceptions to the provisions concerning takeovers on the passivity rule pursuant to article 104, paragraph 1-*ter*, of the TUF nor do they allow the application of neutralisation rules pursuant to article 104-*bis,* paragraph 1, of the TUF.

i) Authorisation for increase of share capital and acquisition of treasury shares (pursuant to article 123-*bis*, paragraph 1, letter m) of the TUF)
The Board of Directors was authorised to increase share capital, pursuant to article 2443 of the Italian Civil Code, by a Shareholders' Meeting of 11th April 2017.
The increase in the share capital may be performed in one or more tranches, free of charge or by payment, for a total maximum nominal amount of € 50,000,000 within a period of no more than five years from the date of the resolution, by issuing ordinary shares and/or warrants for the subscription to such shares, to assign or to offer as an option to shareholders, with the right pursuant to the joint provisions of article 2441, last paragraph, of the Italian Civil Code and article 134, second paragraph, of the TUF to offer subscription to the shares to Recordati S.p.A. employees or to subsidiaries of the Company in relation to the stock option plans decided by the Shareholders' Meeting (and therefore with the possibility to exclude the option rights to one-fourth of the new issue). The Board of Directors may also decide that the issue should be performed with a share premium, setting the amount and also specifying that if the issue decided is not fully subscribed within the time limits set from time to time, the share capital shall be increased by an amount equal to the subscriptions received by the time limit set.

To-date, the Board has not yet acted on this mandate, not even partially.

That same Shareholders' Meeting authorised Directors, in accordance with article 2420-*ter* of the Italian Civil Code to decide the issue in one or more tranches, for a total maximum nominal amount of € 80,000,000, of bonds convertible to ordinary shares, or valid warrants to subscribe to such shares, to offer in option to shareholders within a period of no more than five years from the date of resolution, in observance of applicable law and regulations concerning the issuing of bonds, and at the same time, deciding an increase of share capital for the amount that corresponds to the nominal value of the shares to be attributed in conversion.

To-date, the Board has not yet acted on this mandate not even partially.

The By-Laws do not authorise the Board to issue participating financial instruments.

In ordinary session, by means of a resolution of 29th April 2020 a Shareholders' Meeting renewed the authorisation to purchase and assign treasury shares, pursuant to articles 2357 et seq. of the Italian Civil Code, until approval of the financial statements as at 31st December 2020, scheduled for 20th April 2021. In particular, the maximum number of shares that may be acquired, after accounting for the number of treasury shares already held in the Company's portfolio, is 5,000,000, which corresponds to a total potential payment of not more than € 200,000,000, at a minimum price not less than the nominal value of Recordati shares (€ 0.125) and a maximum price not greater than the average of official Borsa prices during the five sessions prior to the acquisition, plus 5%. Purchases must be made on regulated markets, in observance and according to the procedures set forth by EU Regulation no. 596/2014 and the relevant implementing provisions, where applicable, and according to standard practices recommended by Consob in accordance with article 13 of EU Regulation no. 596/2014.

At the end of the Financial Year, the Company held no. 2,829,302 treasury shares in portfolio, which represented 1.353% of the share capital.

On the basis of this shareholders' resolution, on 18th February 2020, a share buy-back program was launched to service stock option plans for the management of Recordati Group companies already adopted by the Company and those plans to be adopted in the future. Such plan was completed on 9th March 2020. On 13th March 2020, a second program was launched, for the same purpose. On the basis of the first program, the Company purchased no. 868,970 for a total amount of € 33,999,837.75; in implementation of the second program, the Company, starting from 13th March 2020 until 29th April 2020, the date on which the Shareholders' Meeting resolved upon the approval of the financial statements for the year ended on 31st December 2019, thereby causing the Shareholders' Meeting authorisation for such program to expire, purchased no. 414,261 for a total amount of € 13,820,317.
Also, on the basis of said shareholders' meeting resolution, on 23rd February 2021, a third program was launched for the same purpose. In implementation of such program, on 17th March 2021, the Company purchased no. 745,794 for a total amount of € 32,464,452.23. This program will expire on the date of the Shareholders' Meeting convened to approve the financial statements for the year ended on 31st December 2020, thereby causing the Shareholders' Meeting authorisation for such program to expire on that date.

In consideration of the expiry of the current authorisation which will occur when the Shareholders' Meeting is held to approve the financial statements for the year ended on 31st December 2020, the Board resolved to submit a proposal to the Shareholders' Meeting convened to approve the 2020 financial statements to renew the authorisation to purchase and assign treasury stock in order to maintain the necessary operational flexibility over an

appropriate time horizon. The Directors' Report on the relevant item on the agenda, which will be also made available on the Company's website within the time period set forth by law, may be consulted for further information.

j) Management and co-ordination (pursuant to article 2497 *et seq.* of the Italian Civil Code)
The Company is subject to the management and coordination on the part of Rossini Luxembourg S.àr.l, pursuant to article 2497 *et seq.* of the Italian Civil Code.

In 2019 the Board of Directors approved the adoption of specific regulations on the management and coordination activities carried out by Rossini Luxembourg S.àr.l. on Recordati S.p.A. and on the information flows of Recordati S.p.A. towards, in particular, Rossini Luxembourg S.àr.l. at the end of an in-depth investigation which involved, from the onset of the drafting phrase, the independent directors and the Board of Statutory Auditors.

The exercise of this activity by Rossini Luxembourg S.àr.l. can be carried out, inter alia, through the formulation of general guidelines, the purpose of which is to coordinate, to the extent deemed necessary, insofar as possible and in any case in accordance with the respective objectives, the management strategies of Rossini Luxembourg and the Recordati Group; the establishment of directives and the formulation of instructions for the transmission of management and accounting information which Rossini Luxembourg may need in order to comply with applicable laws and regulations; the formulation by Rossini Luxembourg of non-binding opinions in particular on some significant transactions and decisions.

The Company performs management and coordination activities, pursuant to articles 2497 *et seq*. of the Italian Civil Code, vis-à-vis the Italian companies belonging to the Recordati Group and its direct and indirect subsidiaries, outlining their medium/long-term strategies in terms of economic and financial results, industrial and investment objectives and commercial policies. The fully controlled Italian subsidiaries have acknowledged management and co-ordination by the Company and have fulfilled legal disclosure requirements in this respect.

k) Other information
The information required by article 123-*bis*, first paragraph, letter i) of the TUF ('*agreements between the Company and directors, members of the Board of Directors or the supervisory board, which provide for the payment of indemnities in the event of resignation, dismissal without just cause or if the contract of employment is interrupted following a public tender offer*') is given in the Remuneration Report published in accordance with article 123-*ter* of the TUF.

The information required by article 123-*bis*, first paragraph, letter l) of the TUF ('*regulations for the appointment and replacement of directors and for amendments to the By-Laws, if different from those applicable by law in the absence of alternative provision*') are given in the section of the report on the Board of Directors (Section 4.1).

3. COMPLIANCE (pursuant to article 123-*bis*, paragraph 2, letter a) of the TUF)

As illustrated in Section 1, in accordance with the procedures contained in this report, the Company adheres to the 2018 Code and, on 29th October 2020, adhered to the 2020 GC Code, with a few minor exceptions, specifying that Recordati will apply the new Code as from the 2021 financial year, except for some recommendations that have already been implemented or are in the process of being implemented.

Both of the Codes may be consulted on the website of Borsa Italiana at the address https://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/corporategovernance with reference to the website of the Corporate Governance Committee for the 2020 GC Code.

In particular, in the event that the Company has decided not to adhere to certain principles or operating criteria of the 2018 CG Code, reasons were given either in the corresponding section of this Report or in the corresponding section of the Remuneration Report. Moreover, this Report contains the relevant reporting on these recommendations that have already been implemented or are in the process of being implemented.

The main characteristics of the risk and internal control management systems in relation to financial reporting, including consolidated reporting, requested by article 123-*bis*, paragraph 2, letter b) of the TUF are illustrated in the report on internal control and risk management (Section 10).

The procedures for the functioning of shareholders' meetings, its principal powers, the shareholder rights and the procedures for exercising them, required by article 123-*bis*, paragraph 2, letter c) of the TUF, are illustrated in the section of the Report on Shareholders' Meeting (Section 15).

The information concerning the criteria and policies concerning diversity applied in relation to the composition and functioning of management and supervision bodies and their committees, required by article 123-*bis* paragraph 2, letter d) of the TUF, are illustrated in the section of the Report on the Board of Directors (Section 4) and, in more detail for the Committees, in the section of the Report on internal Board Committees (Section 6).

Information on the criteria and policies on diversity applied in relation to the composition of the administrative, management and control bodies with regard to aspects such as age, gender composition and training and professional background required by article 123-*bis*, paragraph d-*bis*, of the TUF, is illustrated in the section of the Report dedicated to the Board of Directors (Section 4.2.2.).

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND SUBSTITUTION OF DIRECTORS (PURSUANT TO ARTICLE 123-*BIS*, PARAGRAPH 1, LETTER L) OF THE TUF)

The appointment and replacement of Directors is regulated by articles 15, 16 and 18 of the By-Laws, the text of which, for the sake of completeness, is reproduced in full below:

Article 15) The Board of Directors shall be appointed from slates of candidates presented by shareholders, in compliance with the existing legislation in force on gender balance, according to the procedures as indicated below, in which the candidates are identified by progressive numbers.
The slates, signed by the shareholders who present them, must be deposited at the registered office of the Company at least twenty-five days prior to the date of the first convention of the Shareholders' Meeting, available to anyone who requests to see them, and they will also be subject to other forms of publicity in accordance with laws and regulations in force at the time.
Every shareholder, shareholders who participate in a significant shareholders' agreement pursuant to article 122 of the TUF, the parent company, subsidiaries and companies subject to joint control pursuant to article 93 of the TUF, may not present or contribute to the presentation of more than one slate, not even by means of another person or trustee, nor may they vote for different slates, and each

candidate may be listed in only one slate or will be disqualified. The subscriptions and votes expressed in violation of this prohibition will not be attributed to any slate.
Only shareholders individually or jointly possessing a total number of shares with voting rights representing at least 2.5% of capital stock with voting rights at ordinary meetings, or representing a lesser percentage as established by binding legislative or regulatory provisions which shall be specified in the notice of meeting, shall have the right to submit slates.
The following items must be filed for each slate within the respective deadlines set out above and as provided by applicable regulations: (i) statements by each candidate to the effect that each accepts candidacy and declares, assuming full responsibility, that there are no reasons preventing the candidate from being elected or rendering him unsuitable for the office, and that the candidate meets any specific requirements for the relevant office; (ii) a curriculum vitae detailing each candidate's personal and professional characteristics and indicating that the candidate may be considered independent.

The specific certification demonstrating title to the necessary number of shares for the presentation of the slate, issued by a legally authorised intermediary must also be deposited within the time limits set by the relative regulations at the time when the slates are deposited at the Company.
Slates containing a number of candidates equal to or greater than three must be composed of candidates belonging to both genders, so that a percentage equal to that required by the legislation in force at the time concerning gender balance for the composition of the Board of Directors belongs to the less represented gender.
Slates that are presented but are not in accordance with the provisions as above will be considered as not presented.
The Board of Directors will be elected as follows:
a) all of the Directors to be appointed, except one, will be selected from the slate that obtained the greatest number of votes, following the progressive order in which they are listed on the slate;
b) the remaining director shall be the candidate placed at the number one position on the minority slate, which shall not be connected in any way, even indirectly, with those who submitted or voted for the slate indicated in letter a) above, which obtains the second highest number of votes. For this purpose, slates that did not obtain a percentage of votes equal to at least half of that required for presentation of the slates as at the fourth paragraph of this article will not be considered.
For the purposes of the appointment of directors as indicated at point b) above, in the event of a tie between slates, the slate presented by shareholders possessing the larger shareholding, or subordinately the larger number of shareholders, shall prevail.
If the candidates elected by the method as above do not include an adequate number of independent Directors with the characteristics as established for statutory auditors at article 148, third paragraph, of the TUF, equal to the minimum number established by the law in relation to the total number of Directors, the last non-independent candidate, according to the progressive numbering, of the slate that obtained the greatest number of votes as at letter a) of the paragraph above, will be substituted by the first independent candidate, according to the progressive numbering, of the non-elected candidates on the same slate, or if not possible, by the first independent candidate, according to the progressive numbering, of the non-elected candidates of the other slates, according to the number of votes obtained by each. This procedure of substitution will be followed until the Board of Directors is composed of a number of members who have the qualifications as at article 148, third paragraph of the TUF, equal at least to the minimum legal number. If this procedure does not produce the latter result, the substitution will be effected by resolution of the Shareholders' Meeting by relative majority, after presentation of candidates who possess the qualifications as cited above.
Furthermore, if with the candidates elected according to the above procedures the composition of the Board of Directors in compliance with the legislation in force at the time concerning gender balance is not ensured, the candidate of the gender most represented elected as last in order on the slate which obtained with the largest number of votes shall be replaced by the first candidate of the less represented gender not elected in order on the same slate. That replacement procedure shall be followed until the composition of the Board of Directors in compliance with the legislation in force at the time concerning gender balance is ensured. Finally, if this procedure does not produce the result just indicated, then the replacement shall be made by a resolution of the Shareholders' Meeting by relative majority, after presentation of candidates belonging to the less represented gender.
If only one slate is presented, all of the Directors will be selected from the same slate. If no slate is presented the Shareholders' Meeting will decide by legal majority, without following the procedure as above. All of the foregoing is subject to compliance with the legislation in force at the time concerning gender balance.

Any different or additional compulsory provisions of the law or regulations will form an exception to these provisions.

Article 16) - The fees to be paid to the Board of Directors shall be established by the Shareholders' Meeting for the entire period of their term, or for each financial year, and may take the form of profit-sharing.

Article 18) - Unless already provided for by the Shareholders' Meeting, the Board shall appoint a Chair and may appoint a Vice-Chair from among its members. The Board shall also appoint one or more Managing Directors from among its members. The Chair shall have all the powers vested in him by law; in the case of his absence or inability to attend for any reason, the said powers shall be exercised by the Vice-Chair, or in his absence, by the most senior Director.

Finally, the Board shall appoint a Secretary, who need not be a member of the Board.

It is also underlined that, on the basis of the By-Laws in force, the right to submit slates is only held by shareholders who, individually or together with other shareholders submitting slates, hold voting shares representing at least 2.5% of the voting capital in an Ordinary Shareholders' Meeting, or representing a lower percentage established by mandatory laws or regulations. In this respect, in accordance with articles 144-*quater* and 144-*septies* of the Consob Issuers' Regulations, as well as Consob resolution no. 44 of 29th January 2021, the percentage of the share capital required to present slates of candidates to the Board of Directors of the Company is currently 1%.
On the basis of article 147-*ter,* first paragraph, of the TUF, the By-Laws also state that for the purposes of the distribution of votes among directors to be elected, no account is taken of slates that have not obtained a percentage of votes equal to at least half of that required for the presentation of slates.

In order to ensure the election of at least one minority director, the By-Laws state that all the directors to be elected except for one shall be drawn from the slate which obtained the greatest number of votes in the order in which they are slated on that slate. The remaining director is the candidate placed in the number one position on the minority slate, which shall not be connected in any way, even indirectly, with the shareholders who submitted or voted for the majority slate and which obtained the majority of votes from the shareholders. In the case of a tied vote between slates, the minority director shall be drawn from the slate presented by the shareholders in possession of the greater number of shares or, secondarily, with the greatest number of shareholders.

As concerns the mechanism adopted to ensure that a minimum number of independent directors are elected in compliance with article, 147-*ter*, fourth paragraph, of the TUF, the By-Laws state that if the number of independent directors is not reached, the non-independent candidate elected in last place

on the majority slate shall be replaced by the first independent candidate in progressive order not elected on that slate, or, if there is none, by the first independent candidate in progressive order not elected on the other slates, according to the number of votes obtained by each. Finally, if this procedure does not lead to the aforementioned result, the directors shall be replaced by a resolution passed by relative majority of the Shareholders' Meeting upon presentation of candidates satisfying the above requirements of independence.

If only one slate is presented, the By-Laws also state that all of the Directors to be elected shall be selected from that slate. If no slate is presented the Shareholders' Meeting shall decide by legal majority, without following the procedures just described.

The By-Laws to not lay down any additional **requirements for the independence of Directors** with respect to those contained in article 148, paragraph 3, of Italian Legislative Decree no. 58/1998, because the Company adheres to the 2018 CG Code and the Board of Directors verifies possession of the requirements of independence in accordance with the 2018 CG Code and consequently when a Shareholders' Meeting appoints Directors, the Board of Directors invites candidates to the position of Director contained on slates to declare also these requirements, as adopted by the Company.

In compliance with the 2020 CG Code, the Board will evaluate in the course of 2021 the predefinition of quantitative and qualitative criteria for assessing the significance of relationships that could be relevant in order to correctly apply the independence criteria.

In particular, the table at the end of this Section may be consulted for details of those Directors currently in office who meet the requirements for independence in accordance with the TUF and those that are independent in accordance with the 2018 CG Code.

With regard to the **regulations on gender balance in corporate bodies** Italian Law no. 160 of 27th December 2019 (Budget Law 2020) has amended articles 147-*ter*, paragraph 1-*ter*, and 148, paragraph 1-*bis*, of the TUF, providing for a different quota reserved for the least represented gender equal to 'at least two-fifths' (compared to the previous 'at least one-third') of the members and established that this allocation criterion applies for 'six consecutive terms of office'.
According to the Budget Law 2020, the criterion of allocation of 'at least two-fifths' applies 'as from first renewal of the management and supervisory bodies of the companies listed on regulated markets following the date of entry into force of this Law' (1st January 2020).
Consob, by means of Communication no. 1/20, has therefore provided clarifications on the interpretation of this application, to corporate bodies composed of three members, of the new rules on gender quotas, introduced by the aforementioned provisions of the TUF and which will already apply to the renewal of corporate bodies scheduled for the next Shareholders' Meetings in April): since in the case of boards composed of three members, the two-fifths reserve is inapplicable due to arithmetical impossibility, Consob has clarified that for corporate bodies composed of three members only the rule of rounding down rather than upwards applies, as currently provided for in article 144-*undecies*, 1, paragraph 3, of the Consob Issuers' Regulations.
It should be noted that the Company By-Laws, as from 2012, provide that the Board of Directors shall be appointed in compliance with the existing legislation in force on gender balance (and in any case on the basis of slates of candidates submitted by shareholders).

Furthermore, the By-Laws set out the procedures to follow to ensure that the composition of the Board of Directors complies with the existing legislation in force concerning gender balance: the candidate of the gender most represented elected as last in order on the slate which obtained with the largest number of votes shall be replaced by the first candidate of the least represented gender not elected in order on the same slate. That replacement procedure shall be followed until the composition of the Board of Directors in compliance with the legislation in force at the time concerning gender balance is ensured. Finally, if this procedure does not produce the result just indicated, then the replacement shall be made by a resolution of the Shareholders' Meeting by relative majority, after presentation of candidates belonging to the least represented gender.
Again, with respect to gender balance in the bodies of listed companies, the Company acknowledged the recommendations concerning diversity, including as regards gender, in the composition of the corporate bodies first introduced in the 2018 CG Code in July 2018 and subsequently confirmed by the 2020 CG Code, which indicates that at least one-third of the members of the Board of Directors shall be composed of the least represented gender.

The Issuer reports that it is not governed by any further laws and regulations concerning the composition of the Board of Directors.

4.2 COMPOSITION (pursuant to article 123-*bis*, paragraph 2, letter d) of the TUF)

The By-Laws currently in force state that the Company is managed by a Board of Directors consisting of a number of members varying between six and sixteen.

Composition from 1st January 2020 to 29th April 2020
The Board of Directors in office was appointed by a Shareholders' Meeting held on 5th February 2019 for three financial years, with the term of office expiring at the time of the Shareholders' meeting held to approve the financial statements for the year ended on 31st December 2021.

The Shareholders' Meeting held on 5th February 2019 appointed a board composed of eleven directors, of whom four were women and three were independent, in compliance with the criteria laid down by the applicable legal and corporate governance provisions on the matters of gender balance and the minimum number of independent directors (at least one-third of the Board members in issuers belonging to the FTSE-Mib index)[4]:

- 10 directors (Flemming Ørnskov, Andrea Recordati, Fritz Squindo, Giampiero Mazza, Francisco Javier de Jaime Guijarro, Søren Vestergaard-Poulsen, Cathrin Petty, Joanna Le Couilliard, Michaela Castelli, Alfredo Altavilla) taken from the majority slate submitted by the shareholder FIMEI S.p.A., holder, as at that date, of 51.79% of the share capital;
- 1 director (Silvia Candini) taken from the minority slate submitted by SGR and institutional investors holding a total of 1.303% of the share capital.

The most voted slate was the one submitted by Fimei S.p.A. which obtained 71.315% of the share capital with voting rights represented at the Shareholders' Meeting, while the second slate was voted by 28.544% of the voting capital[5]. The voting capital represented 78.454% of the Issuer's share capital.

4 *The 2018 Corporate Governance Code recommended (Application Criterion 3.C.3) that for issuers belonging to the FTSE-MIB index, at least one-third of the Board of Directors is comprised of independent directors. If that portion does not correspond to a whole number, the number is rounded down.*
5 *The submitted slates, together with the extra relevant documentation filed pursuant to applicable law and regulations are available at www.recordati.it, (section: Investors/Shareholders' Meetings /2019).*

The **composition of the Board of Directors from 1st January 2020 to 29th April 2020** and the titles of each Director during this period are summarised below:

Flemming Ørnskov	Chair	Non-Executive	-	*BoD 05.02.2019
Alfredo Altavilla	Vice-Chair	Non-Executive	-	*BoD 05.02.2019
Andrea Recordati	CEO	Executive	-	*Shareholders' Meeting 29.04.1998
Silvia Candini	Director	Non-Executive	Independent	*Shareholders' Meeting 05.02.2019
Michaela Castelli	Director	Non-Executive	Independent	*Shareholders' Meeting 17.04.2014
Joanna Le Couilliard	Director	Non-Executive	Independent	*Shareholders' Meeting 05.02.2019
Francisco Javier de Jaime Guijarro	Director	Executive	-	*Shareholders' Meeting 05.02.2019
Giampiero Mazza	Director	Executive	-	*BoD 06.12.2018
Cathrin Petty	Director	Executive	-	*BoD 06.12.2018
Søren Vestergaard-Poulsen	Director	Executive	-	*BoD 06.12.2018
Fritz Squindo	Director	Executive	-	*BoD 14.03.2013

**Date of first appointment to the Board of Directors*

It should be noted that, as it was in the interest of the Company to strengthen the Board's experience, also internationally, in the business sectors in which the Company and the Group operate, the Shareholders' Meeting of 5th February 2019 had approved the proposal of the majority shareholder FIMEI S.p.A. to authorise the exemption of members of the Board of Directors from the competition prohibition provided for by article 2390 of the Italian Civil Code with reference to the positions held by them in other companies and disclosed on that date.

On 5th February 2019 the Board of Directors had confirmed that Silvia Candini, Michaela Castelli and Joanna Le Couilliard met the independence requirements, which was subsequently confirmed on 14th February 2020 following the annual renewal of the assessment.

Subsequently, at the Board of Directors' meeting of 18th March 2020, three Directors resigned, effective as of the Shareholders' Meeting which was held on 29th April 2020 on a single call: Flemming Ornskov, Soren Vestergaard- Poulsen and Francisco Javier de Jaime Guijarro due to increased professional commitments.

In light of the resignation of Mr Flemming Ørnskov, the Board of Directors, on the same day, expressed its intention to appoint, as soon as Mr Ørnskov's resignation became effective, Mr Alfredo Altavilla as new Chair of the Board of Directors.

It should be noted that Mr Søren Vestergaard-Poulsen and Mr Francisco Javier de Jaime Guijarro were qualified as executive directors under the 2018 CG Code as they held executive positions in companies of majority shareholder's group that also include the Company, but did not have individual operational powers.

The Shareholders' Meeting on 29th April 2002 was then called upon to take the relevant decisions regarding the integration of the Board of Directors, upon redetermination of the number of its members. Please note that the only candidate not elected from the same slate, Ms Elisa Corghi, informed the Company that she would not accept the position, due to the multiple professional commitments she has previously undertaken. There are therefore no unelected candidates remaining on the aforementioned slate.

In light of the foregoing, FIMEI S.p.A. (Recordati's majority shareholder) had already communicated to the Company – as indicated in the press release dated 18th March 2020 - that, in view of possible resignations of members of the Board, it had already selected a limited number of high-profile candidates to the Board to be proposed to the next Shareholders' Meeting of the Company in order to further strengthen the composition of the Board also in terms of specific pharmaceutical market experience.

It should also be noted that the Board of Directors, taking into account the results of the Board's self-assessment process held at the beginning of the 2020 financial year as well as the recommendations of the 2018 edition of the Corporate Governance Code, has addressed to the Shareholders the proposal to increase the number of members of the Board of Directors from eleven to twelve, recommending that some of the new directors should have experience and qualified skills in the pharmaceutical industry and that one of the new directors should meet the independence requirements provided for by law (article 148, third paragraph, of Italian Legislative Decree no. 58/1998) as well as those indicated in the Corporate Governance Code[6].

The controlling shareholder accepted these guidelines.

Current composition

On 29th April 2020, the Shareholders' Meeting approved the increase in the number of Directors from eleven to twelve and, as the resignations submitted on 18th March 2020 by Flemming Ørnskov, Søren Vestergaard-Poulsen and Francisco Javier de Jaime Guijarro had become effective, upon the proposal of the majority shareholder, FIMEI S.p.A., it appointed new Directors, Francesco Balestrieri, Giorgio De Palma, Guido Guidi and Piergiorgio Peluso, who will remain in office until the expiry of the current Board of Directors, i.e. until the Shareholders' Meeting for the approval of the financial statements for the year ending on 31st December 2021.

Among the new directors, Piergiorgio Peluso qualified as independent pursuant to Italian Legislative Decree no. 58/1998 (TUF) and the 2018 edition of the Corporate Governance Code of Borsa Italiana S.p.A., adopted by the Company.

On 29th April 2020, the Board of Directors ascertained that the newly elected Director, Piergiorgio Peluso, met the independence requirements; this was subsequently confirmed on 22nd February 2021, also on the basis of the 2020 CG Code, following the

6 The Directors' Report on the relevant item on the agenda of the shareholders' meeting of 29th April 2020 is available on the website www.recordati.it (section Investors/Shareholders' Meetings/2020).

annual renewal of the assessment also for the Directors Silvia Candini, Michaela Castelli and Joanna Le Couilliard in addition to Piergiorgio Peluso.

The curriculum vitae of the new directors are available on the Company's website www.recordati.it in the section relating to the Shareholders' Meeting of 29th April 2020 (within the Investors Section).

In addition, the personal and professional characteristics of each Director still in office as at 31st December 2020 - which range from economic, financial and management matters, including, for some of them, significant international experience in the business sectors in which the Company and the Group operate, to legal and corporate governance matters - are set out in attachment 1 to this Report, which also indicates the positions held by the Directors in other listed companies, financial companies, insurance companies and in significantly-sized companies. In some cases, for the sake of transparency, the Directors have decided to indicate additional positions held in companies other than listed companies, financial companies, insurance companies and significantly-sized companies.

The composition of the Board of Directors at the date of this Report and the qualifications of each Director at that date are summarised below:

Alfredo Altavilla	Chair	Non-Executive	-	*BoD 05.02.2019
Guido Guidi	Vice-Chair	Non-Executive	-	*BoD 29.04.2020
Andrea Recordati	CEO	Executive	-	*Shareholders' meeting 29.04.1998
Francesco Balestrieri	Director	Non-Executive	-	*Shareholders' meeting 29.04.2020
Silvia Candini	Director	Non-Executive	Independent	*Shareholders' meeting 05.02.2019
Michaela Castelli	Director	Non-Executive	Independent	*Shareholders' meeting 17.04.2014
Joanna Le Couilliard	Director	Non-Executive	Independent	*Shareholders' meeting 05.02.2019
Giorgio De Palma	Director	Executive	-	*Shareholders' meeting 29.04.2020
Giampiero Mazza	Director	Executive	-	*BoD 06.12.2018
Cathrin Petty	Director	Executive	-	*BoD 06.12.2018
Piergiorgio Peluso	Director	Non-Executive	Independent	*Shareholders' meeting 29.04.2020
Fritz Squindo	Director	Executive	-	*BoD 14.03.2013

**Date of first appointment to the Board of Directors.*

Table of composition and structure of the Board of Directors

Table of composition and structure of the Board of Directors and committees

Board of Directors in office as at 31st December 2020 and at the date of this Report												Risk, Control and CSR Committee		Remuneration and Nominations Committee[5]	
Office	Members (name and surname)	Year of birth	In office since	In office until	Slate (M/m)	Exec.	Not Exec.	Indip. under Code	Indip. under TUF	No. of attend.	No. of other positions in listed companies	****	No. of attend.	****	No. of attend.
					*					**	***		**		**
Chair[1]	Alfredo Altavilla	1963	5.2.2019	Approval of 2021 financial statements	M		X			13/13	2				
Vice-Chair	Guido Guidi	1953	29.4.2020	Approval of 2021 financial statements	M		X			7/9	0				
Chief Executive Officer ◊	Andrea Recordati	1971	5.2.2019	Approval of 2021 financial statements	M	X				13/13	0				
Director	Francesco Balestrieri	1969	29.4.2020	Approval of 2021 financial statements	M		X			9/9	0				
Director	Silvia Candini	1970	5.2.2019	Approval of 2021 financial statements	m		X	X	X	12/13	1	M	19/19	M	9/9
Director[2] ◦	Michaela Castelli	1970	5.2.2019	Approval of 2021 financial statements	M		X	X	X	12/13	3	C	19/19	M	9/9

Board of Directors in office as at 31st December 2020 and at the date of this Report												Risk, Control and CSR Committee		Remuneration and Nominations Committee[5]	
Office	Members (name and surname)	Year of birth	In office since	In office until	Slate (M/m)	Exec.	Not Exec.	Indip. under Code	Indip. under TUF	No. of attend.	No. of other positions in listed companies	****	No. of attend.	****	No. of attend.
Director	Giorgio De Palma	1974	29.4.2020	Approval of 2021 financial statements	M	X‡				9/9	0				
Director	Joanna Le Couilliard	1963	5.2.2019	Approval of 2021 financial statements	M		X	X	X	12/13	2	M[3]	3/3	C	8/9
Director	Giampiero Mazza	1969	5.2.2019	Approval of 2021 financial statements	M	X‡				13/13	0				
Director	Piergiorgio Peluso	1968	29.4.2020	Approval of 2021 financial statements	M		X	X	X	9/9	0	M[4]	16/16		
Director	Cathrin Petty	1973	5.2.2019	Approval of 2021 financial statements	M	X‡				13/13	0				
Director •	Fritz Squindo	1956	5.2.2019	Approval of 2021 financial statements	M	X				13/13	0				

(1) Appointed Chair of the Board of Directors on 29.4.2020.
(2) Appointed Lead Independent Director (LID) on 29.4.2020
(3) Member until 29.4.2020
(4) Member from 29.4.2020
(5) Starting from 29.10.2020, the functions granted to the Remuneration Committee were integrated with the functions assigned to the Nominations Committee by the new Corporate Governance Code.

Directors no longer in office during the reference financial year (2020)												Risk, Control and CSR Committee		Remuneration and Nominations Committee	
Office	Members (name and surname)	Year of birth	In office since	In office until	Slate (M/m)	Exec.	Not Exec.	Indip. under Code	Indip. under TUF	No. of attend.	No. of other positions in listed companies	****	No. of attend.	****	No. of attend.
					*					**			**		**
Chair	Flemming Ørnskov	1958	5.2.2019	29.4.2020	M		X			4/4					
Director	Francisco Javier De Jaime Guijarro	1964	5.2.2019	29.4.2020	M	X‡				3/4					
Director	Søren Vestergaard-Poulsen	1969	5.2.2019	29.4.2020	M	X‡				3/4					

• This symbol indicates the director responsible for the internal control and risk management system.
◊ This symbol indicates the main person responsible for the management of the issuer (Chief Executive Officer or CEO).
° This symbol indicates the Lead Independent Director (LID).
‡ This symbol indicates the executive director identified as such in accordance with the Code 2018 (and 2020) as he/she holds management positions in group companies of the majority shareholders that regard also the Company, but has no operational powers in the latter.
** M/m is indicated in this column depending on whether the member was elected from the slate voted by the majority (M) or by a minority (m).*
*** This column shows the attendance of Directors at meetings of the Board of Directors and Committees respectively (no. of attendances / no. of meetings held during the actual period of office of the person concerned during the financial year in question).*
**** This column shows the number of positions as director or auditor held by the person concerned in other companies listed on regulated markets, including foreign ones; for a complete list of other positions, including in financial, banking, insurance or large companies, please refer to the list in Annex 1 to this document.*
***** This column indicates the position of the director within the Committee: 'C' chair and 'M' member.*

Please note that the information relating to the date of the first appointment of Directors to the Board of Directors of the Company is indicated on page 201.

Indicate the quorum required for the submission of slates at the last appointment: 1%.

N. of meetings held during 2020	BOD: 13	RCCC: 19	RNC: 9

4.2.1. SUCCESSION PLANNING FOR THE EXECUTIVE DIRECTORS AND KEY MANAGER PERSONNEL

With respect to succession plans for Executive Directors who are granted individual management powers, on 30th July 2020, the Board of Directors adopted, upon receiving the opinion of the Remuneration and Nominations Committee - following agreement also with the Risk, Control and CSR Committee which had also originally started the preliminary analysis before assigning the relevant competence to the Remuneration and Nominations Committee at the time of the extension of the Remuneration Committee's competences to the functions of the Nominations Committee - **a plan for the Chief Executive Officer and the Director responsible for the Internal Control and Risk Management System**[7], containing, in the event of early termination or impediment, even temporary, to the performance of their functions, the guidelines of the succession process aimed at short-term/medium-term management continuity. It is therefore a so-called '**contingency plan**' that will enable the Company to deal with any emergency situation immediately.

On the basis of this 'contingency plan':

- upon the occurrence of the early cessation from holding office or impediment, including temporary, to the performance of the Chief Executive Officer's functions, the Group General Manager shall assume the powers for the management of the Company with the same limits as those previously envisaged for the Chief Executive Officer, and shall promptly be convened the Board of Directors' meeting in order to take the consequential measures;
- upon the occurrence of the early cessation from holding office or impediment, including temporary, to the performance of the functions of the Director Responsible for the Internal Control and Risk Management System, the Chief Executive Officer shall take over the role, and shall promptly be convened the Board of Directors' meeting in order to take the consequential measures.

Also in line with the provisions of the 2020 CG Code (Recommendation no. 24), the Remuneration and Nominations Committee, during 2020, began analysing on the status quo regarding the existence of adequate procedures for the succession of **key manager personnel**.

The process is aimed at verifying the existence of adequate organisational controls by the Company in order to ensure effective managerial continuity.

4.2.2 DIVERSITY CRITERIA AND POLICIES (pursuant to article 123-*bis*, paragraph 2, letter d-*bis* of the TUF and Principle 2.P.4 of the 2018 CG Code and Recommendation no. 8 of the 2020 CG Code)

With specific regard to the recommendations of the 2018 CG Code, as explained in greater detail in the paragraph dedicated to the composition of the Board of Directors, the configuration of Recordati's Board of Directors complies with the diversity criteria recommended by such 2018 GC Code (and confirmed by the 2020 CG Code).

With regard to the provisions introduced on this matter by Italian Law no. 160 of 27th December 2019 (the '2020 Budget Law'), these were taken into account with reference to the appointment of the Board of Statutory Auditors that took place at the Shareholders' Meeting of 29th April 2020 and therefore the composition of the Board of Statutory Auditors complies not only with the diversity criteria recommended by the 2018 CG Code (and confirmed by the 2020 CG Code), but also with the law; while, as regards the Board of Directors, such legal provisions, which have intervened on the matter by amending the previous regulations, shall apply at the time of the next appointment of the Board of Directors, whose term of office will expire at the time of the Shareholders' Meeting called to approve the 2021 financial statements.

It should be noted that the self-assessment process conducted between 2019 and 2020 confirmed that in terms of diversity (no only gender), the composition of the Board was balanced, with some areas for improvement in terms of the skills of directors within the sector in which the Company operates; to this end, the Board of Directors recommended, when providing guidelines to the shareholders for the integration of the Board of Directors during the Shareholders' Meeting on 29th April 2020, that the number of members of the Board of Directors be increased from eleven to twelve and that some of the new directors should have experience and professional skills in the pharmaceutical industry and that one of the new directors should meet the independence requirements provided for by law (article 148, third paragraph, of Italian Legislative Decree no. 58/1998) as well as those indicated in the 2018 CG Code.

With regard to the diversity policies applied in relation to the composition of the management and control bodies (also referred to in Italian Legislative Decree no. 254/2016 on non-financial information, implementing Directive 2014/95/EU), the issue is therefore adequately covered since the composition of the Board of Directors and the Board of Statutory Auditors is adequately diversified in terms of age, gender, educational and professional background, and nationality, as can be seen from the curricula. In light of this, as previously stated, the Board of Directors has so far deemed it unnecessary to formalise the approval of such policies, deeming that it can effectively monitor and identify its optimal qualitative and quantitative composition over time by carrying out the self-assessment process and preferring to provide guidelines in its report to the shareholders' meeting called to resolve on the appointment of directors, as was also performed during 2020.

Moreover, with reference to measures to promote equal gender treatment and gender opportunities within the entire corporate organisation, the Issuer and in general the Recordati Group is committed, as referred to in its applicable Code of Ethics, to offer equal job opportunities without discrimination on the basis of ethnicity, gender, age, sexual orientation, physical or psychological disability, nationality, religious belief, political and trade union membership and to ensure fair and merit-based treatment to its employees. For more details on the policies applied to this topic, refer to the respective section ('Diversity and equal opportunities') of the Non-Financial Statement.

4.2.3. MAXIMUM NUMBER OF OFFICES HELD IN OTHER COMPANIES

The Board of Directors has over time preferred not to set any general criterion for the maximum number of positions as director or statutory auditor in other companies that are considered compatible with performing duties as a director of the Company. It has done this until now because it feels that it is best to allow individual Directors to assess this compatibility themselves.

The Board self-assessment process has, on several occasions and also at the beginning of 2020, confirmed the positive

7 Taking into account that the current structure - confirmed also upon adherence to the new 2020 CG Code as a specific exception; in this regard, please refer to paragraph 10.1 - provides that the position of director responsible for the internal control system and risk management will be entrusted to the Executive Director - Group General Manager – Mr Fritz Squindo.

assessment made of the functioning of the Board and its committees with particular reference to this aspect.

Moreover, taking into account recommendation no. 15 of the 2020 CG Code *'in large companies, the Board of Directors expresses its guidelines on the maximum number of offices that can be considered compatible with an effective performance and the time commitment required by the role of the directors'* - on 29th October 2020, at the time of the resolution to adhere to the 2020 CG Code, the Board of Directors asked the Remuneration and Nominations Committee to carry out an analysis aimed at verifying the contents of the best practices developed on the subject by the market (and more specifically by a peer group of comparable companies) and by the main proxy advisors and institutional investors, reserving the right to formulate a proposal on the subject after examining the results of these analyses.
The Remuneration and Nominations Committee is completing the above- mentioned analysis and elaborating a proposal to be submitted to the Board of Directors during 2021.

4.2.4. INDUCTION PROGRAMME

Following the appointment of the Board of Directors on 5th February 2019, the Chair and the Chief Executive Officer organised various training (i.e., 'induction') sessions for newly-appointed directors and statutory auditors, which also included a visit to the Milan production site.

During 2020, the Chair and Chief Executive Officer once again organised induction sessions aimed at providing directors with an adequate knowledge of the business sectors in which the Group operates, as well as of corporate dynamics and their evolution, including organisational structures, for directors and the statutory auditor first appointed following the Shareholders' Meeting of 29th April 2020 and extended to the other interested Directors and Statutory Auditors. In particular, these induction sessions were attended by, inter alia, the heads of the Specialty and Primary Care business unit, the Rare Diseases business unit and the Pharmaceutical Italy business unit, with specific business insights. In addition, the heads of Group Industrial Operations, Research and Development VP and the Global Head of Corporate Development & Licensing also spoke.

Generally speaking, during the course of meetings of the Board of Directors, the Chief Executive Officer describes what is relevant for the presentation of the performance of the Company and the Group, constantly providing, amongst other things, information and the most important updates to the regulatory framework for the sector and their impact on the Company. Also, with regard to principles for the proper management of risks, during the course of meetings of the Board of Directors, the Chief Executive Officer ensures that appropriate details are given in this respect, if considered appropriate and in particular with respect to significant acquisition/licensing transactions, in addition to the annual analysis of the Recordati Risk Map.

4.3 ROLE OF THE BOARD OF DIRECTORS (pursuant to article 123-*bis*, paragraph 2, letter d) of the TUF)

During the course of the year, the Board of Directors met 13 times, with meetings lasting on average around two hours. The percentage attendance of each Director at Board meetings and in the relative committees is shown in the table contained at the end of Section 4.2.

With regard to the current year, 10 meetings are scheduled and the Board has already met 2 times; the calendar of meetings in which the results of the year and period are examined is communicated to the public annually within one month of the end of the previous year and published on the Company's website (http://www.recordati.it/en/investors/calendar/). For 2020, it was published in November 2019, with an update in relation to the date of the Shareholders' Meeting in February 2020.

The promptness and completeness with which information is provided before board meetings is ensured by the Chair with the distribution of documents relating to the items on the agenda to members a few days immediately preceding the date set for the meetings. On some occasions it has not been possible to provide information concerning some items on the agenda until the time of the board meeting itself primarily for urgency reasons. On some of these occasions, the arguments were in any case investigated by internal committees, within the scope of their remits, and the Chair took care to provide adequate and detailed information during the Board meetings themselves. When making amendments to the 2018 CG Code in December 2011, the Board of Directors had generally considered a time interval of three days prior to the Board meeting to be appropriate.
The newly appointed Chair of the Board of Directors on 5th February 2019 expressly submitted to the attention of the new Board of Directors, appointed on the same date, the adequacy of this term that had been confirmed, except for the presence of particular situations of urgency or confidentiality.
The Board's self-assessment process that took place at the beginning of 2020, in order to improve the quality of the information flow addressed to directors, highlighted the opportunity to diversify the deadlines for the delivery of the documentation deemed appropriate according to the subject matter of the resolution to be passed. The Board, also taking into account the specific recommendation of the Risk, Control and CSR Committee, has substantially complied with this recommendation, increasing from 3 days to 5 days before the meeting the deadline for the delivery of the documentation relating to certain resolutions deemed particularly important. The 3-day notice period was maintained for all the other cases, with a few exceptions in terms of reduced notice for certain specific cases. During 2020, these terms were generally complied with, with a few exceptions for urgent reasons.

It should be noted that, in order to increase the speed and security of access to documents reserved for the Board of Directors and simplify the organisation of documentation concerning Board of Directors' meetings (and its committees), starting from 2019, the Company has adopted a specific IT portal for the management of such documentation, which has optimised the entire process.
During the course of the Financial Year and in the board meetings already held in 2021 various persons attended board meetings in order to provide additional information on the items on the agenda. These included the CFO, the Chief of Corporate Development & Licensing, the Chief of the VP and Director Corporate Legal Affairs (also acting as the Secretary to the Board), the Chief of the Group Internal Audit Function (who also acted as Data Protection Officer and internal member of the 231 Compliance Body (ODV),

as well as the Head of the Business Unit dedicated to medical products for rare diseases and some managers belonging to this organisational unit.

The Board of Directors has the duty to set strategic policies for the Company and the Group it leads and it is responsible for overseeing its management, pursuing its sustainable success in accordance with the Code.
In accordance with article 22 of the By-Laws, the Board is the corporate body vested with the broadest powers to handle ordinary and extraordinary management of the Company and it has the right to conclude all acts that it deems appropriate in order to conduct business and to achieve the corporate purposes, excluding only those reserved by the law exclusively for the Shareholders' Meeting. On the basis of the terms indicated below, the Board has assigned part of its management responsibilities to the Chief Executive Officer.

In accordance with article 2365, paragraph 2, of the Italian Civil Code, the Board of Directors is also authorised to decide on the following matters:
- mergers in the cases established by articles 2505 and 2505-*bis* of the Italian Civil Code;
- establishment or closure of secondary offices;
- specification of the Directors who are entitled to represent the Company;
- reduction of share capital in the event of withdrawal of a shareholder;
- alignment of the By-Laws to provisions of the law and regulations;
- transfer of the registered office from one municipality to another in national territory.

The Board is also responsible, in compliance with the 2020 CG Code, for the following matters:
- the examination and approval of business plans of the Company and the Recordati Group, also on the basis of the analysis of issues relevant to the creation of long-term value carried out with the support of the Risk, Control and CSR Committee and periodic monitoring of their implementation;
- the definition of the nature and level of risk that is compatible with the Company's strategic objectives, including in its assessments, all risks that might be significant with a view to the Company's sustainable success;
- the definition of the corporate governance system of the Company itself and of the structure of the Group itself, setting guidelines for the governance of subsidiaries;
- the evaluation of whether the organisational, administrative and financial structures of the Company and its strategic subsidiaries, as defined herein and as configured by the responsible organs, are adequate, with particular reference to the internal control and risk management system;
- the attribution and cancellation of managerial mandates to Chief Executive Officers, and, the Executive Committee, if any, defining the extent, means and intervals (at least quarterly), with which the delegates must refer to the Board about the activities carried out in exercising their mandates; identifies who, among the executive directors, holds the position of chief executive officer;
- the establishment, after examination of the proposals from the Remuneration and Nominations Committee, and having been heard the opinion of the Board of Statutory Auditors, of the remuneration of executive directors and other Directors with special mandates, as well as the performance objectives link to variable remuneration of the latter and the division, for the individual members, of the total allotment for compensation of the Board, if the Shareholders' Meeting has not already decided the matter;
- the evaluation of business trends, in accordance, amongst other things, with the law and the By-Laws, especially in the light of information provided by the delegated bodies and periodic comparison of results with budget forecasts;
- the examination and approval prior to strategic economic or financial transactions of the Company and its subsidiaries, with particular attention to situations in which one or more Directors have an interest, whether personal or on behalf of third parties, and in general, to operations with related parties in accordance with the Regulations for Related-Party Transactions approved by the Board of Directors itself on 24th November 2010 (and last revised in 2017); establish guidelines to identify significant transactions;
- carrying out of the assessment of the independence of each non-executive director immediately after appointment as well as during the term of office upon the occurrence of circumstances relevant to the independence requirements and, in any case, at least on an annual basis; in this respect, the Board of Directors shall define, at least at the beginning of its term of office, the quantitative and qualitative criteria so as to assess the significance of commercial, financial and professional relationships and of significant additional remuneration;
- periodically conduct an assessment on the effectiveness of its activities and the contribution made by its individual members; in particular, the self-assessment focuses on the size, composition and actual functioning of the Board of Directors and its committees, also taking into account the role it played in defining strategies and monitoring management performance and the adequacy of the control and risk management system; possibly providing guidelines on the type of management and professional figures whose presence on the Board would be useful, before the appointment of a new Board; although this task is entrusted, by the 2020 CG Code, to the Board of Directors of companies other than those with concentrated ownership;
- reporting, in the Corporate Governance Report, of the means of application of the 2018 CG Code.

Moreover, the Board of Director, in accordance with what is specified by the 2020 CG Code, with the support of the Risk, Control and CSR Committee:
- defines the guidelines for the Internal Control and Risk Management System in accordance with the Company's strategies, so that the principal risks to which the issuer and its subsidiaries are exposed, including the various risks that may be relevant to sustainable success, are correctly identified and adequately measured, managed and monitored. It also determines the degree to which such risks are compatible with management of the Company that is consistent with its strategic objectives;
- selects one or more Directors who are given responsibility for the creation and maintenance of an effective internal control and risk management system (Director(s) responsible for the Internal Control and Risk Management System) if it decides to depart from the recommendation of the 2020 CG Code which identifies the latter as the Chief Executive Officer as being the director given this responsibility;
- appoints and removes the Chief of the Group Internal Audit Function, defining his/her remuneration in line with Company policies and ensuring that he/she is provided with adequate resources to perform his/her duties. If the Board of Directors decides to d the Group Internal Audit Function, as a whole or by operational segments, to a person outside of the Company, it shall ensure that such person has adequate requirements of professionalism, independence and organisation, and that adequate reasons for such choice are provided in the Corporate Governance Report;
- approves, at least once a year, the work plan drawn up by the Chief of the Group Internal Audit Function, after consulting the Board of Statutory Auditors, the Director responsible for the Internal Control and Risk Management System and the Chief Executive Officer (if not the same person as the Director Responsible the Internal Control and Risk Management System);

- assesses the appropriateness of adopting measures to ensure the effectiveness and impartiality of judgement of the corporate functions involved in controls (such as risk management and legal and non-compliance risk monitoring functions, with reference to the organisational structures of the Company set up in relation to such functions), verifying that they are equipped with adequate professionalism and resources;
- assesses, at least once a year, the adequacy of the Internal Control and Risk Management System with respect to the characteristics of the company and the risk profile undertaken, as well as its effectiveness;
- assigns to the Board of Statutory Auditors or to a specially established body - the ODV (231 Compliance Body) - the supervisory functions pursuant to article 6, paragraph 1, letter b, of Italian Legislative Decree no. 231/2001; in the second case, (i) it appoints the members of the ODV (the 231 Compliance Body) pursuant to Italian Legislative Decree no. 231/2001, taking care to assess the appropriateness of appointing, within the Body, at least one non-executive director and/or a member of the Board of Statutory Auditors and/or the holder of legal or control functions of the Company, in order to ensure coordination between the various persons involved in the Internal Control and Risk Management System and (ii) it allocates an annual budget to the ODV (231 Compliance Body);
- describes, in the Corporate Governance Report, the main features of the Internal Control and Risk Management System and the methods of coordination between the persons involved in it, indicating the models and national and international best practices of reference, expressing its overall assessment of the adequacy of the system itself and giving an account of the choices made regarding the composition of the ODV (231 Compliance Body);
- assesses after consulting the Board of Statutory Auditors, the results set out by the auditor in the letter of suggestions, if any, and in the additional report on key issues arising from the statutory audit addressed to the Board of Statutory Auditors;
- adopts, amends and/or supplements the Organisational, Management and Control Model prepared pursuant to Italian Legislative Decree no. 231/2001 and approves its adjustments to the regulatory provisions in force from time to time;
- appoints and removes the person(s) assigned to internal control functions pursuant to article 150 of Italian Legislative Decree no. 58/1998;
- appoints, subject to the mandatory opinion of the Board of Statutory Auditors, the Financial Reporting Officer pursuant to article 154-*bis* of Italian Legislative Decree no. 58/1998 and article 25 of the By-Laws, also on the basis of the preliminary investigation on the requirements of professionalism and integrity carried out by the Risk, Control and CSR Committee pursuant to the provisions of the 'Regulation of the Financial Reporting Officer' approved by the Board of Directors on 18th March 2020;
- implements the recommendations contained in the Corporate Governance Code in relation to the Internal Control and Risk Management System

Under the 2020 CG Code, the Board of Directors also:

- if deemed necessary in order to define a corporate governance system that is more functional to the company's needs, shall draw up reasoned proposals to be submitted to the Shareholders' Meeting on the following matters:

a) choice and characteristics of the corporate model (traditional, 'one-tier', 'two-tier');
b) the size, composition and appointment of the board of directors and the term of office of its members;
c) structuring of the administrative and property rights of the shares;
d) the percentages established for the exercise of the protections afforded to minorities.

In particular, in the event that the Board of Directors intends to propose to the Shareholders' Meeting the introduction of the increased voting rights, it shall provide in the explanatory report to the Shareholders' Meeting adequate reasons on the purpose of the choice and indicate the expected effects on the ownership and control structure of the Company and on its future strategies, giving account of the decision-making process followed and of any contrary opinions expressed in the Board.

- upon the Chair's proposal, formulated in agreement with the Chief Executive Officer, adopts and describes in the Corporate Governance Report a policy for managing dialogue with the generality of shareholders, also taking into account the engagement policies adopted by institutional investors and asset managers.
- adopts regulations that define the rules for the functioning of the body itself and its committees, including the procedures for taking minutes of meetings and the procedures for managing reporting to directors. These procedures identify the terms for the prior delivery of the reporting and the means of protecting the confidentiality of the data and information provided so as not to prejudice the timeliness and completeness of the information flows.
- appoints an independent director as lead independent director

a) if the chair of the managing body is the chief executive officer or holds significant management powers;
b) if the office of chair is held by the person who controls, also jointly, the company;
c) even in the absence of the conditions referred to in points a) and b) above, if the majority of the independent directors so request.

- expresses its guidelines on the maximum number of offices on the management or control bodies in other listed companies or significantly-sized companies that may be considered compatible with the effective performance of the office of director of the company, taking into account the commitment deriving from the role held.
- resolves, upon the chair's proposal, on the appointment and removal of the secretary of the body and defines its professional requirements and duties in its own regulations.
- defines, with the support of the nominations committee, a plan for the succession of the Chief Executive Officer and of the executive directors that at least identifies the procedures to be followed in the event of early cessation from office;
- ensures that appropriate procedures are in place for the succession of top management.

The Board of Directors has 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 transactions are performed consisting of mergers, demergers, share capital increases through contributions in kind, acquisitions and disposals, in accordance with article 70, paragraph 8 and with article 71, paragraph 1-*bis* of the Consob Issuers' Regulations.

It should be noted that, in implementation of the above, **during 2020**, the Board, in particular:

- set targets for 2020 to be disclosed to the market;
- launched two share buy-back programs to service stock option plans for the management of Recordati Group companies already adopted by the Company and those plans to be adopted in the future;
- set the performance targets linked to the variable component of the remuneration of the Chief Executive Officer and the

Director, Mr Squindo, Group General Manager, for 2020 and approved their performance targets for 2019;
- set targets for 2020 to which the exercise of the individual tranches of the options assigned and not yet vested on the basis of the Company's Stock Option Plans is subject;
- after consulting with the Board of Statutory Auditors and the Director in Responsible for the internal control and risk management system, approved the work plan prepared by the Chief of the Group Internal Audit Functionfor 2020;
- at the beginning of 2020, in addition to confirming the companies already identified as such in 2019 as strategically important subsidiaries, also identified Recordati AG as another strategically important company. The Board therefore gave a positive assessment of the adequacy of the general organisational, administrative and accounting structure of the Company and its strategically important subsidiaries prepared by the Chief Executive Officer, with the support of the Director responsible for the internal control and risk management system;
- examined the impairment analyses concerning the 2019 financial statements, the economic valuation assumptions and the forecast assumptions used for these purposes;
- monitored throughout 2020 the evolution of the extraordinary situation created by the spread of the virus known as Sars-Cov2, in relation to the operating performance and with regard to the protection of the health of the employees of the Company and of the other companies of the Group, also following ad hoc reporting by the Chief Executive Officer;
- more generally assessed the operating performance and monitored the comparison, amongst other things, of actual results with budgeted results taken from the approved 2020 budget, carried out as generally established practice when quarterly interim accounting reports are approved; given the uncertainty regarding evolution of the pandemic and its impact on the economy and specifically on business activities, postponed the adoption of the new Three-Year Plan - since the 2017-2019 Three-Year Plan has now expired - to 2021;
- examined the updated 'Risk Map' of the Company prior to the closing of a transaction for the acquisition of rights to products considered relevant;
- at the beginning of 2020, provided a positive assessment as regards to the adequacy of the organisational, administrative and general accounting structure of the Company and of the subsidiaries of strategic importance prepared by the Chief Executive Officer, with the support of the Director responsible for the internal control and risk management system, with particular reference to such system, on the basis of the information provided during the Board's meeting, through specific reports and/or other documentation (e.g. organisation charts) presented by the Chief of Group Internal Audit Function, by the Risk, Control and CSR Committee, by the ODV (231 Compliance Body) pursuant to Italian Legislative Decree no. 231/01, by the Director responsible for the internal control and risk management system and by the Chief Executive Officer himself;
- approved the most relevant corporate provisions;
- with the favourable opinion of the Risk, Control and CSR Committee, confirmed that the previously adopted guidelines for the internal control and risk management system of the Company and of the Recordati Group are still adequate and do not need to be amended;
- examined and approved in advance the transactions of the Company and its subsidiaries, when such transactions have had a significant strategic, economic, equity or financial importance for the Company or its subsidiaries (in particular: acquisitions of rights to medical products as well as loan agreements also of significant subsidiaries);
- acknowledged the recommendation of the internal control and audit Committee (Board of Statutory Auditors) of Recordati S.p.A. to appoint an auditor for purposes of the statutory audit for the nine-year period 2020-2028;
- examined the results of the self-assessment process carried out between 2019 and 2020 and, also taking these into account, formalised through its own Report guidelines to Shareholders on the composition of the Board of Directors to be supplemented by the Shareholders' Meeting called on 29 April 2020, following the resignations of the Chair of the Board of Directors and of two other directors;
- appointed, with effect from 18th March 2020, Mr Luigi La Corte, former Group CFO and key manager personnel, as the new Financial Reporting Officer pursuant to article 154-bis of the TUF and approved the adjustment of the 'Regulations of the Financial Reporting Officer pursuant to article 154-bis of the TUF'; it also appointed Mr La Corte, with effect from 29th October 2020, as a Relevant Person pursuant to the Procedure on internal dealing;
- upon the proposal of the Remuneration Committee regarding the remuneration of the members of the Board of Statutory Auditors, approved to recommend to the Shareholders' Meeting, in the Directors' Report on the renewal of the Board of Statutory Auditors, an increase in the remuneration of the Statutory Auditors;
- following the Shareholders' Meeting of 29th April 2020, it appointed Mr Alfredo Altavilla as the new Chair of the Board of Directors and subsequently determined, after hearing the opinion of the Remuneration Committee and consulting the Board of Statutory Auditors, the remuneration of the same as the new Chair; furthermore, again following the Shareholders' Meeting of 29th April 2020, it confirmed the ODV (231 Compliance Body) pursuant to Italian Legislative Decree no. 231/2001 in its previous composition;
- following the Shareholders' Meeting of 29th April 2020, it assessed the independence requirements of the newly elected director, Mr Piergiorgio Peluso, who had declared that he met such requirements at the time of his candidacy, and appointed the independent director, Ms Michaela Castelli, lawyer, as lead independent director;
- approved the adaptation of the Organisational Model pursuant to Italian Legislative Decree no. 231/2001 and the new Code of Ethics of Recordati;
- after receiving a favourable binding opinion from the Risk, Control and CSR Committee, as the Committee for Related-Party Transactions - since it is a transaction with significantly relevant related parties - it examined and approved the reverse merger of Rossini Investimenti S.p.A. and Fimei S.p.A. into Recordati S.p.A. and convened an Extraordinary Shareholders' Meeting of Recordati for its approval;
- with the favourable opinion of the Remuneration Committee, approved the succession plan - as a contingency plan - for the CEO and the Director Responsible for the Internal Control System;
- upon examination by the Board's internal committees within their respective powers, on 29th October 2020 it examined and resolved to adhere to the 2020 CG Code as from 1st January 2021 with certain exceptions, which will be described in this Report and in the Report relating to the 2021 financial year; at that meeting resolved to integrate the functions conferred on the Remuneration Committee with the functions assigned by the 2020 CG Code to the Nominations Committee and consequently changed the name of the Remuneration Committee to the Remuneration and Nominations Committee; moreover, at that meeting resolved to carry out the next self-assessment

process of the Board and its Committees during 2021, prior to the renewal of the Board by the 2022 Shareholders' Meeting;
- after adhering to the 2020 CG Code referred to in the previous point, upon the proposal of the Board's internal committees within the scope of their respective competences, approved the relevant adjustment of the regulations of said committees as well as their work plans for 2021 and, more generally, the work plan and calendar of Board meetings for 2021;
- at the end of 2020, examined and approved the 2021 Group budget and examined the 'Risk Map' for the 2021 financial year, updated with respect to what was examined for the 2020 financial year, and the consequent assessment of the compatibility of the level and nature of the risks as identified in the Group Risk Map presented to the Board, with the Group's strategic objectives as set out in the 2021 budget, also with a view to the Company's sustainable success.

In 2021, as at the date of this Report, the Board, mainly:
- set objectives for 2021 to be disclosed to the market;
- launched a share buy-back program to service stock option plans for the management of Recordati Group companies already adopted by the Company and those which may be adopted in the future;
- set the 2021 targets to which the exercisability of the individual tranches of options granted and not yet vested under the Company's Stock Option Plans is subject;
- set the performance targets linked to the variable component of the remuneration of the Chief Executive Officer and the Director, Mr Squindo, Group General Manager, for 2021 and approved their performance targets for 2020;
- after consulting with the Board of Statutory Auditors, the Director Responsible for the internal control and risk management system and the Chief Executive Officer, approved the work plan prepared by the chief of the internal audit function for 2021;
- approved the Guidelines on the internal control and risk management system for 2021, following their adaptation to the 2020 CG Code, as adopted by the Company at the end of the 2020 financial year;
- assessed the independence requirements of directors who qualify as independent, also in light of the criteria set forth in the 2020 CG Code;
- approved the Road Map, the materiality matrix and the sustainability objectives for the 2021 financial year;
- at the beginning of 2021, confirmed as strategically relevant subsidiaries the companies already identified as such in 2020 and therefore positively assessed the adequacy of the general organisational, administrative and accounting structure of the Company and its strategically important subsidiaries prepared by the Chief Executive Officer, with the support of the Director Responsible forthe internal control and risk management system;
- approved a procedure aimed at regulating possible conflicts of interest for Directors in relation to M&A/Licensing in transactions.
- examined the impairment analyses concerning the 2020 financial statements, the economic valuation assumptions and the forecast assumptions used for these purposes;
- following the proposal of the Remuneration and Nominations Committee, approved the new 2021-2023 Stock Option Plan to be submitted to the Shareholders' Meeting scheduled for 20th April 2021.

4.3.1. SELF-ASSESSMENT BY THE BOARD AND ITS COMMITTEES

The Board of Directors, **at the end of 2019 and the beginning of 2020** and therefore substantially one year after its appointment, carried out an in-depth board review process with the support of an external consultant (the legal advisor Koiné S.r.l. which, it should be noted, does not provide any further services to Recordati or to companies that it controls). The process concerned the functioning of the board itself and its committees as well as their size and composition, and also involved a benchmarking analysis with Recordati's peers and, in general, with the relevant best practices carried out by the external consultant.
The Risk, Control and CSR Committee has played a supervisory role in the process, having also recommended to the Board to conduct the process with the support of an external consultant.
The results of the board review process were analysed by the Risk, Control and CSR Committee at the meeting held on 31st January 2020 and then by the Board of Directors on 14th February 2020, together with some recommendations made by the same Committee in relation to:
(i) the size of the Board (in terms of a desirable higher portion of independent directors);

(ii) the appointment of a lead independent director;

(iii) the identification of some new deadlines for the delivery of documentation in order to improve the quality of the information flow addressed to directors; and lastly

(iv) the increase of in-depth sessions on business issues also with the participation of company managers.

and the recommendations made by the Corporate Governance Committee referred to in the letter of its Chair dated 19th December 2019.

As a result of this review, the Board expressed an overall positive opinion with regard to the 2019 financial year and, in relation to the recommendations made by the Risk, Control and CSR Committee, acknowledged them, sharing the opportunity to proceed with their implementation in the way deemed most appropriate from time to time. In particular, at the same meeting, it established new rules on the deadlines for the delivery of the documents to the Board (see what has already been indicated in this regard in paragraph 4.3.). Moreover, in light of the resignation of the directors Mr Flemming Ørnskov, Mr Søren Vestergaard-Poulsen and Mr Francisco Javier de Jaime Guijarro, who submitted their resignations at the Board meeting on 18th March 2020, effective as of the next Shareholders' Meeting, the Board proceeded to formulate certain guidelines to the shareholders and in particular to the controlling shareholder, with reference to the size of the Board, which were accepted by the majority shareholder and then by the Shareholders' Meeting on 29th April 2020.
In particular, the Board of Directors, on the basis of the results of the self-assessment process described above, proposed to increase the number of members of the Board of Directors from eleven to twelve, recommending that some of the new directors should have experience and qualified skills in the pharmaceutical industry and that one of the new directors should meet the requirements of independence laid down by law (article 148, third paragraph, of Italian Legislative Decree no. 58/1998) as well as those indicated in the 2018 GC Code.

With regard to the future self-assessment processes of the Board of Directors and its committees, the Board, in adhering to the 2020 CG Code, assigned the Remuneration and Nominations Committee the competence to support it in this respect.

Finally, with regard to the timing of the next self-assessment process, following the recommendation of the Remuneration and Nominations Committee, in agreement with the Risk, Control and CSR Committee, the Board decided to proceed during 2021, in view of the renewal of the process in 2022.

4.4 EXECUTIVE OFFICERS AND BODIES

Chair, Vice-Chair and Chief Executive Officer

In accordance with article 23 of the By-Laws, representation of the Company shall be attributed to the Chair of the Board of Directors or, in the event of his/her absence or inability to attend for any reason, to the Vice-Chair, with sole signing authority for implementation of all resolutions of the Board unless otherwise resolved. The Chair or, in the event of his/her absence or impediment for any reason, the Vice-Chair, shall represent the Company before the law, with the power to take legal action and institute judicial and administrative proceedings at all levels of jurisdiction, including with respect to revocation and cessation proceedings, and appointing lawyers and attorneys for lawsuits.

In accordance with article 24 of the By-Laws, the Board of Directors may delegate all or part of its powers and functions not only to the Chair, but also to the Vice-Chair and one or more executive directors and it may grant special mandates to individual Directors or managers of the Company, including the power of attorney, determining their functions and powers under the law. In accordance with article 25 of the By-Laws, the Board may also delegate all or part of its powers to an Executive Committee.

From 1st January 2020 to 29th April 2020, the role of Chair was held by Mr Flemming Ørnskov, appointed in office by the Board of Directors on 5th February 2019.

Subsequently, at the Board of Directors' meeting of 18th March 2020, Mr Flemming Ornskov resigned, effective as of the next Shareholders' Meeting, due to increased professional commitments.

In light of the resignation of Mr Flemming Ørnskov, the Board of Directors expressed its intention to appoint, as soon as Mr Ørnskov's resignation became effective, Mr Alfredo Altavilla as new Chair of the Board of Directors, whose appointment was resolved upon by the Board on 29th April 2020, following the Shareholders' Meeting held on the same date.

The Chair has institutional duties of direction and control to (i) convene Board meetings and ensure that the members of the Board and the Board of Statutory Auditors are provided, in accordance with the timeframes set by the Board of Directors, except for exceptional cases of urgency and particular confidentiality, with the documentation and information necessary to enable them to express an informed opinion about the matters submitted to their examination and approval[8], (ii) co-ordinate the activities of the Board and conduct the proceedings of Board meetings; (iii) continuously provide information about the frequent variations of the law and the regulations that govern the sector and their impact on the Company, in order to develop the awareness of all Directors in relation to the situation and dynamics of the Company.

It is anticipated that the 2020 CG Code, to which the Company adheres as from 1st January 2021, envisages that the chair of the board of directors plays a liaison role between the executive directors and the non-executive directors and ensures the effective functioning of the board proceedings. In particular, it provides that the chair of the board of directors, with the assistance of the board secretary, shall ensure:

a) that the pre-meeting information and the additional information provided during the meetings are suitable to enable directors to act in an informed manner in the performance of their duties;
b) that the activity of board committees with investigative, proposal-making and advisory functions is coordinated with the activity of the board of directors;
c) in agreement with the chief executive officer, that the managers of the company and those of the companies of the group headed by the company itself, responsible for the corporate functions competent according to the subject matter, attend Board meetings, also at the request of individual directors, in order to provide the appropriate details on the items on the agenda;
d) that all the members of the management and control bodies may participate, after their appointment and during their term of office, in initiatives aimed at providing them with an adequate knowledge of the business sectors in which the company operates, of the company dynamics and their evolution also with a view to the sustainable success of the company itself as well as of the principles of proper risk management and of the reference regulatory and self-regulatory framework;
e) the adequacy and transparency of the board's self-assessment process, with the support of the nominations committee.

From 16th August 2016 - following confirmation and immediately after the appointment of the new board of directors resolved on 5th February 2019 – Mr Andrea Recordati, as Chief Executive Officer, has been delegated, to the extent permitted by law, all the widest powers for the administration and ordinary and extraordinary management of the Company and the performance of the management and coordination activities carried out by the Company in comparison with Group companies, determining the adequacy of the organisational, administrative and accounting structure of the Company for the execution of strategic, industrial and financial plans approved by the Board of Directors, with the sole exclusion of the operations listed below (exhaustive and mandatory in nature), which, because they are to be carried out directly by the Company and/or indirectly through subsidiaries, are transactions reserved to the responsibility of the Board of Directors (except for intragroup operations, and that is performed with or between other companies of the Recordati Group):

a) the assumption of financial debt for an amount greater than € 25 million for each transaction and the grant of secured or personal guarantees for amounts greater than € 10 million for each transaction;
b) the sale and purchase of real estate properties for amounts of greater than € 10 million, in which industrial activities of the Company or its subsidiaries are carried out at the time of the sale;
c) the purchase or provision of ownership, or the purchase or the grant of licences for intellectual property rights and more specifically by way of example, but not limited to these, intellectual property rights regarding specialty medicines, dietary supplements and medical devices for amounts not greater than € 10 million each;
d) acquisition, disposal or any other provision in relation to holdings in other companies and similarly the acquisition and disposal of companies or company operations, for an amount greater than € 10 million each;
e) the stipulation of agreements, including settlement agreements, concerning matters not included in those above for an amount greater than € 10 million for each agreement.

The Chief Executive Officer of Recordati does not hold interlocking directorships pursuant to Implementation Criterion 2.C.5 of the 2018 CG Code.

8 Please refer to what is already indicated in Section 4.3.

Executive Committee

No Executive Committee has been formed as an internal committee of the Board of Directors.

Reporting to the Board

The Chief Executive Office reported to the Board in individual Board meetings on the activities performed in exercising the powers conferred on him by the Board: in each meeting, and independently of the time elapsed since the previous meeting, the Chief Executive Officer provides a report on activities carried out and the main transactions performed by the Company and its subsidiaries, even if these are transactions which do not require prior approval by the Board of Directors.

4.5 OTHER EXECUTIVE DIRECTORS

With regard to the **Board of Directors in office from 1st January 2020 to 29th April 2020**, in addition to Mr Andrea Recordati, Chief Executive Officer, and Mr Fritz Squindo, Director and Group General Manager, in light of the functions performed by each, Mr Javier De Jaime Guijarro, Mr Giampiero Mazza, Ms Cathrin Petty and Mr Søren Vestergaard-Poulsen, were also qualified as executive Directors, as they held management positions in the indirect parent company or in other CVC companies which also concern the Company; however, they were not granted individual operating powers.

With reference to the **Board of Directors in office as from 29th April 2020 until 31st December 2020**, as supplemented by the Shareholders' Meeting of 29th April 2020, the Board of Directors has qualified as executive directors, in light of the functions performed, Mr Andrea Recordati, Chief Executive Officer and Mr Fritz Squindo, Group General Manager, as well as Mr Giampiero Mazza, Ms Cathrin Petty and Mr Giorgio De Palma, as they hold management positions in the indirect parent company or in other CVC companies, which also concern the Company; the same persons, have not been granted individual operating powers.

4.6 INDEPENDENT DIRECTORS

From 1st January 2020 to 29th April 2020, three Directors (Michaela Castelli, Silvia Candini and Joanna Le Couilliard), were qualified as independent based on the statements provided by the individuals concerned and information available to the Company, as confirmed during the annual assessment required by the 2018 CG Code and which was carried out by the Board of Directors on 14th February 2020.

Following the supplementing of the Board of Directors resolved upon by the Shareholders' Meeting on 29th April 2020, also Mr Piergiorgio Peluso declared, when submitting his candidacy, to meet the independence requirements established by article 148, paragraph 3, of the TUF and by the 2018 GC Code, and the Board, on the same date, not having identified that the Company, on the basis of the information available, found itself in opposite situations, confirmed that said requirements for the same director were met.

In implementation of the provisions of the 2020 CG Code, the Board of Directors - on 22nd February 2020 - confirmed, on the basis of the statements provided by the individuals concerned and the information available in any case to the Company, in relation to the four directors mentioned above, that they meet the independence requirements set forth in article 148, paragraph 3, of the TUF and the independence requirements set forth in the 2020 CG Code.

The Board of Statutory Auditors successfully verified the correct application of the criteria and procedures adopted by the Board to assess the independence of its members.

The independent Directors, on the occasion and before the beginning of the meetings of the Board of Directors, have from time to time verified the absence of specific problems that would be relevant in the context of their role as independent Directors.

The Independent Directors met twice during 2020 to discuss governance and risk control issues, in particular with regard to the correct application and the correct functioning of the Regulations on the management and coordination activities performed by Rossini Luxembourg S.àr.l. on Recordati S.p.A. and the information flows of Recordati S.p.A. to, in particular, Rossini Luxembourg S.àr.l which were approved by the Board of Directors of Recordati S.p.A. in 2019 as well as regarding the possible matters to be analysed further in the board or in induction sessions.

Information regarding the independence assessment process

The procedure followed by the Board for the purpose of verifying independence provides that directors declare satisfaction of the requirement when they submit their candidacies and also when they accept their appointments. The Board ascertains that satisfaction in the first meeting subsequent to the appointment and discloses the results to the market.

Without prejudice to independent directors' commitments to promptly communicate to the Board the development of situations which determine failure to satisfy the requirement, the Board requires the directors concerned to annually confirm satisfaction of the requirements, as required by law and by the 2018 CG Code. The Board of Directors and the Board of Statutory Auditors then proceed to verify the contents and to verify the correct application of requirements and of the procedure to ascertain them respectively.

According to the 2020 CG Code, the Board of Directors shall predefine, at least at the beginning of its term of office, the quantitative and qualitative criteria for assessing the significance of commercial, financial and professional relationships and of significant additional remuneration; the Board, when adhering to the 2020 CG Code, approved the Company's application proposal, shared by the Committees within the Board, to proceed, during 2021, to define these criteria, with the preliminary support of the Remuneration and Nominations Committee.

4.7 LEAD INDEPENDENT DIRECTOR

Following the Shareholders' Meeting on 29th April 2020, during which the Board of Directors was supplemented with an additional director who met the independence requirements, the Board of Directors appointed the independent director, Michaela Castelli, lawyer, as lead independent director, assigning her the duties established by the Corporate Governance Code in force at that date (2018 edition); thus, also taking into account the outcome of the board review process carried out between 2019 and 2020, which recommended her appointment.

It should be noted that under the 2018 CG Code, the lead independent director was responsible for (a) representing a point of reference and coordination of the requests and contributions of the non-executive Directors and, in particular, of the independent Directors, and (b) working with the Chair of the Board of Directors to ensure that the Directors are provided with complete and timely information flows.

The 2020 CG Code, to which the Company resolved to adhere as of 1st January 2021, confirmed that the lead independent director (a) represents a point of reference and coordination for the requests and contributions of the non-executive directors and, in particular, of the independent ones, specifying that (b) he/she coordinates the meetings of only the independent directors.

5. CONFIDENTIALITY OF CORPORATE INFORMATION

The Company has adopted a procedure that regulates the internal management and external communication of information relating to the Company, with particular reference to Relevant and Inside Information, in order to prevent its improper circulation and disclosure both inside and outside the Company, in compliance with current EU and national regulations regarding market abuse: '**Procedure for the internal management of Relevant Information and Inside Information and disclosure to the public of Inside Information**' (in brief, the 'Procedure for Relevant Information and Inside Information').

The Procedure is a fundamental component of the Internal Control and Risk Management System of the Company and the Group, as well as an integral part of the overall system of prevention of offenses pursuant to Italian Legislative Decree no. 231/2001.

The current version of the Procedure for the internal management of Relevant Information and Inside Information was last revised in the course of 2018, as an update of the company procedures in the field of market abuse, which had been previously and significantly amended in 2016 following the entry into force of Regulation (EU) no. 596/2014 containing the regulation of market abuse, for the purpose of adapting them to the rules and regulations subsequently issued both at the national and at the EU level and, in particular, to the Guidelines issued by Consob on that subject in October 2017.

The rules of conduct established by the Procedure for Relevant Information and Inside Information are designed at implementing the necessary organisational controls for the following: proper management of information flows, guaranteeing the maximum confidentiality information that is Inside Information or otherwise likely to become so (Relevant Information), balancing the interest in the confidentiality of information in the course of its progressive formation and the obligation of the related disclosure in a non-selective form, protecting investors and the integrity of the market, since they are aimed at preventing the carrying out of transactions detrimental to their interests through the exploitation of information asymmetries, or the alteration of market variables, through the dissemination of untrue or misleading information; to reduce the risk of crimes or administrative offenses relating to market abuse; protecting the Company against any liability that may arise for the unlawful acts committed by parties that can be referable to the same; defining the processes for identifying and managing the Relevant Information; defining the processes for identifying and managing the Inside Information; defining the processes of communication to the public and to Consob of Inside Information.

The members of the administrative, management and control bodies of the Company and the employees and collaborators of the Company and of its Subsidiaries who have access for any reason to Relevant Information or Inside Information are required to comply with this procedure.

The Procedure for Relevant Information and Inside Information identifies the Chief Executive Officer as the person responsible for the public disclosure process of inside information concerning the Company also in relation to the decision to begin the procedure of any delay in communication to the market. The Chief Executive Officer has therefore been identified as holding the Inside Information Management Function (so-called 'IIMF') pursuant to the 2017 Consob guidelines or as a function responsible for the management of inside information. For the carrying out of his activities, the Chief Executive Officer, as holder of the IIMF, avails himself of the technical consultancy support of an ''info room'' (always in line with the 2017 Consob guidelines) which includes, on a permanent basis, in light of the evolution of the Company's organisational charts, the Group General Manager and the Group CFO (previously: the role of General Manager for the coordination of management and CFO were held by the same person), the Director of Legal and Corporate Affairs and the Director of Investor Relations & Corporate Communication, are permanent members as well as, when needed, additional members of management concerned from time to time with specific information.

The '**Procedure for keeping and managing the list of persons who have access to relevant information and the list of persons having access to inside information**' is also currently in force, which is aimed at regulating the methods of maintaining and regularly updating the List of persons who have access to inside information (hereinafter referred to as '**Insider List**') which is necessary for the Company to maintain pursuant to the legislation in force, and the List of persons having access to relevant information (hereinafter '**Relevant Information List**' or, in brief, '**RIL**') in implementation of the Procedure for Relevant Information and Inside Information, in compliance with the applicable Community and national legislation and regulations on the prevention and repression of market abuses, also taking into account the guidelines issued by ESMA and Consob. In particular, for the purposes of applying the Procedure for Relevant Information and Inside Information, the Company takes into account the interpretative and applicative indications contained in the Consob Guidelines.

In particular, the Company has, on a voluntary basis, proceeded to establish a list of persons who have access, in the performance of their duties, to Relevant Information, in compliance with the provisions of the Consob Guidelines. This list is aimed at ensuring the traceability of persons who have access to Relevant Information with a view to a more effective monitoring of corporate information also for the purpose of fulfilling the market disclosure obligations of Inside Information and the prevention and repression of market abuses.

The Insider List, on the other hand, contains registered persons who have access, in the performance of their duties, to Inside Information and, in compliance with Community legislation, the Procedure provides that the Insider List also has a section of registrants in which to register subjects who are permanently aware of all the inside information and a section where registration is required for each event.

Lastly, it should be noted that Recordati also has in place an '**Internal Dealing Procedure**' which provides for, starting from 2016, the so-called **black-out periods**, namely, specific periods of the year – thirty calendar days prior to the announcement of an interim or year-end financial report that the Company is required to make public according to the rules of the registered office of trading in which the shares are admitted to trade or national law - in which there is an obligation to abstain from carrying out transactions on financial instruments issued by the Company and listed on regulated markets. During 2020 the following black out periods were identified: prior to the publication of the preliminary data for the 2019 financial year and prior to the 2020 half-yearly report.

On the basis of the organisational structure of Recordati, during 2020, the Board of Directors, upon the proposal of the Chief Executive Officer, identified Mr Luigi La Corte, former Group CFO, as a key manager personnel and Financial Reporting Officer pursuant to article 154-*bis* of the TUF. He was also appointed as a Relevant person pursuant to the Procedure on internal dealing.

6. INTERNAL COMMITTEES OF THE BOARD

The Board of Directors has formed a Remuneration and Nominations Committee and a Risk, Control and CSR Committee among its members, both with consultative and proposal-making functions composed exclusively of independent directors.

7. REMUNERATION AND NOMINATIONS COMMITTEE

Until 29th October 2020, the Board had over time renewed its assessment that it was not necessary to form a Nominations Committee, expressly reserving the duties assigned to the latter by the 2018 CG Code to itself sitting in plenary session. This is mainly because until now no difficulty had – and have not – been encountered in making nomination proposals, partly due to the presence of a Shareholder who holds legal control of the Company (and therefore in consideration of the narrow shareholder base).

It should be noted that, starting with the December 2011 edition, the Corporate Governance Code recommended the establishment of such a committee and that, however, the 2020 CG Code specified that companies with concentrated ownership, even large ones - such as Recordati S.p.A. - may assign the functions of the nomination committee to the Board of Directors, even when the number of independent directors do not exceed one-half of the Board members.

When adopting the 2020 CG Code, on 29th October 2020, the Board of Directors of Recordati nevertheless decided, following a joint recommendation by the Risk, Control and CSR Committee and the Remuneration Committee, to supplement, effective immediately, the functions assigned to the Remuneration Committee with the functions assigned by the new Code to the Nominations Committee and consequently to change the name of the Remuneration Committee to the Remuneration and Nominations Committee. This is because it considered that assigning the functions of the Nominations Committee directly to the full Board no longer was the most efficient method, taking into account the increase in the number of issues on which it is appropriate to carry out a preliminary investigation in a Committee rather than a discussion in a Board meeting.

Composition

During 2020, the Remuneration and Nominations Committee was composed of Joanna Le Couilliard (acting as Chair), Silvia Candini and Michaela Castelli, all directors meeting the independence requirements. The Board of Directors acknowledged that all members have adequate knowledge and experience in financial matters or remuneration policies.

Duties

As regards specific information on the Remuneration and Nominations Committee's duties and activities in the field of remuneration, please refer to the relevant parts of the Remuneration Report published pursuant to article 123-*ter* of the TUF.

With regard to the tasks as a nominations committee, according to the organisational regulations, most recently updated in December 2020, the Remuneration and Nominations Committee is assigned the consultative ad proposal-making duties described below:

- assisting the Board of Directors in the self-assessment process of the Board itself and its committees;
- also taking into account the results of the aforesaid self-assessment, formulating opinions to the Board of Directors on the optimal composition (qualitatively and quantitatively) of the Board itself and its committees and on the managerial and professional profile whose presence on the Board is deemed appropriate, also in light of the Company's sectoral characteristics, for the purposes of the possible formulation by the outgoing Board of Directors to the shareholders of guidelines in relation to the appointment of the new Board of Directors;
- assisting the Board of Directors in assessing candidates for the office of director in cases of co-optation;
- making recommendations to the Board of Directors on any critical issues related to the application of the non-competition clause provided for Directors by article 2390 of the Italian Civil Code in the event that the Shareholders' Meeting has authorised general and preventive exceptions to this prohibition;
- supporting the Board of Directors by carrying out the necessary investigation activities for the preparation of a possible succession plan for the chief executive officer and the other executive directors granted with management powers, which at least identifies the procedures to be followed to ensure the regular management of the Company in the event of early termination of the office of the Chief Executive Officer and/or of the Director responsible for the Internal Control and Risk Management System – if different from the the Chief Executive Officer – with respect to the ordinary expiration of the mandate;
- assisting the Board of Directors through the necessary investigation activity in order to ascertain the existence of adequate procedures for the succession of top management, i.e., key manager personnel ('Top Management')
- formulating opinions to the Board of Directors in relation to the guidelines on the maximum number of offices held in the administrative or control bodies in other listed companies or significantly-sized companies that may be considered compatible with an effective performance of the office of director of the Company, taking into account the commitment deriving from the role held also with reference to the participation of directors in the committees established within the Board.

Activities carried out in 2020

With reference to the above-mentioned duties, during 2020, the Committee:

- in agreement with the Risk, Control and CSR Committee, which had originally started the preliminary analysis before the Remuneration Committee (subsequently, the Remuneration and Nominations Committee) was assigned the relevant competence, preliminary examined the Board's proposal of a 'contingency plan' for the Chief Executive Officer and the Director responsible for the internal control and risk management system containing, in the event of early cessation from office or impediment, even temporary, to the performance of their functions, the guidelines of the succession process aimed at ensuring management continuity in the short-medium term;
- examined the new 2020 CG Code for the purpose of supporting the formulation of application proposals to the Board of Directors for the matters falling within its competence and,

subsequently, also proposed to the latter the adjustment of its own organisational regulations;
- began to analyse the status quo with regard to the existence of adequate procedures for the succession of key manager personnel;
- analysed the methods for carrying out the self-assessment process of the Board of Directors and its committees with a view to future assessment processes; on this occasion, the Chair of the Board of Directors also attended the Committee meeting in compliance with the role assigned to him in relation to this process by the 2020 CG Code.

The percentage of attendance of Committee members at meetings is shown in the table at the end of Section 4.2 of this Report.

The meetings of the Remuneration and Nominations Committee were duly minuted.

The Committee had access to the information and company departments necessary to carry out its duties; it did not consider it necessary to use external consultants.

8. DIRECTORS' REMUNERATION

Please consult the relevant part of the Remuneration Report published in accordance with article 123-*ter* of the TUF for information on this section.

9. RISK, CONTROL AND CSR (Corporate Social Responsibility) COMMITTEE

As at the date of this report, the Risk, Control and CSR Committee is composed of the following non-executive and independent Directors: Ms Michaela Castelli, lawyer, Chair, Ms Silvia Candini and Mr Piergiorgio Peluso, who replaced Ms Joanna Le Couilliard on 29th April 2020.

The Committee met 19 times during the Financial Year, 10 of which as the Committee for Related-Party Transactions in relation to a significant related-party transaction (see the paragraph on page 193 'Reverse merger of Fimei S.p.A. and Rossini Investimenti S.p.A. into Recordati S.p.A.') (sessions lasted around 2 hours). The Committee met three times during the current financial year. The percentage attendance of Committee members at meetings is shown in the table contained at the end of Section 4.2 of this Report.

The Board determined that all members have adequate experience in accounting and finance or risk management matters.

The entire Board of Statutory Auditors has been constantly invited to participate in the Committee's work.

Upon invitation by the Chair of the Committee and with regard to individual items on the agenda, various non-members have participated in some meetings, in particular the Group General Manager and the Director Responsible for the Internal Control and Risk Management System, the Chief of Group Internal Audit Function, the ODV (231 Compliance Body) pursuant to Italian Legislative Decree no. 231/01, the Group CFO, the IT Director, the ESG Manager, representatives of the Audit Firm, Employers and the Heads of the Prevention and Protection Service for production sites in Italy with regard to safety in the workplace, the Group Engineering Manager and consultants who provided support to the Company on specific projects examined by the Committee.

The VP and Director Corporate Legal Affairs attended to take minutes of meetings.

Duties assigned to the Risk, Control and CSR Committee

The Risk, Control and CSR Committee has been set up with the task of supporting the Board's assessments and decisions relating to the internal control and risk management system and, in particular, it is in charge of analysing the issues and instructing relevant practices to control business activity, by carrying out investigative, advisory and proposal-making functions towards the Board with respect to assessments and decisions relating to the internal control and risk management system - understood as the set of rules, procedures and organisational structures for the actual and efficient identification, measurement, management and monitoring of the main risks, in order to contribute to the Company's sustainable success (meaning the objective that guides the Board's actions and that consists of the creation of long-term value to the benefit of the shareholders, taking into account the interests of other stakeholders relevant to the Company) - as well as in those relating to the approval of periodic financial and non-financial reports for the purposes of the internal control and risk management system.

In particular, during 2020, while adhering to the 2020 CG Code, the Board of Directors confirmed the assignment to the Risk, Control and CSR Committee of the task of supporting the Board in ensuring that strategies are consistent with the sustainable success objective.

More specifically, the Committee plays an investigative and advisory role vis-à-vis the Board in the performance of certain tasks pertaining to the Board itself, such as:
- to carry out the analysis of issues relevant to the creation of long-term value as a preliminary step for the Board's approval of the business plan of the Company and of the Group;
- to define the nature and level of risk compatible with the Company's strategic objectives, including in its assessments all elements that may be relevant to the Company's sustainable success;
- to identify the director in charge of for establishing and maintaining an effective internal control and risk management system (Director responsible for the internal control and risk management system) in the event that the Board decides to depart from the recommendation of the 2020 CG, which identifies the latter as the Chief Executive Officer;
- to define the guidelines of the internal control and risk management system in accordance with the Company's strategies;
- to assess, at least once a year, the adequacy of the internal control and risk management system in relation to the characteristics of the company it's risk profile, as well as its effectiveness;
- to appoint and revoke the Chief of the Group Internal Audit Function, defining his/her remuneration in line with company policies, and ensuring that he/she is provided with adequate resources to perform his/her duties. If the Board decides to entrust the internal audit function, as a whole or by operational segments, to a person external to the Company, the Committee shall first assess that the person adequately meets the requirements of professionalism, independence and organisation and that and that adequate reasons for such choice are provided in the Corporate Governance Report;

- to approve, at least once a year, the work plan prepared by the Chief of the Group Internal Audit Function, after having consulted with the Board of Statutory Auditors, the Director responsible for the internal control and risk management system and the Chief Executive Officer;
- to assess the appropriateness of adopting measures to ensure the effectiveness and impartiality of judgement of the corporate functions involved in controls (such as the risk management and legal and non-compliance risk monitoring functions, with reference to the organisational structures of the Company set up in relation to such functions), verifying that they have adequate professionalism and resources;
- to assign to the Board of Statutory Auditors or to a specially established body - the ODV (231 Compliance Body) - the supervisory functions pursuant to article 6, paragraph (1)(b) of Italian Legislative Decree no. 231/2001; in the second case, (i) to appoint the members of the ODV (231 Compliance Body) pursuant to Italian Legislative Decree no. 231/2001, taking care to assess the advisability of appointing to the Body at least one non-executive director and/or one member of the Board of Statutory Auditors and/or the holder of the company's legal or control functions, in order to ensure coordination between the various persons involved in the internal control and risk management system and (ii) to allocate an annual budget to the ODV (231 Compliance Body). In particular, the Committee formulates proposals to the Board regarding the appointment of members of the ODV (231 Compliance Body) pursuant to Italian Legislative Decree no. 231/01 and the allocation of an annual budget to that body;
- to assess, in consultation with the Board of Statutory Auditors, the findings set out by the auditor in the letter of suggestions, if any, and in the additional report on key issues arising from the statutory audit addressed to the Board of Statutory Auditors;
- to describe, in the Corporate Governance Report, the main features of the internal control and risk management system and the methods of coordination between the persons involved in it, indicating the models and national and international best practices of reference, expressing its overall assessment of the adequacy of the system itself and giving an account of the choices made regarding the composition of the ODV (23 Compliance Body);
- to generally implement the recommendations contained in the 2020 CG Code in relation to the internal control and risk management system.

Moreover, the Risk, Control and CSR Committee, in compliance with the 2020 CG Code, in assisting the Board:

- assesses, together with the Financial Reporting Officer and after having consulted with the auditor and the Board of Statutory Auditors, the correct use of accounting standards and their uniformity for the purposes of preparing the consolidated financial statements, prior to the Board's approval of the consolidated financial statements;
- assesses the suitability of periodic financial and non-financial information to correctly represent the Company's business model, strategies, the impact of its activities and the performance achieved;
- examines the content of periodic non-financial information relevant to the internal control and risk management system;
- expresses opinions on specific aspects relating to the identification of the main corporate risks and supports the Board's assessments and decisions relating to the management of risks deriving from prejudicial facts of which it has become aware;
- examines the periodic reports on the assessment of the internal control and risk management system and those of particular relevance prepared by the Chief of the Group Internal Audit Function;
- monitors the autonomy, adequacy, effectiveness and efficiency of the Chief of the Group Internal Audit Function;
- possibly entrusts the Chief of the Group Internal Audit Function with the task of carrying out checks on specific operational areas, simultaneously reporting to the Chair of the Board of Statutory Auditors and the Director responsible for the internal control and risk management system, unless the subject of the request for control specifically concerns the latter's activity;
- reports to the Board, at least every six months, upon the approval of the annual and half-yearly financial reports, on the activities carried out as well as on the adequacy of the internal control and risk management system.

The Risk, Control and CSR Committee also assists the Board **in relation to sustainability issues:**

- monitors sustainability issues related to the Company's operations and the dynamics of its interaction with all stakeholders in accordance with the principle of sustainable success;
- examines the guidelines of the Sustainability Plan and the means for implementing the sustainability policy;
- examines the general approach of the consolidated non-financial statement and the structuring of its contents, as well as the completeness and transparency of the reporting provided through this document;
- at the request of the Board, expresses opinions on sustainability issues.

Lastly, the Risk, Control and CSR Committee also plays an investigative and advisory role vis-à-vis the Board of Directors in the performance of the following duties pertaining to the Board itself:

- amending and/or supplementing the Organisational Model pursuant to Italian Legislative Decree no. 231/2001 adopted by the Company; in particular, the Committee makes proposals to the Board of Directors regarding amendments to be made to the Organisational Model pursuant to Italian Legislative Decree no. 231/01 adopted by the Company;
- appointing and dismissing the Internal Audit Officer(s) pursuant to article 150 of Italian Legislative Decree no. 58/1998;
- appointing, subject to the mandatory opinion of the Board of Statutory Auditors, the Financial Reporting Officer pursuant to Article 154-*bis* of Italian Legislative Decree no. 58/1998 and article 25 of the By-Laws; in compliance with the 'Regulations of the Financial Reporting Officer' approved by the Board on 18th March 2020, the Committee carries out the preliminary activities regarding the requirements of professionalism and integrity in support of the Board's resolution;
- carries out any further duties assigned to it by the Board of Directors.

In addition to the above, the Committee is also assigned the following duties with reference to the Procedure governing Related-Parties transactions:

- shall express an opinion on the Procedure governing Related-Parties Transactions that the Company must adopt in compliance with Consob Regulation no. 17221 of 12th March 2010, as well as on any subsequent amendments to the Procedure itself;
- shall express an opinion, either binding or non-binding, on Related-Party Transactions of major importance and on Related-Party Transactions of minor importance in compliance

with the aforementioned Procedure for Related-Party transactions adopted by the Company, unless they consist of Related-Party Transactions which concern remuneration.

Activities performed in 2020

At the meetings mentioned above, the Committee mainly carried out the following activities:

- followed the developments of the emergency caused by the spread of the SARS-CoV-2 virus with the aim of monitoring the adequacy of the measures adopted by Recordati to ensure the safety of employees and business continuity and subsequently also examined the plans to reopen production activities and, prospectively, the operational activities of the offices as well as, more generally, the measures and guidelines adopted by Recordati, at Group level, to deal with the spread of the Sars-Cov-2 virus;
- with reference to the emergency situation, the Committee acknowledged the Chief Executive Officer's intention to propose that the Board proceed to approve donations to contribute to the support of health structures engaged in the fight against the epidemiological emergency from the SARS-CoV-2 virus, considered by the Company to be the most effective method of support;
- it examined the periodic reports by the ODV (231 Compliance Body) as per Italian Legislative Decree no. 231/2001 and by the Chief of the Group Internal Audit Function along with the results of audits conducted by the Audit Function, including the audits that specifically concerned the measures taken by the Company to deal with the spread of the Sars-Cov-2 virus at the Milan offices and the assessment of IT security, taking into account the way in which the staff at the Milan offices work remotely;
- it examined the proposed Audit Plan for 2020 and supervised its progress during the Financial Year; in particular, it followed and shared the proposals to adjust the activities planned by the internal audit function as a result of the measures adopted to manage the pandemic;
- it acknowledged the ODV's (231 Compliance Body) action plan for 2020;
- after consultation with the Audit Firm and the Board of Statutory Auditors and together with the Financial Reporting Officer, it examined the results of the audit of the accounts regarding the financial statements and the proper application of accounting standards and their consistency in the preparation of the consolidated financial statements; the Committee subsequently acknowledged the specific reporting to be included within the 2019 annual financial report with respect to the expected impacts of the SARS-Cov-2 coronavirus on the evolution of operating performance and agreed positively with the Company's proposal;
- it formulated a proposal for submission to the Board concerning the expenditure budget of the ODV (231 Compliance Body) for the operating expenses of the committee itself concerning the application of the Organisation, management and control model pursuant to Italian Legislative Decree no. 231/01;
- it examined the adequacy of the guidelines for the internal control and risk management system;
- it examined the section of the Corporate Governance Report for the 2019 financial year concerning the internal control and risk management system;
- it examined the organisational structure of the Group Internal Audit Function, and examined Recordati's organisational structure following specific reporting from the Chief Executive Officer;
- it examined the results of the self-assessment process carried out between 2019 and 2020 in preparation for the Board's examination, making a number of recommendations;
- it acknowledged the process for updating the Organisational Model pursuant to Italian Legislative Decree no. 231/2001 in accordance with the legal provisions that introduced new predicate offences (excluding the extension to tax offences, given the entry into force of the relevant legislation in late December) and in particular the procedure for handling reports of infringements of law, the Organisational Model, the Code of Ethics and the internal procedures for the Group's Italian companies (so-called 'whistleblowing'), updated to the most recent legal provisions, and expressed a favourable opinion on said update for subsequent approval by the Board of Directors;
- following the activities already carried out in 2019 in this regard, having ascertained, together with the Board of Statutory Auditors, the necessary requirements of integrity and professionalism in relation to Mr Luigi La Corte, Group CFO, it expressed a favourable opinion on the Chief Executive Officer's proposal, to be submitted to the Board, to appoint Mr La Corte as Financial Reporting Officer. The Committee also acknowledged the proposal to update the Regulations of the Financial Reporting Officer pursuant to article 154-*bis* of the TUF;
- it examined the proposal for a new Code of Ethics for Recordati, for subsequent approval by the Board of Directors;
- it examined the actions implemented by the Company with the aim of providing non- financial information, as required under Italian Legislative Decree no. 254/2016 concerning the 2020 financial year as well as the relevant documentation, including the analysis of materiality giving a favourable opinion; during the year it also supervised the activities carried out by the Company in the various areas of interest highlighted by the materiality analysis;
- it examined the 'Risk Map' relating to the 2020 financial year, updated with respect to that examined for the 2019 financial year, also in order to support the Board's assessment of the compatibility of the level and nature of the risks as identified in the Group Risk Map submitted to the Board, with the Group's strategic objectives set out in the 2020 Budget, also with a view to the medium/long-term sustainability of the Company's activities; the Committee then primarily examined the update of the Risk Map prior to a transaction for the acquisition of rights to products considered relevant, should this transaction be completed;
- it also expressed its opinion to the Board on the following:
  - the adequacy of the guidelines for the internal control and risk management system;
  - the adequacy of the internal control system, at the time of approval of the 2019 Annual Report and the 2020 half yearly interim financial report;
  - the work plan prepared by Chief of Group Internal Audit Function for 2021;
- it reported to the Board twice on its activities, at the time of approval of the 2019 Annual Report and the 2020 half-yearly interim financial report; the Chair of the Committee in any case informed the Board of Directors at the first subsequent meeting of the decisions taken regarding the matters for which it is competent;
- it examined the new 2020 Corporate Governance Code and the Company's application proposals;
- with regard to safety in the workplace, it examined the reports of the Employers and the Heads of the Prevention and Protection Service of the Milan and Campoverde production plants, as well as the reporting on the Group's foreign plants, specifically focusing on the management of the pandemic;
- It examined the results of compliance checks with certain protocols forming part of the Organisational Model pursuant to

Italian Legislative Decree no. 231/2001 on environmental and occupational safety issues;
- It examined the updated materiality matrix and sustainability plan, including the targets to be submitted to the Board of Directors for the purpose of the 2020 consolidated non-financial statement;
- It started the preliminary analysis - before assigning the relevant competence to the Remuneration Committee (subsequently, the Remuneration and Nominations Committee), sharing with the latter its initial assessments - of the proposed 'contingency plan' for the Chief Executive Officer and the Director responsible for the internal control and risk management system containing, in the event of early cessation from office or impediment, even temporary, to the performance of their functions, the guidelines of the succession process aimed at management continuity in the short-medium term;
- it examined the new 2020 Corporate Governance Code in order to support the formulation of application proposals to the Board of Directors, to the extent of its competence, and, subsequently, it also proposed to the latter the adjustment of its organisational regulations;
- it started the preliminary analysis - before assigning the relevant competence to the Remuneration Committee (subsequently, the Remuneration and Nominations Committee), sharing with the latter its initial assessments - on the methods for carrying out the self-assessment process of the Board of Directors and its committees in view of future assessment processes.

Finally, as already mentioned, the Risk, Control and CSR Committee, which acts as the Committee for Related-Parties Transactions in accordance with the Recordati Procedure for Related-Parties Transactions, was immediately involved in order to participate, from the preliminary phase, in the assessment of the most significant related-party transaction 'Reverse merger of Fimei S.p.A. and Rossini Investimenti S.p.A. into Recordati S.p.A.'.
Brief information on that transaction and on the activities of the Committee in that regard may be found on page 193 of this Report.
For further information on the terms and procedures for performing the Merger, please refer to the Merger Plan, the Information Document and the Explanatory Reports, published on the website www.recordati.com (in the 'Investors' area, section 'Shareholders' Meetings - Reverse Merger into Recordati S.p.A. 2020/2021') and on the authorised storage mechanism 1Info https://www.1info.it

Meetings of the Committee were properly minuted.

The Committee had access to the information and Company functions that were necessary for the performance of its duties; it did not consider it necessary to make use of outside consultants.

The Board of Directors approved a specific budget for the Risk, Control and CSR Committee for 2020 in order to provide it with adequate financial resources for the performance of its duties.

10. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Internal Control and Risk Management System, which is based on the Enterprise Risk Management (ERM) approach, consists of a structured process of risk management in line with international best practice and in accordance with the primary requirements of applicable laws and regulations. The goal of the Internal Control and Risk Management System is to guide activities in line with company objectives while promoting informed decisions and ensuring the efficiency and efficacy of internal processes and the reliability of financial information and compliance with applicable laws and regulations.

The principles underlying the Company's risk management processes are based on the Borsa Italiana Corporate Governance Code.

The internal control and risk management system permeates the whole Company, involving a variety of staff with specific roles and responsibilities.

The Group has developed - also with the support of the consulting firm Deloitte S.p.A. - its own Risk Map of the Company, which is kept constantly updated, in order to better identify the risks associated with the achievement of the strategic objectives of the Three Year Plan in force, also with a view to promoting mid- to long-term sustainability and, in general, in order to identify and manage the main internal and external risks of the Group in the most efficient way.

The updating process of the Risk Map of the Company allows it to measure and control the level of exposure of all Group Companies to the various risk factors, as well as to manage overall exposure and implement controls and procedures that are able to reveal anomalous situations. The main risk factors to which the Group is exposed may be related to the external context, strategic and operational risks (including in relation to Research and Development, environment risks, health and safety risks, and pharmacovigilance risks), financial risks, and legal and compliance risks[9].
The Group periodically reassesses the Risk Map throughout the year, usually during the meeting called to approve the budget for the following financial year including by way of a bottom-up approach to the critical assessment of risks, in conjunction with significant company events, such as the definition of the budget, the revision of organisation charts, and other events that could have an impact on the Company's risks. In addition, Recordati updates its Risk Map in conjunction with the approval of extraordinary transactions, such as acquisitions of new assets that are considered significant.

As already mentioned in this Report, during 2020, Recordati updated its Risk Map on several occasions: at the beginning of October 2020 at the time of a project for a transaction for the acquisition of rights over products considered significant and, finally, at the time of the approval of the 2021 budget, at the Board of Directors' meeting held on 17th December 2020.

Furthermore, in a meeting held on 22nd February 2021, further to the opinion in favour by the Risk, Control and CSR Committee, the Board approved the adjustment of the guidelines for the internal control and risk management system of the Company and the Recordati Group, on the basis of the Board's resolutions in compliance with the 2020 CG Code; it should be noted that the purpose of these guidelines is to ensure that the principal risks to which the Company and its subsidiaries are exposed are correctly identified and adequately measured, managed and monitored.

The heads of each department are responsible for designing and managing the Internal Control and Risk Management System and for monitoring its effective functioning on the basis of the guidelines approved by the Board of Directors.

9 For more information, see the section 'Main Risks and Uncertainties' of the 2020 Consolidated Financial Statements of the Recordati Group.

The Board of Directors positively assessed the adequacy, effectiveness and actual functioning of the internal control and risk management system on the basis of information provided in meetings in the form of reports presented by the Internal Risk, Control and CSR Committee and by the ODV (231 Compliance Body) pursuant to Italian Legislative Decree no. 231/01.

With respect to reporting on breaches of applicable regulations, of the Code of Ethics and of internal procedures, the Company has for some time established special whistleblowing channels in place in all Group branches. In the course of 2020, these existing whistleblowing channels were strengthened by extending the existing whistleblowing web portal to all Group branches.

The structural components of the internal control and risk management system consist of: the Code of Ethics, which defines the principles and underlying values of the Company's ethical code and the rules of conduct that are based on those principles; the system of powers and delegations with general and specific authorisations and the internal delegation of powers, according to the responsibilities assigned; corporate operating procedures; IT systems to support both management and production activities and also accounting and financial processes. With regard to compliance, since April 2003 the Issuer has had an organisational model in place pursuant to Italian Legislative Decree no. 231/2001 on administrative liability of companies, which is continuously updated and also a control model pursuant to Italian Law no. 262/2005 for financial reporting (further information is given below on the 'Risk management and internal control systems in relation to financial reporting').

The control mechanisms described above are monitored by management, by the functions and bodies of management and control (i.e., the Board of Directors; the Risk, Control and CSR Committee; the Board of Statutory Auditors; the executive director responsible for the internal control and risk management system; and the ODV (231 Compliance Body)) and involve all personnel of the Recordati Group. The Group's Auditing & Compliance function also conducts the independent audits called for under the annual audit plan. The results of these audits are reported to the Chair and Chief Executive Officer, the executive director responsible for the internal control and risk management system, and to company management, as well as periodically to the Board of Statutory Auditors, the Risk, Control and CSR Committee, and the Board of Directors.

10.a) Principal characteristics of the risk and internal control management system in relation to the financial reporting process.

The internal control and risk management system, as just defined, covers financial reporting which forms an integral part of it, the preparation of which is governed by organisational procedures and instructions which ensure compliance with the general principles of control laid down by the Issuer (*e.g.*, a proper separation of functions, a proper system of authorisations and powers, checks and balances, accountability, etc.). It is based on the main established reference models (*e.g.*, CoSO Report) being subject at the same time to verification and periodic update by means of a review of the risks to which the Company is exposed.

A description is given below, in accordance with the regulations in force, of the characteristics of the system adopted, with particular reference to (a) the stages of the risk and internal control management system in relation to the financial reporting process and (b) the roles and functions involved and the procedures for co-ordination between the parties involved.

(a) The stages of the risk and internal control management system in relation to the financial reporting process

The Issuer has implemented a model for the administrative and accounting control of the system (hereinafter also the '262 Control Model') for some time now in order to ensure the effectiveness of that system. It has also assigned responsibility for verifying proper application of that model and for monitoring the functioning and adequacy of the Internal Control System in relation to the model to the Financial Reporting Officer. The 262 Control Model consists of a set of corporate rules and procedures designed to enable objectives of reliability, accuracy, completeness and promptness in financial reporting to be achieved by identification and management of the main risks attached to the preparation and disclosure of financial information.

The 262 Control Model consists of
- administrative and accounting risk assessment;
- administrative and accounting manuals and procedures,

which are closely related to one another and are subject to continuous update and periodic assessment.

More specifically, administrative and accounting risk assessment is a continuous process of identifying and assessing risks attached to accounting and financial information and it is performed by the Financial Reporting Officer with the support of the Chief of the Internal Audit Function.
This process is performed annually by means of:
- the identification, by means of quantitative (size) and qualitative (importance) criteria, of items in the financial statements and in financial information which may be highly sensitive and significant or involve risks of error or omission, with reference to the financial statements of the Parent Company or to the consolidated financial statements of the Group;
- the identification of the relative processes and accounting information input for each significant item of the financial statements and of financial information and of the relative controls to manage the risks identified.

If control activities are not found to be adequately documented or regulated in relation to risk areas identified following periodic risk assessment, the function responsible for the process shall provide adequate support documentation, with the support of the Financial Reporting Officer and, if necessary, the Chief of the Internal Audit Function, to enable the existing controls in the area subjected to analysis to be assessed.

When risks were identified as a result of annual risk assessment activities, the Company and the Group put procedures, protocols and documents in place to control administrative and accounting activities. The body of the administrative and accounting manuals and procedures is comprised of the following principal documents:
- the Group Accounting and Reporting Manual, designed to ensure the application of uniform criteria in the Group with regard to the recognition, classification and measurement in the accounts of operating and financial events;
- a system of internal certification by the management and administrative chiefs (CEO and Financial Controller) of the subsidiaries of the Recordati Group with regard to the accuracy, reliability and completeness of accounting information and its compliance with Group accounting policies and local regulations. This system, set out in the Group Accounting and Reporting Manual, is designed, amongst other things, to support the signing of certifications and attestations required by law of the Financial Reporting Officer and of the Chief Executive Officer;

- administrative and accounting procedures and protocols for closing accounts at the end of accounting periods (or 'Financial Closing Protocols') and preparing annual financial statements and reporting packages which define control responsibilities, activities and rules to follow for the administration and accounts of the Parent Company and its subsidiaries;
- procedures for preparation of the consolidated financial statements which regulate the operations and controls to be performed for the preparation of the consolidated financial statements, describing, amongst other things, the activities to be performed in the consolidation IT system adopted by the Group and used in its subsidiaries and which define the responsibilities of the various functions for the proper functioning of that system;
- calendar of end of period activities: a document which is updated and distributed monthly, which gives deadlines for the process of closing accounts and preparing financial statements, reporting packages and the consolidated financial statements;
- operational procedures which define the activities, responsibilities and management operations in terms of authorisation, implementation, control, official approval and recognition in the accounts for those accounting and reporting areas considered significant, in co-ordination with annual accounting and administrative risk assessment. Those responsible for the functions and for the subsidiaries involved in the process of preparing and managing accounting and financial information are responsible for the proper functioning and update of the administrative and accounting internal control system in relation to all the processes and accounting reporting under their control and they must constantly monitor those administrative and accounting procedures in order to ensure that they are properly applied and appropriate to the existing processes;
- tables of administrative and accounting controls, which describe the control activities implemented in each administrative and accounting process in relation to the risk identified and the related control objectives and which summarise the results of control testing activities performed by the Internal Audit & Compliance Function. The controls described by those tables represent the application of control principles described in administrative and accounting control procedures. These tables are therefore used as a tool for the identification of the key controls in place, specific to each significant process, and for the identification of tests to be performed to assess the adequacy of the administrative and accounting internal audit system. These tables are constantly updated by the Internal Audit & Compliance Function.

The Financial Reporting Officer appointed to prepare corporate accounting documents assesses and testifies to the adequacy of the 262 Control Model, which is the administrative and accounting internal control system just described and to the proper functioning of the procedures in place at least twice annually, when the interim half year and annual financial statements (consolidated financial statements of the Group and separate financial statements of the Parent Company) are approved. He is supported by the testing activity performed by the Group Internal Audit & Compliance Function designed to assess the adequacy of the design and proper implementation and operational effectiveness of the controls in place.

Independent testing is performed continuously throughout the year on the basis of the Annual Audit Plan drawn up by the Chief of Group Audit & Compliance. The results of testing activities, assessments of possible areas for improvement and the relative corrective action are officially published in an annual report addressed to the Chief of Group Audit & Compliance, the Financial Reporting Officer and the CEO.

The Financial Reporting Officer is also responsible for monitoring the administrative and accounting internal control system on the basis of information received from the chiefs of corporate functions and reports on the activities performed by the Internal Audit & Compliance Function, in order to ensure that the body of procedures is updated and that the controls identified by means of the administrative and accounting procedures are actually implemented.

(b) Roles and functions involved in the system for the management of risks and internal control in relation to the financial reporting process

The roles involved with specific reference to financial reporting processes are: the Board of Directors, CEO, the Chief of Group Audit & Compliance, the Risk, Control and CSR Committee and the Financial Reporting Officer and the Director responsible for the internal control and risk management system.

The Financial Reporting Officer in conjunction with the CEO is responsible for putting adequate administrative and accounting procedures in place for the preparation of the separate Parent Company and consolidated financial statements.

The Board of Statutory Auditors is also called upon to perform the functions assigned by the current regulations to the **Committee for internal control and accounting audit** ('CICAA'), established by Italian Legislative Decree no. 39/2010 (so-called "consolidated law on statutory audits"), implementing Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, and therefore oversees the financial information process, on the effectiveness of the internal control, internal audit and risk management systems, the revision of the annual accounts and consolidated accounts, and the independence of the auditing company. Further information is given in Section 13 on the Board of Statutory Auditors.

10.1 DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

On 29th October 2020 (and previously on 5th February 2019), at the time of adhering to the 2020 CG Code, the Board of Directors, with the support of the favourable opinion of the Risk, Control and CSR Committee, confirmed the appointment of Mr Fritz Squindo, Group General Manager, as Executive Director responsible for the internal control system, confirming, therefore, the assignment of the tasks referred to in Recommendation no. 34 of the new 2020 CG Code, despite the fact that the latter recommends that the CEO be identified as the director responsible for establishing and maintaining the internal control and risk management system.

It is therefore highlighted that this is a case of non-compliance with the 2020 CG Code; in relation to the reasons for this decision, it should be noted that it takes into account the particular characteristics of Mr Squindo's role with reference to the following aspects: a) in-depth knowledge of the group both at business and organisational level; b) his supporting role to the CEO in determining the Group's strategies and objectives; c) the organisational reporting to Mr Squindo of the ESG manager (taking into account that the 2020 CG Code recommends that sustainability objectives be integrated into the internal control and risk management system).

Duties

The Director responsible for the Internal Control and Risk Management System, with the assistance of the Chief of the Group Audit&Compliance:

a) is responsible for identifying the main corporate risks, taking account of the characteristics of the activities performed by Recordati S.p.A. and its subsidiaries, with particular attention to strategically relevant companies, and periodically submits them to the Board of Directors for examination;
b) implements the guidelines defined by the Board of Directors, monitoring the structuring, implementation and management of the Internal Control and Risk Management System and constantly checking its adequacy and effectiveness;
c) takes care of the adaptation of the Internal Control and Risk Management System to the dynamics of the operating conditions and the legislative and regulatory framework;
d) may entrust the Group Internal Audit Function with the task of carrying out checks on specific operational areas and on compliance with internal rules and procedures in the performance of corporate transactions, simultaneously notifying the Chair of the Board of Directors, the Chief Executive Officer (if not identified as the latter person), the Chair of the Risk, Control and CSR Committee and the Chair of the Board of Statutory Auditors;
e) promptly reports to the Risk, Control and CSR Committee (or to the Board of Directors) on problems and critical issues that have arisen in the performance of its activities or of which it has become aware, so that the Committee (or the Board of Directors) can take the appropriate measures.

Activities carried out in 2020

The Director Responsible for supervising the functionality of the internal control and risk management system during 2020:

- has identified, with the help of the Chief of Group Audit & Compliance, the principal business risks, taking account of the characteristics of the activities undertaken by the Company and by its subsidiaries. In detail, he has completed the update of the Recordati Risk Map relating to the 2020 financial year (again with the assistance of the outside company Deloitte S.p.A.) of which he informed the Risk, Control and CSR Committee and the Board on several occasions during 2020;
- has implemented the guidelines defined by the Board and, with the assistance of the Chief of Group Audit & Compliance and other competent functions within the Company, has designed, constructed and managed the internal control and risk management system, while constantly checking its adequacy and effectiveness;
- has brought the system, again with the help of the Chief of Group Audit & Compliance and other competent functions within the Company, into line with changes in operating conditions and in the legislative and regulatory framework.

10.2 CHIEF OF THE GROUP AUDIT & COMPLIANCE FUNCTION

It is the responsibility of the Board of Directors, upon the proposal of the Risk, Control and CSR Committee, to appoint and remove the chief of that function, and also to ensure that he has adequate resources to carry out the relative functions and to set the remuneration consistent with Company policies.

The Group Audit & Compliance Department, headed by Mr Giovanni Minora, is not responsible for any operational area whatsoever and reports hierarchically from 20 December 2012 to the Board of Directors; the ordinary management of employment relationships has been assigned to the Chair, also following the appointment of the new Chair on 29th October 2020. The Chief of the Group Audit & Compliance Function is also in charge of internal control pursuant to article 150 of Italian Legislative Decree no. 58/1998, as confirmed by the Board of Directors, most recently on 5th February 2019.

When he was appointed, the Board, having consulted with the Risk and Control Committee (as named at the time), assessed the appropriateness of the remuneration paid to the Chief of Group Audit & Compliance as an employee of the Company with respect to the Company's policies.

Duties

The duties of the Chief of Group Audit & Compliance are as follows:

- to oversee, both on a continuous basis and in relation to specific needs and in observance of international standards, the functioning and the adequacy of the internal control and risk management system, by carrying out an audit plan approved by the Board of Directors, based on a structured process to analyse and set priorities in relation to the main risks;
- to prepare periodic reports containing adequate information on his activities, on the procedures employed to manage risks and on compliance with the plans drawn up to mitigate them. These periodic reports contain an assessment of the appropriateness of the internal control and risk management system;
- also, upon request by the Board of Statutory Auditors, to promptly prepare reports on events of particular importance;
- to submit periodic reports to the Board of Statutory Auditors, the Risk Control and CSR Committee, the Board of Directors, the Director responsible for the internal control and risk management system and the CEO, except where the subject matter of such reports specifically concerns the activities of such bodies;
- as part of the audit plan, to oversee the reliability of IT systems, including those responsible for bookkeeping.

For the purposes of the above the Chief of Audit & Compliance has direct access to all information useful for performing his/her duties.

Furthermore, the Chief of Group Audit & Compliance:

- explains the proposed annual work programme to the Risk, Control and CSR Committee in order to implement any recommendations that the Committee may intend to make;
- assists the Executive Director responsible for overseeing the functionality of the internal control and risk management system with the design, management and monitoring of the internal control and risk management system and with the identification of the various risk factors;
- schedules and carries out, consistent with the annual work plan, direct and specific audit activities at Recordati S.p.A. and at all the subsidiaries, with particular regard to companies of strategic importance, in order to detect any failings there may be in the internal control and risk management system, in the various risk areas.
- checks that the rules and procedures for auditing and risk management processes are observed and that all individuals involved act in accordance with the predetermined objectives;
- carries out checks on his own initiative or at the request of the Board of Directors, the Risk, Control and CSR Committee, the Executive Director responsible for monitoring the functionality of the internal control and risk management system or the Board of Statutory Auditors.

Activities in 2020

In detail, during the course of the Financial Year and in meetings of the Board of Directors already held in 2021, the Chief of Group Audit & Compliance:

- explained the annual work programme and the organisational structure of his function to the Risk, Control and CSR Committee;

- had direct access to all the necessary information to carry out his role;
- carried out direct and specific auditing tasks, in a manner consistent with the annual work plan;
- reported to the Executive Director responsible for monitoring the functionality of the internal control system on the results of the auditing activities undertaken during the Year;
- reported on his actions and on the results of the activities undertaken to the Risk, Control and CSR Committee and to the Board of Statutory Auditors of the Company.

The Chief of Group Audit & Compliance had an operating budget which was used to carry out the audits and checks performed during the Financial Year.

The Board of Directors was informed by the Risk, Control and CSR Committee of the organisational structure of the Group Audit & Compliance Function and it agreed with the assessment of its adequacy in carrying out the responsibilities assigned to it and drawing up the audit plan approved for 2020.

10.3 ORGANISATIONAL MODEL PURSUANT TO ITALIAN LEGISLATIVE DECREE 231/2001

All the Italian companies of the Recordati Group (Recordati S.p.A., Innova Pharma S.p.A., Recordati Rare Diseases Italy S.r.l., Italchimici S.p.A. and Natural Point S.r.l.) adopted their own model of organisation, management and control as envisaged under Italian Legislative Decree 231/2001 concerning the administrative liability of organisations. More specifically, Recordati, the Group Parent, adopted its model in 2003, with the latest update in 2020.

In accordance with Confindustria guidelines, the organisational models of the Italian companies of the Recordati Group are dynamic, effective mechanisms as a result of constant monitoring and updating by the Supervisory Bodies. The organisational models call for specific, confidential channels for the reporting of violations or other anomalies by employees and periodic personnel training on the content of Italian Legislative Decree no. 231/2001 and of the organisational model. The ODV (231 Compliance Bodies), which have been appointed within the Group's Italian companies, are boards comprising of the Chief of the Internal Audit & Compliance and outside experts. Each ODV (231 Compliance Body) has its own internal regulations and operate in accordance with a specific programme. The ODV (231 Compliance Bodies) also periodically report to the Board of Directors and the Board of Statutory Auditors.

In particular, the ODV (231 Compliance Body) of Recordati S.p.A. appointed by the Board of Directors on 29th April 2020, is composed of the external members, Prof. Silvano Corbella, Chair and Mr Andrea Scafidi, lawyer, and the internal member Mr Giovanni Minora, Group Audit & Compliance Manager.

During 2020, in the Group's Italian companies, special training on Code of Ethics and Models pursuant to Italian Legislative Decree no. 231/01 was provided to all personnel, for a total of 1,100 employees.

For the subsidiaries located abroad, policies with a function similar to those of the organisational model pursuant to Italian Legislative Decree no. 231/01 adopted by the Company have been implemented or are being implemented, where considered necessary based on local laws and regulations.

In particular, on 14th March 2018 Spanish subsidiary Casen Recordati adopted a Management and Control Organisational Model in compliance with Ley Organica 2015/1 of 30th March 2015 which introduced in the Spanish criminal code some relevant changes concerning the criminal liability of legal persons. This law, in relation to the conditions for the exemption from administrative liability for legal persons, borrowed the legislative structure envisaged in Italy by Italian Legislative Decree no. 231/01. The model adopted by the Spanish subsidiary therefore has a similar approach to the 231 Models adopted by the Italian companies of the Group. Also, in the Spanish subsidiary, a collective ODV (231 Compliance Body) has been appointed and is operative, as required by best practices. In 2020, the ODV (231 Compliance Body) of the Spanish subsidiary met periodically.

In 2012, the Board of Directors, assisted by the Risk and Control Committee (as named at the time), had also assessed whether to assign to the Board of Statutory Auditors the functions of the ODV (231 Compliance Body) (pursuant to Italian Legislative Decree no. 231/2001 in accordance with Italian Law No. 183/2011 – the 2012 'Stability' Law), and decided in favour of Recordati continuing to maintain a ODV (231 Compliance Body) as a separate highly specialised unit, dedicated entirely to the supervision of ethical, preventative, organisational and management procedures adopted to prevent incurring liability within the meaning of Italian Legislative Decree no. 231/2001 and therefore with specific expertise on compliance with a particular area of law which applies to the Company. These functions were not therefore assigned to the Board of Statutory Auditors.

The Organisation, Management and Control Models adopted by the Group's Italian companies, pursuant to Italian Legislative Decree no. 231/2001, are constantly monitored by the ODVs (231 Compliance Bodies) in charge.

The Models are subject to constant updating both for the introduction or updating of the regulations of interest and for organisational changes or internal processes. The updates concern the General part of the Model, with adjustments to risk mapping, the disciplinary system and other general elements and the Special part of the Model, made up of control and behavioural protocols.

The Models consist of a general part and a specific part, arranged into different sections. The general part includes, inter alia, the Code of Ethics, the Disciplinary System and the By-Laws of the ODV (231 Compliance Body). The specific part includes, *inter alia*, a 'map' of the areas where the risk of offences is more marked and a significant number of 'protocols'' through which measures are put in place to prevent offences being committed in the areas identified in the map.

A presentation of the Model adopted by the Company is available on the Company's website at http://www.recordati.it/en/corporate_governance/compliance_programmes/.

10.4 CODE OF ETHICS

The Code of Ethics, approved by Recordati S.p.A. for the first time in 2002 and constantly updated and supplemented, is a clear embodiment of the Company's corporate values.

During 2020, the Group approved a new version of its Code of Ethics. This update was guided by the Recordati Group's desire to further increase the accessibility and usability of that document and was achieved by means of meticulous drafting and critical revision by an internal inter-functional team, supported by external specialists as well as by the ODV (231 Compliance Body) of Recordati S.p.A..

The new version of the Code of Ethics, approved in July 2020 by the Board of Directors of Recordati S.p.A., defines Recordati's fundamental values which guide and support the Group in its daily operations and in its relations with both its internal and external stakeholders.

The Code of Ethics also describes the responsibilities of all those to whom it is addressed, both internal and external to the Group, and defines 'shared commitments', *i.e.*, those forms of conduct through which Recordati's values are put into practice. This section includes information on:

- **How we manage our business,** *i.e.*, guidelines concerning:
  - Ethical and legally compliant behaviour
  - Product quality and safeguarding health
  - Commitment to environmental protection and sustainable development
  - Conflicts of interest and asset protection
  - Accounting transparency, confidentiality of information, personal data and social media
- **People and workplaces,** *i.e.*, indications concerning:
  - Protection of employees
  - Fairness, equality and protection of human rights
  - Health and safety in the workplace
- **Relations with our stakeholders.**

The Code is adopted by all Group companies and applies to all employees, shareholders, directors, members of corporate bodies, commercial partners and other third parties with whom the Group cooperates, such as consultants, intermediaries, agents and contractors, clearly defining the Company's expectations regarding ethical standards and behaviour.

The Code is therefore a point of reference for all Recordati's stakeholders and it represents the Group's commitment to conducting its business and managing its internal and external relations in an ethical and sustainable manner.

The Code is based on the main existing regulations and guidelines on corporate governance, human rights and the environment, such as, for example, the United Nations Universal Declaration of Human Rights, the Charter of Fundamental Rights of the European Union, the decent work standards laid down by the ILO (International Labour Organisation) conventions, the OECD (Organisation for Economic Co-operation and Development) Guidelines for multinational companies, national and supranational Anti-Bribery regulations (*e.g.*: OECD Anti-Bribery Convention, Italian Legislative Decree no. 231/2001, Foreign Corrupt Practices Act, Bribery Act, Loi Sapin 2, Ley Organica, etc.) and ISO 14001 environmental standards.

The new version of the Code of Ethics defines the procedures for reporting infringements (whistleblowing) and provides information on how to handle such reports.

The Code of Ethics has been published on the Recordati Group's website, in order to ensure that it is widely distributed and accessible, and can be consulted at the following link: https://www.recordati.com/en/corporate_governance/compliance_programmes/.

In order to facilitate the dissemination and understanding of the principles contained in the Code of Ethics, a training programme has also been commenced for all employees of the Group and for external persons who, although not employees of the Recordati Group, perform activities on an ongoing basis in the name and on behalf of the Recordati Group.

The Recordati Group's Anti-Bribery Model

Because of our international reach, the Recordati Group is present in a diverse range of social, cultural, economic and political contexts and is responsible for acting in accordance with applicable laws based on an awareness that any act of corruption would compromise the integrity of the business would jeopardise the organisation and would expose the company to legal and financial risks and risks to the company image.

The Group is firmly committed to conducting business transparently, honestly and ethically in every nation in which we operate, and we reject all forms of corruption, aware of the potential risks deriving from numerous relations with government that are typical of the industry in which the Group operates.

To that end, since 2009, the Group has been conducting an assessment of the status of internal mechanisms in accordance with the main international and supranational anti-bribery laws and regulations in the countries in which we have branches

The Group's anti-bribery programme involves the employees of both the Parent Company and of the various branches and is made up of four stages:

1. assessment of local and supranational legislation;
2. assessment of the local systems, procedures and models to protect against corruption;
3. analysis of inherent risks and of existing mechanisms for identifying residual risks;
4. definition and release of the Group's Anti-Bribery Model.

Based on the documentation and information gathered, various areas of the organisation potentially exposed to a risk of corruption were identified, and the principles of conduct to avoid corruption have been defined for these areas. Based on this analysis, an Anti-Bribery Manual for the Group has been implemented.

During 2019, the Group Anti-Bribery Manual was revised. The manual was updated with new areas of attention, with new explanatory examples and new behavioural guidelines. The Manual, in its updated version, contains 16 business areas potentially exposed to the risk of corruption and, for each of them, specific principles of conduct have been formulated to avoid cases of corruption.

The 16 areas most exposed to corruption risk are the following: Research and Development; Production; Relations with doctors and healthcare organisations; regulatory activities; transactions with government; consulting; medicine samples; courses and conferences; marketing material; contributions and donations; financial transactions; Human Resources, relations with politicians and political organisations, purchasing management, relations with public administrations and management of agency costs.

During 2020 the Manual was distributed again to all of the Group's subsidiaries.

During 2020, training sessions dedicated to ethics and anti-corruption were provided to a total of 3,774 employees, of whom 1,116 in the Italian branches and 2,658 in the Group's foreign branches.

With regard to communication and training on the issues of corruption and on the contents of the Group Anti-Bribery Manual, in 2019 all members of the Board of Directors of Recordati S.p.A. received communication on the policies and procedures adopted through periodic reporting by the Chief of Group Internal Audit & Compliance.

Other models of control and adoption of national codes of ethics

The systemic approach of the model of organisation, management and control defined under Italian Legislative Decree no. 231/2001 may also be found in other models in other areas of the company, such as within the scope of health and safety in the workplace, environmental management, and data protection.

Regarding data management and privacy, the Recordati Group has conformed to the new General Data Protection Regulation (No. 2016/679, hereinafter 'GDPR').

The Group companies have adopted the measures envisaged by European regulation with the introduction of a privacy management model and of new rules and business processes, both at the group level and at the local level. On the organisational front, the Company has appointed a Data Protection Officer and a Key Privacy Person in each subsidiary concerned. With regard to the processes and operating rules, Group policies are in place for the management of personal data, from which local procedures adopted by the various European branches derive.

The Recordati Group also adheres to the codes of self-regulation issued by industry associations that oversee activities related to detailing activities. A large portion of the Group's branches has adopted the codes of ethics defined by their local pharmaceutical associations. These codes of conduct are based on the European Federation of Pharmaceutical Industries and Associations (EFPIA) code, which establishes the ethical standards for European pharmaceutical firms for the management of detailing activities and relations with the medical community.

Within the scope of involvement with the industry associations and adoption of their codes of ethics, the branches are taking specific action aimed at maximising transparency in their management of relations with the medical and scientific community. This includes Project Transparency (and publication of the 'Transfers of Value' for healthcare organisations and operators) and the certification of detailing procedures. This disclosure is provided by many of the Group's companies, in compliance with legal rules (such as those that apply in France, Portugal and the USA) and with ethical standards (in addition to Italy, Spain, Germany and others).

10.5 AUDIT FIRM

EY S.p.A. is the firm of external auditors appointed to audit the Company for 2020. The appointment was formally made by a Shareholders' Meeting on 29th April 2020 for the financial years 2020-2028, as proposed by the Board of Statutory Auditors.

Indeed, with the approval of the financial statements for the 2019 financial year the engagement previously conferred to KPMG S.p.A. for the financial years 2011 – 2019 ended.

For further information on the engagement conferred by the Shareholders' Meeting to EY S.p.A., please refer to the Shareholders' Meeting documentation available on Recordati's website in relation to the Shareholders' Meeting of 29th April 2020.

10.6 THE FINANCIAL REPORTING OFFICER

From 3rd May 2007 and until 18th March 2020 the role of the Financial Reporting Officer is entrusted to Mr Fritz Squindo, General Manager for the coordination of management and CFO until 1st November 2019 and, subsequently, Group General Manager. On 18th March 2020, after receiving the opinion of the Risk, Control and CSR Committee and the Board of Statutory Auditors, upon proprosal of the Chief Executive Office, the Board of Directors appointed, as Financial Reporting Officer, Mr Luigi La Corte, the new Group CFO with effect as from 1st November 2019.

Already during the appointment, it was confirmed that he satisfied the requirements of integrity and professionalism laid down in the applicable legislation and in the Company's By-Laws, which stipulate, in article 25, that the Financial Reporting Officer must not only satisfy the requirements of integrity laid down by law for those performing administrative and managerial duties but also the requirements of professionalism characterised by specific competence in administrative and accounting matters. This competence, to be verified by the Board of Directors, must be acquired through working experience in a position of adequate responsibility over a suitable period of time.

The Financial Reporting Officer is given duties and powers to perform that assignment also with reference to the provisions of the operational guidelines for the Financial Reporting Officer, lastly approved, on 18th March 2020, by the Board of Directors updating those previously adopted since 2007.

10.7 CO-ORDINATION BETWEEN THOSE INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Company has specified the roles and responsibilities of those involved in the internal control and risk management system in detail, in the guidelines for the internal control and risk management system of Recordati S.p.A. and of the Recordati Group and also the procedures for co-ordination between the parties involved.

In this respect, the Company encourages meetings between the different roles involved in order to exchange information and to co-ordinate. As already reported, the entire Board of Statutory Auditors in particular is constantly invited to participate in the proceedings of the Risk, Control and CSR Committee and also the Director Responsible for the internal control and risk management system, the Chief of Group Audit & Compliance, the ODV (231 Compliance Body) pursuant to Italian Legislative Decree no. 231/01, the Group CFO and the Financial Reporting Officer as well as senior representatives of the external audit firm have participated in various meetings on invitation of the Chair of the Committee and on individual items on the agenda.

The Board of Statutory Auditors of the Company and the ODV (231 Compliance Body) pursuant to Italian Legislative Decree no. 231/01 have organised and held joint meetings during the year for the same purposes of co-ordination on matters of common interest.

Finally, the Board of Statutory Auditors meets periodically with the Financial Reporting Officer, the external auditors and the various corporate functions involved in the processes and procedures that must be subject to specific audit by the Board of Statutory Auditors, including those relating to the internal control and risk management system.

10.8 REGULATIONS FOR CONTROLLED FOREIGN COMPANIES LOCATED IN NON-EU COUNTRIES

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 2020 the regulatory provisions of article 15 of the Markets Regulations have applied to the Turkish subsidiary Recordati Ilaç Sanayi Ve Ticaret Anonim irketi, to the American subsidiary Recordati Rare Diseases Inc, to the Russian subsidiary Rusfic Llc and to the Swiss subsidiary Recordati AG.
With reference to those companies, the Company:

- publicly discloses its financial statements used for preparing consolidated financial statements;
- ensures that they regularly deliver information to the external auditor of the Parent Company needed to audit the annual and interim accounts of the Parent Company itself.

Finally, the Company possesses continuous knowledge of the composition of the corporate bodies of the controlled companies with information on the company officers and on the corporate by-laws of the companies.

11. DIRECTORS' INTERESTS AND RELATED-PARTY TRANSACTIONS

Subject to the favourable opinion of the Risk and Control Committee (now the Risk, Control and CSR Committee) identified as the Committee Responsible pursuant to article 4 paragraph 3, of Consob Regulation no. 17221 of 12th March 2010, in a meeting held on 24th November 2010, the Board adopted 'Regulations for related-party transactions' in accordance with article 2391-*bis* of the Italian Civil Code and with the aforementioned Regulations to replace the 'Procedure for significant transactions with related parties or when a Director has an interest in the transaction' adopted in 2008.

The Regulations for Related-Party Transactions (the full text is available on the Company website at http://www.recordati.it/en/corporate_governance/related_parties/regulations_for_related-party-transactions) in force since 1st January 2011, defines the guidelines and the criteria for the identification of related-party transactions and gives details of the roles, responsibilities and operating procedures designed to ensure adequate reporting transparency and the relative proper conduct in form and substance for those transactions. The Company has also issued internal rules in order to ensure that the Regulations are fully implemented.

At the beginning of 2017, the Board therefore carried out a periodic review of the Related Party Transactions Regulations, three years having passed since it was last updated and, having taken note of the opinion given by the Risk and Control Committee (now the Risk, Control and CSR Committee), it considered that those Regulations were still adequate, not requiring substantial modifications, but only modifications of a formal nature.

The following was performed on the basis of these Regulations:

- the Risk and Control Committee (now the Risk, Control and CSR Committee) was identified as the Committee Responsible for issuing a reasoned opinion on both transactions of Major Importance and transactions of Minor Importance, except for related-party transactions concerning remuneration, for which the Committee Responsible would be the Remuneration Committee. As already reported both committees are composed exclusively of independent Directors;
- a related-party transaction is defined as any transfer of resources, services or obligations (i.e., any contractual commitment) between Recordati – either directly or through its subsidiaries – and one or more Recordati Related Parties, independently of whether any consideration has been agreed upon;
- a Recordati related-party is defined as:
  - **(a)** the parent of Recordati and its shareholders;
  - **(b)** any other party which, either directly or indirectly, including through subsidiaries, trust companies or intermediaries and/or jointly with other parties (also defined as related parties):
    - **i.** exercises Control over Recordati, is controlled by it or is subject to Common Control;
    - **ii.** holds an interest in the share capital of Recordati such that it is able to exert Significant Influence over it;
  - **(c)** an associate company of Recordati;
  - **(d)** a joint venture in which Recordati S.p.A. is a venturer;
  - **(e)** an executive with strategic responsibilities of Recordati or its parent;
  - **(f)** a close member of the family of one of the parties referred to in letters (a), (b) or (e);
  - **(g)** entity in which one of the parties referred to in letters (e) or (f) exercises Control, Joint Control or Significant Influence or holds, either directly or indirectly, a significant proportion, and in any case not less than 20%, of the voting rights;
  - **(h)** a collective or individual, Italian or foreign, supplementary pension fund, formed for the benefit of Recordati employees, or any other entity related to it, to the extent by which that fund has been formed or promoted by Recordati, or in the circumstance that Recordati may influence its decision-making processes;
- Key Manager Personnel are those persons defined as such in accordance with the legislation and regulations in force from time to time. At present these are such persons who have power over and responsibility, either directly or indirectly, for the planning, management and control of the activities of the Company, including the Directors (executive and non-executive) of the company itself, full members of the Board of Statutory Auditors, the General Managers, the Financial Reporting Officer and all those additional persons identified from time to time as such by the Board of Directors, and proposed by the Chief Executive of the Company (as at the date of this Report, eight executives of whom six are Company employees and two are employees of a subsidiary);
- Transactions of Major Importance are defined as those related-party transactions for which at least one of the relevance indicators contained in the aforementioned Attachment No. 3 of the Consob Regulations and which are applicable according to the characteristics of each related-party transaction (i.e. value of the transaction in relation to shareholders' equity or, if greater, to capitalisation; total assets of the entity involved in the transaction compared to the total assets of the Company; total liabilities of the entity acquired compared to the total assets of the Company) exceeds 5%;
- Transactions of Minor Importance are defined as those related-party transactions which are not transactions of Major Importance and not transactions of negligible amounts i.e., transactions for an individual amount of less than € 150,000.

The Regulations do not apply to:

- Transactions of Negligible Amounts unless more than one Transaction of Negligible Amounts is performed as part of a single plan, the total value of which exceeding the sum of €150,000;
- intercompany transactions provided that no Significant Interests of other related parties of the Company exist in the subsidiaries of Recordati or in associate companies of Recordati which counterparties to the transaction are. It is considered that the existence of 'Significant Interests' of other related parties could be determined by:
  - the existence of a significant amount receivable by the Chief Executive Officer of the Parent from a subsidiary;
  - one or more directors or other key manager personnel shared between companies who benefit from share-based incentive schemes (or in any case variable remuneration) dependent on the results of subsidiaries or associate companies with which the transaction is performed;
  - an interest held in a subsidiary or associate company (even indirectly) by the party that controls the parent.
- shareholders' resolutions pursuant to article 2389, first paragraph, of the Italian Civil Code, concerning the remuneration due to members of the Board of Directors and resolutions concerning the remuneration of Directors appointed to special positions which forms part of the total amount determined in advance by shareholders in accordance with article 2389, third paragraph, of the Italian Civil Code;
- shareholders' resolutions pursuant to article 2402 of the Italian Civil Code, concerning the remuneration due to members of the Board of Statutory Auditors;
- remuneration schemes based on financial instruments approved by shareholders in accordance with article 114-*bis* of the TUF and the relative transactions to implement them;
- decisions (other than those referred to under the preceding letter c) concerning the remuneration of Directors, Directors

appointed to special positions and other key manager personnel, when (i) the Company has adopted a remuneration policy (the formulation of which involved a committee formed exclusively of non-executive directors, the majority of which are independent) (ii) the Company has submitted a report which illustrates the remuneration policy to a Shareholders' Meeting for approval or a consultative vote, and (iii) the remuneration actually assigned is consistent with that policy;

- decisions, to be taken when a professional arrangement is established with Recordati, concerning the remuneration of key manager personnel, other than Directors and members of the Board of Statutory Auditors;
- transactions which fall within the ordinary performance of operating activities and the related financial activities concluded under conditions equivalent to market conditions or standards (i.e. conditions similar to those normally practiced with non-related parties for transactions of an analogous nature, magnitude and risk or based on regulated tariffs or on compulsory prices or those practiced for parties with which the Company is obliged by law to negotiate at a determined consideration). The 'ordinary performance' is identified by considering the contents, recurrence, function or purpose and timing of the transaction and also the nature of the counterparty, even if it is a related-party. Operating Activities are defined as the main revenue generating activities and all other normal activities of the Company that are not classifiable as investment or financial activities pursuant to International Financial Reporting standard seven adopted by EC Regulation No. 1126 of 2008, as subsequently amended from time to time. Should the exemption contained in this point apply, the Company is nevertheless required, without prejudice to article 114, paragraph 1, of the TUF, to comply with the provisions of article 13, paragraph 3, letter c), points i) and ii) of the Consob Regulation no. 17221 of 12th March 2010;
- demerger transactions in the strict sense of the proportional type, share issues with option rights reserved to shareholders and to any holders of financial instruments (therefore issuances which are performed without excluding their option rights) and transactions for the purchase/sale of treasury stock if performed, other conditions remaining the same, to the benefit of both related parties and all others holding rights;
- transactions to be performed on the basis of instructions for the purpose of stability issued by the supervisory authority, without prejudice to disclosure obligations under Consob Regulations.

Firstly, with regard to transactions with related parties carried out in 2020, the reverse merger of Rossini Investimenti S.p.A. and Fimei S.p.A. into Recordati S.p.A. - identified as a related-party transaction parties of major importance.
Brief information on that transaction and on the activities of the Committee in that regard is provided on page 193 of this Report.
Further information on the terms and procedures for executing the Merger may be found in the Merger Project, the Information Document and the explanatory reports published on the website www.recordati.com (in the 'Investors' section of the 'Shareholders' Meetings - Reverse Merger into Recordati S.p.A. 2020/2021') and on the authorised storage mechanism 1Info https://www.1info.it.

Reference should be made to the Company's Annual Report for information on other related-party transactions performed during the 2020 financial year.

It should be noted that on 10th June 2019, Italian Legislative Decree no. 49/2019 implementing Directive (EU) 2017/828 (SHRD II), which amends Directive 2007/36/EC (*Shareholders' Rights Directive* - SHRD) (hereinafter the '**Decree**' and the '**Directive**' respectively) on encouraging long-term shareholder commitment, was published in the Official Journal no. 134.

One of the main innovations in the transposition of the said Directive is the amendment to the legislation on related-parties.
With Resolutions nos. 21623 and 21624 of 10th December 2020, Consob amended the regulations to implement the Directive and, in implementation of the delegation contained in article 2391-*bis* of the Italian Civil Code, amended Regulation no. 17221 of 12th March 2010 on related-party transactions (the 'RPT Regulation').
Companies will have until 30th June 2021 to adapt their procedures to the new provisions, which will come into force on 1st July 2021.
The Company will proceed to update the abovementioned procedure in accordance with the above terms.

12. APPOINTMENT OF STATUTORY AUDITORS

The appointment of Statutory Auditors is governed by article 26 of the By-Laws, which is given below:

"Article 26) The Shareholders' Meeting shall appoint the Board of Statutory Auditors, comprising three statutory auditors and two alternate auditors, who may be re-elected, and shall determine their remuneration.
Their powers, duties and term of office shall be as established by law. Auditors shall satisfy the requirements laid down in current laws and regulations. As regards requirements of professionalism, the matters and sectors of activity strictly connected with that of the company are the research, production and sale of chemical and pharmaceutical products.
The minority shareholders shall elect one Statutory Auditor and one Alternate Auditor.
Unless otherwise provided for in laws or regulations, the Board of Statutory Auditors shall be appointed according to the procedures set out in the following paragraphs on the basis of slates submitted by Shareholders in which candidates are listed by means of a progressive number and in compliance with the existing legislation in force concerning gender balance.
The slate must specify whether each candidate is nominated for the position of Statutory Auditor or for the position of Alternate Auditor.
Only Shareholders individually or jointly possessing a total number of shares with voting rights representing at least 2.5% of capital stock or representing a lesser percentage as established or provided by binding legal or regulatory provisions which shall be specified in the notice of meeting, shall have the right to present slates.
Each shareholder, including shareholders who have signed a shareholders' agreement identified in article 122 of Italian Legislative Decree no. 58/1998, controlling entities, subsidiaries, and jointly controlled entities, is prohibited from individually or jointly submitting more than one slate or voting for different slates, even through a third party or trust company. Each candidate may only run on one slate on penalty of disqualification. Endorsements of slates and votes cast in violation of this prohibition shall not be attributed to any slate.
The slates submitted shall be deposited at the Company's head offices at least twenty-five days before the date scheduled for the first convocation of the Shareholders' Meeting without prejudice to further disclosure required by regulatory or other provisions in force at the time.
Without prejudice to any further procedural duty required by the legislation and also by the regulations currently in force, the following must be deposited together with each slate, within the time limit already mentioned:
a) information on the identity of the shareholders who have submitted the slates, indicating the total percentage of capital stock held;
b) a declaration by shareholders other than those who hold, singly or jointly, a controlling interest or relative majority, attesting to the absence of any forms of association with such shareholders, as provided for by the regulations in force;

c) a thorough report of the personal characteristics of candidates and a declaration from the said candidates attesting that they possess the requirements established by law, together with their acceptance of the candidature.
Slates containing a total number of candidates equal to or greater than three must be composed of candidates belonging to both genders, so that a percentage of candidates to the position of Statutory Auditor and candidates to the position of Alternate Auditor are equal to that required by the legislation in force at the time concerning gender balance for the composition of the Board of Statutory Auditors belongs to the less represented gender in a given slate.
Slates not satisfying the requirements specified above shall be considered as not having been submitted.
Statutory Auditors shall be elected as follows:

1. *from the slate which obtained the highest number of votes at the Shareholders' Meeting, two Statutory Auditors and one Alternate Auditor shall be elected, based on the progressive order with which they are listed in the sections of the slate;*
2. *from the second slate which obtained the highest number of votes at the Shareholders' Meeting and which, in accordance with regulations in force, has no connection, not even indirectly, with those who submitted and voted for the slate which obtained the highest number of votes, one Statutory Auditor, who shall chair the Board of Statutory Auditors, and one Alternate Auditor shall be elected, based on the progressive order with which they are listed in the slate.*

In the event of a tie between slates for the appointment of the Auditors indicated in point 2 of the foregoing paragraph, the slate submitted by shareholders owning the largest shareholding or, alternatively, the slate submitted by the largest number of shareholders shall prevail.
If by following the above procedures, the composition of the full members of the Board of Statutory Auditors in compliance with the legislation in force at the time concerning gender balance is not ensured, the necessary replacements shall be made from the candidates to the position of full Statutory Auditor on the slate that obtained the majority of votes on the basis of the order of the names on the slate.
Should a single slate or no slate be submitted, all candidates for that position named on the aforesaid slate or those voted by a Shareholders' Meeting (as long as they receive a relative majority of the votes cast in the Shareholders' Meeting) shall be elected as Statutory and Alternate Auditors and provided the existing legislation in force on gender balance is complied with.
Should they no longer satisfy the requirements laid down by law and in the by-laws, the auditor shall leave office.
Should it become necessary to replace a Statutory Auditor, the Alternate Auditor belonging to the same slate as the outgoing auditor shall take the latter's place or, failing this, should the minority auditor leave office, he shall be replaced by the next candidate on the slate from which the outgoing auditor was elected, or, alternatively, by the first candidate on the minority slate that obtained the second highest number of votes.
It is understood that the Board of Statutory Auditors shall continue to be chaired by the minority auditor and the composition of the Board of Statutory Auditors must comply with the existing legislation in force on gender balance.
The procedure outlined below shall be followed when the Shareholders' Meeting is required to appoint Statutory and/or Alternate Auditors to complete the board: if it is necessary to replace auditors elected on the basis of the majority slate, the replacements shall be appointed by relative majority vote without slate voting; if, however, it is necessary to replace auditors elected on the basis of the minority slate, the Shareholders' Meeting shall replace them by a relative majority vote by choosing them from the candidates on the slate from which the outgoing auditor was elected or on the slate that obtained the second highest number of votes.
Should the application of the above procedures not result in the replacement of the auditors designated by minority shareholders for whatever reason, the shareholders' meeting shall hold a relative majority vote, following the presentation of candidatures by shareholders that, individually or together with others, possess shareholdings with voting rights that represent at least the percentage indicated above in relation to the procedure for the presentation of slates. However, votes registered by shareholders who hold the relative majority of voting rights that may be exercised in the meeting as identified in disclosures made in accordance with applicable regulations, whether directly, indirectly, or jointly with other shareholders who have signed a shareholders' agreement as indicated in article 122 of Italian Legislative Decree no. 58/1998, shall not be considered in establishing the outcome of said vote.
The replacement procedures set forth in the above paragraphs must in any event ensure compliance with the legislation in force at the time concerning gender balance.
Members of the Board of Statutory Auditors may participate in meetings remotely by means of audio-visual connection, video conferencing or telephone link-up systems.
In the above case:

- *the following must always be established:*
  a) the identity of all members attending, at each point of connection, shall be confirmed;
  b) each member attending shall be permitted to express a personal opinion verbally, to view, receive or send any documentation and to participate simultaneously in the discussion of the points at issue and pass resolutions;
- *meetings of the Board of Statutory Auditors shall be considered to be held at the place where both the Chair and Secretary are located.*

The statutory audit of the Company's accounts shall be performed by the Audit Firm on the basis of applicable regulations."

It is underlined that the right to submit slates is only held by shareholders who, individually or together with other shareholders submitting slates, hold voting shares representing at least 2.5% of the voting capital in the Ordinary Meeting, or representing any lower percentage established by mandatory laws or regulations. It should be noted that In accordance with articles 144-*quater* and 144-*septies* of Consob Issuers' Regulations, according to the Consob resolution no. 44 of 29th January 2021, the minimum percentage of the share capital required to present slates of candidates to the Board of Statutory Auditors of the Company is currently 1%.
The minority slates shall elect one Statutory Auditor and one Alternate Auditor. As regards the appointment mechanism adopted for choosing the candidates on the various slates submitted, note that, again according to the above transcribed article 26 of the By-Laws, two Statutory auditors and one Alternate auditor are elected from the slate which obtained the highest number of votes in the Shareholders' Meeting, based on the progressive order with which they are listed in the sections of the slate; from the second slate which obtained the highest number of votes after the first slate and which has no connection, not even indirectly, with the shareholders who submitted or voted for the slate which obtained the highest number of votes, one Statutory Auditor, who will chair the Board of Statutory Auditors, and one Alternate Auditor are elected, based on the progressive order with which they are listed in the slate.
With regard to the rules on gender balance in corporate bodies, Italian Law no. 160 of 27th December 2019 (Budget Law 2020) amended articles 147-*ter*, paragraph 1-*ter*, and 148, paragraph 1-*bis*, of the TUF, providing for a different quota reserved for the least represented gender equal to 'at least two-fifths' (compared to previous 'at least one-third') of the members and established that this allocation criterion applies for 'six consecutive terms of office'.
According to the Budget Law 2020, the criterion of allocation of 'at least two-fifths' applies 'as from first renewal of the management and supervisory bodies of the companies listed on regulated

markets following the date of entry into force of this Law', which occurred on 1st January 2020.
Consob, by means of Communication no. 1/20, has therefore provided clarifications on the interpretation of the application, to corporate bodies composed of three members, of the rules on gender quotas, introduced by the aforementioned provisions of the TUF and which have already applied to the renewal of corporate bodies at the 2020 shareholders' meetings: since in the case of boards composed of three members, the two-fifths reserve is inapplicable due to arithmetical impossibility, Consob has clarified that for corporate bodies composed of three members only the rule of rounding down rather than upwards applies, as currently provided for in article 144-*undecies*.1, paragraph 3, of the Consob Issuers' Regulations.
It should be noted that the Company By-Laws, as from 2012, provide that the Board of Directors shall be appointed in compliance with the existing legislation in force on gender balance (and in any case on the basis of slates of candidates presented by shareholders).
Again with respect to gender balance in the bodies of listed companies, the Company also acknowledged the recommendations concerning diversity, including as regards gender, in the composition of the corporate bodies introduced in the Corporate Governance Code in July 2018: these recommendations concern the application of the one-third quota for the least represented gender in the management and supervisory bodies as from the first renewal following the termination of the effects of Italian Law no. 120 of 12 July 2011. It should be noted that the 2020 CG Code confirms these recommendations with reference to the first renewal following the cessation of the effects of legislative provisions that impose a quota equal to or greater than that recommended by the Code, while no longer providing for the specification, which the 2018 CG Code provided, that if this quota corresponds to a non-integral number, such number shall be rounded down.

Finally, we report that article 19, paragraph 3 of Italian Legislative Decree no. 39/2010, as amended by Italian Legislative Decree No. 135/2016, requires that members of the committee for internal control and the accounting audit – which for 'public interest entities' is the Board of Statutory Auditors – are competent as a whole and also in the sector in which the company operates.

13. STATUTORY AUDITORS (composition and functioning of the Board of Statutory Auditors pursuant to article 123-*bis*, paragraph 2, letters d and d-*bis*, of the TUF)

The composition of the Board of Statutory Auditors in office on the closing date of the Financial Year is shown below. The Board was appointed by the Ordinary Shareholders' Meeting of 29th April 2020 and its term of office will expire at the Shareholders' Meeting called to approve the financial statements for the year ended on 31st December 2022.

At the Ordinary Shareholders' Meeting of 29th April 2020, two slates for the position of statutory auditor were presented: one by the shareholder FIMEI S.p.A., holder of 108,368,721 ordinary shares equal to 51.82% of the Recordati S.p.A. share capital, and another, following the shareholding required in order to present a minority slate being cut in half, presented by other shareholders – SGR and institutional investors - which collectively hold 1,662,725 shares equal to 0.79509% of share capital.
In detail:
The first slate, presented by FIMEI S.p.A., named the following individuals to be members of the Board of Statutory Auditors:
Statutory Auditors
Ms Livia Amidani Aliberti
Mr Ezio Simonelli
Mr Emiliano Nitti
Alternate Auditors
Ms Patrizia Paleologo Oriundi
Mr Marco Antonio Viganò
The second slate presented by the institutional investors named the following individuals to be members of the Board of Statutory Auditors:
Statutory Auditors
Mr Antonio Santi
Alternate Auditors
Mr Andrea Balelli

As a result, and in accordance with the mechanism established to ensure female representation on the board, the following individuals were elected:

Mr Antonio Santi	Statutory Auditor and Chair
Ms Livia Amidani Aliberti	Statutory Auditor
Mr Ezio Simonelli	Statutory Auditor
Ms Patrizia Paleologo Oriundi	Alternate Auditor
Mr Andrea Balelli	Alternate Auditor

The voting share capital represented 84.016% of the share capital with voting rights of the Issuer. A total of 113,547,362 shares were in favour of slate no. 1 (63.860% of the share capital with voting rights). A total of 41,519,283 shares were in favour of slate no. 2 (19.854% of the share capital with voting rights).

The composition of the Board of Statutory Auditors complies with the criteria indicated in the applicable provisions on balance between genders and therefore at least one-third of the actual and alternate members are members of the less represented gender.

Curricula vitae providing information on the personal and professional characteristics of each candidate were attached to the slates presented by FIMEI and by institutional investors, accompanied by a list of the management and supervisory positions occupied in other companies and which are significant in accordance with the law and also by declarations made by each candidate that they accept their candidature and that there are no grounds for ineligibility or incompatibility and that they satisfy the requirements prescribed by law and in the By-Laws for the office of Statutory Auditor. The above documentation may be consulted on the website www.recordati.it (in the section Investor Relations, Shareholders' Meetings, financial year 2020).

The personal and professional characteristics of each auditor are in any case contained in Attachment 1 of this Report.

Table of the composition and structure of the board of statutory auditors as at 31 December 2020 and currently office

Office	Members (name and surname)	Year of birth	Year first appointment	In office since	In office until	Slate (M/m)	Indep. as per CG Code	Indip. as per TUF	Num. of attendances	Num. of other offices
						*			**	***
Chairman	Antonio Santi	1977	2017	29.4.2020	Approval of 2022 financial statement	m	X	X	11/11	1
Statutory Auditor	Livia Amidani Aliberti	1961	2014	29.4.2020	Approval of 2022 financial statement	M	X	X	11/11	2
Statutory Auditor	Ezio Simonelli	1958	2020	29.4.2020	Approval of 2022 financial statement	M	X	X	6/6	12
Alternate Auditor	Patrizia Paleologo Oriundi	1957	2014	29.4.2020	Approval of 2022 financial statement	M	X	X	N/A	9
Alternate Auditor	Andrea Balelli	1975	2017	29.4.2020	Approval of 2022 financial statement	m	X	X	N/A	21

Statutory auditors no longer in office during the reference financial year (2020)

Office	Members (name and surname)	Year of birth	Year first appointment	In office since	In office until	Slate (M/m)	Indep. as per CG Code	Indip. as per TUF	Num. of attendances
						*			**
Statutory Auditor	Marco Nava	1960	2008	11.4.2017	29.04.2020	M	X	X	5/5

** M/m are given in this column where "M" indicates a member elected from the majority slate and "m" from a minority slate.*
*** This column contains information on the attendance of Auditors at the relative board meetings of Statutory Auditors (number of presences/number of meetings held during the actual period office of the person concerned).*
**** This column gives the number of offices as a Director or Statutory Auditor held by the person in accordance with article 148-bis of the TUF and the relative provisions for implementation contained in the Consob Issuers' Regulations. The full list of appointments is published by the Consob on its website in accordance with Art. 144 quinquiesdecies of Consob Issuers' Regulations, Furthermore, all positions held by Statutory Auditors are given in full in the section of this Corporate Governance Report containing the curricula vitae of the Statutory Auditors."*

Quorum required for the presentation of slates during the last appointment:

0,5% (further of the reduction by half of the 1% threshold pursuant to art. 144-*sexies*, paragraph 5 of the Issuers' Regulation).

Number of meetings held during 2020: 11

Statutory auditors' fees are set by a Shareholders' Meeting when they are appointed.

The remuneration of the Board of Statutory Auditors' in charge was set by the Shareholders' Meeting of 29th April 2020 – upon recommendation of the Board of Directors (and, in turn, upon recommendation of the Remuneration Committee) included in the Directors' Report on the renewal of the Board of Statutory Auditors - providing for an annual fee of € 62,000 (previous fee of € 50,000) for the Chair of the Board of Statutory Auditors and of € 45,000 for each Statutory Auditor (previous fee of € 35,000), gross of withholding tax.

Details of the fees earned in 2020 are nevertheless given in detail in the Remuneration Report.

During the Year the Board of Statutory Auditors met 11 times, with meetings lasting approximately 2 hours on average.

As regards the current year, 7 meetings are scheduled and the Board of Statutory Auditors has already met 2 times in 2021. The percentage attendance of Auditors in these meetings in 2020 is shown in the table above.

In application of article 144-*novies* of the Issuers' Regulations and the Corporate Governance Code, the satisfaction of the requirements mentioned above by members of the Board of Statutory Auditors is assessed by the latter, which submits the results to the board of directors which discloses them, after the appointment, by means of a press release, and subsequently on an annual basis in the corporate governance report.

The Board of Statutory Auditors conducted an internal verification process concerning its independence on 11th February 2020 and then again, after the appointment of the new Board of Statutory Auditors by the Shereholders' Meeting of 29th April 2020, on the same date, also with reference to the newly appointed Statutory Auditor, Mr Ezio Simonelli. As a result of these verifications, it was confirmed that all members of the Statutory Auditors in office possessed the requirements for independence according to article 148 of the TUF and also with regard to independence requirements contained in the 2018 CG Code.

During 2021, the aforementioned assessment - also on the basis of the new Code - was renewed, with a positive outcome, on 26th February 2021.

The Board of Statutory Auditors monitored the independence of the auditing firm EY S.p.A., verifying both compliance with the relevant regulatory provisions and the nature and extent of non-audit services provided to certain subsidiaries by the same auditing firm and entities belonging to its network. As concerns services other than auditing provided by the audit firm to the Company and its subsidiaries, reference should be made to the specific exhibit concerning 'disclosure of audit and non-audit fees' contained in the consolidated financial statements for the year ended on 31st December 2020 and in the draft separate financial statements of Recordati S.p.A. for the year ended on 31st December 2020.

The Board of Statutory Auditors, in the performance of its activities, liaised with the Chief of Group Audit and with the Risk, Control and CSR Committee through the constant presence in Committee meetings, in which the Chief of Group Audit & Compliance also usually participates. It also worked with the ODV (231 Compliance Body) appointed in accordance with Italian Legislative Decree no. 231/2001. The Board reported to the Director with Responsibility for the internal control and risk management system as well as with the Financial Reporting Manager. Finally, it participated in the work of the Remuneration Committee (since 29th October 2020, the Remuneration and Nominations Committee) and Risk, Control and CSR Committee.

The Board of Statutory Auditors, in the performance of its activities, liaised with the Chief of Group Audit and with the Risk, Control and CSR Committee through the constant presence in Committee meetings, in which the Chief of Group Audit & Compliance also usually participates. It also worked with the ODV (231 Compliance Body) appointed in accordance with Italian Legislative Decree no. 231/2001. The Board reported to the Director with Responsibility for the internal control and risk management system as well as with the Financial Reporting Manager. Finally, it participated in the work of the Remuneration Committee (since 2[9]th October 2020, the Remuneration and Nominations Committee) and Risk, Control and CSR Committee.

As part of its oversight of procedures for the concrete implementation of corporate governance rules, the Board of Statutory Auditors:
- participated in the in-depth analyses, also together with the Independent Directors on governance and risk control issues;
- verified that the criteria and procedures of evaluation adopted by the Board to evaluate the independence of its members were implemented correctly.

The Board of Statutory Auditors is also called upon to carry out the duties assigned by the legislation in force to the **Committee for internal control and accounting audit** (CICAA), set up by Italian Legislative Decree no. 39/2010 (the 'Consolidated Statutory Audit Act'), which implements Directive no. 2006/43/EC concerning the statutory audit of annual accounts which entered into force on 7th April 2010, as subsequently amended.

More specifically, the CICAA is required to monitor the efficacy of systems for the internal control of a company's quality and risk management and, if applicable, internal audit, as far as the financial reporting of the entity subject to audit is concerned, without violating its independence.

Furthermore, from the specific viewpoint of the statutory audit, on the basis of the current article 19 of Italian Legislative Decree no. 39/2010, the duties of the CICAA are as follows:
- to monitor the statutory audit of the annual separate company and consolidated financial reports;
- to report to the management body and the results of the statutory audit and to submit to it the additional report required by article 11 of Regulation no. 537/2014, accompanied by any remarks that there may be;
- to verify and monitor the independence of the statutory auditors or the firm of statutory auditors, especially with regard to the adequacy of non-auditing services provided;
- these activities also include responsibility for the procedure for the selection of the auditing firm as well as the indication of the firm to be appointed in the recommendation (in accordance with the provisions of article 16 of Regulation no. 537/2014).

In this regard, in view of the fact that the engagement conferred on KPMG S.p.A. by the Shareholders' Meeting of 13th April 2011 for the financial years 2011-2019, would expire with the approval of the financial statements for the financial year 2019, the Board of Statutory Auditors, in its capacity as the CICAA, had initiated in 2019, with the assistance of the Company, a specific procedure for the selection of the new audit firm to be appointed for the financial years 2020-2028, in accordance with the applicable law, particularly, article 16 of Regulation (EU) no. 537/2014. At the end of the selection procedure, the Internal Control and Audit Committee prepared its reasoned recommendation addressed to the Board of Directors and subsequently to the Shareholders' Meeting, which, on 29th April 2020, in line with the latter, conferred to EY S.p.A. the engagement for the purposes of the statutory audit for the nine-year period 2020-2028.

For further details, please refer to that recommendation which was published within the terms set forth by law and can be found in the section of Recordati's website dedicated to the shareholders' meeting of 29th April 2020.

The Board of Statutory Auditors meets systematically with the Directors of the main corporate functions, who provide the information requested by the Board.

Information on the criteria and policies on diversity applied in relation to the composition of the auditing bodies in relation to aspects such as age, gender composition and the training and professional path required by article 123-*bis*, paragraph 2, letter d-*bis*, of the TUF, are illustrated in the section of the Report concerning the Board of Directors (Section 4.2.2.).

14. RELATIONS WITH SHAREHOLDERS

The Company has created a specific section on its website called 'Investors', which is easily identifiable and accessible, and which contains important information about the Company for its shareholders so that they can exercise their rights in an informed manner. The Company has also created a special section of its website dedicated to corporate governance containing full documentation, including this report and an archive of past reports.

With regard to the publishing and storage of regulatory information pursuant to article 113-ter of the TUF we report that the company:
- for the transmission of regulatory information, the Company makes use of the dissemination system '1Info SDIR' at www.1info.it, which is managed by Computershare S.p.A. based in Milan (Via L. Mascheroni 19) and has been authorised by Consob with Resolution no. 18994 of 30th July 2014;
- uses the centralised storage system for regulatory information named '1Info' to store regulatory information. This can be consulted at the website www.1info.it and it is operated by Computershare S.p.A. with registered offices in Milan and is authorised by the Consob with Resolution no. 18852 of 9th April 2014.

As part of the Company's organisational structure, for 2020, Ms Marianne Tatschke, the Director Investor Relations & Corporate Communications, was the person responsible for managing relations with shareholders, who later retired and was replaced as from 1st January 2021 by Ms Federica De Medici.

In addition, the tasks of the Group Corporate Legal Affairs Office also include the task of looking after relations with shareholders in general.

The Investor Relations department of the Company is also responsible for relations with financial analysts who cover the Company and with institutional investors. This function organises periodic conference calls regarding periodic financial information, and the documentation presented for these calls is also made available to the public on the Company's website and by way of the centralised storage system for regulatory information named '1Info' (see www.1info.it).

In order to develop and guarantee a constant and direct link with our institutional investors and financial analysts, Recordati has also defined an engagement plan aimed at activating, starting from the first months of 2021, a channel of communication with those who have an interest in our Company.

Finally, it should be noted that the new 2020 CG Code has recommended that the Board - on the proposal of the Chair, formulated in agreement with the Chief Executive Officer - adopt a 'policy for the management of general dialogue with shareholders', taking into account the 'engagement policies adopted by institutional investors and asset managers'; the aim is for companies to strengthen market dialogue.

When adopting the 2020 CG Code, the Board resolved therefore to proceed with the adoption of a policy, in 2021, highlighting, however, the need to better understand, in advance, the content of said policy in terms of areas to be regulated and objectives to be pursued.

15. SHAREHOLDERS' MEETINGS

In accordance with article 9 of the By-Laws in force, Shareholders' Meetings are convened in the manner and within the legal time limits on the Company's website and, where necessary due to mandatory provisions or decided by the directors, in the Official Gazette and in at least one of the following national newspapers: 'Il Corriere della Sera', 'La Repubblica', 'La Stampa', 'Il Giornale', 'Milano Finanza', as well as according to other procedures provided for by the legislation and regulations currently in force.

Article 3 of Italian Legislative Decree no. 91 of 18.6.2012 (the 'Corrective Decree') has established that Shareholders' Meetings are convened by a notice published on the Company's website by the thirtieth day prior to the date of the Shareholders' Meeting and also using other procedures and within the time limit set by the Consob with regulations issued in accordance with article 113-ter, paragraph 3 of the TUF, inclusive of the publication of extracts in daily newspapers. These provisions apply to Shareholders' Meetings for which the notice to convene is published after 1st January 2013.

Following amendments made by the Shareholders' Meeting of 13th April 2011 to the By-Laws, article. 9 states that 'notice to convene may also contain the date of meetings convened subsequent to the first. The Board of Directors may decide, if it considers it appropriate, to convene Ordinary and Extraordinary Shareholders' Meetings to be held following one single Notice of Meeting. In the case of a single call the legal majorities for that purpose apply.'

Furthermore, that same article 9 of the By-Laws also states that: "Ordinary Shareholders' Meetings are called to approve the financial statements within one hundred and twenty days of the end of the company's financial year. Where permitted by the law, a Shareholders' Meeting may be convened within one hundred eighty days from the end of the financial year.
Directors shall indicate the reasons for the delay in the report required by article 2428 of the Italian Civil Code. Other than on the initiative of the Board of Directors, a Shareholders' Meeting may be called pursuant to the law by the Board of Statutory Auditors or by only two of its members, or upon the request of shareholders representing at least 5% of the share capital."

In accordance with article 12 of the By-Laws in force, resolutions of ordinary and extraordinary meetings, on the first and successive calls, as well as for single calls, are valid if made in the presence of the required number of persons and the majorities required by law. Therefore, an ordinary Shareholders' Meeting is validly constituted in first call with the attendance of shareholders accounting for at least half of the share capital with voting rights at the meeting itself and resolutions are passed by an absolute majority of those participating, including abstentions.

An ordinary shareholders' meeting is validly constituted in second call no matter what proportion of the share capital is represented and resolutions are passed by an absolute majority of those participating, including abstentions.
An extraordinary shareholders' meeting is validly constituted in first call with the attendance of shareholders accounting for at least half of the share capital and resolutions are passed with the vote in favour of shareholders representing at least two-thirds of the share capital.
An extraordinary shareholders' meeting is validly constituted in second call with the attendance of shareholders accounting for at least a third of the share capital and resolutions are passed with the vote in favour of shareholders accounting for at least two-thirds of the share capital present at the meeting.

In the case of a single call: an Ordinary Shareholders' Meeting passes resolutions with an absolute majority, whatever the percentage of the capital stock represented and an Extraordinary Shareholders' Meeting is validly constituted when at least one-fifth of the capital stock is represented and it passes resolutions with the vote in favour of at least two-thirds of the share capital represented in the Shareholders' Meeting.
In relation to the right to participate in Shareholders' Meetings and voting rights, on the basis of article 83-*sexies* of the TUF, legitimate authorisation to participate in Shareholders' Meetings and to exercise voting rights is certified by a communication to the issuer, performed by the intermediary, in compliance with its accounting entries, certifying the party entitled to vote on the basis of information relating to the end of the accounting day of the seventh trading day prior to the date set for the Shareholders' Meeting in first call or a single call. Nevertheless, the legitimate right to participate and vote remains, should the communications be received by the Company later than the aforementioned time limit, provided they are received before the commencement of the proceedings of each single session of the shareholders' meetings.

In accordance with article 10 of the By-Laws, those holding the right to vote may be represented by a written proxy, where no incompatibilities and limitations exist pursuant to the legislation and regulations in force. The Company may be notified of the proxy for participation in the Shareholders' Meeting by sending the document to the email address indicated in the Notice of Meeting.

Furthermore, article 135-*undecies* of the TUF, inserted by Italian Legislative Decree no. 27/2010 introduced the role of a *'Designated representative of a listed company' 'unless the By-Laws stipulate otherwise, listed companies designate a representative for each Shareholders' Meeting to which shareholders may grant, by the end of the second day of market trading prior to the date set for the Shareholders' Meeting, even in a call after the first one, an authorisation with voting instructions on all or some of the motions on the agenda. The proxy is valid solely for proposals in relation to which voting instructions have been given.'* At present Recordati's Company By-Laws contain no provisions in this respect, and this new provision is therefore considered applicable to future Shareholders' Meetings of the Company, until different provisions are introduced to the Company By-Laws.

The Board believes that there are no conditions that require the adoption of particular initiatives regarding attendance of Meetings and the exercise of voting rights by shareholders such as, for example, postal voting.

In accordance with article 127-*ter* of the TUF, shareholders may submit questions on the items on the agenda even before the Shareholders' Meeting. Answers are given to questions received prior to the Shareholders' Meeting, subject to verification of the relevance and the legitimacy of the asker, at the latest during the meeting itself and the Company has the right to give a single answer to questions having the same content.

In this respect article 127-*ter* of the TUF, expressly allows the Company to set a time limit within which questions formulated prior to a Shareholders' Meeting must be received if they are to be considered. The time limit is at the discretion of the Company, but cannot be earlier than five trading days prior to the date of the Shareholders' Meeting (in first or single call) or the date indicated in article 83-*sexies*, paragraph 2, of the TUF if the notice of call provides for the Company to provide, before the Shareholders' Meeting, an answer to the queries received. In such latter case, answers shall be provided at least two days before the Shareholders Meeting, also by publication in a special section of the company's website, and the ownership of voting rights may be certified even after the queries have been sent, provided that this is done by the third day following the date indicated in article 83-*sexies*, paragraph 2, of the TUF. Cases where a reply is not obligatory are then specified: when the information required is

already available in the format 'answer and reply' in the relevant section of the website and also when the reply has already been published on the website.

Starting from 2013, the Company adopted a Shareholders' Regulation, the text of which is available on the Company's website at www.recordati.it, in the corporate governance section; this is to ensure that Shareholders' Meetings can be held in an orderly and functional manner and to ensure that each Shareholder can speak on the items on the agenda.

During the 2020 financial year, the Shareholders met twice: in ordinary call on 29th April 2020, and in extraordinary call, on 17th December 2020.

Firstly, it should be noted that, in view of the **health emergency related to the COVID-19 epidemic** and taking into account the emergency regulatory provisions issued for the containment of the contagion, at both of the above meetings, as indicated in the respective notices of call, the Company decided to avail itself of the option provided for by article 106 of Italian Law Decree no. 18 of 17th March 2020 - converted with amendments into Italian Law no. 27 of 24th April 2020 and as extended by paragraph 3 of article 1 of Italian Law Decree no. 125 of 7th October 2020 - providing that the intervention at the Shareholders' Meeting of those entitled to vote was allowed exclusively through the Delegated Representative of the Company pursuant to article 135-*undecies* of the TUF to whom a proxy had to be conferred; the Delegated Representative could also be conferred proxies or sub-proxies pursuant to article 135-*novies* of the TUF, as an exception to article 135-*undecies,* paragraph 4, of the TUF.

At the Shareholders' Meeting held on **29th April 2020**, in a single call, in ordinary session, **with the attendance of 84.016% of the share capital with voting rights**, it was resolved (i) to approve the financial statements for the year ended on 31st December 2019 and the allocation of the 2019 profit for the year, (ii) to supplement the Board of Directors after redetermining the number of its members, (iii) to appoint the Board of Statutory Auditors, (iv) the conferral of the engagement of the purposes of the statutory audit for the financial years 2020-2028, (v) the binding vote on the first section of the Report on remuneration policy and remuneration paid, and (iv) the authorisation to purchase and dispose of treasury shares. The Shareholders' Meeting also cast its non-binding vote on the second section of the Report on remuneration policy and remuneration paid in 2019.
In addition to the Vice-Chair, Mr Alfredo Altavilla, who chaired the meeting in accordance with the By-Laws, in his capacity as Vice-Chair of the Board of Directors, due to the absence of the Chair, Mr Flemming Ornskov, the following Directors were also attending the meeting via audio conference: Mr Andrea Recordati, Chief Executive Officer, Ms Silvia Candini, Ms. Michaela Castelli, lawyer, Mr Giampiero Mazza and Mr Fritz Squindo. Also present for the outgoing Board of Statutory Auditors were Mr Antonio Santi, Chair, Mr Marco Nava and Ms Livia Amidani Aliberti, Statutory Auditors.
The documentation relating to the items on the agenda, together with the voting results, has been filed in accordance with the law and applicable regulations and can be consulted on the website www.recordati.it (section - investors/shareholders-_meetings/2020/).

The Shareholders' Meeting held on **17th December 2020**, in single call, in an extraordinary session, to approve the plan for the reverse merger by incorporation of Rossini Investimenti S.p.A. and Fimei S.p.A. into Recordati S.p.A., **was attended by 81.991% of the share capital with voting rights.** In addition to the Chair, Mr Alfredo Altavilla (who was in any case present at the Company's registered office), the following Directors attended the meeting in audio/video conference: Mr Guido Guidi, Vice-Chair, Mr Andrea Recordati, Chief Executive Officer, Mr Francesco Balestrieri, Mr Giorgio De Palma, Mr Giampiero Mazza, Mr Piergiorgio Peluso and Mr Fritz Squindo. Also present were the Statutory Auditors, Mr Antonio Santi, Chair, Ms Livia Amidani Aliberti and Mr Ezio Simonelli, Statutory Auditors.

The documentation relating to the only item on the agenda, together with the voting results, has been filed in accordance with the law and the applicable regulations and may be consulted on the website www.recordati.it (https://www.recordati.com/en/investors/shareholders_meetings/reverse_merger_into_recordati_spa_2020/2021).

During the Financial Year, there were no significant changes in the market capitalisation of the Company's shares or in the composition of its corporate structure sufficient to require consideration of a proposal to the Shareholders' Meeting for changes to the Corporate By-Laws concerning the percentages established for the exercise of the actions and prerogatives provided for the protection of minorities.

16. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (pursuant to article 123-*bis*, paragraph 2, letter a) of the TUF)

The Issuer does not apply any additional corporate governance practices, other than those described in the preceding sections of this Report.

17. CHANGES OCCURRING SINCE THE END OF THE YEAR

There were no further changes in the Company's corporate governance structure, except for a change in the perimeter of key manager personnel, which will be reported in the Report for the next financial year.

18. OBSERVATIONS ON THE LETTER OF THE CHAIR OF THE CORPORATE GOVERNANCE COMMITTEE OF 22ND DECEMBER 2020

The recommendations to promote good corporate governance formulated, as per practice, in the letter of the chair of the Corporate Governance Committee dated 22nd December 2020 were brought to the attention, first, of the Chair of the Board of Directors, the Chief Executive Officer, the Director responsible for the Internal Control and Risk Management System, the Board of Statutory Auditors and as well as all the directors on 23rd December 2020: to integrate the sustainability of the company's business into the definition of strategies and remuneration policy; to ensure adequate management of information flows to the Board of Directors; to define ex ante the quantitative and/or qualitative criteria to be used for assessing the significance of the reports on the independence assessment.
On 22nd February 2021, the Board of Directors acknowledged that the Corporate Governance Committee had taken the opportunity, given the entry into force of the 2020 CG Code, to take up the recommendations made over the last four years, refining them in light of the content of the new 2020 CG Code.
The Board also acknowledged that some of the recommendations had already been discussed in connection with adhering to the 2020 CG Code and that others were already scheduled for discussion as part of the Board's 2021 work plan.

Milan, 18 March 2021

For the Board of Directors
Chief Executive Officer
Mr Andrea Recordati

ATTACHMENT 1
PROFESSIONAL OVERVIEW OF THE DIRECTORS AND STATUTORY AUDITORS

Directors

Alfredo Altavilla

Alfredo Altavilla is Senior Adviser to CVC Capital Partners.
He was Chief Operating Officer Europe, Africa and Middle East (EMEA) of FCA from November 2012 till August 2018. He has also been a member of the Group Executive Council (GEC) and Head of Business Development since September 1, 2011.
He began his career as an assistant at Università Cattolica, Milan.
In 1990, he joined Fiat Auto, where he initially focused on international ventures in the area of strategic planning and product development.
In 1995, he was appointed Head of Fiat Auto China where he set up the first JV in Nanjng and in 1999 head of Asian Operations.
He has been involved in Business Development since 2001, becoming responsible for coordination of the alliance with Genera! Motors and, in 2004, being assigned responsibility for management of all Group all alliances.
In September 2004, Mr. Altavilla was appointed Chairman of FGP (Fiat/GM Powertrain JV) and Senior Vice President of Business Development of Fiat Auto.
In July 2005, he became CEO of Turk Otomobil Fabrikasil A.S. (TOFAS) - a 50-50 joint venture between Fiat Auto and Koç Holding listed on the Istanbul stock exchange - while retaining his role as head of Business Development.
In November 2006, he was named Chief Executive Officer of FPT - Fiat Powertrain Technologies.
In July 2009, he became a member of the Board of Directors of Chrysler Group LLC (Member of the Audit Committee) and in October 2009 was named Executive Vice President of Business Development for Fiat Group.
From November 2010 to November 2012, he was President and Chief Executive Officer of Iveco. He was also a member of the Fiat Industrial Executive Council (FIEC) from January 2011 to November 2012.
He holds a degree in Economics from Università Cattolica, Milan.
He is a Member of the Board of Enerpac Tool. (listed on the NYSE, Member of Audit Committee and Compensation Committee), Tim S.p.A., (listed on the Milan Stock ExchangeChairman of the Nomination and Compensation Committee), Conceria Pasubio S.p.A., Ambienta SGR, MSX.

Andrea Recordati

Andrea Recordati gained a Bachelor of Arts in medieval and modern history from the University of London Royal Holloway and Bedford New College. Between September 1995 and March 1998, he participated in the SmithKline Beecham Management Access Program, in the United Kingdom, starting off as Assistant Product Manager in Consumer Healthcare and then, for one year, occupying the role of medical representative in Essex before becoming Project Manager responsible for the development and implementation of an innovative SmithKline Beecham marketing initiative.
He joined Recordati in 1998 as Project Leader for a project aimed at improving Sales Force productivity and better use of marketing investments. In April 1998, he joined the Board of Directors of the Company. In 1999, he was given responsibility for Pharmaceutical Business Development.
In March 2002, the Lercanidipine Business Unit was set up and he was appointed head of that unit. Since November 2002, he has been responsible for setting up the subsidiary Recordati Ireland and its industrial plant and, subsequently, for setting up the UK subsidiary.
In September 2006, he was appointed Sole Director of the German subsidiary Recordati Pharma GmbH. In August 2007, the Northern and Central Europe Subsidiaries Division was set up and he was appointed head of that division. That division was enlarged in 2010 to include all western European companies. In February 2011 he was appointed General Manager of the International Pharmaceuticals Division. In July 2013 he was appointed Chief Operating Officer, being responsible for all the commercial and production activities of the Group and sitting on several boards of directors within the Group. From 16 august 2016 to 5 February 2019, he was appointed as Vice Chairman and CEO of Recordati S.p.A.
Currently, he is CEO of Recordati S.p.A.

Francesco Balestrieri

He graduated in Business Administration in 1993 at the Ca' Foscari University of Venice.
In 1993 he joined Alcon (formerly CIBA Vision), a division of Novartis, which operates in the eye care sector and develops and markets contact lenses, eye care products, ophthalmic and surgical products, with the position of Head Business Planning and Analysis Italy until 1995, then Project Manager from 1995 to 1996, Head Finance Europe and APAC from 1996 to 1998, Global Head of Financial Planning and Control from 1998 to 2000, General Manager CE and ME from 2000 to 2001, Commercial Head Europe from 2002 to 2005, General Manager DACH from 2005 to 2007, up to the position of President USA, Canada and Latin America from 2008 to 2011, where, as regional manager for USA, Canada and Latin America, he developed and implemented a new strategy for the U.S. market that brings the business in line with growth aspirations.
In 2011 he joined Sandoz, a division of Novartis, which operates in the sector of generic and special medicines, hospital products, biopharmaceuticals and OTC, here he held various positions,

always reporting to the CEO of Sandoz, in particular he was President Asia-Pacific until 2013, then President CEE and Global Head OTC until 2015, President CEEMEA until 2017 and from 2018 to 2019 President Europe where, as a member of the Global Executive Committee, he was in charge of the region's strategic agenda, preparation and launch of biosimilar products and portfolio review to redefine the market perimeter and ensure investments in line with growth aspirations. In 2019 he assumes the role of ad interim CEO of Sandoz S.p.A., at the Munich office, until August 2019.
During his career he has also held the position of director at Sandoz S.p.A. and Mipharm S.p.A.
He currently holds the position of sole director of Full Skin S.r.l.

Silvia Candini
Silvia Candini was born in Milan on 2nd July 1970, she earned a degree in economics (*summa cum laude*) at Università Commerciale Luigi Bocconi and an Exchange Programme at The Wharton School (MBA) of University of Pennsylvania.
In 1994 she began her career at Lehman Brothers London in the Corporate Finance team where she worked on marketing and structuring of IPOs and convertible bonds.
In 1996 she moved to the Debt Origination team at JP Morgan London to cover Italian banks and local authorities as issuers.
From 1998 to 2008 she continued to work at JP Morgan in the fixed income sales & trading department, assuming responsibility for the distribution to Italian institutional clients of fixed income products, plain vanilla and structured, specialising in structured credit. Main issues distributed were first subordinated bonds, first securitization notes (ABS, MBS and CDOs), Credit Default Swaps and Credit linked Notes.
Since 2009 she has been co-founder and managing partner of Studio C&C, providing Family Office and financial advisory services to High Net Worth private clients.
From 2016 to 2019 she has been an independent board director at Unipol Gruppo (FTSE MIB listed company).
Current roles:
- Independent Director, Member of the Audit, Risk and Sustainability Committee and Member of the Remuneration and Nominations Committee at Recordati S.p.A. (FTSE MIB listed company)
- Independent Director, Member of the Remuneration Committee and Member of the Nomination Committee at BPER Banca (FTSE MIB listed company)

Michaela Castelli
Born in Rome on 7 September 1970; after the degree in Law and a specialization course in financial law, her working experience started in London dealing with Capital Market and then she worked with major legal firms in Italy, dealing with corporate and financial markets law. She worked for Borsa Italiana S.p.A. for 9 years, where she dealt with primary market and assisting, listed issuers on matters concerning extraordinary operations, price sensitive information, compliance and corporate governance.
Registered in Milan Bar Association, she gained a significative experience as member of the Boards of Directors of major listed and unlisted companies; she is also a member of Boards of Statutory Auditors, Committees and supervisory boards, as well as Chairman of Utilitalia.
Author of sector publications and lecturer on various continuous education courses on corporate and financial markets law; she participated in numerous conferences as a speaker.
Current relevant positions:
- Chaiman of ACEA S.p.A. (listed on the Milan Stock Exchange);
- Chairman of Nexi S.p.A. (listed on the Milan Stock Exchange);
- Member of the Board of Directors of Recordati S.p.A. (listed on the Milan Stock Exchange);
- Member of the Board of Directors of La Doria S.p.A. (listed on the Milan Stock Exchange).

Other positions:
- Chairman of Sea S.p.A.;
- Member of the Statutory Auditors of Autogrill Italia S.p.A.

Giorgio De Palma
Born on 28 August 1974, he graduated *summa cum laude* in nuclear engineering from Politecnico di Milano, he also holds an engineering degree from the École Centrale de Paris.
He began his career at Morgan Stanley, where he worked for more than four years in the M&A team.
In 2005, he joined the Italian team at CVC Capital Partners where today he is Partner.
Giorgio De Palma currently holds the following positions: (i) Chairman of the Board of Directors of Arzignanese S.r.l., (ii) member of the Board of Directors of Conceria Pasubio S.p.A., Sisal S.p.A. and Recordati S.p.A.; (iii) Sole Director of Donizetti Holdings S.r.l.

Guido Guidi
Born on 27 March 1953, he graduated in medicine, *cum laude*, in 1979 at the University of Milan, with a specialization, at the same university, first in immunology and allergology, achieved in 1984, and then in rheumatology, achieved in 1989.
Medical doctor since 1980, he was Medical Advisor first in Smith Kline & French Italia from 1981 to 1982 and then, from 1983 to 1985 in Roussel UCLAF Italia, then Medical Director from 1986 to 1989 in Sharper Italia (Roussel UCLAF Group).
In Sandoz Italy since 1990, until 1991 as head of the immunology and transplantation area and from 1992 to 2000 as head of the Specialty Products unit.
Since 2000 he has been in charge of the Southern Europe oncology unit at Novartis and from 2002 to 2012 he was head of the Head of Oncology, Europe at the Milan office where he led the marketing of several oncology products and played a key role in several partnership operations as a Novartis Deal Committee member. From December 2012 to February 2017, at the Swiss headquarters in Basel, he was appointed Head of Pharma, Europe, where he leads the marketing of several key products, coordinates operations and supervises a staff of over 7,000 employees working in more than 50 countries, including Russia and Israel.
Meanwhile he attended business courses in Lausanne in 2000 and from 2003 to 2015 in Boston (USA) at Harvard University.
Throughout his career, he has also been Chairman of the Board of Directors of Novartis Italy, Novartis Spain, Novartis Nordics and Novartis UK, he was a member of the Novartis Pharma Executive Committee (PEC), and Chairman of the Novartis European Executive Committee (EEC), as well as a member of the Novartis Portfolio Management Board, R&D Oncology and Pharma and the EFPIA Executive Committee. He was awarded the Novartis CEO Excellence Award in 2006 and the Novartis CEO Talent Development Award in 2008.
Currently senior advisor at Boston Consulting Group and teaching professor & coordinator of *Medicina Farmaceutica* (organized by *Università degli Studi di Milano* and *Istituto Mario Negri*), he holds the positions of:
- founder and chairman of the board of directors of Aurora TT S.r.l.;
- member of the board of directors of Aurora Science S.r.l.;
- member of the board of directors of Philogen S.p.A.;
- member of the board of directors of Genenta Science S.r.l.;
- member of the board of directors and SAB member of Zambon S.p.A.;
- SAB member and consultant of Italfarmaco S.p.A.;
- vice President of the board of directors of Recordati S.p.A. (FTSE MIB listed company);
- Chairman of Cellestia Biotech AG.

Joanna Le Couilliard
Joanna Le Couilliard has 25 years' healthcare management experience gained in Europe, the United States and Asia.
Much of her career has been in pharmaceuticals at GlaxoSmithKline where, amongst other roles, she headed the U.S. vaccines business and Asia Pacific Pharmaceuticals business and led a program to modernise the commercial model.
She was previously Chief Operating Officer at the BMI group of private hospitals in the U.K. She was Non-Executive Director at Frimley Park NHS Foundation Trust in the UK and at the Duke NUS Medical School in Singapore and Cello Health PLC, listed on the London Stock Exchange.
She is a graduate of Cambridge University and a Chartered Accountant.
She is currently a Non-Executive Director at Circassia Group PLC, and Alliance Pharma plc, all listed on the London Stock Exchange.

Giampiero Mazza
Giampiero Mazza graduated *summa cum laude* from Rice University (Houston, Texas, USA) with a degree in Economics in 1991 and he completed a Master in Business Administration at the Harvard Business School (Boston, Massachusetts, USA) in 1996.
He started his career as business strategy Advisor in Bain & Company (Dallas, Texas, USA).
He joined James D. Wolfensohn Inc (New York, NY, USA), a firm specialized in M&A transactions.
From 2005 to 2010 he was Partner in BC Partners (London, UK), a private equity firm.
In 2010 he joined CVC Capital Partners, a private equity fund, where he currently is Managing Partner, and Head of the Milan office, responsible for the Italian business.
Giampiero Mazza also holds the following positions: (i) CEO of CVC Advisers (Italia) S.r.l., (ii) member of the board of directors in Conceria Pasubio S.p.A., Sisal Group S.p.A., Sisal S.p.A., SisalPay S.p.A., SisalPay Servizi S.p.A., SisalPay Group S.p.A., Recordati S.p.A. (listed on the Milan Stock Exchange), Multiversity S.r.l., Pegaso Management S.r.l., Università Telematica Pegaso S.p.A., Università Telematica Pegaso S.r.l. (iii) Chairman of the board with delegated powers in Rossini Investimenti S.p.A. and in FIMEI S.p.A., (iv) Sole Director of Akoa Place S.r.l.

Piergiorgio Peluso
Diploma in humanities, degree in 'Economics and Social Sciences (D.E.S.)' from Università Commerciale L. Bocconi, with a specialization in Finance, obtained in 1992, and an experience in Arthur Andersen, he joined Mediobanca S.p.A. in the Participations and Special Affairs Service, dealing with mergers, acquisitions and financial restructuring.
In 1998 he worked at Credit Suisse First Boston in London on mergers, acquisitions and capital market transactions in the financial institutions (banking and insurance) and utilities area.
In 2002 he joined Medio Credito Centrale S.p.A. (Capitalia Group), as Central Director of the Advisory Area, and subsequently assumed direct responsibility for the Corporate Division of the Capitalia Group with the title of Central Director and member of the Executive Committee of the banking group. During the years of his management, he was actively involved in the Capitalia Group's recovery plan. In 2007, following the merger between Capitalia S.p.A. and UniCredit Group S.p.A., he was confirmed as Head of Investment Banking in Italy and, subsequently, Managing Director of the corporate bank of the UniCredit Group (UniCredit Corporate Banking S.p.A.) and Head for Italy of the Corporate & Investment Banking Division of the banking group.
From 2011 to September 2012, he was General Manager of Fondiaria-SAI S.p.A., working on the relaunch plan of the insurance group and the subsequent integration with the Unipol group.
From September 2012 to June 2019, he was Telecom Italia's CFO, with responsibilities of various kinds in the areas of: planning and control, transformation office, purchasing, real estate and logistics, finance and investments, accounting and financial, tax, mergers and acquisitions and risk management; participation in road shows and meetings with investors; regular attendance in Telecom Italia's Board of Directors and the Internal Control Committee.
During his career, he has also held the position of Director in several companies, including Banco di Sicilia S.p.A., Edison S.p.A., Gemina S.p.A., Aeroporti di Roma S.p.A., Milano Assicurazioni S.p.A., Fondazione Telecom Italia, Telecom Italia Media S.p.A. and Telecom Argentina S.A. (Argentina).
Since January 2020 he holds the position of member of the Board of Directors of Sacertis S.r.l., a start- up that deals with the monitoring of infrastructures and diagnostics for risk assessment.

Cathrin Petty
Cathrin Petty holds a Master of Arts in Natural Sciences from New Hall, Cambridge University and a post-graduate Diploma in Management Studies from the Judge Institute, Cambridge.
She started her career at Schroders and Schroder Ventures. She has been partner at APAX Partners, and prior to moving to CVC Capital Partners, she was Head of Healthcare EMEA with JP Morgan Chase & Co.
Cathrin Petty also held numerous non-executive positions, including at the NHS (Strategie Health Authority for Greater London), Circassia Pharmaceuticals Ltd, Icon Plc., Qualitest Inc. and Zeneus Pharma Ltd.
Currently, she serves as Managing Partner and Head of Healthcare at CVC Capital Partners, where she joined in July 2016.
Cathrin is currently member of the board of directors in the following companies: Theramex HQ UK Limited, IWH UK Investco Limited, IWH UK Finco Limited, IWH UK Holdco Limited, IWH UK Midco Limited, Sphinx Reserve Co., and Recordati S.p.A. (listed on the Milan Stock Exchange). Since February 2021 Cathrin Petty is also member of the board of directors in the following companies: Graphnet Health Limited and System C Holdings Limited.

Fritz Squindo
Fritz Squindo graduated *'cum laude'* in Economics at the Bocconi University in Milan, Italy. He started his career in 1981 in Telettra S.p.A., a telecommunications company within the Fiat Group, where he was employed in the finance department. In 1986 he joined Sanofi S.p.A., the Italian subsidiary of the French pharmaceutical group Sanofi, where he was first Head of Finance and, as from 1990, Head of Management Accounting. In 1992 he joined Recordati S.p.A. as Head of the Management Accounting department. In 1995 he was appointed Chief Financial Officer and as from 2008 to 31st October 2019 also Managing Director.
Since November 2019 he is appointed Group General Manager.
Since 2013 Mr. Squindo is a member of the Board of Directors of Recordati S.p.A. and is also part of the managing bodies of several Recordati Group companies.

MEMBERS OF THE BOARD OF STATUTORY AUDITORS

Effective Auditors

Antonio Santi
Graduated in Business Administration - University of Rome 'La Sapienza', with a PhD in Business Administration at University of Rome 'Roma 3'.
Registered with the Register of Italian Corporate and Tax Affairs Experts (*Albo dei Dottori Commercialisti*) and with the Register of Certified Auditors (*Registro dei Revisori Contabili*).
He carries out advisory activities with regards to the appraisal of companies and branches -of both the public and private sector-, economic and financial feasibility studies and restructuring plans.

During his professional experience he has developed consistent expertise in accounting control and supervision activities carried out by company control subjects.
He is member of the Board of Directors of Enav S.p.A. – listed company (where he carries out the role of president of the CRPC Committee and member of the CRN) and member of the Board of Directors of Adue Consulting S.r.l.
He is member of the Board of Statutory Auditors and accounting auditor of companies operating in different sectors: he is CONI's Accounting Auditor; Chairman of the Board of Statutory auditors of F.A.I. Service S. COOP., C-Zone S.p.A. in liquidation; CQS Holding S.r.l. in liquidation, Ktesios Holding S.p.A. in liquidation; LKTS S.p.A. in liquidation and member of the Board of Statutory Auditors of Acea Liquidation and Litigation S.r.l.

Livia Amidani Aliberti
Livia Amidani Aliberti graduated in Economics and Commerce at LUISS (Rome, Italy) and holds a Post Graduate Diploma from FT-Pearson (UK). She has completed the INSEAD International Corporate Directors programme. She holds FCA status of authorised Person - Financial Conduct Authority - she is a Dottore Commercialista (Chartered Accountant) and a member of the Reflection Group of NedCommunity on Internal Controls and Risk Management. She serves as Compliance Officer in FCA regulated entities. With more than ten years of consulting and research in corporate governance, her specialties include AIM Listings, Corporate Governance Assessment and Redesign, Strategic Evaluation of Boards; she is also engaged in gender diversity research, area where she authored several publications on gender diversity and directors.
Livia Amidani Aliberti occupies the following positions as corporate director:

- Unicredit Bank Austria A.G., part of the Unicredit Group: independent director, chair of the strategy and nomination committee and the remuneration committee;
- Credito Valtellinese, bank listed on the MTA: independent director, member of the Related Party transactions committee, member of the risk committee;
- Centre for European social research, limited by guarantee - UK – director.

Ezio Simonelli
Ezio Simonelli graduated in Economics at University of Perugia (Italy) on 1980 (Grade: 110/110 *cum laude*). On 1982 he has been registered Italian qualified Chartered Accountant and Tax Adviser (District of Milan) and on 1995 Italian qualified Chartered Statutory Auditor.
On 1997: Journalist and Publicist.
On 2013 he has been Appointed Honorary Consul of Canada in Milan by the Government of Canada, admitted by a decision issued on 06.03.2013 by the Ministry of Foreign Affairs.
Ezio Simonelli is currently a Managing Partner of Studio Legale Tributario Simonelli Associati, with offices in Milan and more than 20 professionals.
Previous Work Experience: Member of the Board of Directors of Banca Nazionale dell'agricoltura and Interbanca; Member of the Supervisory Board of Banca Popolare di Milano SCARL; Chairman of Statutory Auditors of UBS Italia, ING Group Italia, Dexia Crediop, Alba Leasing, Mediolanum, Cremonini, Meridiana, Arexpo e Lega Nazionale Professionisti Serie A e Serie B; Member of the Statutory Auditors of Cerved, Banca Akros, Abaxbank, Montetitoli, E-Mid.

As Author or Co-author of the following books:
- *"L'impresa e il nuovo testo unico delle imposte dirette"* (IPSOA Editore 1988);
- *"L'attuazione della IV direttiva CEE"* (Giuffré Editore 1992);
- *"Oneri deducibili"* (Giuffré Editore 1993);
- *"Il revisore contabile"* (Editore Il Sole 24 Ore 1996);
- *"Tassazione dell'utile e politiche fiscali sui dividendi"* (Maggioli Editore 1997);
- *"Finanza straordinaria d'impresa"* (Editore Il Sole 24 Ore 1999);
- *"Economia e gestione della banca"* (Editore Mc Grow-Hill 2010).

Holding positions as Chairman or member of Supervisory Boards pursuant to Legislative Decree 231/01 in the following companies:
- La Villata S.p.A. (Esselunga) (Chairman of the Supervisory Board);
- Aprilia Racing S.r.l. (Member of the Supervisory Board).

List of Administration and Control offices held by Mr Simonelli in other companies:

Chairman of Statutory Auditors
- Chairman of Statutory Auditors of Aprilia Racing S.r.l.;
- Chairman of Statutory Auditors of ATEX S.p.A.;
- Chairman of Statutory Auditors of Branchini Associati S.p.A.;
- Chairman of Statutory Auditors of Intraco S.p.A.;
- Chairman of Statutory Auditors of La Villata S.p.A.;
- Chairman of Statutory Auditors of Mediaset Italia S.p.A.;
- Chairman of Statutory Auditors of Sisal Entertainment S.p.A.;
- Chairman of Statutory Auditors of Sisal Group S.p.A.;
- Presidente del Collegio sindacale di Sisal Point S.p.A.;
- Chairman of Statutory Auditors of Sisal S.p.A.;
- Chairman of Statutory Auditors of Vortice S.p.A.

Member of the Board of Statutory Auditors
- Member of Statutory Auditors of Arnoldo Mondadori Editore S.p.A. (listed on the Milan Stock Exchange);
- Member of Statutory Auditors of F2I SGR S.p.A.;
- Member of Statutory Auditors of Phs Group S.p.A.;
- Member of Statutory Auditors of Recordati S.p.A. (listed on the Milan Stock Exchange).

Member of the Board of Directors
- Member of Board of Directors of Fondazione BPM;
- Member of Board of Directors of Transition Management Italia S.r.l.;
- Member of Board of Directors of Sintesy Pharma S.r.l.;
- Member of Board of Directors of Plusadvance S.r.l.

Sole Director
- Sole Director of Gosen S.r.l.;
- Sole Director of Gosen Immobiliare S.r.l.;
- Sole Director of Immobiliare San Sebastiano S.p.A.;
- Sole Director of Nava S.r.l.;
- Sole Director of Wings of Hermes S.r.l.

Liquidator of National Professional Football League.

Chairman of Auditors' committee of Fondazione Altagamma.

Alternate Auditors

Patrizia Paleologo Oriundi
Born in Milan on January 24th 1957, she is a 1980 Business Administration graduate of Università Commerciale L. Bocconi.
She is a member of the Milan Association of Certified Public Accountants since 1983 and a financial auditor since 1995.

She has been built up her career working for renowned law firm specialized in tax regulation, becoming an expert in consulting for multinational and for non-commercial companies, tax litigations, in addition to legal and administrative control of companies, foundations and associations. She also deals with real estate and insurance companies.
She has 30-years of experience as legal controller and member of the Supervising Body established by Legislative Decree no. 231/01.
Foreign Languages: English, Spanish and French.
She occupies the following management and supervisory positions in other companies:

- Chairman of Auditors' committee of Associazione dei Componenti degli Organismi di Vigilanza ex D. Lgs. 231/2001;
- Chairman of Auditors' committee of Valore D - Donne al vertice per l'azienda di domani;
- Statutory Auditor of Centervue S.p.A.;
- Chairman of the Board of Statutory Auditors of Close Up Milano S.p.A.;
- Chairman of Auditors' committee of Consorzio Universitario per l'ingegneria nelle assicurazioni (CINEAS);
- Statutory Auditor of ESPRINET S.p.A. (listed on the Milan Stock Exchange);
- Auditor of Fondazione Giannino Grillo;
- Chairman of the Board of Statutory Auditors of Helvetia Vita S.p.A.;
- Chairman of the Board of Statutory Auditors of Helvetia Italia Assicurazioni S.p.A.;
- Shareholder Director of Quisi snc di Patrizia Paleologo & C.;
- Vice Chairman of the Board of Directors of Fondazione Biscozzi Rimbaud;
- Chairman of the Board of Statutory Auditors of Virgin Active Italia S.p.A.;
- Statutory Auditor of Banca Farmafactoring S.p.A. (listed on the Milan Stock Exchange);
- Alternate Auditor of Autogrill S.p.A. (listed on the Milan Stock Exchange);
- Statutory Auditor of Falck Renewables S.p.A. (listed on the Milan Stock Exchange);
- Alternate Auditor of LU-VE S.p.A. (listed on the Milan Stock Exchange);
- Alternate Auditor of CGT Logistica Sistemi S.p.A.;
- Alternate Auditor of ICIM S.p.A.;
- Alternate Auditor of Recordati S.p.A. (listed on the Milan Stock Exchange);
- Alternate Auditor of Siolo Nuova S.p.A.;
- Alternate Auditor of Silver Fir Capital SGR S.p.A.
- Statutory Auditor of Ford Credit Italia S.p.A.

Andrea Balelli
Graduated cum laude in Economics at La Sapienza University of Rome in 2000. Business Advisor, Certified Public Accountant and Auditor.
He started his professional experience at PricewaterHouseCoopers. He subsequently worked at the Government Printing Office and Mint and Capitalia Service Jv in Rome.
He then moved to Milan working for Archon Group (Goldman Sachs Group) as Vice President of the Corporate Accounting Team.
He is now top management advisor for both public and private companies on strategic, organizational and financial aspects such as M&A advisory (including mergers, acquisitions, spin-offs, liquidations, fairness opinions); corporate valuations; strategic plans; business and debt restructuring; performance measurement and control systems; organizational models pursuant to legislative decree 231 of 2001.
He is member of the Board of Directors and the Board of Statutory Auditors for companies operating in various sectors.
He occupies management and supervisory positions in the following companies:

- Sole Director of Fedaia Spv S.r.l.;
- Sole Director of Gardenia Spv S.r.l.;
- Sole Director of Italian Credit Recycle S.r.l.;
- Sole Director of Restart Spv S.r.l.;
- Sole Director of Rienza Spv S.r.l.;
- Sole Director of Re Vesta S.r.l.;
- Director of Leviticus ReoCo S.r.l.;
- Director of Ferroli S.p.A.;
- Chairman of the Board of Statutory Auditors of Salvatore Ferragamo S.p.A. (Company listed on the Milan Stock Exchange);
- Chairman of the Board of Statutory Auditors of Wellcomm Engineering S.p.A.;
- Chairman of Supervisory Body ex D.Lgs 231/2001 of Salvatore Ferragamo S.p.A. (Company listed on the Milan Stock Exchange);
- Statutory Auditor Airport Cleaning S.r.l.;
- Statutory Auditor Axis S.p.A.;
- Statutory Auditor Danesi Caffè S.p.A.;
- Statutory Auditor of Infoblu S.p.A.;
- Statutory Auditor of Leonardo Energia Scarl;
- Statutory Auditor of Pillarstone Italy S.p.A.;
- Statutory Auditor of Pillarstone Italy Holding S.p.A.;
- Statutory Auditor of PS Reti S.p.A.;
- Statutory Auditor of Sirti S.p.A.;
- Statutory Auditor of Tangenziale di Napoli S.p.A.;
- Statutory Auditor Autostrade Tech S.p.A.

This publication is a summary of the Annual Reports 2020 which contain the Financial statements of Recordati S.p.A. and the Consolidated financial statements together with Management reports in their integral form, the Consolidated Non-Financial Statement and the Corporate governance report. These documents are available in their integral version at the company's headquarters and on the company's website www.recordati.com and can also be viewed on the authorized storage system 1Info (www.1Info.it).

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

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BOARD OF DIRECTORS

(elected by the Shareholders' Meeting of February 5th, 2019 and integrated by the Shareholders' Meeting of April 29th, 2020)

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Chairman

Guido Guidi
Vice Chairman

Andrea Recordati
Chief Executive Officer

Francesco Balestrieri

Silvia Candini
Independent

Michaela Castelli
Lead Independent Director

Giorgio De Palma

Joanna Le Couilliard
Independent

Giampiero Mazza

Piergiorgio Peluso
Independent

Cathrin Petty

Fritz Squindo
Group General Manager

CONTROL, RISK AND CSR COMMITTEE

Michaela Castelli
Chair

Silvia Candini
Piergiorgio Peluso

REMUNERATION AND NOMINATIONS COMMITTEE

Joanna Le Couilliard
Chair

Silvia Candini
Michaela Castelli

BOARD OF STATUTORY AUDITORS

Antonio Santi
Chairman

Livia Amidani Aliberti
Ezio Simonelli
Statutory Auditors

Andrea Balelli
Patrizia Paleologo Oriundi
Alternate Auditors

AUDIT FIRM

EY S.p.A.

MANAGEMENT

Andrea Recordati
Chief Executive Officer

Enrico Baroncia
Pharmaceuticals Italy, Specialty & Primary Care

Corrado Castellucci
Rare Diseases

Fernando Catrambone
Pharmaceutical Chemicals

Gabriele Finzi
Corporate Development & Licensing

Daria Ghidoni
Legal Affairs

Giuseppe Gualazzini
Human Resources

Miguel Isla
Western Europe Subsidiaries, Specialty & Primary Care

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Chief Financial Officer

Alberto Martinez
(as of 11.01.2021)
Specialty & Primary Care

Giovanni Minora
Auditing

Scott Pescatore
Global Operations Rare Diseases

Cédric Ripert
International Licensees Sales, Specialty & Primary Care

Raffaele Sabia
Pharmaceutical Research and Development

Fritz Squindo
Group General Manager

Marianne Tatschke
(until 31.12.2020)
Federica De Medici
(as of 01.10.2020)
Investor Relations & Corporate Communications

Roberto Teruzzi
Industrial Operations

Witold Urban
Central and Eastern Europe Subsidiaries, Specialty & Primary Care

Ismail Yormaz
South Eastern Europe and North Africa Subsidiaries, Specialty & Primary Care

RECORDATI
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