

ANNUAL REPORT 2019

BOARD OF DIRECTORS

(elected by the Shareholders' Meeting of February 5, 2019 and integrated by the Shareholders' Meeting of April 29, 2020)

Alfredo Altavilla
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

AUDIT, RISK AND SUSTAINABILITY COMMITTEE

Michaela Castelli
Chair

Silvia Candini
Piergiorgio Peluso

REMUNERATION COMMITTEE

Joanna Le Couilliard
Chair

Silvia Candini
Michaela Castelli

STATUTORY AUDITORS

Antonio Santi
Chairman

Livia Amidani Aliberti
Ezio Simonelli
Auditors

Andrea Balelli
Patrizia Paleologo Oriundi
Alternate auditors

EXTERNAL AUDITORS

EY S.p.A.

MANAGEMENT

Andrea Recordati
Chief Executive Officer

Enrico Baroncia
Pharmaceuticals, Italy

Corrado Castellucci
Rare Diseases

Gabriele Finzi
Corporate Development & Licensing

Daria Ghidoni
Legal Affairs

Giuseppe Gualazzini
Human Resources

Miguel Isla
International Specialty & Primary Care and Western Europe Subsidiaries

Luigi La Corte
Chief Financial Officer (as of 01.11.2019)

Luisa Mainoli
Finance

Giovanni Minora
Auditing

Cédric Ripert
International Licensees Sales

Fernando Catrambone
Pharmaceutical Chemicals

Raffaele Sabia
Pharmaceutical Research and Development

Fritz Squindo
Chief Financial Officer (until 31.10.2019)
Group General Manager (as of 01.11.2019)

Marianne Tatschke
Investor Relations & Corporate Communications

Roberto Teruzzi
Industrial Operations

Witold Urban
Central and Eastern Europe Subsidiaries

Ismail Yormaz
South Eastern Europe and North Africa Subsidiaries

ANNUAL REPORT 2019



The 2019 Arrigo Recordati International Prize for Scientific Research was dedicated to the promotion and recognition of excellence in orphan disease treatment research.

The prestigious recognition was awarded to Professor Alberto Auricchio, MD, Coordinator of the Molecular Therapy Program at Telethon Institute of Genetics and Medicine (TIGEM) and Professor of Medical Genetics at the Department of Advanced Biomedicine, "Federico II" University in Naples, on September 4th 2019 in Rotterdam during the prize giving ceremony organized within the 2019 Annual SSIEM Congress.



An independent Jury, composed of three internationally recognized experts who have provided leadership through their long careers in the field of rare diseases, Professor Robert J. Desnick, (Mount Sinai School of Medicine, New York, USA), Professor Francesco Emma, (Children's Hospital Bambino Gesù, Roma) and Professor Norio Sakai, (Osaka University, Japan), selected Professor Alberto Auricchio's outstanding research project that could potentially reduce the impact of an extremely severe rare disease such as Stargardt disease and provide needed therapies.

"We are more and more committed to meeting the needs of patients suffering from rare diseases and alleviating the devastating effects these have on their lives and their families by supporting research in this area", declared Andrea Recordati upon awarding the € 100,000 prize to Professor Auricchio who, after expressing his satisfaction for the important Award, gave a rapid lecture summarizing his research project on Gene therapy of Stargardt disease - the most common inherited macular degeneration in humans - with AAV intein vectors.

RECORDATI, AN INTERNATIONAL GROUP	4
THE FUTURE OF THE GROUP	6
LETTER TO OUR SHAREHOLDERS	7
THE GROUP IN FIGURES	10
GEOGRAPHICAL PRESENCE	12
GROUP ACTIVITIES	14
HEALTH, A GLOBAL OBJECTIVE	
CORPORATE PRODUCTS	
OUR SPECIALTY AND PRIMARY CARE MARKET PRESENCE	
RARE DISEASES AND ORPHAN DRUGS	
RESEARCH AND DEVELOPMENT	36
PHARMACEUTICAL CHEMICALS AND PRODUCTION PLANTS	42
THE RECORDATI SHARE	46
FINANCIAL HIGHLIGHTS	49
2019 OPERATIONAL AND FINANCIAL REVIEWS	50
CONSOLIDATED FINANCIAL STATEMENTS	69
ATTESTATION IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS	105
AUDITORS' REPORT	106
DISCLOSURE OF CONSOLIDATED NON-FINANCIAL STATEMENT	113
INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT	168
CORPORATE GOVERNANCE REPORT	174

MANAGEMENT AND SUPERVISORY BODIES

RECORDATI, AN INTERNATIONAL GROUP

REVENUE
Million Euros

1,481.8

NET INCOME
Million Euros

368.9

EMPLOYEES
Exceed

4,300



Recordati is a well-established growing international pharmaceutical group listed on the Italian Stock Exchange (now part of the London Stock Exchange) since 1984.

The Group has its headquarters in Milan and is one of the oldest Italian pharmaceutical companies. Since it was founded in 1926 Recordati has grown constantly for more than ninety years thanks to the success of its products and to its strategy for growth and development based on internationalization and diversification through an acquisition strategy initiated in the 1990's and still ongoing. It actively seeks new opportunities and faces the challenges of a constantly changing marketplace with determination. In 2019 the Group generated revenues of € 1,481.8 million and has a staff of 4,323 employees.

Today the company has many subsidiaries, both in Europe and outside Europe. In addition to the countries in Western Europe the Group is also directly present in the Central European countries, in Russia and the other countries belonging to the Commonwealth of Independent States (C.I.S.), Ukraine, Turkey, Tunisia, U.S.A., Canada, Mexico, in some South American countries, Japan and Australia. Recordati sells its products in over 150 markets both directly and through

license agreements. In addition to its geographical expansion the Group has enriched its product portfolio by developing its own pipeline of products and by entering the segment dedicated to rare diseases.

The Group's most important products belonging to its specialty and primary care business are those, in the cardiovascular therapeutic area, based on lercanidipine, a latest generation calcium channel blocker indicated for the treatment of hypertension, discovered and entirely developed in the Recordati research laboratories, and its combination with enalapril, a widely prescribed ACE inhibitor. The Group's presence in this therapeutic area was further strengthened with the acquisition of the products based on metoprolol, a beta-blocker mainly indicated for the control of a range of conditions including hypertension, angina pectoris, disturbances of cardiac rhythm, maintenance treatment after myocardial infarction, and functional heart disorders with palpitations.

Recordati has acquired a vast specific know-how in the uro-genital therapeutic area in which it is present with well-recognized drugs for the treatment of benign prostatic hyperplasia, such as silodosin, and urinary incontinence, such as flavoxate. Furthermore, in the metabolic area, pitavastatin, a latest generation statin for controlling hypercholesterolemia, is marketed in a number of countries. More recently, cariprazine, an innovative anti psychotic drug for the treatment of schizophrenia, has been launched in most of Western Europe.

Recordati develops, produces and sells drugs for the treatment of rare diseases through Recordati Rare Diseases, a group of companies which operates on a worldwide basis, dedicated mainly to metabolic deficiencies of a genetic nature. Recently, this business segment was reinforced with the addition of two new products to its product portfolio and with the acquisition of important drugs in the area of rare endocrinology diseases.

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

The broad geographical coverage achieved by the Group, its own efficient network of medical sales representatives in addition to its many years of experience in the regulatory field and its expertise in the management of highly specialized products, makes Recordati an ideal partner for the development and marketing of new products in all the territories where it is present with its marketing organizations.

THE FUTURE OF THE GROUP

Recordati's proven ability to generate profitable alliances with prominent players in the pharmaceutical industry is the basis of an increasingly intense activity directed at the identification and execution of new license agreements or partnerships for the development of innovative products.

In the future Recordati will continue to extend its presence in the international pharmaceutical market and in the segment dedicated to rare diseases.



LETTER TO OUR SHAREHOLDERS



The financial results obtained in 2019 demonstrate the continued growth of the Group, with increased revenues and profits.

The financial results obtained in 2019 demonstrate the continued growth of the Group, with increased revenues and profits. All business segments, the main products as well as the new business development initiatives, contributed to these results. Group consolidated revenue for 2019 is € 1,481.8 million, up 9.6% over the preceding year. International sales are € 1,194.6 million, up 10.7% and now represent 80.6% of total revenue. As regards our Specialty and Primary Care portfolio, which represents 83.1% of revenues growing by 8.3%, Zanidip®, Urorec® and Livazo® performed well and our self-medication products showed significant growth. During the year Reagila®, the innovative antipsychotic drug for the treatment of schizophrenia, was successfully launched in the majority of Western European countries. Furthermore, the performance of our business dedicated to treatments for rare diseases was noteworthy. This business now represents 16.9% of revenues and grows by 16.3% which includes the contribution from recently acquired and licensed products (Juxtapid® in Japan, Ledaga® in Europe and Signifor®/Signifor® LAR worldwide).

Profits also showed solid growth. EBITDA, at 36.7% of sales, is € 544.0 million, an increase of 9.0% over 2018. Operating income, at 31.4% of sales, is € 465.3 million, a growth of 5.2% compared with the preceding year. Net income is € 368.9 million, an increase of 18.1%, with a margin on sales of 24.9%, significantly higher compared to that of the preceding year due to the growth of operating income and to the tax benefit provided by the so-called "Patent box" agreed with the Italian tax authorities in December 2019. The total benefit is of € 35.3 million, of which € 27.0 million refers to previous years and € 8.3 million is relative to 2019. Excluding the previous years' benefit net income would be of € 341.9 million, up by 9.4% and 23.1% of revenue.

At 31 December 2019 the Group's net financial position records a net debt of € 902.7 million compared to net debt of € 588.4 million at 31 December 2018. During the year dividends were paid for an amount of € 190.9 million. Furthermore, an important acquisition of product rights was made and licenses obtained for new products for a total investment of around € 425 million. Shareholders' equity at 31 December 2019 is € 1,198.8 million.

In 2019 a number of initiatives were pursued in line with the group's strategy of continued growth and development.

In February, Recordati signed a license agreement with Aegerion Pharmaceuticals Inc., a subsidiary of Novelion Therapeutics Inc., for the exclusive rights to commercialize Juxtapid®, currently approved for the treatment of homozygous familial hypercholesterolemia (HoFH), in Japan. The agreement includes a right of first negotiation for product commercialization in Japan of any potential new indications that may be developed by Aegerion. Upon signing of the agreement an upfront payment of \$ 25 million was paid to Aegerion and a milestone of \$ 5 million was paid in June. The agreement includes commercial milestones and

royalty payments. In 2018 sales of the product in Japan were of \$ 10.8 million. The addition of Juxtapid® to our portfolio of rare disease products in Japan is very important for the development of our recently established subsidiary in this country, given its potential for significant growth.

Recordati Rare Diseases, a worldwide leader in rare diseases and orphan drugs, recently announced that its strategy aimed at establishing a direct presence in the key markets across all continents has been successfully executed. Local Recordati Rare Diseases companies are now active in North America, Latin America, Europe, Middle East and Asia Pacific. 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 Recordati in 2007.

On 12 July 2019 an agreement was signed with Novartis for the acquisition of worldwide rights to Signifor® and Signifor® LAR for the treatment of Cushing's disease and acromegaly in adult patients for whom surgery is not an option or for whom surgery has failed. Worldwide sales of Signifor® in 2019 were \$ 75 million. The agreement also covers the acquisition of worldwide rights to Isturisa® (osilodrostat), an investigational innovative drug for the treatment of endogenous Cushing's syndrome, for which marketing authorization was granted by the European Commission in January 2020 and approval obtained in the USA in March 2020. The transaction was completed on 23 October 2019 and a consideration of \$ 390 million, funded by existing liquidity and new debt facilities, was paid to Novartis. Subsequently, additional milestone payments contingent upon the approval and market access of Isturisa® as well as royalties on sales of this new product, will be due. Cushing's syndrome includes Cushing's disease, a severe endocrine disease caused by a pituitary adenoma which results in over-production of cortisol by the adrenal glands and is associated with increased morbidity and mortality. Acromegaly is caused by an overexposure to growth hormone consequent to a pituitary adenoma. Signifor® contains the active substance pasireotide, a somatostatin analogue that helps to control the over-production of cortisol and improve the symptoms of Cushing's disease. The active ingredient in Isturisa®, osilodrostat, orally administered, inhibits the final step of cortisol synthesis in the adrenal cortex. This new drug for endogenous Cushing's syndrome is expected to represent an effective new treatment option for patients.

Going forward we will continue to develop the business, both by growing the existing product portfolio as well as through acquisitions of products or companies, with the objective of enhancing our presence in selected markets. The development of the segment dedicated to treatments for rare diseases and its expansion into new markets will continue to be a priority. Our Group already makes these treatments 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 to dedicate resources to research and development and strong emphasis will be placed on the enrichment of our product portfolio both through the development and launch of pipeline products as well as through the acquisition of new specialties.

During 2019 a number of initiatives related to business sustainability were put in place. In this context of strong growth, of commitment to research and innovation, our Group continues to develop a structured and organic sustainability process in order to share the social, environmental and economic objectives of our operations with our stakeholders. In view of the nature of our business, sustainability has always been an integral part of

the strategy of our Group, aimed at providing benefits not only to patients but also to everyone with whom and for whom we work: our shareholders, our customers, our scientific and commercial partners, our collaborators and the local communities in which we operate. The preparation of non-financial information represents one of the many examples of our sustainability roadmap, through which we intend to highlight the objectives of the Group and the results obtained in terms of environmental, social and economic responsibility. We are confident that, with the inclusion of themes related to sustainability in our business dynamics, we will be able to achieve our objectives more effectively and with increased operational awareness, and therefore meet future challenges with optimism by appealing to our values.

As from the month of February Italy and all the main countries in which the Group operates are impacted by the epidemiologic emergency due to the COVID-19 virus, declared a pandemic by the OMS in March. To face the emergency, in Italy, and subsequently also in other countries, restrictions to the circulation of people and provisions to support companies' economic activities have been introduced. The Group is implementing all possible measures and initiatives to guarantee the supply of medicines to its patients and the safety of its employees. We believe that the rigorous execution of these actions and of our strategy will enable us to be optimistic regarding the future, and we count, as always, on the entrepreneurship and determination of our management team, the professional skills of our employees and the trust of our shareholders. We would like to express our gratitude to all of them for their loyalty and support during 2019.

DIVIDENDS

Based on the results obtained, the Board of Directors of the parent company will propose to the shareholders a dividend of € 0.52 per share, in full balance of the interim 2019 dividend of € 0.48, to be paid to all shares outstanding at ex-dividend date, excluding those in treasury stock, as from 20 May 2020 (record date 19 May 2020), with ex-dividend on 18 May 2020 (against presentation of coupon no. 25). The full 2019 dividend is therefore of € 1.00 per share (€ 0.92 per share in 2018).

ANDREA RECORDATI
Chief Executive Officer

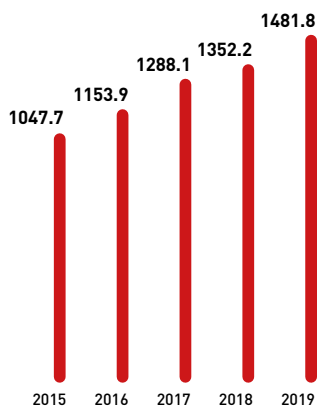
ANDREA RECORDATI



THE GROUP IN FIGURES

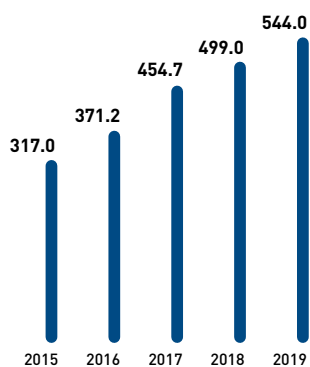
REVENUE

Millions of Euro



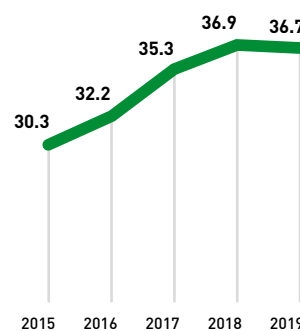
EBITDA*

Millions of Euro



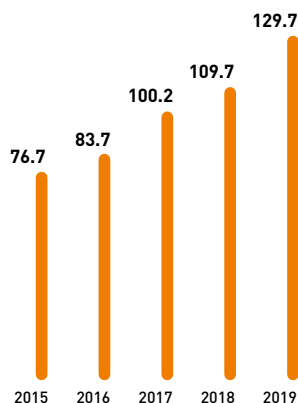
EBITDA*

AS % OF REVENUE



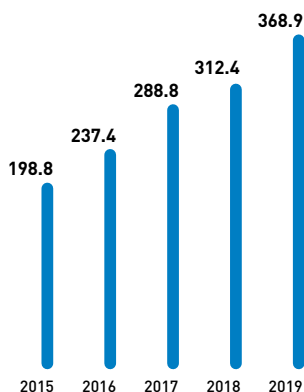
R&D EXPENSES

Millions of Euro



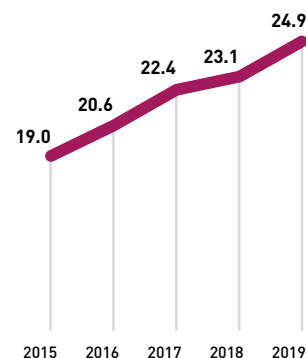
NET INCOME

Millions of Euro



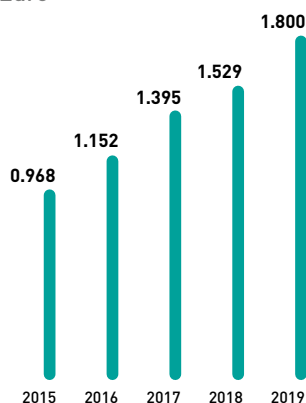
NET INCOME

AS % OF REVENUE



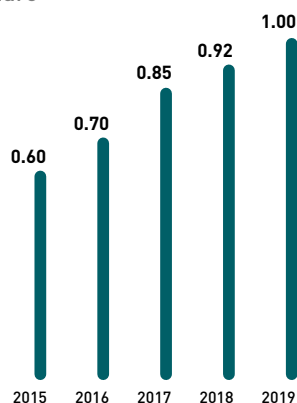
NET INCOME PER SHARE

Euro



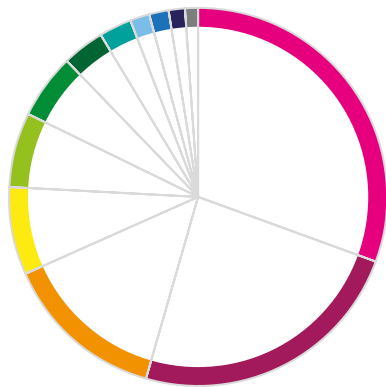
DIVIDEND PER SHARE

Euro



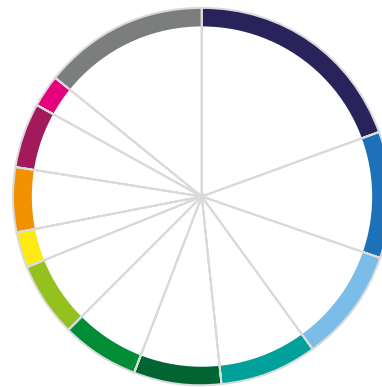
* Net income before net interest, provision for taxes, depreciation, amortization and write down of both property, plant and equipment and intangible assets.

PHARMACEUTICAL SALES BY THERAPEUTIC AREA



- 30.8% Cardiovascular
- 23.8% Alimentary tract & metabolism
- 13.8% Genito-urinary system
- 7.6% Respiratory system
- 6.5% Musculo-skeletal system
- 5.3% Blood and blood forming organs
- 3.7% Central Nervous System
- 2.9% Sensory organs
- 1.7% Dermatology
- 1.5% Anti-infectives for systemic use
- 1.4% Antineoplastic
- 1.0% Various

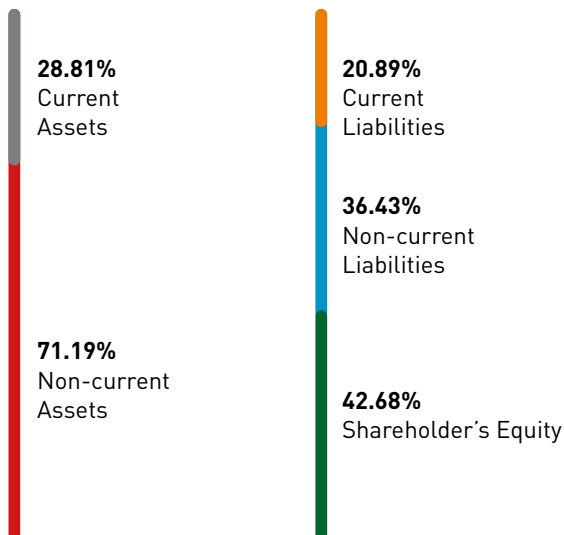
GEOGRAPHICAL COMPOSITION OF PHARMACEUTICAL SALES



- 19.5% Italy
- 11.0% France
- 9.6% Germany
- 8.4% Russia, Ukraine, other CIS
- 7.6% USA
- 6.6% Spain
- 6.2% Turkey
- 3.1% Portugal
- 5.7% Other CEE
- 5.4% Other Western Europe
- 2.8% North Africa
- 14.1% Other international sales

BALANCE SHEET

at 31 December 2019



SHAREHOLDER'S EQUITY

Millions of Euro

1,198.8

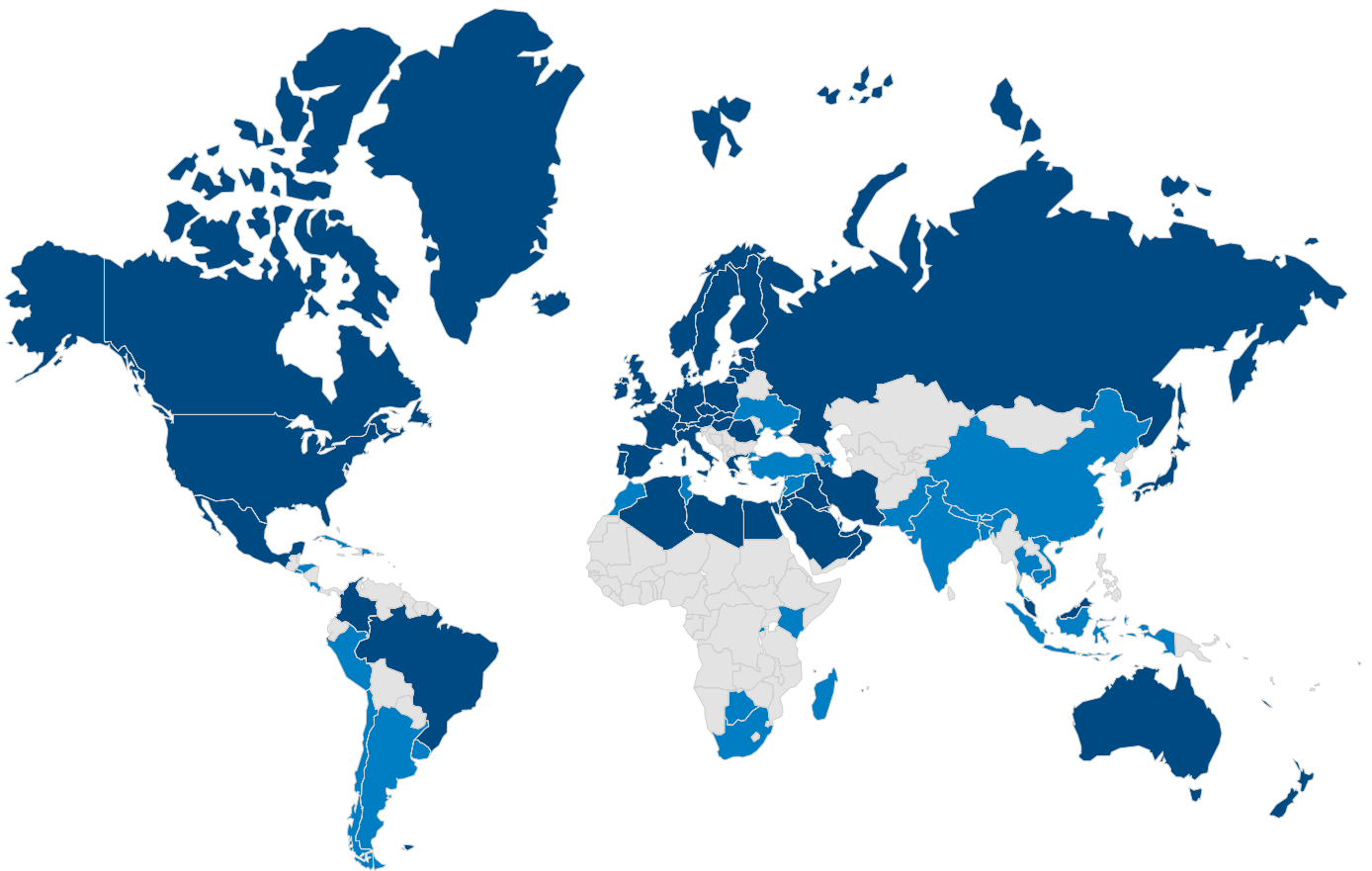
NET FINANCIAL POSITION

Millions of Euro

(902.7)

More than **150** COUNTRIES

TREATMENTS FOR RARE DISEASES



- Subsidiaries and direct presence of orphan drug representatives
- Commercial agreements and direct delivery

GROUP ACTIVITIES

The Recordati group operates in a wide and differentiated field which comprises primary and specialty care, self-medication and rare diseases.

In addition to being present in the field of cardiovascular disease, and in particular in hypertension, Recordati also operates in the area of urology with treatments for benign prostatic hyperplasia and for male sexual functional disorders as well as in the area 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.



HEALTH, A GLOBAL OBJECTIVE

The World Health Organization (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 under which people are born, live and work, including healthcare assistance systems. In this context, in addition to institutions and governments, pharmaceutical companies must also develop strategies for the improvement of healthcare systems, in terms of availability, accessibility and quality of the healthcare structures and of the goods and services provided.

Healthcare expenditure represents an important indicator of the growing attention to the subject of health: on a global level, the value of expenditure on healthcare represents around 10% of GDP. A significant component of healthcare expenditure is pharmaceutical spending, which, on a global level, is estimated to be \$ 1,300 billion in 2019 and is expected to continue to grow reaching \$ 1,500 billion by 2023. This significant attention placed on health has allowed investment in research and the development of innovative medicines, together with the creation of new and more efficient healthcare assistance models to maximize benefits for patients also through the growing utilization of technology.

The growth determined by the entry of new drugs will be limited by the

loss of exclusivity of a number of important products and the cost containment of pharmaceutical expenditure worldwide. It is expected that, thanks to the continued success rates associated with research and development pipelines, there will be an increase in new product launches with an average of 54 new drugs every year over the next five years. Research is shifting towards specialty products, those for rare diseases and oncological treatments. Most of the impact due to loss of exclusivity took place in 2019. *Source: IQVIA – Predictions and Areas to Watch in the global pharma market ahead. 2019-2023.*

Over the counter (OTC) products, which have reached a total value of \$ 138 billion (MAT June 2019, up by 3.6% - *source: Nicholas Hall's OTC Dashboard*), are expected to continue to grow, at a more moderate rate, in developed countries as well as in emerging markets. In developed economies, growth drivers are linked mainly to the increasing average age of the population and to the relative increased attention to prevention, while the reduction in the rate of change of Rx products to OTC (over the counter) status and the impact of e-commerce on retail sales have affected the evolution of market values. In emerging economies, growth will be driven by population increase and improved access to medication, including the development of assistance programs for the middle class (for example in the main Asian countries, like India).

Furthermore, increased attention will be paid to the treatment of rare diseases. In 2019, \$ 136 billion (+4% over 2018) were spent for treatments for rare diseases, a market estimated to grow on average by 12.3%, reaching \$ 242 billion by 2024 when



it will represent 20% of the global prescription drug market, excluding generics (*source: Evaluate Pharma – Orphan Drug report 2019*).

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

- internationalization, in order to guarantee a more extended market on which to make products sold available;
- relationship with opinion leaders, fundamental for both research and development activities and the education and training of company medical representatives;
- education, training and updating of physicians regarding new pharmaceutical products;
- development of relationships with national governments, patient associations and public administrations in order to make pharmaceutical products available on the market.

CORPORATE PRODUCTS

The Recordati group markets a wide range of innovative products originated by its own research, developed in-house or obtained under license.

ZANIDIP®/CORIFEO®/ LERCADIP®/LERCAN® (lercanidipine)

Is an antihypertensive drug discovered and developed entirely in the Recordati research laboratories.

Lercanidipine, the Group's main product, is effective in gradually lowering blood pressure values to optimal levels avoiding episodes of reflex tachycardia and reducing the risk of cardiovascular events and their related mortality. Its lipophilicity and high selectivity are properties which render lercanidipine effective with a superior tolerability profile. It ensures protection of the kidneys and the endothelium of the 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.

Lercanidipine, twenty years from its initial launch, is still a widely used first line treatment.

ZANIPRESS®/ZANEXTRA®/ LERCAPREL®/LERCARIL®/ ZANIPRIL®/ZANICOMBO® (lercanidipine + enalapril)

Is an antihypertensive drug developed by Recordati. It associates lercanidipine, a latest generation calcium channel blocker, with enalapril, a widely prescribed ACE inhibitor, allowing the simultaneous administration of two active ingredients. The administration of a single pill, for a patient who often takes a number of different medicines every day, increases compliance which is an important success factor in the treatment of hypertension.

As stated by the European Society of Hypertension, combination therapy should be considered as first line treatment for hypertensive patients at high risk for cardiovascular events. Most hypertensive patients, and those with other associated risk factors in particular, require more than one antihypertensive drug to keep their blood pressure at desired levels.

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, good tolerability in addition to renal and vascular protection from damage caused by hypertension.

A new dosage form combining 20mg of lercanidipine with 20mg of enalapril (20/20) was launched in recent years. The new form, which is based on an increased dosage of lercanidipine, provides higher antihypertensive activity and improved organ protection (heart, kidneys and brain) while maintaining



its good tolerability profile unchanged. Together with the existing 10/10 and 10/20 dosage forms this new form provides a wide choice of treatments.

UROREC® (silodosin)

Silodosin is a drug indicated for the treatment of benign prostatic hyperplasia (BPH), a frequent disease in men over the age of fifty, the incidence of which is increasing due to the ageing of the population in general.

BPH manifests with problems linked to urination, such as reduced urine stream, increased frequency and urgency and nocturia, symptoms which negatively affect quality of life.

Silodosin is a powerful antagonist of the α_1 adrenergic receptors with a higher affinity for α_{1A} receptors than other drugs in the same class. Blocking of the α_{1A} receptors leads to a rapid increase in urine flow even within 2 to 6 hours from

administration, with an improvement in both irritative symptoms (frequency, urgency, nocturia) and obstructive symptoms (hesitancy, incomplete emptying of the bladder, intermittency, weak stream) over 3 to 4 days.

Symptom improvement is maintained during long term treatment.

The low incidence of orthostatic and vasodilatory side effects make it a well-tolerated treatment even in patients who take antihypertensive medication.

The results of a large phase IV clinical study conducted on more than 1000 patients in Europe (the SIRE study) confirmed, in clinical practice, the efficacy of silodosin in the relief of the more frequent symptoms associated with BPH.

Another recently published study (Fusco et al, 2018) furthermore showed the efficacy of silodosin in significantly reducing bladder outlet obstruction in patients with severe BPH, by using urodynamic testing. This result is particularly interesting as it is widely recognized that there is a direct correlation between bladder obstruction and remodelling, which is responsible for the progressive loss of organ function.

The efficacy of silodosin on the urodynamic parameters therefore translates, not only into immediate symptomatic relief, but also into the possible prevention, over the long term, of bladder degeneration, potentially postponing the need for surgical intervention.

Silodosin is the result of original research by the Japanese pharmaceutical company Kissei Pharmaceutical Co. Ltd. and was obtained under license by Recordati who conducted the clinical development for the whole of Europe, and a number of countries in the Middle East and Africa, and successfully launched the drug in 40 countries including France, Germany, Italy, Spain, Portugal, the C.I.S. countries, Tunisia, Turkey and Switzerland.

LIVAZO®/ALIPZA® (pitavastatin)

Pitavastatin is an innovative statin for the treatment of dyslipidemia, a condition characterized by altered levels of blood cholesterol and other lipids and associated with an increased risk for heart disease and stroke.

Pitavastatin is indicated for the reduction of elevated total cholesterol (TC) and LDL cholesterol (LDL-C), in adult patients with primary hypercholesterolemia and combined (mixed) dyslipidemia when response to diet and other non-pharmacological measures is inadequate.

In controlled clinical trials involving more than 1,600 patients it was shown that pitavastatin induces not only a reduction in LDL-cholesterol (the “bad” cholesterol that contributes to formation of atherosclerotic plaques) but also an increase in HDL-cholesterol (the “good” cholesterol that is removed from the arterial walls), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications.

Furthermore, it has been shown that pitavastatin is minimally metabolized by the enzymes of the Cytochrome P-450 family, enzymes that play a key role in the metabolism of many drugs, thus minimizing the potential

risk for unpredictable responses to treatment or for interaction with drugs metabolized by this pathway.

Pitavastatin was obtained under license by Recordati from the Japanese pharmaceutical company Kowa for many European markets including Russia, other CIS and Turkey. The drug has been successfully launched in Spain, Portugal, Switzerland, Ukraine, Greece, Russia, Georgia, Turkey, Armenia and Kazakhstan.

SELOKEN®/ SELOKEN® ZOK/SELOZOK®/ BETALOC® ZOK/ BELOC ZOK® (metoprolol succinate)

Seloken® and Seloken® ZOK are metoprolol based medicines belonging to the beta-blocker class of drugs widely used in the treatment of angina pectoris, disturbances of cardiac rhythm, hypertension, myocardial infarction 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 disturbances and hypertension.

Supported by long term use in clinical practice, metoprolol represents a benchmark in cardiovascular therapy. 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 commercialization rights for the drug in Europe. The product is available under the international brands Seloken®, 100 and 200 mg dosage forms, and Seloken® ZOK/ Betaloc® ZOK, 23.75 mg, 47.5 mg, 95 mg and 190 mg.





LOGIMAX® (metoprolol succinate + felodipine)

Logimax® is a fixed association of metoprolol with felodipine which over the years has shown high antihypertensive efficacy. The use of metoprolol together with felodipine enables the reduction of possible episodes of reflex tachycardia induced by the calcium channel blocker, while felodipine associated with metoprolol facilitates vasodilation by reducing peripheral vascular resistance.

This mechanism of action 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 therapeutical combinations mostly mentioned and recommended by the European ESH/ESC guidelines.

A recent meta-analysis of 208 clinical studies involving 90,000 patients, supported by extensive documentation, with the objective of evaluating the antihypertensive profile of the various therapeutic combinations available, has confirmed that the association of metoprolol with felodipine is one of the most efficacious.

REAGILA® (cariprazine)

Reagila® (cariprazine) is a new drug for the treatment of schizophrenia, a third generation antipsychotic, which, thanks to its pharmacological

peculiarity can be considered unique in the panorama of this therapeutic class.

It, in fact, is capable not only of acting on the "positive" symptoms of the disease, such as delirium, hallucinations, thought dissociation, etc., but also on the "negative" component such as apathy, anhedonia, antisocial behaviour.

Cariprazine also has the additional advantage of having reduced neurological and metabolic collateral effects and low cardiovascular impact.

The drug has a long half life and is administered orally once daily.

Its clinical efficacy has been shown by a number of clinical studies involving over 2,000 patients.

Reagila® was obtained under license for the Western European countries and has been launched in Germany, Switzerland, Italy, Benelux, the United Kingdom, Sweden, Denmark, Finland, Spain, Portugal and Ireland.

TERGYNAN®

A fixed combination of different active ingredients, this product is used for the topical treatment of vaginal infections and the prevention of gynecological infections thanks to its distinct antimicrobial, antiinflammatory, antiprotozoal and antimycotic activity.

Tergynan® is a leading brand within the class of antiinfective and antiseptic gynecological medicines in the countries in which it is marketed, in particular, in Russia, in the other countries belonging to



the Commonwealth of Independent States, in Ukraine, Mongolia and Romania.

CITRAFLEET® and PHOSPHO-SODA®, FOSFOSODA®

Both brands are bowel cleansers used in preparation for any diagnostic procedure which requires emptying of the intestines, such as colonoscopy.

These products are sold mainly in Spain and in Germany. Thanks to the constant product portfolio integration process among the group's subsidiaries, the presence of Citrafleet® was extended to many other countries including Poland, France, Portugal and Italy which are the main markets, while the presence of Phospho-soda® was extended mainly to France, Russia and Turkey.

POLYDEXA®, ISOFRA® and OTOFA®

These are fixed combinations of different drugs used in the treatment of ear, nose and throat (ENT) infections. They are sold mainly in Russia and are constantly growing.

REUFLOR®/CASENBIOTIC®/ BIORALSUERO®/REUTERI®/ GASTRUS® (lactobacillus reuteri protectis)

These are food supplements based on lactobacillus reuteri protectis. Gastrus® is an association of two strains of lactobacillus reuteri purposely studied for the treatment of conditions involving helicobacter pilory infection, Casenbiotic®, Bioralsuero® and Reuteri® are products widely used in Spain.

Casenbiotic® is available also in Portugal, ReufloR® is marketed in Italy.

ReufloR® is a benchmark in the treatment of gastrointestinal functional disorders thanks to its efficacy in rebalancing the intestinal bacterial flora in adults and children. It consists of live active lactic bacteria with probiotic action which colonize

the intestine. It is able to have a beneficial effect on the balance of intestinal bacteric flora at all ages, from infants to adults, as shown by robust scientific documentation.

Recent scientific evidence has suggested the use of Reuflor® to help stimulate the immune system. Therefore, as from 2017, a new formulation with vitamin D3 has been added which increases the benefit of immune system stimulation.

PROCTO-GLYVENOL® (tribenoside)

Is an OTC product indicated for the treatment of internal and external hemorrhoids and is a leading brand in its class.

Procto-Glyvenol® is successfully marketed by Recordati in the Central and Eastern European markets as well as in the Baltic countries, Portugal and Turkey.

THE HEXA LINE OF PRODUCTS

The Hexa line of products comprises the brands Hexaspray®, Helaxyse® and Hexapneumine®, a series of antibacterial drugs containing biclotimol used for infections of the oral cavity, which are particularly successful in France and North Africa, in Russia and the other CIS countries, in Ukraine and Mongolia.

The main brand is Hexaspray®, a spray for sore throats and leader in its class in France. The product line has recently been enhanced with the launch of Hexatoux®, a spray treatment for cough available in France and Georgia.

LOMEXIN®/FALVIN®/ (fenticonazole) and GYNOXIN® (fenticonazole nitrate)

Lomexin® (fenticonazole), originated by Recordati, is a topical antimycotic with a wide spectrum of action. Indicated for the treatment of dermatological

and gynaecological infections from fungi, molds, yeasts and gram positive bacteria, fenticonazole destroys fungal cells by means of its dual mechanism of action which prevents the formation of ergosterol and inhibits the aspartic proteinase of the candida.

This product represents a valid therapeutic alternative to orally administered treatments, reducing the development of resistances.

It is available in different forms and dosages and is very well tolerated.

Fenticonazole is supported by years of worldwide clinical experience. In some countries it has obtained OTC status thus making the product more competitive and accessible to patients.

CASENLAX®/LAXBENE® and FLEET ENEMA®

The laxatives Casenlax® and Fleet Enema® are gastrointestinal products indicated for constipation. The first is successfully marketed in a number of Western European countries and in Germany under the brand Laxbene®.

It is available in the form of individual ready to drink liquid sachets in Spain. Fleet Enema® is also indicated for bowel cleansing in preparation for surgery.

TRANSACT LAT® (flurbiprofen transdermal patch)

TransAct®LAT is a transdermal patch containing flurbiprofen, a non steroidal antiinflammatory drug (NSAID), indicated for the symptomatic relief of localized pain involving the musculoskeletal system.

The underlying technology, the excipients and the active ingredient all contribute to the treatment's effectiveness, to its constant release over a twelve-hour period and to its localized antiinflammatory and analgesic action, acting only where the patient feels pain, thereby avoiding the problems connected

with the use of NSAIDs delivered systemically.

All these characteristics and the efficacy of flurbiprofen, demonstrated by numerous clinical studies, make TransAct®LAT a highly appreciated specialty among doctors and the patients themselves.

It is available in a number of countries in Europe, among which Italy and Portugal where it is successfully marketed by Recordati.

GENURIN®/URISPAS® (flavoxate)

Flavoxate, a Recordati original research product, is a muscle relaxant of the urinary tract.

It is indicated for the symptomatic treatment of dysuria, urgency, nocturia, frequency and incontinence and the treatment of bladder and urethral spasms.

It is able to control symptoms associated with urgency and hyper activity of the detrusor, thanks to its action on the transmission of the reflex impulse to empty the bladder.

Flavoxate is widely used worldwide and was the first Italian drug to be approved by the American Food and Drug Administration and to be marketed in the United States of America.

KENTERA® (oxybutynin transdermal patch)

Kentera® is an oxybutynin transdermal system indicated for the treatment of symptoms associated with disorders of the lower urinary tract, such as incontinence, frequency and urgency.

This product is indicated for all patients with overactive bladder as it combines the effectiveness of oxybutynin (considered the 'gold standard' for this disorder) with its excellent tolerability, thanks to the reduced first pass liver effect, and with the ease of use of a patch applied twice a week which constitutes a valid alternative to oral medications.

It is currently marketed by Recordati in seventeen European countries through its own subsidiaries and licensees.

RUPAFIN®/WYSTAMM® (rupatadine)

Rupatadine is a second generation antihistamine. It is a histamine antagonist with selective peripheral H1 receptor antagonist activity.

It effectively blocks the receptors of the platelet activating factor (PAF), a characteristic which distinguishes it from other specialties belonging to the same class of drugs.

Rupatadine inhibits allergic effects affecting both the nasal mucosa and other organs targeted by the allergic reaction, such as the skin, controlling symptoms such as sneezing, itching, rhinorrhea, nasal congestion, wheals and rashes.

Its pharmacokinetic properties allow quick and effective control of allergies, rapid relief from symptoms and a long-lasting antihistamine action.

It is marketed in Italy, Germany and France.

LOPRESOR® (metoprolol)

Lopresor® belongs to the beta-blocker class of drugs and is indicated for the treatment of hypertension either alone or in association with other antihypertensive agents.

This selective beta blocker is also indicated for long term treatment of angina pectoris.

Lopresor® is available in a number of European countries and is particularly successful in Greece and in Germany.

ABUFENE® and MUVAGYN®

Abufene® and Muvagyn® are two gynaecological products indicated in

the treatment of the symptoms of menopause.

Abufene® is a non-hormonal medicine used for the control of hot flashes present in menopause which is very well known in France.

Muvagyn® is a line of OTC gynaecological gels. It is a regenerative non-hormonal treatment of the vaginal mucus indicated mainly for vaginal dryness.

LACDIGEST® (tilactase)

Lacdigest® is a well known preparation based on the enzyme tilactase indicated in cases of lactose intolerance due to primary and secondary lactase deficiency. Lactase is normally present in the intestines and its function is to separate lactose into its two absorbable constituent monosaccharides, glucose and galactose. If this enzyme is absent or deficient, the lactose that is ingested is not absorbed and can result in cramps, abdominal swelling, flatulence and diarrhea, a very common syndrome which progresses with the aging of the population.

Lacdigest® contains the enzyme tilactase which is able to divide lactose into its two constituents which can be intestinally absorbed. Its dosing is extremely flexible and can be adapted case by case according to the severity of the symptoms and the amount of lactose ingested.

The product is sold in Italy and in Switzerland where it is market leader.

VITAROS®/VIRIREC® (alprostadil)

Is the first topical cream approved for the treatment of erectile dysfunction.

It is indicated for men at least 18 years' old who are unable to achieve or maintain a penile erection sufficient for satisfactory sexual performance.

Its innovative formulation with specific excipients enhances the rapid absorption in situ of the active ingredient alprostadil, a synthetic analogue of prostaglandin E1, a potent vasodilatory substance naturally present in the human body. The product is characterized by fast onset of action, between 5 and 30 minutes, and its effect lasts between 1 and 2 hours. Its efficacy was shown in extensive phase III trials conducted on more than 1,700 patients.

The topical administration and local mechanism of action that minimizes any systemic adverse reaction or interaction with other drugs, food or alcoholic beverages, makes Vitaros® an effective and safe alternative to existing orally administered products.

Launched successfully in Spain the product is now on the market in Portugal, Ireland, the Czech Republic, Slovakia and was recently launched in Greece, Romania and Poland.

FORTACIN® (lidocaine+ prilocaine)

Fortacin® is a spray formulation of lidocaine and prilocaine for the treatment of premature ejaculation, which, together with erectile dysfunction, is one of the most frequent male sexual disorders.

As shown by the results of the PEPA (Premature Ejaculation Prevalence and Attitude) study conducted on European and American men between the ages of 18 and 70, premature ejaculation presents important repercussions on the sexual and psychological sphere of the patient and the couple.

Fortacin®, thanks to its innovative excipient free formulation allows rapid efficacy, ease of use and high tolerability. It is the first topical treatment approved for this specific condition and was included in the EAU (European Association for Urology) Guidelines as one of the reference treatments for premature ejaculation.

Currently, Fortacin® is available in Italy, Spain, Portugal, Germany, France and the UK, but will also be available soon in other European countries.

OUR SPECIALTY AND PRIMARY CARE MARKET PRESENCE

Some products or product lines marketed locally by Recordati's subsidiaries detain prominent positions in their markets of reference.

ITALY

Successfully present on the Italian market since 1926, Recordati has grown constantly and has brilliantly exceeded ninety years of activity.

Recordati offers a broad range of medications in this country through its organizations Recordati S.p.A., Innova Pharma S.p.A., Italmichimi S.p.A. and Natural Point S.r.l. and provides doctors and specialists with up-to-date support of high scientific value.

In addition to its historic and established presence in the cardiometabolic field, the Italian product portfolio also boasts quality medicines in urology, in gastroenterology and in pain control.

Cardiometabolic area

In the cardiometabolic area Recordati offers a number of treatments. Two antihypertensive products entirely developed in-house are Zanedip®/ Lercadip® (lercanidipine) and Zanipress®/ Zanipril® (lercanidipine+enalapril), available in a number of dosage forms to enhance flexibility in the treatment of hypertension.

Two treatments belonging to the beta-blocker class are well-appreciated by physicians.

Cardicor® (bisoprolol) indicated for the treatment of chronic heart failure, administered in addition to ACE inhibitors and diuretics, is considered a gold standard. Seloken® (metoprolol) is widely used in clinical practice for the control of hypertension and angina pectoris.

Rextat®/Lovinacor® (lovastatin), a well-tolerated and trustworthy statin, is used in first line pharmacological treatment of dyslipidemia.

Urology area

Urorec® (silodosin) is appreciated by physicians in Italy and reinforces the company's presence in the field of urology and in particular in benign prostatic hyperplasia.

Recoprox® is a food supplement based on serenoa repens which is widely used in clinical practice to improve the urinary tract and prostate functions.

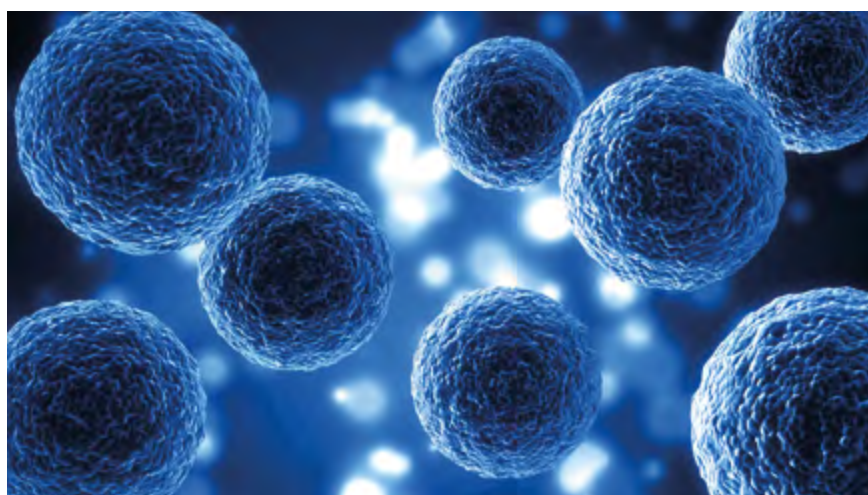
Fortacin®, a topically applied spray based on lidocaine and prilocaine, is a new treatment for premature ejaculation. It acts rapidly, is safe and easy to use. The scientific literature

confirms this product's efficacy (prolonged latency and ejaculation control) and underlines its capacity to improve the couple's well-being and relieve the patient's emotional stress.

Gastrointestinal area

Peptazol® (pantoprazole), a proton pump inhibitor frequently used for the treatment of gastro esophageal reflux disease and in gastro-protection from NSAIDs, is one of the most important products in the portfolio and one of the most stable brands in its market segment. Its lower risk of pharmacological interactions is widely recognized by doctors because the greatest users of this class of drugs are patients who simultaneously take a number of different treatments. To facilitate use by chronic patients a new package containing 28 tablets was introduced.

In the field of gastrointestinal disorders, the probiotic Reuflor® (a dietary supplement based on lactobacillus reuteri) is a live active lactic bacterium with probiotic action which colonizes the intestine and is efficacious in rebalancing the





intestinal bacterial flora in adults and children. As from 2019 the convenient “easy dropper” is available to facilitate administration to small children.

Peridon® (domperidone) is a gastroprokinetic widely used in adults for the symptomatic treatment of nausea, vomiting, abdominal discomfort and gastric regurgitation. PeridoNatural® is a line of food supplements which is well appreciated as a natural adjuvant in the treatment of digestive disorders in children and adults due to its optimal safety profile.

Completing the product portfolio in this area are Citrafleet® (sodium picosulfate), a bowel cleanser used in the preparation of colonoscopy procedures, Casenlax® (macrogol), an osmotic laxative particularly indicated in chronic constipation and Lactigest®, a preparation based on the enzyme tilactase indicated in cases of lactose intolerance due to primary and secondary lactase deficiency.

ENT area

In this therapeutic area Recordati offers Isocef® (ceftibuten), a third generation easy to use oral cephalosporin thanks to its once a day dosing regimen, which is used for the treatment of microbial infections of the respiratory tract.

The line of antibiotics also includes the Unicexal™/ Cexidal® (ciprofloxacin



and corticosteroid for topical use) line that represents a valid treatment option in primary care for ear, nose and throat infections.

Aircort® (budesonide) is a corticosteroid based line of products available in a number of formulations widely used in the symptomatic treatment of disorders of the respiratory tract of both infective or allergic nature.

Rupafin® (rupatadine), an antiallergy antihistamine is a valid therapeutic solution for the treatment of seasonal or perennial allergic syndromes such as rhinitis by due to its particular mechanism of action.

Pain and inflammation area

Tora-Dol® (ketorolac tromethamine) is an effective fast-acting non-steroidal anti-inflammatory drug which has always been a leader in its class. It is considered by a large number of both specialists and general practitioners as one of the most effective drugs for pain control. It is used both in hospitals and outpatient clinics for the treatment of acute and severe pain.

Psychiatric area

In December 2018 Recordati launched Reagila® (cariprazine), a new drug for the treatment of schizophrenia, in Italy. This third generation antipsychotic has the

advantage of being efficacious in treating both the positive and negative symptoms of schizophrenia, having reduced neurological and metabolic side-effects and a good cardiovascular safety profile.

The clinical efficacy of the drug is shown by numerous clinical trials involving more than 2,000 patients and has attracted the interest of more than 1,500 psychiatrists who attended the institutional congresses and events during 2019.

Self-medication area

Recordati also has an excellent reputation at the pharmacy level and continues to grow in the self-medication market, thanks to its large offering in a number of therapeutic areas such as oral hygiene, eye cure, nose and throat care.

A number of historical brands such as Alovex®, Proctolyn®, Eumill®, Dentosan®, Imidazyl®, Naprosyn®, hold leading positions in their reference markets.

The Alovex® line, dedicated to the treatment of aphthas and mouth sores, the treatment of lip herpes as well as pain and irritation caused by teething, was enhanced in 2018 by a new topical formulation, Alovex® ferite, for the treatment of superficial cutaneous sores.

Proctolyn® in the antihaemorrhoids segment reinforced its leadership, while TransAct®LAT, a transdermal patch containing flurbiprofen, a non steroidal antiinflammatory drug, is well positioned in its market of reference.

In the natural eye drops segment the Eumill® line consolidates its leading position thanks to the performance of Eumill®, Eumill® Protection, Eumill® Naso adults and children and to the launch of Eumill® DryRepair, lubricating and moisturising regenerative eye drops.

In the decongestant and antihistamine eye drops market, the Imidazyl® brand maintains its leading position in both reference markets.

In the oral care market Dentosan®, a brand well-known both by doctors and pharmacists mainly thanks to the chlorhexidine based mouthwash line, represents a benchmark in the treatment of bacterial plaque.

In the gastrointestinal field, products available include ClismaFleet®, a rectally administered solution for occasional constipation, and Losipaco®, a fixed combination of loperamide and simeticone indicated in the treatment of diarrhoea attacks associated with abdominal cramps, swelling and flatulence.

During 2019, MAGLIFE, the new food supplement based on magnesium pydolate, magnesium glycerophosphate and magnesium bisglycinate, useful against fatigue and tiredness, was launched.

Food supplements and nutrition area

In 2018 Recordati acquired Natural Point S.r.l., an Italian company active in the market for food supplements and products developed to improve health and well-being. It offers a wide and differentiated portfolio of products produced with carefully selected active ingredients in highly bioavailable and efficacious formulations.

The company's main product is Magnesio Supremo, a particular formulation of magnesium carbonate and citric acid that has the characteristic of being easily assimilated into the body.

FRANCE

Laboratoires Bouchara Recordati S.A.S. is solidly established in the French pharmaceutical market thanks to a number of prescription drugs and a line of OTC products with well-known brands in France.

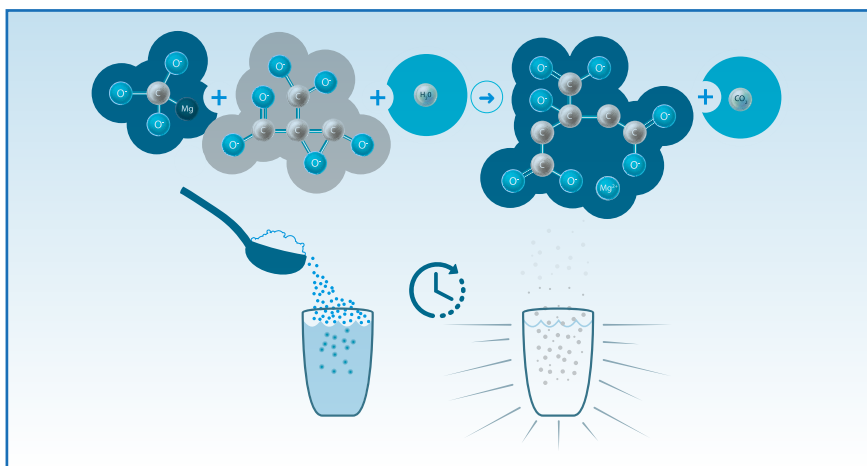
The French subsidiary holds significant positions in a number of therapeutic areas, such as the cardiovascular area with Zanextra® (lercanidipine+enalapril), Logimax® (metoprolol succinate+felodipine), Seloken® (metoprolol tartrate) and Selozok® (metoprolol succinate), the urology area with Urorec® (silodosin) and Leptoprol® (leuporelin acetate), a treatment indicated in patients with advanced hormone dependent prostate cancer, the anti-allergy segment with Wystamm® (rupatadine) and the gastrointestinal area with Citrafleet® and Colopeg®, bowel cleansers in preparation for endoscopic exploration, Transipeg® and TransipegLib®, macrogol based laxatives for the treatment of symptomatic constipation in adults.

Laboratoires Bouchara Recordati produces and markets methadone, a synthetic opioid analgesic, used as a substitute for heroin in somatic abstinence syndromes, in disintoxication from opiates and in maintenance programs. Highly specialized staff and dedicated resources lie behind the success of the disintoxication 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 of the diffusion 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 capsules formulation contributes to expand its use.

Laboratoires Bouchara Recordati has a historical presence in the French OTC market. The Hexa line of products (Hexaspray®, Hexalyse®, Hexamer® and Hexatoux®), the first 100% natural spray cough medication maintain their leadership and notoriety in the segment of winter maladies. A new formulation of Exomuc® (the best-known and leading mucolytic containing N-acetyl cysteine), the first and only ready-to-use N-acetyl cysteine powder which can be taken with or without water for the treatment of productive cough, was launched in September 2019.

In December 2018 the Recordati group acquired the French company Tonipharm S.a.S. headquartered in Boulogne-Billancourt, near Paris. The company, present on the French self-medication market since 1991 with well-known brands and good market shares, is known mainly for its Ginkor® line of OTC products based on ginkgo biloba as well as the Alodont® line for oral hygiene, to which a new formulation, Alodont Protect®, that helps to protect and



cure occasional light bleeding of the gums as well as providing anti-plaque and anti-bacterial action, was launched in October 2019. The Tonipharm brands represent a valid complement to enhance our presence in the French OTC segment, which remains a growing market and an important diversification area.

The company has also developed an important international presence and continues to expand in the Maghreb area, in French-speaking Africa and in Asia. Through its dynamic export and promotion activities it distributes a number of specialties from its product portfolio in over 30 different countries.

GERMANY

In addition to its consolidated presence in a number of therapeutic areas, Recordati Pharma GmbH offers various products well appreciated by primary care physicians and specialists.

Over time it has developed a strong presence in orthopedics and offers quality products to specialists in this field. The most important of these includes Ortoton® (methocarbamol), a muscle relaxant used for back pain which is considered the gold standard for this condition. It is the main product of the subsidiary, is leader in its class and a new formulation, Ortoton® Forte (methocarbamol), was recently successfully launched. Well-appreciated products are also Recosyn® (hyaluronic acid), which is available in four different formulations for specific arthrosis treatment regimens, Lipotalon® (dexamethasone palmitate) used to alleviate pain in the presence of inflammation of the joints and SportVis™ (biocompatible hyaluronic acid adapted for soft tissues) to optimize the regeneration of tendons and ligaments with acute or chronic damage.

The German subsidiary is well positioned in the cardiovascular area offering a number of treatment

options ranging from the calcium channel blocker antihypertensives Corifeo® and Zanipress® to the beta blocker Beloc ZOK®, Beloc® and Mobloc® (metoprolol).

Recently Recordati Pharma launched Fortacin®, a new topical treatment for premature ejaculation which satisfies an unmet medical need in the area of urology, a therapeutic area in which the company also offers Urorec® (silodosin), a drug for the treatment of benign prostatic hyperplasia, and Kentera®, an oxybutynin based transdermal patch used in the treatment of urinary incontinence.

With the launch of Reagila® (cariprazine), the German subsidiary entered a new therapeutic area, psychiatry. A third generation antipsychotic which, compared to other drugs, is more efficacious in addressing the negative symptoms of schizophrenia and has a better side effect profile. At the end of 2019, Reagila® was awarded the Galenus von Pergamon prize as best product in the category "Special Products", in Germany.

An important part of the German subsidiary's operations is linked to its traditional presence in the gastroenterological area and in particular in that of chronic inflammatory intestinal diseases such as Crohn's disease and ulcerative colitis. The "gold standard" treatment for these diseases is the administration of mesalazine. Claversal® (mesalazine), the established Recordati Pharma brand, is the third largest in its class and offers specialists in the field a full range of formulations. Citrafleet® and Fleet Phospho-soda®, bowel cleansers used in preparation for colonoscopy, contributed to expand the German subsidiary's offering in the field of gastroenterology.

The German subsidiary markets a line of OTC products with a specific sales organization which operates in a growing market and is dedicated to a number of brands the best-known of which are: Rhinopront® for rhinitis, JHP-Rödler®, a cough



and cold medicine, and Laxbene® Junior, a product for the treatment of constipation in children over six months of age, that has created important synergies between the gastrointestinal specialist line and the OTC presence, and to which a new ready-to-use liquid formulation in sachets was added. The Mirfulan® line, a leading brand for diaper rash, was extended with the launch of Mirfulan® Hydrolind, a new cream for the treatment of atopic dermatitis. Based on ectoine it ensures superior healing of the skin.

RUSSIA, OTHER C.I.S. COUNTRIES, UKRAINE, CENTRAL ASIA

Rusfic LLC, FIC Médical S.A.R.L and Recordati Ukraine LLC are our subsidiaries which operate successfully in Russia, other markets of the C.I.S. (Commonwealth of Independent States), the Baltic countries, Ukraine and Central Asia. The success of our organizations in these territories is largely based on the progressive success of the main Group corporate products. of a line of anti-infective products and of a well-appreciated portfolio of self-medication products.



Tergynan® is a leading product in the class of gynaecological anti-infective and antiseptic drugs and is widely used in all the countries of the Commonwealth of Independent States and in Ukraine and is available also in Mongolia.

In Russia, Polydexa® and Isofra®, indicated for the treatment of ear, nose and throat (ENT) disorders and the dietary supplement Alfavit®, recently re-launched in Ukraine where it is locally produced in five different formulations allowing significant development, continue to increase their market shares.

The corporate products Procto-Glyvenol®, one of the most important and growing products in its class, Urorec®, Zanidip®, Lomexin® as well as Livazo® which is always well-appreciated by the specialists in the sector, continue to grow.

In Russia a dedicated sales organization markets five lines of self-medication products. These are mainly well-known dietary supplements such as Alfavit® which holds a leading position on the market for vitamins and minerals formulations and Qudesan®, based on coenzyme Q10, for the prevention and treatment of chronic fatigue and metabolic dysfunction.

The oral cavity antibacterials

belonging to the Hexa line of products, Hexalyse® and Hexaspray®, are well-appreciated and the intestinal adsorbent White Carbo®, to which new packaging and references were added, contributes to the development of the subsidiary and its image on the Russian self-medication market.

Fic Médical, with its four representative offices in Kazakhstan, Belarus, Georgia and Armenia ensures the Group's direct presence in the C.I.S., in the Caucasian region and in Central Asia, territories in which the group's geographical coverage has significantly increased.

The organization successfully markets Urorec® in Armenia and Kazakhstan further reinforcing the urological product portfolio, Alfavit® and Qudesan® in Armenia and Kirghizstan following the success of these supplements in Russia, Kazakhstan and Belarus, Polydexa® in Mongolia, Lomexin® in Turkmenistan, Hexalyse® and Hexaspray® in the two latter countries.

Fic Médical successfully launched the vitamin supplement Alfavit® in Mongolia and Livazo® in Georgia which, widely appreciated in the cardiological field, has extended the product portfolio alongside well-

known brands such as Zanidip® and Coripren®.

In 2018 Recordati's product portfolio in Mongolia, which includes Tergynan®, the ENT brands Hexalyse®, Hexaspray® and Polydexa®, and the line of food supplements led by Alfavit®, was extended with the launch of Klimalanin® (beta-alanine), a new product for the well-being of women.

Livazo® was launched successfully in Armenia and in Kazakhstan in 2019 and contributed to Recordati's cardiovascular presence in this area together with Zanidip® and Coripren®.

The Recordati group presence in Uzbekistan, one of the most populated countries in Central Asia, was reinforced with intention to make further treatments available in this market. In addition to the corporate products Zanidip® and Urorec®, the Alfavit® line of food supplements is now also available.

Starting January 2019 Recordati established a direct presence in the Baltic states with the opening of a representative office of Recordati Polska in Lithuania (Recordati Polska Sp. z o.o. Lietuvos atstovybė). The products Betaloc®, Procto-Glyvenol®, Lomexin® and Urispas® are now fully available in Lithuania, Latvia and Estonia.

Recordati Ukraine is our subsidiary that operates in Ukraine where Tergynan®, Polydexa® and Isofra® are leaders in their markets of reference and Hexaspray®, Procto-Glyvenol® and Abufene® occupy important market positions.

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, paediatric, and as

from 2019 psychiatric, therapeutic areas.

During the year Reagila®, an antipsychotic with an excellent tolerability profile for schizophrenic patients, and Elebiotic®, a product for recurring otitis in newborns, were successfully launched.

Other highly appreciated products that have contributed to the development of the Spanish subsidiary are the statin for hypercholesterolemia Livazo®, the treatment for benign prostatic hyperplasia Urorec® and Virirec®, the first topical cream treatment for erectile dysfunction.

In gastroenterology Citrafleet® maintains its position as leader in the market for bowel cleansers and Casenlax® continues to grow. Worth mentioning is the continued growth of the saline based oral rehydrating solutions such as Bi-OralSuero®, the drops formulation of lactobacillus reuteri protectis Reuteri®, a complete treatment for gastrointestinal disturbances, regurgitation and colic in infants, and Casenbiotic®, indicated in cases of diarrhea in infants. The latter are leaders in their markets of reference.

Casen Recordati has also developed an international presence and obtained marketing authorization for Citrafleet® in Malta, Sri Lanka, Kazakhstan and Macedonia and for FisioEnema in Macedonia.

At the Utebo production site a new area was created for the filling and packaging of metoprolol tablets in bottles. The new line of production

became operational in 2019 following the approval of this new activity by the Spanish healthcare authorities (AEMPS).

TURKEY

Recordati İlaç, the Group's subsidiary in Turkey, continues to strengthen its position on the Turkish pharmaceutical market thanks to the success in the medical community of a number of products.

It has a strong consolidated presence in the fields of urology and cardiology as well as of gynecology and physical medicine and rehabilitation.

The corporate products Lercadip®, Zanipress®, Alipza®, Urorec®, Kentera®, Gyno-Lomexin® and Procto-Glyvenol® and Phosphosoda®, 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, Nazofix® (mometasone), a treatment for allergic rhinitis, Prepagel® (escin, salicylic acid), for use in cases of bruises, sprains, hematoma, and the antibiotic Ciprasid® (ciprofloxacin), all continue to perform well.

During 2018 the product portfolio in Turkey was extended to include the 45 mg formulation of Mictonorm®,



Casenlax® and Tinserc® (betahistine dihydrochloride), a drug used for the treatment of vertigo.

Recordati İlaç invested in the construction of a new production plant in Cerkezkoy which has a production capacity of 80 million packs per year. The plant manufactures solid oral forms (tablets, film coated tablets, capsules, sachets, etc.), semi solid forms (creams, ointments and gels) and liquids (solutions, suspensions and drops). Declared GMP compliant by the Turkish authorities in 2016, in 2019 it also started to produce Alipza® (pitavastatin) and some products for two local pharmaceutical companies.

The Cerkezkoy plant has also been declared cGMP (current Good Manufacturing Practices) compliant by the European Union, Azerbaijan, Libya and Kenya in 2019.





PORTUGAL

Jaba Recordati S.A. is well positioned in the Portuguese pharmaceuticals market, mainly in the cardiovascular, urological, gastrointestinal, food supplements and pain control fields and in the market for self-medication products.

Jaba Recordati's main products are Livazo®, an innovative and much appreciated statin for the treatment of dyslipidemia, Zanipress® the fixed combination of lercanidipine and enalapril, Urorec® for the treatment of benign prostatic hyperplasia, and Egostar®, a vitamin D supplement.

The Portuguese subsidiary recently launched Reagila®, the new antipsychotic treatment, and Carzap AM®, a new anti-hypertensive treatment.

TransAct® LAT, is a leading product in the market for transdermal patches within the topical anti-rheumatic class of drugs and Citrafleet®, a bowel cleanser used in preparation for diagnostic procedures which require intestinal evacuation, is an important product in this subsidiary and has achieved a primary position in its reference market.

Among the self-medication products Guronsan® is the most important. It is a leader in the market for detoxification therapies and tonics

for fatigue, as is Aloclair®, in the segment of treatments for mouth sores, and Biogaia® in the probiotics segment.

TUNISIA

Recordati has a direct presence in North Africa through its subsidiary Opalia Pharma S.A. which is headquartered in Tunis. It markets a number of proprietary and corporate products and promotes others belonging to the French subsidiary.

Opalia Pharma ranks high in the Tunisian pharmaceutical market and is one of the largest local pharmaceutical companies.

A number of the company's own branded generic drugs are leading brands in dermatology, gastrointestinal and respiratory therapeutic areas.

Among the main products are the anti-hypertensives Zanidip® and Zanipress®, the two treatments for asthma and chronic obstructive pulmonary disease (COPD), Eolide® (budesonide) and Notos® (formoterol+fumarate dehydrate), Urorec®, Goldix® Duo, a medication for colds and flu, and Psoriasisone® (calcipotriol and betamethasone), a gel for topical use widely used

in the Tunisian market for the treatment of psoriasis.

In November 2018 the Tunisian subsidiary launched Notos®.Combi, an adjustable long term treatment for asthma and chronic broncho-pulmonary obstruction (BPCO), which, thanks to the easy-to-use device, helps patients optimally control their treatment and extends the line of respiratory medicines.

Opalia Pharma, on the 2019 World Asthma Day and to commemorate its thirtieth birthday, organized a roadshow with the name "Breathe, you are free". A specially equipped bus visited the most affected areas of the country offering asthma and COPD (Chronic Obstructive Pulmonary Disease) screening free of charge as well as informing the population and raising awareness around this important health problem. In Tunisia, asthma affects 3.6% of the population and only 15% of asthmatics receive treatment.

The first of its kind, this social event was enormously successful in Tunisia and was covered by all the national TV channels.

Opalia manufactures most of its products in a modern, cGMP certified production facility specialized in liquid and semi-solid forms for the home market as well as for some countries in the Arabian peninsula.

**Les laboratoires
Opalia Recordati**
lancent la première caravane
pour le dépistage de l'asthme.

Soufflez vous êtes
libres

OPALIA RECORDATI
IFM Med.In

POLAND

Recordati Polska Sp. z o.o. is the Group's subsidiary in Poland. It markets a diversified and well positioned product portfolio in the urological, gynaecological and cardiovascular therapeutic areas as well as in self-medication.

The company's 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 haemorrhoids, 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 successfully developed sales of the corporate products Gynoxin® Optima in the OTC market as well as Citrafleet® in the market for gastroenterology.

CZECH REPUBLIC AND SLOVAKIA

Herbacos Recordati s.r.o., the group's subsidiary present in the Czech Republic and in Slovakia, successfully markets pharmaceutical products belonging to a number of therapeutic

areas, including cardiology, urology, gynaecology and self-medication products such as analgesics, anti-inflammatory and dermatological medicines.

Betaloc® (metoprolol succinate) indicated in the treatment of hypertension and other cardiac disorders, and Mictonorm® (propiverine hydrochloride), a urological treatment for hyperactive bladder, the rights for which were obtained in 2019, contributed to the development of the subsidiary.

The growing success of the corporate products Urorec®, Kentera®, Vitaros® and Lomexin® reinforce the presence of our subsidiary in the therapeutic areas of urology and gynaecology.

Herbacos Recordati is particularly strong on the market for self-medication products and health where it continues to successfully promote Procto-Glyvenol®, an increasingly well appreciated treatment for haemorrhoids which together with the cream and suppository forms also presents wet wipes, the analgesic Valetol® which was relaunched in 2019, Acylpyrin® and Veral®.

SWITZERLAND

The Recordati group is present in Switzerland through Recordati AG which is headquartered in Zug and also operates in Austria.

It markets the Group's corporate products and in particular the anti-hypertensives Zanidip®, Zanipress®, Beloc ZOK®, the statin Livazo® and Urorec®, a treatment for benign prostatic hyperplasia.

Other important brands are Lacidigest® (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 CNS therapeutic area with the launch of Reagila®, an innovative product for the treatment of schizophrenia in adults which addresses unmet psychiatric medical needs.

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, gynaecology, dermatology and gastrointestinal.

In the cardiovascular area well-appreciated products are Livazo®, an innovative statin, Lopresor®, a selective beta-blocker indicated for the treatment of hypertension and angina pectoris, Zanidip®/Lercadip® (lercanidipine) and its fixed combination with enalapril Lercaprel®/Zaneril®, and Logimax®,



for the treatment of hypertension.

Urorec[®], a treatment for benign prostatic hyperplasia, continues to grow. Other products in the area of urology are Vitaros[®] and Kentera[®].

The following products also contribute to the subsidiary's development and complete its diversified product portfolio: the antimycotic Lomexin[®], leader in its market of reference, and Citrafleet[®], a bowel cleanser used in the preparation of any diagnostic procedure which requires emptying of the intestines.

In 2019 the market access process for Reagila[®], a third generation atypical antipsychotic, was completed.

ROMANIA AND BULGARIA

Recordati is also present in these Eastern European countries through its subsidiaries Recordati Romania S.R.L. and Recordati Bulgaria Ltd.

The Romanian subsidiary, that moved to the centre of Bucharest in 2019, promotes both prescription and OTC products successfully. The most important product in its portfolio is Betaloc[®] (metoprolol succinate), indicated in the treatment of arterial hypertension and other cardiac disorders.

The company's main products also include Procto-Glyvenol[®], a growing tribenoside based treatment for hemorrhoids, Lomexin[®], Tergynan[®] an anti-infective product used in gynaecology, and Urorec[®]. The innovative topical treatment in cream form for erectile dysfunction Vitaros[®], recently launched, further reinforces the subsidiary's presence in the area of urology.

The subsidiary also markets Revada[®] (diosmin) which is prescribed for venous insufficiency and other indications and Caldefix[®] (calcium and vitamin D3) for the treatment of osteoporosis.

Growing importance in their reference markets is being achieved by Casenfibra[®], an innovative solution based on vegetable fibre for the prevention and treatment of mild constipation, and Citrafleet[®], a bowel cleanser used in preparation for diagnostic procedures which require emptying of the intestines.

Recordati Romania also sells Recordati's products in the Republic of Moldavia through an agreement with a local distributor.

Recordati Bulgaria Ltd, established in February 2019, is our subsidiary in Bulgaria which is operational as from March 2019. It has its own sales organization which is currently promoting Betaloc[®] and Lomexin[®].

NORDIC COUNTRIES

The Recordati group, in March 2018, has also potentiated its subsidiary Recordati AB in Sweden with operates also in Denmark, Norway, Finland and Iceland.

Based in Kista, Stockholm, it markets a number of corporate products, in particular those belonging to the gastrointestinal portfolio Citrafleet[®], Cleen Enema and Phosphosoda[®], and to the cardiovascular area such as Seloken[®], Seloken ZOC[®], Logimax[®], Zandip[®] and Zanipress[®].

Recordati AB also markets Reagila[®], the new antipsychotic drug for the treatment of schizophrenia, in all the Nordic countries.

UK AND IRELAND

Recordati Ireland is the group's organization that operates in Ireland while Recordati Pharmaceuticals markets Recordati's products in the United Kingdom.

During 2019 the UK subsidiary continued launch activities for the promotion of Reagila[®], which was received with interest by the medical



community, and launched Fortacin[®], a new treatment for premature ejaculation. Recordati Ireland successfully introduced Lercaril[®] 20/20, the latest formulation of the lercanidipine+enalapril combination for the treatment of hypertension which reinforces the subsidiary's cardiovascular portfolio and launched Reagila[®], which was well received by the scientific community.

BENELUX

In March 2018, the Recordati group strengthened its presence in Belgium through its subsidiary Recordati BVBA, with headquarters in Brussels and a branch in Oss, Netherlands, for the direct distribution in Belgium, the Netherlands and Luxembourg of its lercanidipine and metoprolol based products in the cardiovascular area, Citrafleet[®], Cleen Enema and Phosphosoda[®] in the gastrointestinal area.

In 2019 Reagila[®], the innovative treatment for schizophrenia in adults, was presented to the psychiatric community and also launched in the Netherlands.

RARE DISEASES AND ORPHAN DRUGS

A HEALTHCARE PRIORITY, A RECORDATI PRIORITY

Rare diseases bring great suffering to millions of affected people worldwide.

They are mostly genetic diseases that can affect patients of any age, sex or ethnic origin and involve any type of medical specialization.

They are chronic diseases which can be fatal or severely invalidating and have a strong impact on patients, their families and society in general.

In most cases sufferers are new-borns, children and young adults.

An orphan drug is a medicinal product developed for the treatment of a rare disease. A rare disease is defined as a condition that affects fewer than 5 per 10,000 inhabitants in Europe or fewer than 200,000 Americans in the U.S.A., and is fatal or severely debilitating. Over 30 million people are affected in Europe alone. There are over 7,000 known rare diseases but today approved treatment exists for fewer than 10% of these. Patient numbers are so small that a rare disease is often not “adopted” by the pharmaceutical industry and hence the expression “orphan drug”.

Due to the extensive spectrum of existing diseases and the scarcity of available information, physicians may never see a patient with a rare disease during their careers. For these reasons there’s always a risk that when a baby is born with a rare disease a correct diagnosis may not be made and timely appropriate treatment may not be

provided. Limited number of patients and scarcity of relevant knowledge and expertise are the specificities of rare diseases. To ensure that scarce knowledge and available resources are made available these are often shared through international cooperation channels.

To provide care for people with a rare disease and to encourage pharmaceutical and biotechnology companies to invest in treatments for rare diseases governments have created various legal and financial incentives.

The Orphan Drug Act introduced in the U.S.A. in 1983 and the European legislation passed in 1999 explicitly recognized the unmet need for targeted treatments for orphan diseases and created regulatory pathways and incentives for manufacturers to develop orphan drugs.

The “orphan drug” designation in Europe provides 10 years of marketing exclusivity for a drug once the designation is approved for that drug’s indication.

From April 2000, when the EU orphan drug regulation came in to effect, many hundreds of drugs received orphan drug designation from the European Medicines Agency (EMA). Of those designated drugs, over 100 have received marketing authorization (MA). 40% of the orphan medicines were licensed for oncological and haematological conditions and about 30% of the orphan drug market consists of drugs for rare inborn errors of metabolism.

Lately, there is a surge of international research investment from different funding bodies to boost the number of new authorized treatments.

Reports show that orphan drugs are estimated to account for between 1.7% and 4% of the total drugs expenditure.



RECORDATI RARE DISEASES: THE RECORDATI COMPANY DEDICATED TO ORPHAN DRUGS

The Recordati group operates in the rare disease segment worldwide through Recordati Rare Diseases, its dedicated group of subsidiaries who share the conviction that each person with a rare disease has the right to the best possible treatment.

As from April 2019 the companies formerly operating under the name of Orphan Europe were 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 Recordati in 2007.

Recordati Rare Diseases makes our specialties for rare diseases available directly in Europe, the Middle East, U.S.A., Canada, Russia, Australia, Japan and some Latin American countries (Brazil, Mexico, Colombia), and through highly qualified distributors in other areas thus covering over 100 countries worldwide.

It has designed a direct distribution and packaging system able to

efficiently deliver very small quantities of specialist products to people around the world at a moment's notice. Recordati operates a new site entirely dedicated to the packaging, storage and shipping of rare disease products in all countries situated in Nanterre (Paris). It occupies a surface area of 1,200 sq. m., is GMP certified.

The main products in the segment dedicated to rare disease treatments are Carbaglu® (carglumic acid) indicated for the treatment of hyperammonaemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and due to any of the three main organic acidaemias, Panhematin®/ Normosang® (human haemin) indicated for the treatment of acute attacks of hepatic porphyria, Cosmegen® (dactinomycin) used mainly in the treatment of three rare cancers: Wilms' tumor, childhood rhabdomyosarcoma and choriocarcinoma, Cystadane® (betaine anhydrous) used in the treatment of homocystinuria to lower the blood levels of



homocysteine, Cystadrops® (cysteamine chlorhydrate), used in the treatment of the ocular manifestations of nephropathic cystinosis and Cystagon® (cysteamine bitartrate) for the treatment of proven nephropathic cystinosis.

New products have been recently added to our portfolio: Ledaga® (chlormethine hydrochloride) indicated for the topical treatment of mycosis fungoides, Juxtapid® (lomitapide) indicated for the treatment of homozygous familial hypercholesterolemia, Signifor® and Signifor® LAR (pasireotide) for the treatment of Cushing's disease and acromegaly.

In the recent past Recordati has been internationally recognized and awarded for the important results obtained in the development of orphan drugs and its efforts to

Carbaglu
carglumic acid

Important Safety Information | Full Prescribing Information, including Instructions For Use

For U.S. Patients Only
For U.S. Healthcare Professionals:
For Patient Support, please call:
in U.S.: 1-888-454-8869
in Canada: 1-844-522-7224

Understanding NAGS Deficiency | About CARBAGLU | Taking CARBAGLU | Patient Support

"The right diagnosis made an incredible difference in my life."
Mary, a patient living with NAGS Deficiency

[READ MARY'S STORY](#)

What is NAGS deficiency?

NAGS is a very rare genetic condition affecting a rare genetic disorder that blocks or limits your body's ability to remove excess ammonia. This leads to swollen ammonia building up in your blood, which causes symptoms that may lead to brain damage or even death if symptoms are not treated.

Neurological symptoms linked to acute porphyria

— a summary of case reports

RECORDATI RARE DISEASES
Focused on the Few

improve diagnosis and treatment of rare diseases:

the NORD (National Organization for rare Disorders) prize in the United States of America and the EURORDIS (European Organization for Rare diseases) prize in Europe.

The claim “Focused on the Few” under the Recordati Rare Diseases logo expresses the

conviction that each person with a rare disease has the right to the best possible treatment. To this end our organizations worldwide work closely with patients and their families, patient groups, specialists, researchers, healthcare professionals, politicians and regulators to spread knowledge, improve diagnosis and treatment,

enable access to treatment. This is also the object of the training courses and events organized by the Recordati Rare Diseases Fondation d’Entreprise.

The continuous growth of Recordati Rare Diseases in Europe, the U.S.A., Canada, Japan, Australia and in other key countries confirms Recordati’s commitment to becoming a worldwide player in the segment dedicated to rare diseases.

MAIN TREATMENTS FOR RARE DISEASES IN OUR PORTFOLIO

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
COSMEGEN®	dactinomycin injectable	Treatment of three rare cancers
CYSTADANE®	betaine anhydrous	Treatment of homocystinuria
CYSTADROPS®	cysteamine chlorhydrate	Treatment of the ocular manifestations of cystinosis
PEDEA® NEOPROFEN®	ibuprofene iv	Treatment of patent ductus arteriosus (PDA)
CYSTAGON®	cysteamine bitartrate	Treatment of nephropathic cystinosis
JUXTAPID®	lomitapide	Treatment of homozygous familial hypercholesterolemia (HoFH)
LEDAGA®	chlormethine hydrochloride	Treatment of mycosis fungoides, T-cell lymphoma (MF-CTCL)
SIGNIFOR® and SIGNIFOR® LAR	pasireotide	Treatment of Cushing’s disease and acromegaly



NEW ACTIVITIES AND DEVELOPMENTS

In recent years, important and innovative research projects have been initiated to reinforce the Group's product pipeline.

In February 2017 an exclusive worldwide licensing agreement with the Meyer Hospital in Florence (Italy) for the development of a treatment for pre-term babies affected by retinopathy of prematurity (ROP) was signed. This experimental treatment was granted orphan drug status by the FDA in 2018 and obtained the orphan drug designation granted by EMA in Europe in 2019.

In 2017 an exclusive license agreement with MimeTech, an Italian development stage company founded by scientists from the University in Florence, was signed for the development and subsequent commercialization on a global basis of a low molecular weight peptidomimetic of human nerve growth factor (NGF) for the treatment of neurotrophic keratitis, a rare degenerative corneal disease which in its more severe forms affects less than one person out of 10,000 worldwide. In December 2018 this experimental treatment received orphan drug designation by the FDA. In 2019 preclinical studies were completed and the clinical development is being planned.

In November 2018, the European Commission (EC) granted orphan drug designation to the investigational product REC 0545 for the treatment of maple syrup urine disease (MSUD). This is the first time that an Orphan Drug Designation has been granted in this indication. It is the first time orphan drug designation is granted for this disease. MSUD is a rare genetic metabolic disorder in which the body is unable to properly process certain amino acids (the building blocks of proteins). This condition is characterized by lack of appetite, vomiting, lack of energy (lethargy), seizures, abnormal movements and developmental delay. The condition gets its name from the distinctive sweet odour of affected infants' urine. Patients with Maple syrup disease suffer from decompensation episodes that can be life-threatening if untreated. In Europe around 3000 patients are affected by MSUD. In 2019 positive results were obtained in a retrospective clinical study on patients suffering from MSUD.

In December 2018, Recordati obtained a license from Helsinn, a Swiss pharmaceutical group focused on building quality cancer care products, for the exclusive marketing rights to Ledaga® worldwide, excluding the United States, China, Hong Kong and Israel.

Ledaga® (chlormethine hydrochloride) is a novel gel formulation, applied once a day, indicated for the topical treatment of mycosis fungoides-type cutaneous T-cell lymphoma (MF-CTCL), a rare disease characterized by the abnormal accumulation of malignant T-cells in the skin. MF-CTCL is the most common type of cutaneous lymphoma and first presents as patches and plaques on the skin. It is difficult to diagnose, particularly in the early stages as many of its features are non-specific.

Chlormethine is an alkylating agent that inhibits quickly proliferating cells and Ledaga® is recognized to have a good efficacy profile with a confirmed treatment response achieved in 76.7% of the efficacy evaluable population in the pivotal trial. The product has been granted orphan drug designation in Europe and is approved by the European Commission (for patients with MT-CTCL at all stages).

In 2019 Recordati Rare Diseases launched the product in a number of European countries. It will be progressively launched in the rest of Europe, in the Middle East and in North Africa. Ledaga® was presented to the scientific community during important



onco-dermatological events such as the EORTC Cutaneous Lymphoma 2019 Meeting, the cutaneous lymphoma convention organized by the European Organization for cancer research and treatment in Athens and the 28th EADV Congress in Madrid hosted by the European Academy of Dermatology and Venereology.

At the beginning of 2019, Recordati obtained from Aegerion Pharmaceuticals Inc. the exclusive rights to commercialize Juxtapid®, currently approved for the treatment of homozygous familial hypercholesterolemia (HoFH), in Japan. The agreement includes a right of first negotiation for product commercialization in Japan of any potential new indications that may be developed by Aegerion.

Juxtapid® (lomitapide) is a microsomal triglyceride transfer protein inhibitor indicated for the treatment of homozygous familial hypercholesterolemia (HoFH). HoFH is a serious, rare genetic disease that impairs the function of the receptor responsible for removing LDL-C ("bad" cholesterol) from the body. A loss of LDL receptor

function results in extreme elevation of blood cholesterol levels. HoFH patients often develop premature and progressive atherosclerosis, a narrowing or blocking of the arteries.

In 2019 the Recordati group successfully completed the acquisition from Novartis of worldwide rights to Signifor® and Signifor® LAR for the treatment of Cushing's disease and acromegaly in adult patients for whom surgery is not an option or for whom surgery has failed. The agreement also covers the acquisition of worldwide rights to Isturisa® (osilodrostat), an investigational innovative drug for the treatment of endogenous Cushing's syndrome, for which marketing authorization was granted by the European Commission in January 2020 and approval obtained in the USA in March 2020.

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 that 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 over-production of cortisol and improve the symptoms of Cushing's disease.

Isturisa® contains osilodrostat, and is an orally administered steroidogenesis inhibitor of 11Beta-hydroxylase, an enzyme which catalyses the final step of cortisol synthesis in the adrenal cortex. This new drug for endogenous Cushing's syndrome is expected to represent



an effective new treatment option for patients.

In order to better manage this new endocrinology franchise the Rare Diseases Branch of Recordati AG was established in Basel (Switzerland).

Recordati Rare Diseases promotes a number of initiatives to spread and make available the most up-to-date and clinically useful information on rare metabolic conditions thus providing an important contribution to specialists and healthcare professionals in this segment.

In 2019 it participated in the SSIEM Congress (Society for the Study of Inborn Errors of Metabolism) which was held in Rotterdam (Netherlands)

at which a symposium dedicated to the long term management of patients with propionic and methyl malonic acidurias was presented.

In September it participated in the Milan International Congress of porphyrins and porphyria, which every two years attracts more than two hundred specialists from all over the world, where positive data on the efficacy of treatment with hemin, including its favourable cost, was presented.

In Vienna, the 2019 4th Ophthalmology Cystinosis Forum (OCF) was organized and was attended by more than 90 participants. Directed at ophthalmologists and nephrologists

it was focused on the ophthalmic complications of the disease, from diagnosis to treatment, and in particular on the management of the disease in adolescents.

Furthermore, RRD participated in the 18th IPNA (International Pediatric Nephrology Association) Congress which was held in Venice (Italy) with the organization of a symposium during which leading international experts discussed the management of patients suffering from nephropathic cystinosis and its ocular complications.

Other similar initiatives took place in the Middle East to support opinion leaders, metabolic and cystinosis centres, patient associations.

RECORDATI RARE DISEASES FONDATION D'ENTREPRISE

Our commitment to Rare Diseases

Working in the field of rare diseases is an important responsibility to patients and healthcare professionals and we put this at the heart of our commitment.

The Recordati Rare Diseases Foundation was instituted to provide unconditional grants for training in rare diseases to the scientific community. High-level courses are organized under the supervision of an independent scientific committee. The overall aim is to share experience in the management and outcome of rare disorders where individual knowledge is by its nature limited.

The Foundation offers specialists the opportunity to enrich their knowledge, 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.

In 2019 three international training courses were held respectively in France, Spain and Hong Kong, which attracted specialists from various countries.

The Foundation also provides online e-learning courses which aim to provide physicians world-wide with clinically useful and the most up-to date information concerning current knowledge and recommendations for care.

Furthermore, we work in partnership with recreational camps for children with serious debilitating disease through our staff volunteering program. We also support the work of European reference networks in providing equal and equitable care for all patients with a rare disease.

RESEARCH AND DEVELOPMENT

In 2019 research and development activities were concentrated on programs in rare diseases.



In 2019 research and development activities were concentrated on programs in rare diseases. Regarding the rare diseases segment the pharmaceutical and clinical development of the projects REC 0559 (treatment of neuropathic keratitis) and REC 0545 (treatment of Maple Syrup Urine Disease) progressed. New formulation development continued as part of the life cycle management of carglumic acid, hemin and cysteamine. In the area of specialty and primary care, maintenance activities progressed for the support of marketed products as well as pre clinical studies involving new drugs.

PRODUCT DEVELOPMENT PIPELINE

NAME	ORIGINATOR	INDICATION	DEVELOPMENT STATUS
ISTURISA®	Novartis	Endogenous Cushing's syndrome/ Cushing's disease	Approved in Europe Approved in the USA
CYSTADROPS®	Recordati	Corneal cysteine crystal deposits in patients with cystinosis	Filed in the 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®	Orphan Europe (Recordati)	Hyperammonaemia due to NAGS deficiency and to the main organic acidemias	Development of new formulations in EU and USA Filed in the USA for the organic acidemias indication
REC 0438	Recordati/UFPeptides	New indications	Preclinical development
REC 0559	Recordati/MimeTech	Neurotrophic keratitis	Formulation development Clinical development planning
REC 0545	Orphan Europe (Recordati)/AP-HP	Acute decompensation episodes in MSUD	Formulation development Retrospective study in France and Germany



The introduction in the pipeline of new products, both through our discovery programs as well as through alliances with other research companies and institutions, has been of fundamental importance also in 2019 to enrich our pipeline and ensure the group's future growth. The product pipeline was strengthened with the acquisition from Novartis of the worldwide rights

to Isturisa® (osilodrostat), recently approved in Europe and in the U.S.A.. At the same time, important and intense registration and regulatory activities were carried out to obtain marketing approvals for Recordati products in new territories.

The main research and development activities during 2019 are summarized in the following paragraphs.

UROLOGY AND ANDROLOGY

REC 0438

REC 0438 is a product candidate which would be administered by intravesical means in patients suffering from hyperactive bladder of neurological origin who must repeatedly use self-catheterization methods to empty their bladder. The objective of the treatment is to reduce bladder hyperactivity and incontinence episodes which have an important impact on patients' quality of life. Following the completion of the single dose study conducted in healthy volunteers and in adult patients with spinal lesions of a post-traumatic nature, in 2019 a second European multicenter study in patients with spinal lesions who presented signs of hyperactive bladder and episodes of urinary incontinence, despite on-going treatment with anticholinergic drugs, was completed. The results of the study showed that repeated intravesical administrations of the drug by the patients themselves at home, is feasible, well tolerated and is not associated with systemic exposure. However, despite the slight reduction in urinary incontinence episodes observed, the urodynamic test made to evaluate the maximum

vesical capacity showed highly variable responses, with results not in line with the minimum expected benefit to be able to continue development in a pediatric population with hyperactive bladder due to *spina bifida*. It was therefore decided to interrupt the clinical development. The final report is being prepared. At the same time, toxicology studies in animal models were completed and formulation as well as preclinical studies are ongoing to evaluate the possible use of the treatment in other indications.

Urorec® (silodosin)

The results of an integrated statistical analysis of the randomized controlled pre-registration studies as well as the extensive phase IV studies in patients with severe urinary symptoms were published. As expected, because the drug is highly selective, silodosin's efficacy was confirmed in the more severe patients resulting in a marked improvement in quality of life.

A generic version of the drug, as an own generic of Urorec®, identical in all respects to the reference product except for the brand, was approved in all the EEA (European Economic Area) countries through a centralized procedure. Recordati Ireland Ltd is the

holder of the marketing authorization of both the generic and reference products and the production sites of the raw material and of the finished product as well as the production process and control are the same for both.

Fortacin™ (lidocaine+prilocaine)

The regulatory dossier supporting the over-the-counter use of this topical spray formulation of lidocaine and prilocaine, specifically developed for the treatment of premature ejaculation, was completed. Furthermore, the variation to the marketing authorization for the change from prescription to over-the-counter status was filed with the European Medicines Agency.

CARDIOLOGY AND METABOLIC DISORDERS

Zanidip®/Zanipress® (plain lercanidipine/ lercanidipine+enalapril)

In confirmation of the continued clinical interest in our anti-hypertensive drug lercanidipine, an original calcium channel blocker fully developed by Recordati (used in



monotherapy or in association with enalapril), during 2019 the registration dossier for the product was updated in support of possible new registrations and the safety information in the European specification of product characteristics and leaflet was updated and harmonized with the use of a work-sharing procedure.

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

During 2019 the regulatory activities needed to transfer the production authorizations of the AstraZeneca (AZ) products based on metoprolol and metoprolol + felodipine to Recordati, were completed. Additional alternative packaging sites were added as per the agreement with AstraZeneca.

PSYCHIATRY

Reagila® (cariprazine)

During 2019, as provided for in the agreement between Recordati and Gedeon Richter, the pediatric clinical development program in Europe involving cariprazine, a new antipsychotic drug approved in Europe for the treatment of schizophrenia,

continued. The clinical trials conducted in adults demonstrated the efficacy of cariprazine, not only in the improvement of the positive symptoms but also of the negative symptoms associated with schizophrenia.

OTHER THERAPEUTIC AREAS

Methadone

Following the completion of the phase III-b study EQUIMETH2 conducted in France in 18 clinical centers specialized in the treatment of cancer related pain, the French authorities approved the use of methadone for this condition and the "Transparency Commission" approved the reimbursement of Zoryon® for the treatment of moderate and severe oncological pain in patients who do not respond adequately to other opioids.

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 aetiology. Regarding the dermatology and vaginal cream formulations, the finished product specifications in all registrations were updated worldwide and an alternative production site was added (Vamfarma). The Danish authorities (RMS) validated the worksharing procedure for the European updating and harmonization of the safety information in the specification of product characteristics and information leaflet for the different forms of fenticonazole for the gynaecological indication. The evaluation of environmental risk was updated with the presentation of the results of the phase II A ERA study to the Danish authorities (RMS). Further in-depth studies will be completed by February 2022 (phase II B).

TREATMENTS FOR RARE DISEASES

Recordati is expanding its commitment to the discovery and development of treatments for rare



Dünya değişiyor ve büyüklüğüne bakmaksızın her şey birbirine etki ediyor. Afrika'da kanat çırpan bir kelebek, Amerika'da kasırga etkisi yaratabilir! Eğer kelebek, uzay-zamanın en doğru noktasında kanatlarını çırparsa, yarattığı esinti bir rüzgara, rüzgar bir fırtınaya, fırtına ise bir kasırgaya yol açabilir. Hepimiz **küçücük** bir hareketle **büyük** bir etki yaratma potansiyeline sahibiz!

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 the worldwide rights to Signifor® and Signifor® LAR for the treatment of Cushing's disease and acromegaly in adult patients for whom surgery is not an option or for whom surgery has failed were acquired from Novartis. The agreement also covers the acquisition of worldwide rights to Isturisa® (osilodrostat), an investigational innovative drug for the treatment of endogenous Cushing's syndrome, for which marketing authorization was granted by the European Commission in January 2020 and by FDA in the U.S.A. in March 2020. In October 2019 preparatory activities started for the transfer of sponsorship from

Novartis to Recordati AG of a number of worldwide trials involving the above mentioned products including the following:

- 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 (CLC1699C2X01B)
- a pediatric study with osilodrostat (CLC1699C2203).

Therefore, a working group was created within the Recordati group to interact with Novartis and define a plan for the transfer of said studies, the management of studies independently sponsored by researchers and the requests for compassionate use. These ongoing activities will be completed in 2020.

Carbaglu® (carglumic acid)

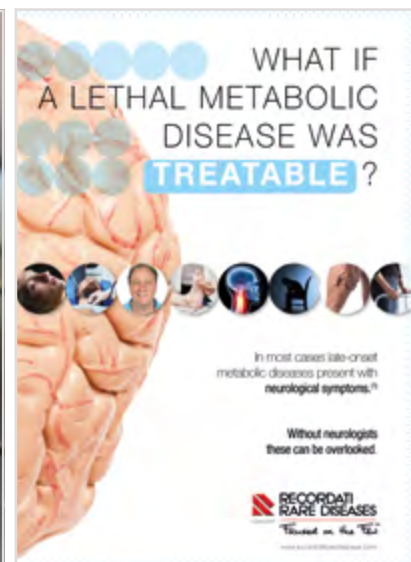
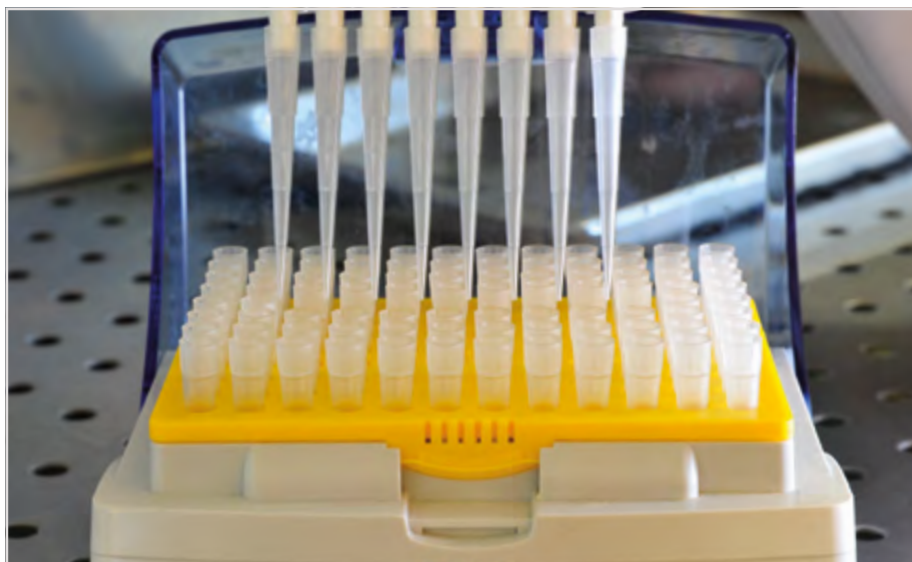
This product is an orphan drug approved in the European Union by the European Commission and in the U.S. by the Food and Drug Administration (FDA) for the treatment of hyperammonaemia due to N-Acetyl Glutamate Synthase

(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, hyperammonaemia causes irreversible brain damage, coma, and eventually death. Carbaglu® is the only existing specific treatment for this genetic disorder which requires life-long treatment. In 2011 Carbaglu® obtained approval in Europe for the extension of its use to treat hyperammonaemia due to the three main organic acidemias (OA): 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 organic acidemias and has been filed in the U.S.A. for this indication.

Recordati is developing a new oral formulation of Carbaglu® with the objective of increasingly satisfying patients' needs.

Cystadrops® (cysteamine hydrochloride)

Nephropathic cystinosis is a generalized congenital disorder which affects all body organs and benefits from systemic treatment



with cysteamine (Cystagon®) orally administered. Cystinosis also affects the eyes and without quick, continued and proper treatment, cystine crystals accumulate in the cornea. Cystagon® does not adequately address ocular cystinosis due to the poor vascularization of the cornea. The accumulation of cystine crystals in the cornea results in visual disturbances such as photophobia (sensitivity to light), retinal damage and frequent corneal ulceration and eye infections that can degenerate causing corneal erosion and consequent blindness. Cystadrops® are gel based eye drops containing cysteamine chlorhydrate developed by Recordati for the specific treatment of the ocular manifestations of cystinosis. 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 currently available in the countries belonging to the European Union and has been filed for approval in the U.S.A..

Currently new innovative formulations of Cystadrops® are being developed with the objective of increasingly satisfying patients' needs.

REC 0559

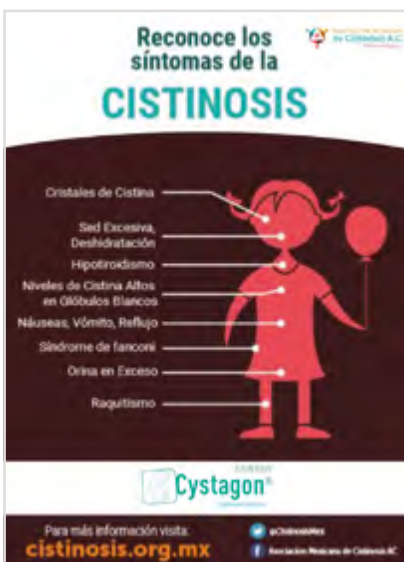
In June 2017 Recordati and Recordati Rare Diseases (formerly Orphan Europe) signed an exclusive license agreement with MimeTech, an Italian development stage company founded by scientists from the University in Florence, for the development and subsequent commercialization on a global basis of a low molecular weight peptidomimetic of human nerve growth factor (NGF) for the treatment of neurotrophic keratitis. Neurotrophic keratitis is a rare degenerative corneal disease initiated by an impairment of trigeminal nerve. In its more severe forms it affects less than one person out of 10,000 worldwide. The progression of the disease can result in corneal ulcers and perforation with a dramatic impact on the patient's vision. Clinical trials in humans are expected to start 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) which results in a build up of these amino acids and

their metabolites. This build-up manifests with severe symptoms affecting all organs right from the beginning of a newborn's life which, if not adequately diagnosed and treated 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 for the management of the acute phases. Preliminary data show that REC 0545 acts quickly on the build up levels of the amino acids and their metabolites, thus considerably reducing symptoms and patient mortality. Formulation development has been completed and the regulatory approval process requirements are being planned.



PHARMACEUTICAL CHEMICALS AND PRODUCTION PLANTS

Recordati's pharmaceutical chemicals business focuses on:

- satisfying the requirements of the pharmaceuticals business,
- striving for maximum product quality,
- strengthening its presence in highly regulated markets (the United States, Europe and Japan),
- safety of production processes,
- protection of the environment,
- health and safety in the workplace.



2 PHARMACEUTICAL
CHEMICAL
PLANTS

6 SITES FOR
PHARMACEUTICAL
PRODUCTION

Recordati produces a number of active ingredients and intermediates for the pharmaceutical industry.

ITALY, CAMPOVERDE DI APRILIA

The Campoverde plant 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 facility was one of the first European plants to be inspected by the American Food and Drug Administration. The United States is one of the main markets for its production, second only to Europe.

The Campoverde site covers a surface area of around 335,000 sq. m. with an installed area of 35,000 sq. m., and produces approximately 650 metric tonnes per year of finished goods with approximately 5,000 metric tonnes of semi finished goods handled internally each year.

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 7 years has resulted in the installation of more than 20 new reactors, a latest generation three stage distillation unit, 2 thin film evaporators and a new anti-acid filter for the isolation of solid products.

A vast range of technologies, skills and expertise in the field of organic synthesis is employed which allow it to quickly and effectively study 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 equipped for the small scale production of active ingredients, in accordance with cGMP (current Good Manufacturing Practices), is available.

The plant operates in compliance with current Good Manufacturing Practices (cGMP) and is regularly inspected by external verifying 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 is 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.

IRELAND, CORK

In order to guarantee adequate and continuous supplies of the active ingredient lercanidipine, an important original Recordati drug, in 2005 a dedicated plant was built in Cork in Ireland. 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. This facility boasts automated process control systems which ensure constant high quality production.

The continuous commitment to reduce and improve the use of energy was recognized in 2012 by the assignment of the National Energy Efficiency Award, which is promoted by the Sustainable Energy Authority of Ireland (SEAI), and in 2013 by the assignment of the European Energy Efficiency Award, promoted by the Chemical European Federation Industry Council (CEFIC).

In 2016 the site was extended, the two buildings housing the administration and the quality control laboratories were enlarged.



Recordati has six pharmaceutical production facilities and a specialized packaging and distribution facility dedicated to rare disease products all of which operate with full respect for environmental protection regulations and in compliance with current Good Manufacturing Practices (cGMP).

ITALY

The Milan site occupies a surface area of around 5,000 sq. m., built vertically over a number of floors for a total of 21,000 sq. m. and produces around 62 million packages per year.

It is specialized in the manufacture and packaging of solid oral forms, liquids, injectables and products for topical use.

FRANCE

The plant at Saint Victor covers a surface area of 6,750 sq. m. and is specialized in the production and packaging of liquid, solid oral and spray formulations.

It produces 33 million packages per year.

TURKEY

The Turkish site in Çerkezköy, built on 45,000 sq. m. of land, occupies a surface area of approximately 11,300 sq. m. and currently

produces 66 million packages per year of solid oral and liquid formulations and products for topical use, of which 20% is dedicated to third party production.

The plant was declared GMP compliant by the Turkish authorities in March 2016 and by the European authorities for the production of semi solid forms in February 2019. It has a maximum production capacity of 80 million packages.

SPAIN

The Spanish plant is situated near Zaragoza covering a surface area of 7,100 sq. m. and is specialized in the production and packaging of solid and liquid oral and topical formulations.

In particular, the plant manufactures a line of gastroenterological products.

The plant produces around 19 million packs a year.

Recently, a project was approved for the installation of a new line for the packaging of tablets in bottles which will increase the annual volumes by around 7-8 million packs.



TUNISIA

The Tunisian plant is situated near Tunis. It covers an area of around 9,100 sq. m. and produces liquid, semi-solid and solid oral forms for the local market and for some of the countries in the Arabian Peninsula.

The plant produces around 17 million packs a year.

CZECH REPUBLIC

The plant in the Czech Republic, situated in Pardubice, produces creams, gels and ointments for a total of 2 million packages per year, some of which for third parties.

PACKAGING AND DISTRIBUTION CENTER DEDICATED TO PRODUCTS FOR RARE DISEASES

A new site in Nanterre (France) for the distribution of products for the treatment of rare diseases is operational. It occupies a surface area of 1,200 sq. m. and is 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 Practices) certified logistics platform.

PROJECTS FOR THE FUTURE

In compliance with the new directive which will regulate the traceability of pharmaceutical products in the various markets, known as the Serialization and Tamper Evidence measures, activities started in 2017 to implement the new legal requirements in our different plants.

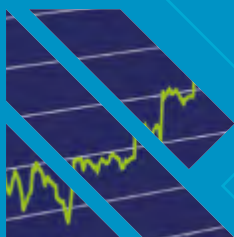
The project, called WINGS FOR THE FUTURE, involved the plants in Milan, Saint Victor, Utebo and Nanterre, which, as from 2019, are able to supply products packaged according to the European directives.

WINGS FOR THE FUTURE continues with the necessary activities to comply with the Russian requirements relating to the traceability of pharmaceutical products which will come into effect in 2020.

With the objective of always ensuring increased efficiency in production plants already operating at high levels of production excellence, in 2019 a system for the continuous acquisition of the operating parameters of the packaging lines, was installed in the Milan plant. The approach used integrates and combines Lean Thinking with the opportunities generated by Industry Technologies 4.0; the two themes are synergic because, while the Lean approach generates a process of continuous improvement, the digital instruments amplify and speed up its effect. The application of the principles of Lean Manufacturing and digitalization will be progressively extended to the other Group plants.



THE RECORDATI SHARE



DIVIDEND (per Share)



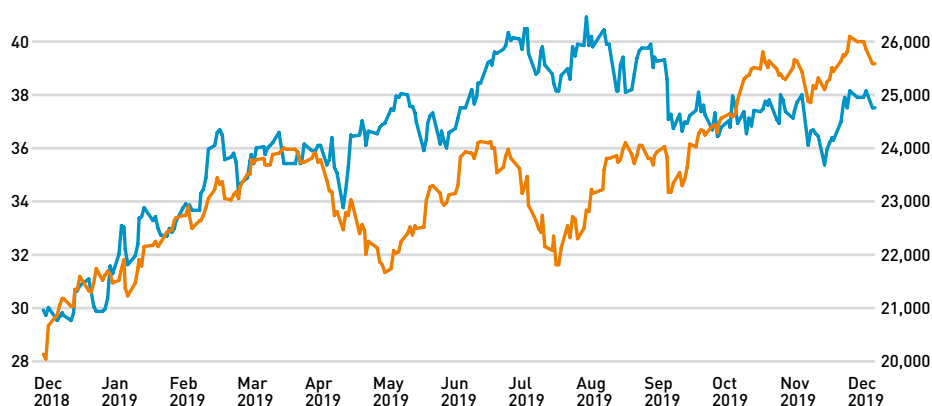
THE RECORDATI SHARE

at 31 December 2019

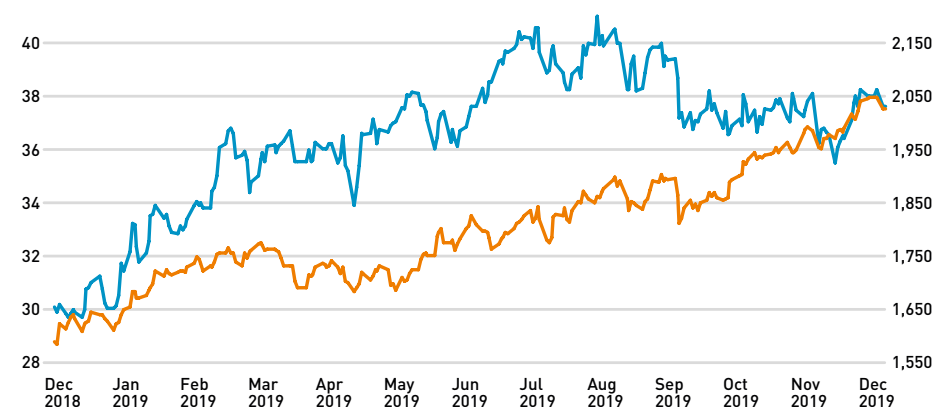
Listing:	Borsa Italiana, Blue Chip segment, healthcare
ISIN Code:	It 0003828271
Ticker:	Bloomberg REC IM, Reuters RECI.MI
Index:	FTSE MIB FTSE Italia All-Share Pharmaceuticals & Biotechnology Index ICB Code 4570
Share Capital:	n. 209,125,156 common shares
Nominal value:	€ 0.125 per share
EPS (diluted):	€ 1.764
Dividend per share:	€ 1.00

**COMPARED TO
FTSE ITALIA ALL-SHARE**

Source: FactSet

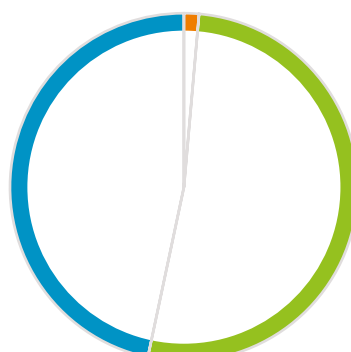
Recordati S.p.A.
(L)FTSE Italia All-Share (It)
(R)**COMPARED TO
STOXX 600/HEALTHCARE**

Source: FactSet

Recordati S.p.A.
(L)STOXX 600/Health Care-ss
(R)**PRINCIPAL SHAREHOLDERS**

at 31 December 2019

- 1.6% Treasury Stock
- 51.8% Consortium of investment funds controlled by CVC Capital Partners
- 46.6% Free float





FINANCIAL HIGHLIGHTS

REVENUE

€ (thousands)	2019	%	2018	%	Change 2019/2018	%
TOTAL REVENUE	1,481,848	100.0	1,352,235	100.0	129,613	9.6
Italy	287,289	19.4	273,197	20.2	14,092	5.2
International	1,194,559	80.6	1,079,038	79.8	115,521	10.7

KEY CONSOLIDATED P&L DATA

€ (thousands)	2019	% of revenue	2018	% of revenue	Change 2019/2018	%
Revenue	1,481,848	100.0	1,352,235	100.0	129,613	9.6
EBITDA ⁽¹⁾	543,967	36.7	499,079	36.9	44,888	9.0
Operating income	465,266	31.4	442,219	32.7	23,047	5.2
Net income	368,866	24.9	312,422	23.1	56,444	18.1

(1) Net income before net interest, provision for taxes, depreciation, amortization and write down of both property, plant and equipment and intangible assets.

KEY CONSOLIDATED BALANCE SHEET DATA

€ (thousands)	31 December 2019	31 December 2018	Change 2019/2018	%
Net financial position ⁽²⁾	(902,681)	(588,380)	(314,301)	53.4
Shareholders' equity	1,198,811	963,586	235,225	24.4

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

PER SHARE DATA

€	2019	2018	Change 2019/2018	%
Net income ⁽³⁾	1.800	1.529	0.271	17.7
Shareholders' equity ⁽³⁾	5.825	4.724	1.101	23.3
Dividend	1.00	0.92	0.08	8.7
SHARES OUTSTANDING:				
- average during the year	204,959,193	204,379,165		
- at December 31	205,816,585	203,971,585		-

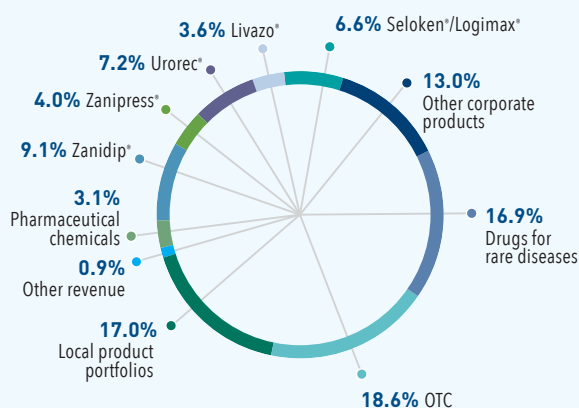
(3) Net income per share is based on average shares outstanding during the year net of average treasury stock. Shareholders' equity per share is based on total shares outstanding at year end. Shares outstanding are net of treasury stock. Treasury stock amounted to 3,308,571 shares at 31 December 2019 and 5,153,571 shares at 31 December 2018. Average treasury stock amounted to 4,165,963 shares in 2019 and 4,745,991 shares in 2018.

2019 OPERATIONAL AND FINANCIAL REVIEWS

REVIEW OF OPERATIONS

Net revenue in 2019 is € 1,481.1 million, up 9.6% over the same period of the preceding year, and includes sales for the full year 2019 generated by Natural Point S.r.l., consolidated as from 1 July 2018, of which € 9.7 million realized in the first half, sales generated by Tonipharm S.a.s., acquired at the end of 2018 and consolidated as from 1 January 2019, of € 22.7 million, the sales of Juxtapid®, a product acquired under license in February 2019 in Japan, of € 9.6 million and the margin on sales of Signifor® and Signifor® LAR, realized by Novartis starting 23 October 2019 and transferred to Recordati, for an amount of € 10.1 million, in addition to an estimated positive currency exchange rate effect of € 1.0 million. Excluding these items growth would be of 5.7%. International sales grow by 10.7% to € 1,194.6 million, which represent 80.6% of total sales. Pharmaceutical sales are € 1,435.7 million, up by 9.5% while pharmaceutical chemicals sales are € 46.1 million, up by 13.4%, and represent 3.1% of total revenues.

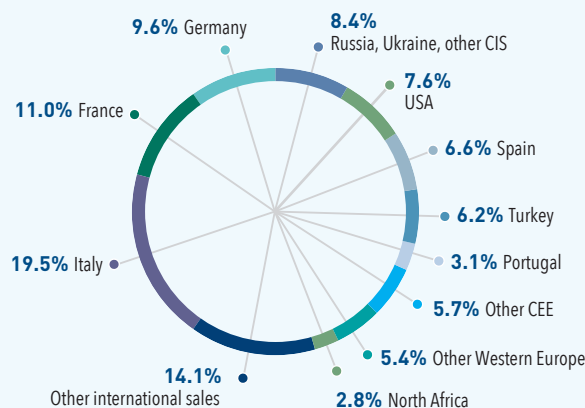
SALES BY BUSINESS



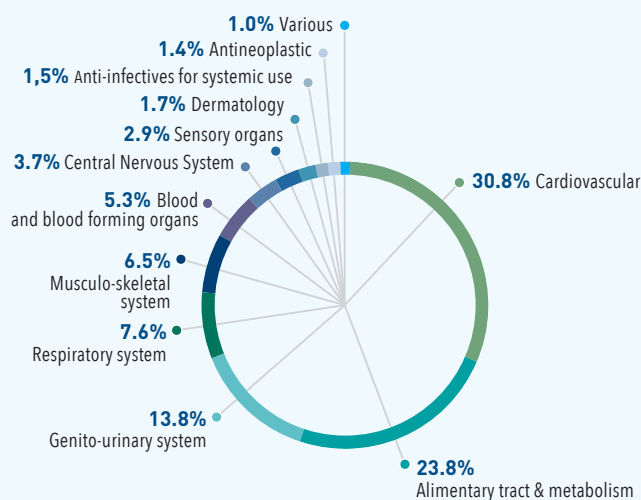
PHARMACEUTICALS

The group's pharmaceutical business, which represents 96.9% of total revenue, is carried out in the main European markets, including Central and Eastern Europe, in Russia and other C.I.S., Ukraine, Turkey, Tunisia, and, concerning our rare disease business, also in the United States of America, Canada, Mexico, in some South American countries, the Middle East, Japan and Australia, through our own subsidiaries and, in the rest of the world, mainly through licensing agreements with pharmaceutical companies of high standing. Our direct presence in markets in which our Specialty and Primary Care portfolio is sold was progressively extended through the acquisition of existing marketing organizations with the aim to add our proprietary products, and those obtained under multi-territorial licenses, to the local portfolios. Regarding the business segment dedicated to treatments for rare diseases new Recordati Rare Diseases subsidiaries have been established worldwide.

Pharmaceutical sales by geography in 2019 are shown below:



Pharmaceutical sales by therapeutic area in 2019 are shown below:



Corporate products

The performance of products sold directly in more than one market (corporate products) during 2019 is shown in the table below.

€ (thousands)	2019	2018	Change 2019/2018	%
Zanidip® (lercanidipine)	134,381	120,762	13,619	11.3
Zanipress® (lercanidipine+enalapril)	58,938	59,366	(428)	(0.7)
Urorec® (silodosin)	107,128	101,090	6,038	6.0
Livazo® (pitavastatin)	53,807	46,416	7,391	15.9
Seloken®/Seloken® ZOK/Logimax® (metoprololo/metoprololo+felodipina)	98,321	98,877	(556)	(0.6)
Other corporate products*	306,327	274,040	32,287	11.8
Drugs for rare diseases	249,850	214,832	35,018	16.3

* Include the OTC corporate products for an amount of € 113.9 million in 2019 and € 105.2 million in 2018 (+8.3%).

Zanidip® (lercanidipine) is an antihypertensive calcium channel blocker discovered and developed entirely in the Recordati research laboratories and is available in more than 100 countries. Lercanidipine is effective in gradually lowering blood pressure values to optimal levels avoiding episodes of reflex tachycardia and reducing the risk of cardiovascular events and their related mortality. Its lipophilicity and high selectivity are properties which render lercanidipine effective with a superior tolerability profile. It ensures protection of the kidneys and the endothelium of the 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 own marketing organizations in Western Europe as well as in Central and Eastern Europe, in Turkey and in North Africa. In the other markets they are sold by licensees, and in some of those aforementioned co-marketing agreements are in place.

€ (thousands)	2019	2018	Change 2019/2018	%
Direct sales	74,587	67,362	7,225	10.7
Sales to licensees	59,794	53,400	6,394	12.0
Total lercanidipine sales	134,381	120,762	13,619	11.3

The direct sales of lercanidipine based products are up by 10.7% mainly due to sales growth in Germany, Italy, Turkey and Poland as well as to the direct to market sales by our organizations now operational in the Nordic countries and in BeNeLux, areas where sales were previously realized by our licensees. Sales to licensees, which represent 44.5% of total lercanidipine sales, are up by 12.0% mainly thanks to the good sales performance in Australia and China.

Zanipress® (lercanidipine+enalapril) is an antihypertensive drug developed by Recordati. 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 as 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, good tolerability in addition to renal and vascular protection from damage caused by hypertension. This product is marketed successfully by Recordati or by its licensees in 30 countries.

€ (thousands)	2019	2018	Change 2019/2018	%
Direct sales	53,021	47,991	5,030	10.5
Sales to licensees	5,917	11,375	(5,458)	(48.0)
Total lercanidipine+enalapril sales	58,938	59,366	(428)	(0.7)

Direct sales of Zanipress® in 2019 are up by 10.5% due to the growth of sales in Turkey and to the direct to market handling by our own organization in France of the sales that were previously realized by a licensee under a co-marketing agreement. Sales to licensees represent 10.0% of total Zanipress® sales and are down by 48.0% mainly due to lower sales to licensees in France.

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 is frequent in men over the age of fifty and its symptoms significantly reduce quality of life. The prevalence of the disorder is increasing with the ageing of the population. Clinical evidence

shows that patients receiving silodosin benefited from a significant reduction of 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. The safety and tolerability of silodosin has been widely assessed with positive results. The low incidence of orthostatic and vasodilatory side effects make it a well-tolerated treatment even in patients who take antihypertensive medication. Silodosin was originated by Kissei (Japan) and was obtained under license by Recordati for the 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. Silodosin based products are sold directly by our subsidiaries under the brand Urorec® and by licensees under the brand Silodix™ and generated sales in 2019 of €107.1 million, up by 6.0%. Urorec® is doing particularly well in Turkey, Italy and Russia. The product is also growing significantly in Tunisia and Switzerland. In February 2020 the exclusivity covering the use of silodosin clinical data expired and consequently generic versions of the product may enter the market.

Livazo® (pitavastatin) is a latest generation statin indicated for the treatment of dyslipidaemia, a condition characterized by altered levels of blood cholesterol and other lipids and associated with an increased risk for heart disease and stroke. Controlled clinical trials show 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), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications. Furthermore, presents an excellent safety profile due to the lower likelihood of drug-drug interactions than that of most other statins. Thanks to these properties pitavastatin can be regarded as an effective and safe treatment of dyslipidemia. Pitavastatin was licensed by Recordati from the Japanese pharmaceutical company Kowa for the European market, Russia and the other C.I.S. countries and Turkey. The drug is sold by our marketing organizations in Spain, Portugal, Switzerland, Greece, Russia, Ukraine, other countries in the C.I.S and Turkey. Sales generated in 2019, including sales to co-marketers in Spain, Portugal and Greece, are € 53.8 million, up by 15.9%. The product is growing significantly in Turkey, Russia, Greece and Switzerland. In August 2020 the exclusivity covering the use of pitavastatin clinical data will expire and consequently generic versions of the product may enter the market.

Seloken®/Seloken® ZOK (metoprolol) are metoprolol based medicines belonging to the beta-blocker class of drugs widely used in the treatment of angina pectoris, myocardial infarction and disturbances of cardiac rhythm, 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 disturbances 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.

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 enables the reduction of possible episodes of reflex tachycardia induced by the calcium channel blocker, while felodipine associated with metoprolol facilitates vasodilation by reducing peripheral vascular resistance. This mechanism of action 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 therapeutic combinations mostly mentioned and recommended by the European ESH/ESC guidelines.

The European rights to **Seloken®/Seloken® ZOK (metoprolol) and Logimax® (metoprolol+felodipine)** were acquired from AstraZeneca in June 2017. The products are sold directly in around 20 countries and through distribution agreements in other European countries. Sales of these products in 2019 are € 98.3 million.

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

- **Reagila®** (cariprazine) is an innovative atypical antipsychotic for the treatment of schizophrenia. Cariprazine is an orally active and potent dopamine D₂/D₃ receptor partial agonist with preferential binding to D₃ receptors and partial agonist at serotonin 5-HT_{1A} receptors. The efficacy of cariprazine is shown by the positive results from three controlled trials in over 1,800 patients and one long-term trial, using the change from baseline in the scale, assessing the severity of schizophrenia symptoms, i.e. the Positive and Negative Syndrome Scale (PANSS) total score and the time to relapse as primary efficacy endpoints, respectively. A clinical trial with positive results was also carried out in patients suffering from predominant negative symptoms of schizophrenia. These results were the basis for a publication in *The Lancet (Cariprazine versus risperidone monotherapy for treatment of predominant negative symptoms in patients with schizophrenia: a randomised, double-blind, controlled trial; The Lancet Volume 389, No. 10074, p1103-1113, 18 March 2017)*. Reagila® was originated by Gedeon Richter and is sold under license by Recordati in Western Europe. The product has been launched in Germany, Switzerland, Spain, Italy, BeNeLux, United Kingdom, the Nordic countries, Portugal and Ireland where overall sales generated are of € 7.6 million.
- **Polydexa®, Isofra® and Otofa®** are combination products for the treatment of ENT infections sold mainly in Russia. In 2019 sales of Polydexa® are € 31.6 million, those of Isofra® are € 20.6 million while Otofa® generated sales of € 4.6 million. Overall sales are up compared to the preceding year.
- **Procto-Glyvenol®** (tribenoside), leader in its class, is indicated for the treatment of internal and external hemorrhoids. It is marketed by Recordati in the following countries: Poland, Russia, Turkey, Romania, Czech Republic, Slovakia, Ukraine, Portugal, the Baltic states and Cyprus. Sales in the market of this product in 2019 are € 30.5 million, up by 22.7%.
- **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. Sales of this product in 2019 are € 29.1 million, up by 12.1%, and are generated mainly in Russia.
- **CitraFleet®** and **PhosphoSoda®**, are bowel cleansers used in preparation for any diagnostic procedure which requires emptying of the intestines, such as colonoscopy or X-rays. These products are sold in around 15 countries but mainly in Spain and in Germany. In 2019 sales of CitraFleet® are € 28.6 million (+14.7%) and those of PhosphoSoda® are € 4.4 million (+5.0%). Fleet enema and Casenlax®, two other gastrointestinal products, generated sales of € 12.7 million (+8.3%) and € 12.9 million (+31.4%) respectively.
- The line of products under license from BioGaia comprises food supplements based on *Lactobacillus reuteri* protectis and includes the brand **Reuflor®** in Italy and the brands **Casenbionic®, Bioralsuero®, Reuteri®** and **Gastrus®** in Spain and Portugal. Sales of these products in 2019 are € 27.3 million.
- **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, mold, yeast and gram positive bacteria. Sales of Lomexin® in 2019 are € 21.4 million, up by 28.5% compared to the preceding year thanks mainly to the growth of sales in Poland.
- The Hexa line of products comprises biclotymol based antibacterial treatments of the oral cavity sold under the brands **Hexaspray®, Hexalyse®** and **Hexapneumine®**. The main brand of the line is Hexaspray®, a spray for sore throats which is a leader in its class in France. Overall sales of these products in 2019 are € 18.9 million, down by 2.1%, and are generated mainly in France, North Africa and Russia.
- **TransAct® LAT**, a transdermal patch containing 40 mg of flurbiprofen indicated for the symptomatic relief of localized pain involving the musculoskeletal system, obtained under license from Amdipharm, is sold on the Italian and Portuguese markets. Sales of this product are € 11.0 million (+2.2%) in 2019.
- **Flavoxate**, a Recordati original research product, is a muscle relaxant of the urinary tract. It is 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 brands **Genurin®** and **Urispas®**. Sales of this product in 2019 are € 8.8 million, up by 7.4%.
- **Kentera®** is an oxybutynin transdermal patch indicated for the symptomatic treatment of disorders of the lower urinary tract such as incontinence, increased urinary frequency and urgency, obtained under license from Allergan (previously Actavis and before that Watson Pharmaceuticals) and marketed in 18 countries but mainly in Germany. Sales of Kentera® are € 7.6 million (+7.2%) in 2019.
- **Lopresor®** (metoprolol) is a selective beta blocker for the treatment of different cardiovascular disorders, in particular hypertension and angina pectoris, marketed in Greece and in other European markets. Sales of this product in 2019 are € 6.2 million (-0.3%) and are generated mostly in Greece and in Germany.
- **Lacdigest®** (lactase) is an enzyme based preparation indicated in cases of lactose intolerance due to primary and secondary lactase deficiency. Sales of this product in 2019 are € 5.1 million (+11.3%) and are generated in Italy and in Switzerland.
- **Rupatadine** is a systemic antihistamine indicated for the treatment of allergies and in particular allergic rhinitis. Under license from Uriach, it is marketed in Italy and Germany as **Rupafin®** and in France as **Wystamm®**. Sales of all brands of rupatadine in 2019 total € 3.8 million, down by 9.6% following the entry of generic versions of the product on the market.
- **Abufene®** and **Muvagyn®** are gynaecological products indicated for menopausal symptoms. Sales of these products in 2019 are € 5.6 million (+0.4%) and € 2.6 million (-4.6%) respectively.
- **Vitaros®/Virirec®** (alprostadil) is the first topically applied cream formulation of alprostadil for the treatment of erectile dysfunction. The topical administration and local mechanism of action minimizes any systemic adverse reaction or interaction with other drugs, food or alcoholic beverages, and therefore Vitaros® can be considered an effective and safe alternative to existing orally administered products. It is sold under license from the US pharmaceutical company Apricus Biosciences. The product is available in Spain, Italy, Portugal, Romania, Greece, Ireland, the Czech Republic and Slovakia. Sales generated in 2019 are € 4.6 million (+57.0%).
- **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, launched during 2018, is on the market in Italy, Germany, Spain, Portugal, France, the United Kingdom and Greece. Sales of the product in 2019 are of € 1.2 million (+50.9%).

Treatments for rare diseases

Rare diseases bring great suffering to millions of affected people worldwide. They are mostly genetic diseases that can affect patients of any age, sex or ethnic origin and involve any type of medical specialization. They are chronic, fatal or severely debilitating diseases which strongly impact patients, their families and the community as a whole. Very often sufferers are new-borns, children and young adults.

An orphan drug is a medicinal product developed for the treatment of a rare disease. A rare disease is defined as a condition that affects fewer than 5 per 10,000 inhabitants in Europe or fewer than 200,000 Americans in the U.S.A.. Over 30 million people are affected in Europe alone. There are over 7,000 known rare diseases but today approved treatment exists for fewer than 10% of these.

Due to the extensive spectrum of existing diseases and the scarcity of available information, it is possible that physicians may never see a patient with a rare disease in the whole of their career. For these reasons there's always a risk that when a baby is born with a rare disease a correct diagnosis may not be made and timely appropriate treatment may not be provided. To provide care for people with a rare disease and to encourage pharmaceutical and biotechnology companies to invest in treatments for rare diseases governments have created various legal and financial incentives. In 1983 the Orphan Drug Act was introduced in the U.S.A. and European legislation passed in 1999 explicitly recognized the unmet need for targeted treatments for orphan diseases and created regulatory pathways and incentives for manufacturers to develop orphan drugs. From April 2000, when the EU orphan drug regulation came into effect, many hundreds of drugs received orphan drug designation from the European Medicines Agency (EMA). Of those designated drugs, over 100 have received marketing authorization (MA). 40% of the orphan medicines were licensed for oncological and haematological conditions and about 30% of the orphan drug market consists of drugs for rare inborn errors of metabolism.

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 who share the conviction that each person with a rare disease has the right to the best possible treatment. Our organizations work closely with specialists, healthcare professionals, patients' families and patient groups to spread knowledge, improve diagnosis and treatment, enable access to treatment by supporting patients and their needs. Recordati Rare Diseases operates directly in Europe, the Middle East, North Africa, U.S.A., Canada, Mexico, Colombia, Brazil, Japan and Australia. It has worldwide coverage through its 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.

Sales of products for the treatment of rare diseases in 2019 are of € 249.9 million, up by 16.3%, and include the revenues generated by the recently acquired or licensed in products (Juxtapid® in Japan, Ledaga® in Europe and Signifor®/Signifor® LAR worldwide). Sales in the United States of America are up by 8.5% despite the competition from a generic version of Cosmegen®. Sales in the rest of the world grow by 23.2%.

The main products in the segment dedicated to rare disease treatments are

Panhematin®/Normosang® (human haemin) indicated for the treatment of acute attacks of hepatic porphyria; Carbaglu® (carglumic acid) indicated for the treatment of hyperammonaemia due to N-acetyl glutamate synthase deficiency (NAGS deficiency) and due to any of the three main organic acidaemias; Cosmegen® (dactinomycin) used mainly in the treatment of three rare cancers (Wilms' tumor, childhood rhabdomyosarcoma and choriocarcinoma); Cystadane® (betaine anhydrous) for the treatment of homocystinuria; Cystadrops® (cysteamine chlorhydrate), eye-drop solution for the treatment of corneal cystine crystal deposits in adults and children from 2 years of age with cystinosis; Cystagon® (cysteamine bitartrate) for the treatment of proven nephropathic cystinosis. Juxtapid® (lomitapide) for the treatment of homozygous familial hypercholesterolemia, Ledaga® (chlormethine hydrochloride) for the topical treatment of mycosis fungoides-type cutaneous T-cell lymphoma (MF-CTCL) and Pedeo®/Neoprofen® (i.v. ibuprofen) used in the treatment of a serious congenital cardiac malformation, the persistence of patent ductus arteriosus (PDA).

During 2019, Ledaga® (chlormethine hydrochloride) indicated for the topical treatment of mycosis fungoides, a type of cutaneous lymphoma (MF-CTCL, mycosis fungoides cutaneous T-cell lymphoma), obtained under license from the Swiss pharmaceutical company Helsinn in 2018, was launched. Sales of this product in 2019 are of € 2.6 million.

Furthermore, in February, Recordati obtained from Aegerion Pharmaceuticals Inc. the exclusive rights to commercialize Juxtapid® in Japan. Juxtapid® (lomitapide) is a microsomal triglyceride transfer protein inhibitor indicated for the treatment of homozygous familial hypercholesterolemia (HoFH). HoFH is a serious, rare genetic disease that impairs the function of the receptor responsible for removing LDL-C ("bad" cholesterol) from the body. A loss of LDL receptor function results in extreme elevation of blood cholesterol levels. HoFH patients often develop premature and progressive atherosclerosis, a narrowing or blocking of the arteries. Sales of Juxtapid® in 2019 are of € 8.3 million.

During 2019 the worldwide rights to Signifor® and Signifor® LAR for the treatment of Cushing's disease and acromegaly in adult patients for whom surgery is not an option or for whom surgery has failed were acquired from Novartis. Revenues generated by Signifor® and Signifor® LAR starting 23 October 2019 are € 10.1 million. The agreement also covers the acquisition of worldwide rights to Isturisa® (osilodrostat), an investigational innovative drug for the treatment of endogenous Cushing's syndrome, for which marketing authorization was granted by the European Commission in January 2020 and approval obtained in the U.S.A. in March 2020. Cushing's syndrome includes Cushing's disease, a severe endocrine disease caused by a pituitary adenoma which results in over-production of cortisol by the adrenal glands and is associated with increased morbidity and mortality. Acromegaly is caused by an overexposure to growth hormone that 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 that blocks the production of ACTH, helping to control the over-production of cortisol and improve the symptoms of Cushing's disease. The active ingredient in Isturisa®, osilodrostat, is an orally administered steroidogenesis inhibitor of 11Beta-hydroxylase, an enzyme which catalyses the final step of cortisol synthesis in the adrenal cortex. This new drug for endogenous Cushing's syndrome is expected to represent an effective new treatment option for patients.

Pharmaceutical sales by geographical area

The pharmaceutical sales by geography of the Recordati subsidiaries (including those dedicated to treatments for rare diseases) are broken down as follows:

€ (thousands)	2019	2018	Change 2019/2018	%
Italy	280,068	265,705	14,363	5.4
France	157,270	131,772	25,498	19.4
Germany	138,602	136,764	1,838	1.3
Russia, other C.I.S. countries and Ukraine	120,160	105,611	14,549	13.8
U.S.A.	109,570	101,003	8,567	8.5
Spain	94,699	88,880	5,819	6.5
Turkey	88,610	74,968	13,642	18.2
Portugal	44,454	41,679	2,775	6.7
Other C.E.E. countries	82,108	65,328	16,780	25.7
Other Western European countries	77,577	59,021	18,556	31.4
North Africa	40,318	40,679	(361)	(0.9)
Other international sales	202,310	200,173	2,137	1.1
Total pharmaceutical sales	1,435,746	1,311,583	124,163	9.5

Both years include sales as well as income from up-front payments, royalties and miscellaneous items.

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

Local currency (thousands)	2019	2018	Change 2019/2018	%
Russia (RUB)	6,852,418	6,166,623	685,795	11.1
Turkey (TRY)	538,730	402,459	136,271	33.9
United States of America (USD)	130,484	123,407	7,077	5.7

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

ITALY

The Recordati group offers a broad range of medications in this country through its organizations 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.. In addition to its historic and established presence in the cardio metabolic field, the Italian product portfolio also boasts quality medicines in urology, in gastroenterology and in pain control as well as treatments for rare diseases mainly of metabolic origin. Recordati also has an excellent reputation at the pharmacy level and continues to grow in the self-medication market, thanks to its large offering in a number of therapeutic areas such as oral hygiene, eye, nose and throat cure, and gastrointestinal disturbances.

The Italian pharmaceutical production site is situated in Milan, it occupies a surface area of around 5,000 sq. m., built vertically over a number of floors for a total of 21,000 sq. m. and produces over 60 million packages per year. The plant is specialized in the manufacture and packaging of solid oral forms, liquids, injectables and products for topical use.

Pharmaceutical sales in Italy are up by 5.4% over the preceding year and include, for the full year 2019, revenues generated by Natural Point S.r.l., consolidated as from 1 July 2018. The performance of the main products in Italy is the following:

€ (thousands)	2019	2018	Change 2019/2018	%
Prescription pharmaceuticals ^(a)	194,301	190,450	3,851	2.0
Self-medication pharmaceuticals ^(b)	85,767	75,255	10,512	14.0
Pharmaceuticals, Italy	280,068	265,705	14,363	5.4

(a) Prescription pharmaceuticals include both reimbursable and non-reimbursable drugs.

(b) Self-medication pharmaceuticals include OTC products and other pharmaceuticals not requiring a prescription.

€ (thousands)	Indication	2019	2018	Change 2019/2018	%
Cardicor®	heart failure	31,733	27,195	4,538	16.7
Urorec®	benign prostatic hyperplasia	29,848	28,622	1,226	4.3
Zanedip®/Lercadip®	hypertension	19,555	18,194	1,361	7.5
Peptazol®	gastric ulcers	17,364	18,571	(1,207)	(6.5)
Aircort®	bronchial asthma	13,537	13,790	(253)	(1.8)
Tora-Dol®	pain	13,252	12,594	658	5.2
Zanipril®/Lercaprel®	hypertension	12,822	12,085	737	6.1

Cardicor® (bisoprolol), Urorec® and the lercanidipine based products performed well, together with the treatments for rare diseases which are up by 5.3%. Sales of Peptazol® (pantoprazole) and the lercanidipine based products have been affected by the competition from generic versions of the products.

Sales of self-medication products are € 85.8 million, significantly up compared to the preceding year, and have benefited from the full year sales of Natural Point's self-medication products (consolidated as from July 2018), in particular of Magnesio Supremo®, a magnesium based food supplement which has become the main product in our Italian consumer health portfolio with sales of € 16.5 million. Reuflo®, a food supplement indicated for the rebalancing of intestinal bacterial flora, is the second largest product with sales of € 11.9 million. Alovex™, indicated for the treatment of oral cavity aphthae, is our third best-selling self-medication product with sales of € 8.9 million, up by 11.8%, and remains market leader with a share of 34%. Proctolyn® (treatment of haemorrhoids) with sales of € 7.1 million also remains market leader with a share of more than 41%. Eumill® (eye drops and nasal spray) is leader in its class with a market share of 24% and generated sales of € 6.4 million, up by 4.6%. Dentosan®, a line of oral care products, generated sales of € 4.2 million.

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. 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, it covers a surface area of 6,750 sq. m. and is specialized in the production and packaging of liquid, solid oral and spray formulations. The site produces 33 million packages per year. Furthermore, the group operates a new manufacturing site for the treatments for rare diseases in Nanterre. It occupies a surface area of 1,200 sq. m. and is entirely dedicated to the packaging, storage and shipping of rare disease products. An area of 400 sq. m. is office space.

The 2019 revenue realized by our subsidiaries in France is € 157.3 million, up by 19.4% compared to the preceding year, and include the integration of the Tonipharm S.a.s. products, acquired end 2018. Below is the performance of the main products:

€ (thousands)	Indication	2019	2018	Change 2019/2018	%
Methadone	drug addiction	31,399	31,609	(210)	(0.7)
Urorec®	benign prostatic hyperplasia	17,703	17,320	383	2.2
Ginkor®	ginkgo biloba based food supplement	12,934	0	12,934	n.s.
Zanextra®/ Lercapress®	hypertension	11,861	9,592	2,269	23.7
Seloken®/Seloken® ZOK/ Logimax®	hypertension, cardiac disorders	9,997	9,716	281	2.9
Lercan®/Zanidip®/ lercanidipine	hypertension	7,716	8,289	(573)	(6.9)
Transipeg®	laxative	7,117	4,708	2,409	51.2
Hexa line	antibacterial	7,945	7,432	513	6.9

Methadone, a synthetic opioid analgesic used as a substitute for heroin in abstinence syndromes, in disintoxication from opiates and in maintenance programs, is Laboratoires Bouchara Recordati's most important product. Highly specialized staff and dedicated resources lie behind the success of the disintoxication 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 of the diffusion 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 capsules formulation has contributed to expand its use. Sales of methadone in 2019 are € 31.4 million, substantially in line with those of the preceding year.

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 decrease due to the competition from generic versions of the drug. Regarding the OTC portfolio, sales include Ginkor®, a ginkgo biloba based food supplement, and Alodont®, for oral hygiene, the main products belonging to Tonipharm S.a.s., acquired in December 2018 and consolidated as from 1 January 2019. Sales of the Hexa line of products grow by 3.3%. Sales of products for the treatment of rare diseases grow by 6.3%.

GERMANY

In addition to its consolidated presence in the cardiovascular therapeutic area, Recordati Pharma GmbH is one of the most esteemed German pharmaceutical companies in the field of orthopedics. Over time it has developed a strong presence in orthopedics and offers quality products to specialists in this field. An important part of the Recordati Pharma operations is linked to its traditional presence in the gastroenterological area and in particular in the treatment of chronic inflammatory intestinal diseases. The German subsidiary markets a line of self-medication products with a specific sales organization which operates in a growing market and is dedicated to the marketing of a number of well-known brands. Operations in the segment dedicated to rare diseases in this country are carried out by Recordati Rare Diseases Germany GmbH.

Sales generated by our subsidiaries in Germany are € 138.6 million, an increase of 1.3% compared to the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2019	2018	Change 2019/2018	%
Ortoton®	muscle relaxant	32,652	37,277	(4,625)	(12.4)
Seloken®/Seloken® ZOK/ Logimax®	hypertension, cardiac disorders	20,075	21,235	(1,160)	(5.5)
Corifeo®/ lercanidipine	hypertension	12,152	9,639	2,513	26.1
Claversal®	ulcerative colitis	11,425	11,164	261	2.3
Zanipress®	hypertension	9,353	10,788	(1,435)	(13.3)
Mirfulan®	healing ointment	8,352	7,901	451	5.7
Recosyn®	musculo-skeletal	6,614	6,355	259	4.1

Overall, sales in Germany increase moderately compared to the preceding year. Worth mentioning is the performance of Reagila® (cariprazine), a new drug for the treatment of schizophrenia launched in 2018, and the continued success of the lercanidipine based products. The reduction in sales of Ortoton® (methocarbamol) is to be attributed to competition from generic versions of the product. The overall sales of self-medication products in Germany are € 26.7 million, up by 6.4% compared to the preceding year thanks mainly to the growth of Laxbene® (+42.7%), Mirfulan® and Recosyn®. Sales of the treatments for rare diseases in this country are up by 14.9%.

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. The success of our organizations which operate in these territories, is largely based on the success of a line of anti-infective products, as well as to that of a well-known portfolio of self-medication products. Fic Médical, with its four representative offices in Kazakhstan, Belarus, Georgia and Armenia ensures the Group's direct presence in the C.I.S., in the Caucasian region and in Central Asia, territories in which the group's geographical coverage has significantly increased.

Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) is € 120.2 million, up by 13.8% compared to the preceding year and include an estimated positive currency exchange effect of € 3.5 million. Sales in Russia, in local currency, are RUB 6,852.4 million, up by 11.1% over the preceding year.

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

RUB (thousands)	Indication	2019	2018	Change 2019/2018	%
Polydexa®	ear infections	1,776,476	1,766,378	10,098	0.6
Tergynan®	gynaecological infections	1,428,009	1,258,320	169,689	13.5
Isofra®	nasal infections	1,257,005	1,081,030	175,975	16.3
Procto-Glyvenol®	hemorrhoids	646,310	529,471	116,839	22.1

The main product in the Russian portfolio is Polydexa® with continued increase of its market share. Isofra® is also growing and increased its market share and sales of Tergynan®, leader in its class, are growing compared to the preceding year. Worth mentioning is the success of the corporate product Procto-Glyvenol® which has become one of the leading products in its class. Sales in Russia of the corporate products Urorec®, Zanidip®, Livazo® and Lomexin® record strong growth. In 2019 the growth of the treatments for rare diseases is significant (+17.5%).

Sales generated in Ukraine and in the C.I.S. (Commonwealth of Independent States), mainly Belarus, Kazakhstan and Georgia are growing significantly and have reached € 23.1 million (+19.4%).

UNITED STATES OF AMERICA

The group's pharmaceutical business in the U.S.A. is dedicated exclusively to the marketing of products for the treatment of rare diseases through our subsidiary Recordati Rare Diseases Inc.. The main products are Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency, Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers and Cystadane® (betaine anhydrous oral solution), used in the treatment of homocystinuria to reduce the high level of homocysteine in the blood. Sales in 2019 are € 109.6 million, up by 8.5% despite competition from a generic version of Cosmegen®.

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 products. It is particularly well-known for its products for bowel cleansing and oral rehydration which belong to markets in which the company is an undisputed leader. Among these, the main product is CitraFleet®, a bowel cleanser used in preparation for diagnostic procedures. 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 a surface area of 7,100 sq. m. and is specialized 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.

Revenues in Spain are € 94.7 million, up by 6.5% compared to the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2019	2018	Change 2019/2018	%
CitraFleet®	bowel cleansing	15,567	14,317	1,250	8.7
Livazo®	hypercholesterolemia	15,250	14,184	1,066	7.5
Urorec®	benign prostatic hyperplasia	10,038	9,724	314	3.2
Enema Casen	bowel cleansing	7,740	7,746	(6)	(0.1)
Bi-OralSuero	rehydrating solution	6,506	5,784	722	12.5
Casenlax®	laxative	5,501	4,601	900	19.6
Cidine®	gastroprokinetic	5,429	5,377	52	1.0
Virirec®	erectile dysfunction	3,548	2,638	910	34.5
Zanipress®	hypertension	3,491	3,112	379	12.2

Sales of the main product in the portfolio, CitraFleet®, a preparation for colonoscopy grow by 8.7%. Livazo®, Urorec®, Bi-OralSuero®, Casenlax® and Zanipress® are performing well and the treatments for rare diseases record a 28.0% growth. Sales of Cidine® (cinitapride) are slightly growing despite the presence of generic competition in the market. Sales of Virirec®, the product for erectile dysfunction, are growing significantly (+34.5%).

TURKEY

Recordati İlaç, the group's Turkish subsidiary, is one of the 25 leading pharmaceutical companies in Turkey and grows faster than the market. 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 physical medicine and rehabilitation.

Recordati İlaç has undertaken an important investment program for the construction of a new production plant in Çerkezköy, built on 45,000 sq. m. of land, it occupies a surface area of approximately 11,300 sq. m. and has a total production capacity of 80 million packs annually. It currently produces 66 million packages per year of solid oral and liquid formulations and products for topical use, of which 20% is dedicated to third party production. The new plant was declared GMP compliant by the Turkish authorities in 2016 and is now fully operational.

Sales in Turkey are € 88.6 million, up by 18.2%, and were impacted by the devaluation of the Turkish Lira which generated a negative currency exchange effect estimated at € 9.6 million. In local currency, sales in Turkey increase by 33.9%, benefitting from an increase in the price of our products in this country of around 20% on average.

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

TRY (thousands)	Indication	2019	2018	Change 2019/2018	%
Mictonorm®	urinary incontinence	96,447	67,272	29,175	43.4
Lercadip®	hypertension	83,217	68,553	14,664	21.4
Cabral®	muscle relaxant	80,669	55,411	25,258	45.6
Urorec®	benign prostatic hyperplasia	71,870	51,281	20,589	40.1
Zanipress®	hypertension	48,891	33,710	15,181	45.0
Kreval®	cough	45,075	33,351	11,724	35.2
Livazo®	hypercholesterolemia	43,096	28,163	14,933	53.0
Ciprasid®	anti-infective	35,768	31,446	4,322	13.7
Procto-Glyvenol®	hemorrhoids	33,608	26,607	7,001	26.3

Worth mentioning is the good performance of the corporate products, mainly Lercadip®, Urorec®, Zanipress®, Livazo® (sold in Turkey under the brand Alipza®) and Procto-Glyvenol®.

PORTUGAL

Jaba Recordati S.A. is well positioned in the Portuguese pharmaceuticals market, mainly in the cardiovascular, urological, gastrointestinal and pain control fields and in the market for self-medication products.

Revenue generated by our subsidiaries in Portugal is € 44.5 million, up by 6.7%. The performance of the main products is listed below.

€ (thousands)	Indication	2019	2018	Change 2019/2018	%
Livazo®	hypercholesterolemia	7,932	7,446	486	6.5
TransAct® LAT	anti-inflammatory	4,929	4,438	491	11.1
Urorec®	benign prostatic hyperplasia	3,269	3,057	212	6.9
Microlax®	laxative	3,191	3,117	74	2.4
Zanipress®	hypertension	2,950	2,915	35	1.2
Eqostar®	vitamin D3	2,529	2,522	7	0.3

Sales of Zanipress® are substantially stable despite competition from generic versions of the product. Worth mentioning is the good performance of Livazo® and Urorec®. Regarding the portfolio of self-medication products, up by 9.8%, TransAct® LAT and Procto-Glyvenol® (+30.7%) are performing well. Furthermore, sales of the treatments for rare diseases are up by 1.8%.

OTHER CENTRAL AND EASTERN EUROPEAN COUNTRIES

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

Poland

The subsidiary in Poland, Recordati Polska Sp z o.o., markets a diversified product portfolio with an emphasis on the cardiovascular and urology therapeutic areas, in particular as regards benign prostatic hyperplasia. Sales in Poland in 2019 are € 31.6 million, up by 19.4% thanks mainly to the inclusion of Citrafleet® in the product portfolio and the significant growth of the self-medication products. Worth mentioning is the good performance of Lercan® (lercanidipine), up by 50.0% and of Lercaprel® (lercanidipine+enalapril), up by 76.0%. Sales of the self-mediation portfolio are up by 50.2% thanks to the significant growth of Procto-Glyvenol®, the Polish subsidiary's main OTC product, and of Gynoxin® (fenticonazole) that generated sales of € 8.7 million (+29.9%) and € 4.4 million (+362.1%) respectively.

Czech Republic and Slovakia

Herbacos Recordati S.r.o., the group's subsidiary present in the Czech Republic and in Slovakia, successfully markets pharmaceutical products belonging to a number of therapeutic areas, including cardiovascular, urology, analgesic, anti-inflammatory and dermatological medicines. The subsidiary operates a small pharmaceutical production plant, situated in Pardubice, which produces creams, gels and ointments for a total of 2 million packages per year. Sales generated by Herbacos Recordati are € 25.7 million, up by 8.1% compared the preceding year, mainly thanks to the significant growth of Mictionorm®, a propiverine based product for the treatment of urinary incontinence launched in 2018, of the metoprolol based cardiovascular products and of Urorec®. The self-medication product portfolio grows by 7.4% mainly due to the good performance of the brands Valetol® (paracetamol) and Acylpyrin® (acetylsalicylic acid).

Romania and Bulgaria

Recordati Romania S.R.L. promotes both prescription and self-mediation products successfully. Sales in Romania are € 12.5 million, up by 4.2%, mainly thanks to the good performance of the product for hemorrhoids Procto-Glyvenol® and of Tergynan®.

During 2019 our new subsidiary Recordati Bulgaria Ltd was established and generated sales of € 3.1 million in the year, almost entirely composed of the metoprolol based cardiovascular products.

Baltic states

As from 2019 the Group is present with direct sales to the market in the Baltic states, generating sales of € 4.1 million entirely composed of the metoprolol based cardiovascular products.

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

Sales in the Central and Eastern European markets of the specialty products indicated for the treatment of rare and orphan diseases amount to € 4.0 million, up by 31.4%.

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 (present also in Austria through Pro-Farma GmbH), in the Nordic countries with Recordati AB and in BeNeLux with Recordati BVBA.

Switzerland

Sales generated by Recordati AG in Switzerland are € 20.5 million and refer mainly to the metoprolol based cardiovascular products and to Zanidip®, Livazo®, Laccigest® (tilattase) and Tretinac® (tretinoin). In 2018 Reagila®, the new drug for the treatment of schizophrenia was launched in this country.

Greece

Sales in Greece are € 17.9 million, up by 3.5% thanks to the good performance of Livazo®, Zanidip® and Urorec®.

United Kingdom

Sales in the United Kingdom are € 8.0 million and relate mainly to products for the treatment of rare diseases which account for 80.9% of our revenues in this country. During 2018 Reagila® was also launched in the UK.

Ireland

Sales in Ireland are € 1.6 million, mainly generated by Urorec®, Zanipress® (sold in Ireland with the brand Lercaril®), Kentera® and Zanidip®.

Nordic countries and BeNeLux

During 2018, the organizational structure of our subsidiaries Recordati AB in Sweden and Recordati BVBA in Belgium was reinforced to allow the promotion and sales of our specialty products, in addition to our products for the treatment of rare diseases, in the Nordic countries and in BeNeLux. Sales in the Nordic countries in 2019 re of € 11.0 million and refer almost entirely to the metoprolol based cardiovascular products and to Zanidip®, the latter previously sold by a licensee. Sales in BeNeLux are € 3.7 million and refer almost entirely to 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 these Western European countries (UK excluded) are of € 14.9 million.

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 it ranks high in the local pharmaceutical market. It markets branded generic drugs with leading products in dermatology and in the gastrointestinal and respiratory therapeutic 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 are € 40.3 million, substantially in line with those of the preceding year. Sales in Tunisia in 2019 are of € 26.7 million, up by 12.3%. In local currency sales in Tunisia grow by 18.4%. The main products in this very diversified portfolio are Zanicip[®], Zanipress[®] (sold with the brand Zanextra[®]), Vitamin D3 and Urorec[®].

OTHER INTERNATIONAL SALES

Other international sales amount to € 202.3 million, up by 1.1%, and comprise the sales to, and other revenues from, our licensees for our corporate products, Laboratoires Bouchara Recordati's and Casen Recordati's export sales and Recordati Rare Diseases's sales in all other countries not described above.

Sales to international licensees, including other revenues, are of € 127.7 million, down by 12.4%, 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 through agreements with third parties.

Sales outside France by our French subsidiary Laboratoires Bouchara Recordati, excluding North Africa, are € 18.2 million, up by 6.1%, while sales outside Spain by our Spanish subsidiary Casen Recordati are € 4.6 million, up by 6.1%.

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, are of € 51.8 million, up by 60.2%. Revenue includes sales of Juxtapid[®], a product obtained under license in 2019, in Japan and the launch of Panhematin[®] and Cystadrops[®] in Canada.

PHARMACEUTICAL CHEMICALS

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 of 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. In order to guarantee adequate and continuous supplies of the active ingredient lercanidipine, in 2005 a new and dedicated plant was constructed in Cork in Ireland. This facility boasts automated process control systems which ensure constant high quality production.

Sales of pharmaceutical chemicals, which comprise active substances produced in the Campoverde d'Aprilia plant for the international pharmaceutical industry, are € 46.1 million, up by 13.4%. In particular, the products manidipine, acyclovir, tribenoside, dimenhydrinate and diphenhydramine performed well.

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

€ (thousands)	2019	%	2018	%	Change 2019/2018	%
Italy	3,122	6.8	2,950	7.3	172	5.8
Europe (Italy excluded)	14,642	31.8	13,663	33.6	979	7.2
United States of America	7,755	16.8	8,219	20.2	(464)	(5.6)
America (U.S. excluded)	4,376	9.5	3,881	9.5	495	12.8
Australasia	15,014	32.6	11,062	27.2	3,952	35.7
Africa	1,193	2.6	877	2.2	316	36.0
Total	46,102	100.0	40,652	100.0	5,450	13.4

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 object of constantly reducing work-related and environmental risks.

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 towards the surrounding environment.

In the months of April and May 2019 the Campoverde di Aprilia plant underwent an inspection by ARPA (the regional agency for the protection of the environment) for the Lazio region. During the four days of the inspection the authorities carried out a site inspection, an audit of all the documents related to the system for environmental management and a sampling of waste water. No non conformities were found by the authorities and the analytical results of waste water were within the required limits.

During 2019 the Campoverde di Aprilia plant underwent an environmental audit by a consultancy firm, and, on the other hand conducted five environmental audits at the sites of intermediaries and waste processing plants. Furthermore, the verification for the renewal of the environmental certification ISO 14001:2015 conducted in the month of June 2019 by the accredited company DNV GL assumes particular importance. During the two visits by the Lead Auditor of DNV GL together with a Lead Assistant, the entire environmental management system at the Campoverde di Aprilia plant was inspected.

FINANCIAL REVIEW

INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2018:

€ (thousands)	2019	% of revenue	2018	% of revenue	Change 2019/2018	%
Revenue	1,481,848	100.0	1,352,235	100.0	129,613	9.6
Cost of sales	(436,901)	(29.5)	(395,569)	(29.3)	(41,332)	10.4
Gross profit	1,044,947	70.5	956,666	70.7	88,281	9.2
Selling expenses	(372,803)	(25.2)	(333,497)	(24.7)	(39,306)	11.8
Research and development expenses	(129,681)	(8.8)	(109,693)	(8.1)	(19,988)	18.2
General and administrative expenses	(72,783)	(4.9)	(67,722)	(5.0)	(5,061)	7.5
Other income (expense), net	(4,414)	(0.3)	(3,535)	(0.3)	(879)	24.9
Operating income	465,266	31.4	442,219	32.7	23,047	5.2
Financial income (expense), net	(21,122)	(1.4)	(24,284)	(1.8)	3,162	(13.0)
Pre-tax income	444,144	30.0	417,935	30.9	26,209	6.3
Provision for income taxes	(75,278)	(5.1)	(105,513)	(7.8)	30,235	(28.7)
Net income	368,866	24.9	312,422	23.1	56,444	18.1
Attributable to:						
Equity holders of the parent	368,825	24.9	312,376	23.1	56,449	18.1
Non-controlling interests	41	0.0	46	0.0	(5)	(10.9)

In 2019 international revenues went from € 1,079.0 million to € 1,194.6 million, an increase of 10.7%, and represent 80.6% of total revenue. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2019	%	2018	%
Europe (Italy excluded)	904,185	75.7	828,728	76.8
United States of America	118,251	9.9	110,781	10.3
America (United States excluded)	34,375	2.9	25,970	2.4
Australasia	85,465	7.2	62,295	5.8
Africa	52,283	4.4	51,264	4.8
Total	1,194,559	100.0	1,079,038	100.0

Gross profit is € 1,044.9 million with a margin of 70.5% on sales, a slight decrease compared that of the preceding year due mainly to price and currency effects.

Selling expenses increase by 11.8% with a slight increase as a percent of revenue compared to the preceding year due to marketing expenses for the launch of Reagila®, the new commercial organizations in the Nordic countries, BeNeLux and the Baltics and the initial reinforcement of the organization dedicated to the rare diseases segment following the acquisition of the products for rare endocrinology diseases Signifor®, Signifor® LAR and Isturisa® from Novartis.

Research and development expenses are € 129.7 million, up by 18.2% compared to those recorded in 2018 due to the advancement of new development programs and the amortization of the amounts allocated to intangible assets following the acquisition of Natural Point S.r.l. and of Tonipharm S.a.s., of the up-front payments for the recently acquired licenses to the rare disease products Ledaga® and Juxtapid® and of the rights to the products Signifor® and Signifor® LAR acquired from Novartis.

General and administrative expenses are up by 7.5% but are slightly reduced as percent of sales.

Overall, labor cost in 2019 is € 289.1 million, an increase of 5.5% over 2018, with the cost per employee up by 4.1%.

Personnel and other human resources data at 31 December 2019 and 2018 are shown in the following table:

	2019	2018
Employees at year-end	4,323	4,142
Average age	43	43
Average service (years)	8.4	8.3
Labor productivity:		
Labor cost on net sales	19.5%	20.3%
Sales per employee (€ thousands) ^(a)	357.9	330.7
Value added per employee (€ thousands)^(a)	201.1	189.1

Labor cost includes wages, related charges and additional costs.

(a) Data per employee for both years are computed on the average number of personnel, 4,141 in 2019 and 4,089 in 2018.

In accordance with the international expansion process within the Group, the strengthening of our corporate organization continued in order to ensure the integration, monitoring and coordination of the foreign subsidiaries. Much effort was also dedicated to the creation of local organizational structures for the setting-up and development of the new international, both European and ex-European, subsidiaries' business and of the specialist organizations for the management of the new endocrinology area. In general, personnel training and development represented a substantial portion of the Group's efforts to ensure the efficacy of the different work groups belonging to different business areas, maintaining at the same time continued attention towards the development of managerial competencies distinctive to Recordati.

Other expenses, net of other income, are € 4.4 million, up by € 0.9 million compared to the preceding year. They include an accrual of € 4.2 million for the early termination of a license agreement.

EBITDA (earnings before interest, taxes, depreciation, amortization and write-downs), at 36.7% of sales, is € 544.0 million, an increase of 9.0% over 2018. Total depreciation and amortization charges, classified in the lines above, are € 78.2 million. Amortization charges are € 53.1 million, an increase of € 10.1 million over the preceding year due to the amounts allocated to intangible assets following the acquisition of Natural Point S.r.l. and of Tonipharm S.a.s., to the up-front payments for the recently acquired licenses to the rare disease products Ledaga® and Juxtapid® and to the rights for the products Signifor® and Signifor® LAR acquired from Novartis. Depreciation charges are € 25.1 million, up by € 11.2 million mainly due to the application of the new accounting principle IFRS 16 which at the same time led to lower leasing charges thus determining a positive effect of € 0.4 million on operating income and € 11.0 million on EBITDA.

The reconciliation of the net income and the EBITDA inclusive of write-down of intangible assets is reported below:

	2019	2018
Net income	368,866	312,422
Provision for income taxes	75,278	105,513
Financial (income) expenses, net	21,122	24,284
Depreciation and amortization	78,248	56,860
Write-down of intangible asset	453	0
EBITDA inclusive of write-down of intangible assets⁽¹⁾	543,967	499,079

(a) Net income before provision for income taxes, financial (income) expenses, net, depreciation and amortisation and write-down of both property, plant and equipment and intangible assets

Net financial charges in 2019 are € 21.1 million, a decrease of € 3.2 million compared to the preceding year mainly due to lower foreign exchange losses and interest on tax assessments for a total of € 6.8 million, partially offset by € 3.6 million due to an increase in interest charges on new loans, higher charges on short-term positions and interest expense related to leasing contracts.

The effective tax rate during the year is 17.0%, significantly lower than that of the preceding year due to the tax benefit provided by the so-called "patent box". In December an agreement was reached with the Italian tax authorities which allows the Parent Company to benefit from a discount on taxable income of 30% for the year 2015, 40% for 2016 and 50% for the 2017-2019 three year period with reference to patents, know-how and brands related to selected products provided for in the agreement. The "patent box" optional regime covers the period 2015-2019. The tax benefit for the period 2015-2018 is of € 27.0 million while that relative to 2019 is of € 8.3 million. The Company will renew the option for the next five year period but the tax benefit will be lower due to the exclusion of brands from the "patent box" regime.

Net income at 24.9% of sales is € 368.9 million, an increase of 18.1% over the preceding year mainly thanks to the abovementioned tax benefit.

FINANCIAL POSITION

The net financial position at 31 December 2019 records net debt of € 902.7 million compared to net debt of € 588.4 million at 31 December 2018.

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018	%
Cash and short-term financial investments	187,923	198,036	(10,113)	(5.1)
Bank overdrafts and short-term loans	(13,392)	(16,905)	3,513	(20.8)
Loans – due within one year ⁽¹⁾	(140,963)	(135,062)	(5,901)	4.4
Leasing liabilities – due within one year	(8,854)	(216)	(8,638)	n.s.
Net liquid assets	24,714	45,853	(21,139)	(46.1)
Loans – due after one year ⁽¹⁾	(908,542)	(632,823)	(275,719)	43.6
Leasing liabilities – due after one year	(18,853)	(1,410)	(17,443)	n.s.
Net financial position	(902,681)	(588,380)	(314,301)	53.4

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

During the period dividends were paid for a total of € 190.9 million, an amount of € 26.4 million were paid as per the license agreement with Aegerion Pharmaceuticals Inc. covering the exclusive rights to Juxtapid® (lomitapide) in Japan, a € 47.5 million milestone was paid to Helsinn as per

the license agreement for Ledaga® (chlormethine) and € 350.1 million were paid to Novartis for the acquisition of the rights to Signifor®, Signifor® LAR and Isturisa®. Furthermore, the application of IFRS 16 generated an increase in leasing liabilities of € 26.3 million.

An amount of € 33.3 million was invested in property, plant and equipment, of which € 11.2 million related to leased assets, and involve mainly the Parent Company (€ 15.0 million), the Spanish subsidiary Casen Recordati (€ 5.3 million) and the Turkish subsidiary Recordati İlaç (€ 2.1 million).

During the year the privately placed notes issued by Recordati Rare Diseases on 13 June 2013 for a total of \$ 70 million were fully repaid. The euro equivalent amount paid was of € 61.3 million.

In June Recordati S.p.A. undersigned a loan agreement for an amount of € 400.0 million to support the Group's growth strategy. The loan, initially undersigned by Mediobanca, Natixis and Unicredit was subsequently syndicated involving a pool of Italian and international banks. The terms of the loan provide for a variable interest rate at the 6 months' Euribor

(with a zero floor) plus a 135 basis points spread and a duration of 5 years with principal repayment on a semi-annual basis starting 30 June 2020 through June 2024. Funding, net of up-front commissions, took place on 30 July 2019.

In August, the Parent undersigned a loan agreement with ING Bank for an amount of € 22.5 million. Terms include variable interest rate at the 6 months' Euribor plus a 135 basis points spread, semi-annual interest payments and principal repayment on a semi-annual basis starting December 2021 through December 2024.

Net working capital for operations at 31 December 2019 is € 198.7 million and is thus comprised:

€ (thousands)	31.12.2019	% of revenue	31.12.2018	% of revenue	Change 2019/2018	%
Trade receivables, net	296,961	20.0	245,742	18.2	51,219	20.8
Inventories	226,885	15.3	206,084	15.2	20,801	10.1
Other current assets	87,632	5.9	43,655	3.2	43,977	100.7
Current assets	611,478	41.3	495,481	36.6	115,997	23.4
Trade payables	175,481	11.8	165,020	12.2	10,461	6.3
Tax payable	21,094	1.4	42,149	3.1	(21,055)	(50.0)
Other current liabilities	216,182	14.6	126,339	9.3	89,843	71.1
Current liabilities	412,757	27.9	333,508	24.7	79,249	23.8
Net working capital for operations	198,721	13.4	161,973	12.0	36,748	22.7
Days of sales outstanding	63		61			
Inventories as % of cost of sales	51.9%		50.7%			

Details and comments relative to the different components are contained in the Notes to the 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 for the year	
	31.12.2019	31.12.2018	2019	2018
Recordati S.p.A.	435,426	336,058	241,092	217,330
Consolidation adjustments:				
- Margin in inventories	(59,066)	(58,411)	(655)	(23,361)
- Related deferred tax	16,618	16,296	322	6,577
- Other adjustments	(13,726)	(10,802)	(4,014)	(2,463)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already booked by Recordati S.p.A.	708,217	591,143	-	-
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	257,974	243,255	257,974	243,255
Dividends received from consolidated subsidiaries	-	-	(128,138)	(135,162)
Write-down of holdings in controlled companies	-	-	2,244	6,200
Translation adjustments	(146,866)	(154,146)	-	-
Consolidated financial statements	1.198,577	963,393	368,825	312,376

RELATED PARTY TRANSACTIONS

The Group's direct controlling company is FIMEI S.p.A., which since 2018 is owned by a consortium of investors controlled by CVC Capital Partners.

At 31 December 2019 the Parent Company had 3.308.571 own shares in treasury stock equivalent to 1.58% of its share capital, with a nominal value of € 0.125 each.

Tax receivables include an amount of € 40.6 million, computed by Recordati S.p.A. based on estimated taxable income, receivable from the controlling company FIMEI S.p.A. consequent to the participation in a tax consolidation grouping under tax laws in Italy. The amount includes the effect of the so-called "patent box" agreed with the Italian tax authorities in December 2019, for the part related to corporate tax.

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

In compliance with the requirements of art. 4, comma 7, of the Italian Regulations on operations with related parties adopted by Consob on March 12 2010 as well as art. 2391-bis, comma 1, of the Civil Code, the Parent Company communicates that it has adopted the "Procedure governing the operations with related parties", available on the Company's internet website www.recordati.com (under "Corporate Governance"). For further information regarding corporate governance please refer to the Corporate Governance Report approved by the Board of Directors together with the Annual Report. Information regarding comma 1 and 2 of art. 123 bis of the Italian legislative decree 58/1998 can be found in the Corporate Governance Report available, in its entirety on the Parent Company's website www.recordati.com (under the Corporate Governance section).

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 kind, 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,

SUBSIDIARIES OUTSIDE THE EUROPEAN UNION

Pursuant to articles 15 (ex 36) and 18 (ex 39) of the Financial Markets Regulation (modified by Consob under Resolution n. 20249 on 28 December 2017) concerning the listing conditions of companies with subsidiaries of significant relevance in their consolidated accounts, established and regulated under the laws of countries outside the European Union, we point out that at 31 December 2019 the provisions of art. 15 (ex 36) of the Financial Markets Regulation apply to the subsidiaries Recordati İlaç, Recordati Rare Diseases Inc., Rusfic LLC and Recordati AG and that the conditions indicated in the abovementioned art. 15 (ex 36) are fulfilled.

SIGNIFICANT OPERATIONS, PUBLICATION REQUIREMENTS DEROGATION

The Parent Company has decided to avail itself, as from 20 December 2012, of the faculty of derogation of the requirements to publish the information documents prescribed in the event of significant operations involving mergers, spin-offs, capital increases through contribution in kind, acquisitions and disposals, pursuant to article 70, paragraph 8 and article 71, paragraph 1-bis of the Issuers' Regulations enacted by Consob under Resolution n. 11971/1999 and following modifications.

ATYPICAL AND/OR UNUSUAL OPERATIONS

In compliance with Consob's communication dated 28 July 2006 it is hereby stated that during 2019 no atypical or unusual operations, as defined by the communication itself, were put in place.

production process, patent expiry, launch of new products, etc.). Among the risks considered, are non financial risks referred to in Legislative Decree 254/2016. These relate to risks connected with environmental and health and safety management (damages 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 corruption (compliance with international quality standards, compliance with anticorruption rules and specifically rules regulating medial information and relationship with the medical community). In particular, these 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 have been classified as follows:

- 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 for efficacious and concrete protection and the consequent mitigation of the risk, are described.

RISKS ASSOCIATED WITH THE EXTERNAL CONTEXT

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 prevalently of products subject to medical prescription which are reimbursed by national healthcare services or other medical insurance schemes which are, however, prevalently 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 healthcare. For many years the Group has pursued a policy of diversifying and expanding its sales on several geographical markets and in products not reimbursed by public healthcare 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 on which 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. To this purpose, in order to mitigate the risk of commercial and economic sanctions, the Group years ago adopted a specific model for the management and control of exports.

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 on which operational and marketing powers are 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 properties. 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 large.

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 onto 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 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. Additionally, prudentially, the costs for investments in research and development are fully expensed in the accounting period in which 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 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, the damage to 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 (GMP) implemented through Standard Operating Procedures applicable to the pharmaceutical sector, and are submitted to monitoring and inspection by national and international relevant 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 (GMP) and with specific internal procedures and rules in force. In particular, the Group's main production site in Campoverde di Aprilia (Italy) regularly passes successfully inspections carried out by the Food and Drug Administration (FDA) and other national and international authorities.

Risks associated with 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 notice 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 loss of 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 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 OHSAS 18001 (management of Health and Safety in the workplace) certification.

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

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

Today's 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 logic nature, of both servers and clients. The company is periodically submitted to 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.

A risk related to cyber attacks was added to the risk catalogue, in view of this growing phenomenon which could affect the company's information systems. In the face of this new risk the Group had, however, already introduced specific safeguards both of a technological safety nature as well as of an organizational nature and, in line with the impact and probability evaluation criteria, defined the consequent level of residual risk.

Instead, as regards fraud through the use of information technology resources by external individuals, the company has introduced a training program for employees in order to create awareness as to the correct use of the resources and applications assigned to their use.

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 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 of the debt and investment instruments therefore affecting the Group's net financial charges. 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 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 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, 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 enough to satisfy investment needs, working capital requirements and the repayment of debts at their natural due dates.

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 those 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 scientific information provided, presupposes a compliance risk. To safeguard 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, bearing in mind the achievement of the company's objectives.

The structural aspects of internal control and risk management are comprised by: 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; by 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; by 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. As concerns 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 corruption risk.

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

Risks associated with legal action

It is always possible that the Group may be required to meet costs resulting from litigation of various types. 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 14 February 2020 the company announced the following financial targets for 2020: sales ranging from € 1,550 million to € 1,580 million, an EBITDA of between € 580 and € 590 million, EBIT of between € 490 and € 500 million and net income of between € 360 and € 370 million.

Group consolidated sales during the first two months of 2020 are in line with our expectations. In the face of the epidemiologic emergency due to the COVID-19 virus, the Group is implementing all possible measures and initiatives to guarantee the supply of medicines to its patients and the safety of its employees. Given the complex and constantly evolving situation it is not possible to predict possible future impacts at this time. Considering the Company's business segment, recent performance and the high level of diversification of the Group it is not deemed necessary to change the asset or liabilities amounts recognised in the financial accounts.

Milan, 18 March 2020

Andrea Recordati
Chief Executive Officer

CONSOLIDATED FINANCIAL STATEMENTS

RECORDATI S.P.A. AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

The consolidated financial statements of the Recordati group have been prepared by Recordati Industria Chimica e Farmaceutica S.p.A. whose headquarters are situated in Via Matteo Civitali 1, Milan, Italy.

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and comply with the European Union's guidelines on the preparation of consolidated financial statements as well as the provisions issued in execution of art. 9 of the Italian Legislative Decree 38/2005. The same accounting standards were used in the preparation of the financial statements at 31 December 2018.

These consolidated financial statements have been authorized for publication by the Board of Directors in their meeting of 18 March 2020 and are available at the company's head office.

RECORDATI S.P.A. AND SUBSIDIARIES CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

INCOME STATEMENT

€ (thousands) ⁽¹⁾	Note	2019	2018*
Revenue	3	1,481,848	1,352,235
Cost of sales	4	(436,901)	(395,569)
Gross profit		1,044,947	956,666
Selling expenses	4	(372,803)	(333,497)
Research and Development expenses	4	(129,681)	(109,693)
General and Administrative expenses	4	(72,783)	(67,722)
Other income (expense), net	4	(4,414)	(3,535)
Operating income		465,266	442,219
Financial income (expense), net	5	(21,122)	(24,284)
Pretax income		444,144	417,935
Provision for income taxes**	6	(75,278)	(105,513)
Net income		368,866	312,422
Attributable to:			
Equity holders of the parent		368,825	312,376
Non-controlling interests		41	46
Earnings per share			
Basic		€ 1.800	€ 1.529
Diluted		€ 1.764	€ 1.494

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

Earnings per share (EPS) are based on average shares outstanding during each year, 204,959,193 in 2019 and 204,379,165 in 2018, net of average treasury stock which amounted to 4,165,963 shares in 2019 and 4,745,991 shares in 2018.

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

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application. (See Note 2)

** Provision for income taxes in 2019 includes a non-recurring tax benefit provided by the so-called "patent box": € 27.0 million relative to previous years and € 8.3 million related to 2019 (see Note 6).

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

RECORDATI S.P.A. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2019

ASSETS

€ (thousands)	Note	31 December 2019	31 December 2018*
Non-current assets			
Property, plant and equipment	7	133,342	103,582
Intangible assets	8	1,161,760	672,106 **
Goodwill	9	577,973	577,786 **
Other investments	10	38,566	20,773
Other non-current assets	11	16,426	5,860
Deferred tax assets	12	71,513	81,227 **
Total non-current assets		1,999,580	1,461,334
Current assets			
Inventories	13	226,885	206,084
Trade receivables	14	296,961	245,742
Other receivables	15	79,949	38,462
Other current assets	16	7,683	5,193
Fair value of hedging derivatives (cash flow hedge)	17	9,949	6,414
Short-term financial investments, cash and cash equivalents	18	187,923	198,036
Total current assets		809,350	699,931
Total assets		2,808,930	2,161,265

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application. (See Note 2)

** Restated amounts following the change in the allocation of the price paid for the acquisition of Tonipharm S.a.s. (see Notes 9 and 34)

EQUITY AND LIABILITIES

€ (thousands)	Note	31 December 2019	31 December 2018*
Shareholders' equity			
Share capital		26,141	26,141
Additional paid-in capital		83,719	83,719
Treasury stock		(93,480)	(145,608)
Hedging reserve (cash flow hedge)		(5,357)	(8,399)
Translation reserve		(146,866)	(154,146)
Other reserves		64,651	43,081
Retained earnings		999,708	897,990
Net income for the year		368,825	312,376
Interim dividend		(98,764)	(91,761)
Group shareholders' equity	19	1,198,577	963,393
Non-controlling interest	20	234	193
Shareholders' equity		1,198,811	963,586
Non-current liabilities			
Loans - due after one year	21	937,344	640,647
Staff leaving indemnities and other benefits	22	20,557	19,547
Deferred tax liabilities	23	43,172	43,486 **
Other non-current liabilities	24	22,292	3,257
Total non-current liabilities		1,023,365	706,937
Current liabilities			
Trade payables	25	175,481	165,020
Other payables	26	185,706	85,534
Tax liabilities	27	21,094	42,149
Other current liabilities	28	12,543	19,359
Provisions	29	17,933	21,446
Fair value of hedging derivatives (cash flow hedge)	30	10,788	9,746
Loans - due within one year	21	149,817	130,583
Bank overdrafts and short-term loans	31	13,392	16,905
Total current liabilities		586,754	490,742
Total equity and liabilities		2,808,930	2,161,265

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application. (See Note 2)

** Restated amounts following the change in the allocation of the price paid for the acquisition of Tonipharm S.a.s. (see notes 9 and 34)

RECORDATI S.P.A. AND SUBSIDIARIES STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

€ (thousands) ⁽¹⁾	2019	2018*
Net income for the year	368,866	312,422
Gains/(losses) on cash flow hedges, net of tax	3,042	(2,532)
Gains/(losses) on translation of foreign financial statements	7,280	(30,142)
Gains/(losses) on equity-accounted investees, net of tax	17,455	(1,659)
Other gains/(losses), net of tax	(459)	944
Income and expense for the year recognized directly in equity	27,318	(33,389)
Comprehensive income for the year	396,184	279,033
Attributable to:		
Equity holders of the parent	396,143	278,987
Non-controlling interests	41	46
Per share data		
Basic	€ 1.933	€ 1.365
Diluted	€ 1.894	€ 1.334

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

Earnings per share (EPS) are based on average shares outstanding during each year, 204,959,193 in 2019 and 204,379,165 in 2018, net of average treasury stock which amounted to 4,165,963 shares in 2019 and 4,745,991 shares in 2018.

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

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application. (See Note 2)

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

€ (thousands)	Equity attributable to the owners										Total
	Share capital	Add. paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Interim dividend	Non-controlling interests	
Balance at 31.12.2017	26,141	83,719	(17,029)	(5,867)	(124,004)	40,684	822,154	288,762	(87,470)	147	1,027,237
Change following first time application of IFRS 15							(18,759)				(18,759)
Balance at 1.1.2018	26,141	83,719	(17,029)	(5,867)	(124,004)	40,684	803,395	288,762	(87,470)	147	1,008,478
Allocation of 2017 net income:											
- Dividends							37,910	(212,506)	87,470		(87,126)
- Retained earnings							76,256	(76,256)			0
Change in the reserve for share based payments						3,112	1,908				5,020
Purchase of own shares			(169,769)								(169,769)
Sale of own shares			41,190					(20,973)			20,217
Interim dividend									(91,761)		(91,761)
Other changes							(506)				(506)
Comprehensive income for the year				(2,532)	(30,142)	(715)		312,376		46	279,033
Balance at 31.12.2018*	26,141	83,719	(145,608)	(8,399)	(154,146)	43,081	897,990	312,376	(91,761)	193	963,586
Allocation of 2018 net income:											
- Dividends							29,486	(217,330)	91,761		(96,083)
- Retained earnings							95,046	(95,046)			0
Change in the reserve for share based payments						4,574	2,475				7,049
Sale of own shares			52,128					(25,941)			26,187
Interim dividend									(98,764)		(98,764)
Other changes							652				652
Comprehensive income for the year				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

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application. (See Note 2)

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

RECORDATI S.P.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

€ (thousands)	2019	2018*
Cash flow from operating activities		
Net Income	368,866	312,422
Depreciation of property, plant and equipment	25,170	13,901
Amortization of intangible assets	53,078	42,959
Write-down of assets	453	0
Equity-settled share-based payment transactions	7,049	5,020
Total	454,616	374,302
(Increase)/decrease in deferred tax assets	10,048	(6,637)
Increase/(decrease) in staff leaving indemnities	1,010	(1,660)
Increase/(decrease) in other non-current liabilities	(1,950)	1,337
	463,724	367,342
Changes in working capital		
Trade receivables	(51,219)	5,502
Inventories	(20,801)	(20,932)
Other receivables and other current assets	(43,977)	1,629
Trade payables	10,461	17,458
Tax liabilities	(21,055)	15,290
Other payables and other current liabilities	407	(1,575)
Provisions	(3,513)	(26,876)
Changes in working capital	(129,697)	(9,504)
Net cash and cash equivalents from/(used in) operating activities	334,027	357,838
Cash flow from investing activities		
Net (investments)/disposals in property, plant and equipment	(31,267)	(19,362)
Net (investments)/disposals in intangible assets	(427,178)	(65,192)
Net (investments)/disposals in subsidiaries	-	(74,626) ⁽¹⁾
Net (investments)/disposals in subsidiaries	-	(72,807) ⁽²⁾
Net (increase)/decrease in other non-current receivables	(10,566)	209
Net cash and cash equivalents from/(used in) investing activities	(469,011)	(231,778)
Cash flow from financing activities		
Loans	429,965	153,876
Re-payment of loans	(130,058)	(50,564)
Payment of leasing liabilities	(10,345)	
Purchase of Treasury stock	0	(169,769)
Sale of Treasury stock	26,187	20,217
Other changes in equity	194	439
Dividends paid	(190,916)	(178,887)
Net cash and cash equivalents from/(used in) financing activities	125,027	(224,688)
Changes in net cash and cash equivalents	(9,957)	(98,628)
Net cash and cash equivalents at beginning of year **	181,131	285,500
Change in translation reserve	3,357	(5,741)
Net cash and cash equivalents at end of period **	174,531	181,131

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application. (See Note 2)

(1) Acquisition of Natural Point S.r.l.: Working capital (1,628), Net cash and cash equivalents** (8,971), Property, plant and equipment and Intangible Assets (63,764), Goodwill (27,892), Staff leaving indemnity 114, Loans 1,351, Deferred tax liabilities 17,193.

(2) Acquisition of Tonipharm S.a.s.: Working capital (3,653), Net cash and cash equivalents** 171, Property, plant and equipment and Intangible Assets (50,006)***, Goodwill (28,416)***, Deferred tax assets (760)***, Deferred tax liabilities 10,153***, Non-current receivables (125).

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

***Amounts restated following the change in the allocation of the price paid for the acquisition of Tonipharm S.a.s. (see Notes 9 and 34)

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 2019

1. GENERAL INFORMATION

The consolidated financial statements of the Recordati group for the year ended 31 December 2019 have been prepared by Recordati Industria Chimica e Farmaceutica S.p.A. ("Recordati S.p.A. or the "Parent"), Via Matteo Civitali 1, Milan, Italy.

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union's guidelines on the preparation of consolidated financial statements and with the Italian regulations implementing article 9 of Legislative decree no. 38/05. Details regarding the accounting principles adopted by the Group are specified in Note 2. In order to better represent the Group's operations, the profit and loss accounts were 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.

These consolidated financial statements were approved by the Board of Directors on 18 March 2020, that also authorized their publication, and are available at the company's headquarters.

The consolidated financial statements at 31 December 2019 comprise Recordati S.p.A and its controlled subsidiaries. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in Note 41.

During the year the consolidation perimeter changed consequent to the establishment of the company Recordati Bulgaria Ltd and the liquidation of Orphan Europe Switzerland GmbH. Furthermore, in order to improve the recognition of the Group's business in the segment dedicated to rare diseases, its operational dedicated subsidiaries have changed their names from Orphan Europe to Recordati Rare Diseases: in France Recordati Rare Diseases S.à r.l., and in the other countries Recordati Rare Diseases Italy S.r.l., Recordati Rare Diseases Germany GmbH, Recordati Rare Diseases Spain S.L., Recordati Rare Diseases UK Limited, Recordati Rare Diseases Middle East FZ LLC.

The recognition in the accounts of the purchase price allocation following the acquisition in June 2018 of Natural Point S.r.l. and in December 2018 of Tonipharm S.a.s. is now definite. In note n. 9 details about both acquisitions are exposed.

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

2. SUMMARY OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union's guidelines on the preparation of consolidated financial statements. The same accounting policies applied in the preparation of the consolidated financial statements at 31 December 2018, except for what reported in paragraph "Application of new accounting principles" below.

The financial statements of the consolidated companies, prepared by the Board of Directors or the Sole Directors 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 2018.

The financial statements have been prepared on the historical cost basis, except for the financial assets available for sale included under the line "Other investments", hedging derivatives (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

As from 1 January 2019 the Group applied the new accounting principle IFRS 16 "Leases" which substitutes the accounting principle IAS 17 and its relative interpretations and eliminates the classification of leases as operating or financial in the financial statements of the lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. At inception, the lessee is required to recognize a right-of-use asset and a lease liability representing the obligation of making the payments stipulated in the contract, as well as the effects on profit and loss of the amortization of the asset and the financial expense connected with the financial liability.

At inception or on reassessment of a contract that contains a lease component, the consideration in the contract is allocated to each lease and non-lease component on the basis of their relative stand-alone prices. The Group has applied judgement to determine the lease term for some lease contracts that include renewal options. The assessment of reasonable certainty of exercising such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized. As allowed by the accounting principle, the Group has elected not to recognize right-of-use assets and lease liabilities for some leases of low-value assets, IT equipment included. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets in "Property, plant and equipment", the same line item in which it presents underlying assets of the same nature that it owns, and lease liabilities in "Loans" in the consolidated balance sheet. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses.

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 interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made.

The Group applied the new principle at the date of first time application using the modified retrospective approach which provides for the possible cumulative effect of the adoption of IFRS 16 to be recognized as an adjustment to retained earnings at 1 January 2019 without restating the comparative information. On transition to IFRS 16, the Group, as allowed by the principle, elected to apply the IFRS 16 only to contracts that were previously identified as leases under IAS 17 and IFRIC 4.

At transition, for leases classified as operating leases under IAS 17, the lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. The Group identified specific incremental borrowing rates based on the country, currency and duration of the related lease contracts. The rates identified were in a range between 0.20% and 22.65%. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a number of items classified as financial leases under IAS 17. For these financial leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

The transition on January 1, 2019 gave rise to non significant changes to assets and liabilities. Right-of-use assets and financial liabilities were recognized by the Group for an amount of € 25.0 million, in addition to € 1.6 million related to leased assets at 31 December 2018, recognized as per IAS 17.

During 2019 further right-of-use assets and the corresponding lease liabilities were recognized for an amount of € 11.2 million, while payments were booked for € 10.3 million. Furthermore, amortization charges were booked for an amount of € 10.9 million as well as interest charges of € 1.2 million in substitution for leasing costs.

USE OF ESTIMATES

The preparation of the financial statements by management requires estimates and assumptions to be made, based on management's best judgment, 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 such estimates and assumptions deviate from the actual circumstances, the original estimates and assumptions will be modified 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 principles 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. These 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 arisen, the Group proceeds to determine it by using the evaluation methods deemed to be most adequate.
 - **Risk provisions:** the identification of the existence or not of a current obligation (legal or implicit) is in some cases not easy to determine. 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:** the recording is supported by a recovery plan based on hypotheses and assumptions which management considers to be reasonable.
 - **Inventories:** inventories which appear to be obsolete or slow-moving are periodically tested and written-down if their recoverable value is less than their book value. The 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 regards to the main categories of financial instruments:
 - **derivative financial instruments:** the pricing models are adopted based on the market values of the interest rates;
 - **receivables and payables and non-listed financial assets and liabilities:** for the financial instruments with maturity greater than 1 year the discounted cash flow method was applied, therefore the discounting of expected cash flows in consideration of current interest rate conditions and credit ratings, for the determination of the Fair Value on first-time recognition. Further measurements are made based on the amortized cost method;
 - **listed financial instruments:** the market value at the reporting date is utilized.
- In relation to financial instruments measured at Fair Value, IFRS 13 requires the classification of these instruments according to the standard's hierarchy levels, which reflect the significance of the inputs utilized in establishing the fair value. The following levels are used:
- **Level 1:** unadjusted assets or liabilities subject to valuation on an active market;
 - **Level 2:** inputs other than prices listed at the previous point, which are directly observable (prices) or indirectly (derivatives from the prices) on the market;
 - **Level 3:** input which is not based on observable market data.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared according to the same accounting policies adopted by the Company. Where necessary, 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. Intragroup losses are also eliminated unless they indicate an impairment that requires recognition in the consolidated financial statements.

Subsidiaries are included in the consolidated financial statements from the effective date control is acquired up to the effective date control is transferred out of the group. When control is no longer exercised over a consolidated subsidiary, the results of the subsidiary are consolidated proportionally to the time period during which control was maintained.

The line-by-line consolidation method is applied using the following criteria:

- The book value of investments in consolidated subsidiaries is eliminated against the relevant shareholders' equity while the assets and liabilities are consolidated on a line-by-line basis.
- Intercompany payables and receivables and transactions, as well as intra-group profits and losses not yet realized, are eliminated.
- Any excess of the cost of acquisition over the value of equity at the date of acquisition is recognized as goodwill.
- Non-controlling interests in the equity of consolidated subsidiaries are shown separately under equity, while non-controlling interests in the net income of such 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, at year-end exchange rates;
- Shareholders' equity at historical exchange rates;
- 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 stated 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%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is 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 component on the basis of its related stand-alone price.

The Group recognises 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 that 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 for certain 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 or, if that rate cannot be readily determined, the Group's 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.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments);
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as 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 amortised 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, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

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.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount to the output;
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount to the output; or
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount to the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to the asset.

Assets held under other leases were classified as operating leases and were non recognised in the Group's balance sheet. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Intangible assets - An intangible asset is recognized only if it can be identified, if it is probable that it will generate future economic benefits and its cost can be measured reliably. Intangible assets are valued 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.

- Patent rights and marketing authorizations 5% - 33%
- Distribution, license, trademark 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 the aggregation of companies are not considered acquisition costs and are recognized as expenses in the year they are incurred. Goodwill is recognized as an asset and reviewed annually in order to determine any impairment loss.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

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

Impairment - At each balance sheet 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 those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of

the asset is estimated in order to determine the extent of the impairment loss (if any). 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.

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.

Where 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.

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 financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the 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, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. 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 as measured at: amortised cost; Fair value through other comprehensive income ("FVOCI") - debt investment; Fair value through other comprehensive income ("FVOCI") - equity investment; or Fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised 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 debt investment is 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 OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described 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 amortised 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 at FVTPL**

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

- **Financial assets at amortised cost**

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

- **Debt investments 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 recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

- **Equity investments at FVOCI**

These assets are subsequently measured at fair value. Dividends are recognised 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 recognised in OCI and are never reclassified to profit or loss.

Financial liabilities: classification, subsequent measurement and gains and losses

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

Derecognition

Financial assets

The Group derecognises 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 recognised 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 transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

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 recognised 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.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised 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 recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI 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 recognised 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 non-financial item's cost 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 recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in profit or loss. The amount recognised in OCI 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 highly liquid investments at fair value.

Non-current assets held for sale and discontinued operations - Comprise those components of an entity, whose operations and cash flows can be distinguished operationally and for financial reporting purposes, that either have been disposed of or that 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.

Equity - Equity instruments issued by the Company are recorded at the proceeds received. Proposed dividend is recognized as a liability at the time of adoption of the dividend resolution at the annual shareholders' meeting. The cost and selling prices of treasury shares are recognized directly in equity and therefore gains and losses on sales are not recognized in the income statement.

Staff leaving indemnities - Employee benefits presented on the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liability recognised in the balance sheet for post-employment benefit plans is the present value of the defined benefit obligation, as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method.

Provisions - Provisions are recognized 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.

Foreign currencies - Transactions in currencies other than the Euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period. Non-monetary assets and liabilities recorded at the rates of exchange prevailing on the dates of the transactions are not retranslated on the balance sheet date.

On consolidation, the assets and liabilities of the Group's foreign currency operations are translated at exchange rates prevailing on the balance sheet 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 Group's translation reserve. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

INCOME STATEMENT

Revenues - 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 the control of the goods has been transferred to a third party. This is usually when title passes to the customer, either on shipment or on receipt of goods by the customer, depending on local 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, milestones, profit sharing and royalties. Where control of a right to use intangible asset passes at the outset of an arrangement, revenue is recognized at a point in time. Where the substance of an arrangement is that of a right to access intangible asset, 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), revenue in respect of this element is recognized over the duration of those services. Sales performance milestones are accounted for when the licensee achieves the sales target, so these are recognized at a 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 a point in time.

Cost of Sales - Represents the cost of goods sold and includes the cost of raw materials, supplies and consumables, finished goods, and direct and indirect production expenses.

Selling expenses - 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. Research and development costs include amounts due under collaboration agreements with third parties.

Non-reimbursable government grants - Government grants towards investment in plant are recognized as income over the periods necessary to match them with the related costs and are stated in the balance sheet as deferred income. Research grants 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 the profit and loss linearly distributed over the vesting period and booked directly to equity.

Financial items - Include interest income and expense, foreign exchange gains and losses, both realized and unrealized, and differences arising from the valuation of securities. Interests are recognized in the profit and loss using the effective interest method.

Taxation - Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year and tax rates in force at the date of the balance sheet are applied.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset 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 dealt with 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 for the effects of all dilutive potential ordinary shares.

3. REVENUE

The Group's revenue is derived from contracts with customers and is not subject to seasonal fluctuations. Revenue for the years 2019 and 2018 is € 1,481.8 million and € 1,352.2 million respectively and can be broken down as follows:

€ (thousands)	2019	2018*	Change 2019/2018
Net sales	1,451,797	1,334,124	117,673
Royalties	7,059	6,248	811
Up-front payments	6,970	6,491	479
Various revenues	16,022	5,372	10,650
Total revenue	1,481,848	1,352,235	129,613

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application. (See Note 2)

The revenue from up-front payments is relative to the licensing and distribution of products in the portfolio. In 2019 they refer mainly to marketing agreements involving lercanidipine (€ 1.9 million), the combination of lercanidipine with enalapril (€ 1.6 million), pitavastatin (€ 1.1 million), Cystadrops® (cysteamine hydrochloride) (€ 0.7 million), silodosin (€ 0.7 million) and oxybutynin (€ 0.5 million).

The amount of € 11.9 million (€ 18.6 million at 31 December 2018) classified under other current liabilities (see Note 28), refers to advance payments received from customers, as per the product license and distribution agreements, which will be recognized as revenues when the products are delivered to the customers.

The increase in the amount related to various revenues is mainly due to the € 10.1 million margin on sales of Signifor® and Signifor® LAR transferred from Novartis AG starting 23 October 2019, closing date of the acquisition by Recordati of the rights to these products, as well as to the margin on sales of Juxtapid® (€ 1.3 million) and of Ledaga® (€ 0.8 million) transferred from Aegerion Pharmaceuticals Inc. and Helsinn respectively, over the period prior to the start of direct commercialization to the market by the Group.

In the following tables, 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.

Primary geographical markets

€ (thousands)	Specialty and Primary Care 2019	Specialty and Primary Care 2018	Rare Diseases 2019	Rare Diseases 2018	Total 2019	Total 2018
Europe	1,013,808	908,436	87,504	77,906	1,101,312	986,342
USA	7,755	8,219	109,570	101,003	117,325	109,222
Rest of the world	210,435	220,748	52,776	35,923	263,211	256,671
Total revenue	1,231,998	1,137,403	249,850	214,832	1,481,848	1,352,235

Product or product class

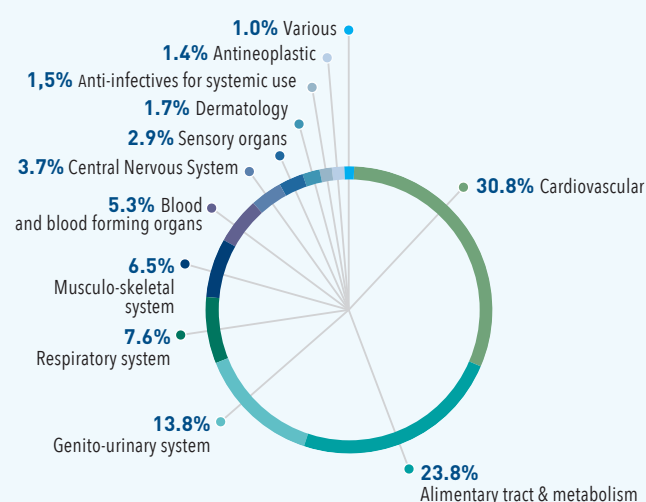
€ (thousands)	Specialty and Primary Care 2019	Specialty and Primary Care 2018	Rare Diseases 2019	Rare Diseases 2018	Total 2019	Total 2018
Zanidip®	134,381	120,762			134,381	120,762
Zanipress®	58,938	59,366			58,938	59,366
Urorec®	107,128	101,090			107,128	101,090
Livazo®	53,807	46,416			53,807	46,416
Seloken®/Logimax®	98,321	98,877			98,321	98,877
Other corporate products	192,455	168,875			192,455	168,875
Drugs for rare diseases			249,850	214,832	249,850	214,832
OTC	275,789	211,785			275,789	211,785
Local product portfolios	251,170	276,310			251,170	276,310
Other revenue	13,907	13,270			13,907	13,270
Pharmaceutical chemicals	46,102	40,652			46,102	40,652
Total revenue	1,231,998	1,137,403	249,850	214,832	1,481,848	1,352,235

Geographic area by country

€ (thousands)	Specialty and Primary Care 2019	Specialty and Primary Care 2018	Rare Diseases 2019	Rare Diseases 2018	Total 2019	Total 2018
Pharmaceuticals						
Italy	268,374	254,597	11,694	11,108	280,068	265,705
France	138,961	114,540	18,309	17,232	157,270	131,772
Russia, Ukraine, other CIS	116,670	102,640	3,490	2,971	120,160	105,611
Germany	124,333	124,342	14,269	12,422	138,602	136,764
Spain	85,563	81,743	9,136	7,137	94,699	88,880
Turkey	84,736	70,513	3,874	4,455	88,610	74,968
Portugal	43,123	40,371	1,331	1,308	44,454	41,679
Other CEE	78,083	62,265	4,025	3,063	82,108	65,328
Other Western Europe	56,201	40,811	21,376	18,210	77,577	59,021
North Africa	39,305	37,076	1,013	3,603	40,318	40,679
Other international sales	150,547	167,853	51,763	32,320	202,310	200,173
U.S.A	-	-	109,570	101,003	109,570	101,003
Total pharmaceutical revenue	1,185,896	1,096,751	249,850	214,832	1,435,746	1,311,583

€ (thousands)	Specialty and Primary Care 2019	Specialty and Primary Care 2018	Rare Diseases 2019	Rare Diseases 2018	Total 2019	Total 2018
Pharmaceutical chemicals						
Italy	3,122	2,950	-	-	3,122	2,950
Other European countries	14,642	13,663	-	-	14,642	13,663
U.S.A.	7,755	8,219	-	-	7,755	8,219
America (exc. U.S.A.)	4,376	3,881	-	-	4,376	3,881
Australasia	15,014	11,062	-	-	15,014	11,062
Africa	1,193	877	-	-	1,193	877
Total chemical pharmaceuticals revenue	46,102	40,652	0	0	46,102	40,652
Total revenue	1,231,998	1,137,403	249,850	214,832	1,481,848	1,352,235

Pharmaceutical sales by therapeutic area in 2019 are shown below:



4. OPERATING EXPENSES

Total operating expenses for the years 2019 and 2018 amount to € 1,016.6 million and € 910.0 million respectively and are analyzed by function as follows:

€ (thousands)	2019	2018*	Change 2019/2018
Cost of sales	436,901	395,569	41,332
Selling expenses	372,803	333,497	39,306
Research and development expenses	129,681	109,693	19,988
General and administrative expenses	72,783	67,722	5,061
Other (income) expense, net	4,414	3,535	879
Total operating expenses	1,016,582	910,016	106,566

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application. (See Note 2)

Cost of sales is of € 436.9 million and is 29.5%, slightly higher than that of the preceding year mainly due to price and currency effects.

Selling expenses increase by 11.8%, with an increase as a percent of revenue compared to the preceding year due to marketing expenses for the launch of Reagila®, the new commercial organizations in the Nordic countries, BeNeLux and the Baltics and the initial reinforcement of the organization dedicated to the rare diseases segment following the acquisition of the products for rare endocrinology diseases Signifor®, Signifor® LAR and Isturisa® from Novartis.

Research and development expenses are € 129.7 million, up by 18.2% compared to those recorded in 2018 due to the advancement of new development programs and the amortization of the amounts allocated to intangible assets following the acquisition of Natural Point S.r.l. and of Tonipharm S.a.s., of the up-front payments for the recently acquired licenses to the rare disease products Ledaga® and Juxtapid® and of the rights to the products Signifor® and Signifor® LAR acquired from Novartis. The amortization of intangible assets related to licenses, brands and patents of acquired products for a total of € 52.6 million are charged to research and development.

General and administrative expenses are up by 7.5% but are slightly reduced as percent of sales.

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

€ (thousands)	2019	2018	Change 2019/2018
Ancillary costs related to acquisitions	1,423	2,694	(1,271)
Write-downs of intangible assets	453	0	453
Accrual for early termination of a license agreement	4,150	0	4,150
Others	(1,612)	841	(2,453)
Other (income) expense, net	4,414	3,535	879

Ancillary costs related to acquisitions are mainly associated with the transfer from Novartis AG of the rights to Signifor®, Signifor® LAR and Isturisa®. In 2018 they were related to costs incurred by the Group for the acquisition of the companies Natural Point S.r.l. and Tonipharm S.a.s..

In compliance with Consob's communication dated 28 July 2006 it is hereby stated that during 2019 no atypical or unusual operations, as defined by the communication itself, were put in place.

Total operating expenses are analyzed by nature as follows:

€ (thousands)	2019	2018*	Change 2019/2018
Material consumption	341,990	307,778	34,212
Payroll costs	252,632	234,494	18,138
Other employees costs	36,442	39,615	(3,173)
Variable sales expenses	80,686	66,935	13,751
Depreciation and amortization	78,248	56,860	21,388
Utilities and consumables	33,498	29,776	3,722
Other expenses	193,086	174,558	18,528
Total operating expenses	1,016,582	910,016	106,566

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application. (See Note 2)

Material consumption as a percentage of sales is 23.1%, up by 0.3% compared to that in 2018.

Payroll costs include charges of € 7.0 million related to stock option plans, up by € 2.0 million over the preceding year. The average number of employees in 2019 is of 4,141, an increase as compared to the 4,089 in 2018.

During the year a number of Group employees were designated as beneficiaries of an incentive plan, with a vesting period of 5 years, under which they acquired shares of Rossini Luxembourg S.à r.l., indirect shareholder of Recordati S.p.A., at nominal value, and they will benefit from a return at termination of the vesting period. As prescribed by IFRS 2 a charge of € 0.9 million was booked to profit and loss.

Depreciation and amortization charges are € 78.2 million. Amortization charges are € 53.1 million, an increase of € 10.1 million over the preceding year due to the amounts allocated to intangible assets following the acquisition of Natural Point S.r.l. and of Tonipharm S.a.s., to the up-front payments for the recently acquired licenses to the rare disease products Ledaga® and Juxtapid® and to the rights to the products Signifor® and Signifor® LAR acquired from Novartis. Depreciation charges are € 25.1 million, up by € 11.2 million mainly due to the application of the new accounting principle IFRS 16 (see Note 2).

5. FINANCIAL INCOME AND EXPENSE

Financial income and expense record a net expense of € 21.1 million in 2019, down by 3.2 million compared to the preceding year due to lower currency exchange losses and interest on tax assessments for a total of € 6.8 million, partially offset by € 3.6 million due to an increase in interest charges on new loans, higher charges on short-term positions and interest expense related to leasing contracts.

The main items are summarized as follows:

€ (thousands)	2019	2018*	Change 2019/2018
Exchange (gains) losses	742	1,731	(989)
Interest expense on loans	13,555	12,628	927
Net interest (income) expense on s/t financial position	5,117	3,571	1,546
Charges related to leasing contracts (see Note 2)	1,202	47	1,155
Interest expense related to tax audits	222	6,034	(5,812)
Interest cost in respect of defined benefit plans	284	273	11
Total financial (income) expense, net	21,122	24,284	(3,162)

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the possible cumulative effect of initially applying IFRS 16, not significant for the Group, is recognised in retained earnings at the date of initial application. (See Note 2)

The increase in net interest on the short-term financial position is to be attributed mainly to the valuation of two loans between the Parent company and the US subsidiary Recordati Rare Diseases Inc. (stipulated in November 2016 for an overall amount of \$ 70 million and which correspond to the two tranches of the notes privately placed by the US subsidiary in 2013) and the relative cross-currency swaps. Following the early reimbursement of the notes in the first half of 2019, the derivative financial instruments no longer qualify as hedging instruments and the loss due to their change in fair value is recognized to the profit and loss, net of the effect of the conversion of the loans to the current Euro/Dollar exchange rate, for an amount of € 1.0 million.

The interest expense related to tax audits is attributable to the assessments with acceptance which took place in 2019 related to the years 2016 to 2017 (see Note 38). In 2018 they were related to the settlement for the years 2009 to 2015.

6. PROVISION FOR INCOME TAXES

The provision for income taxes amounts to € 75.3 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 effective tax rate during the year is 17.0%, significantly lower than that of the preceding year due to the tax benefit provided by the so-called "patent box". In December an agreement was reached with the Italian tax authorities which allows the Parent Company to benefit from a discount on taxable income of 30% for the year 2015, 40% for 2016 and 50% for the 2017-2019 three year period with reference to patents, know-how and brands related to selected products provided for in the agreement. The "patent box" optional regime covers the period 2015-2019. The tax benefit for the period 2015-2018 is of € 27.0 million while that relative to 2019 is of € 8.3 million. The Company will renew the option for the next five year period but the tax benefit will be lower due to the exclusion of brands from the "patent box" regime.

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:

	2019 %	2018 %
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	(1.1)	(2.3)
Provisions for risks deriving from ongoing tax audits	(0.2)	2.2
Other differences, net	0.1	(1.0)
Tax benefit provided by the so-called "patent box" in Italy	(8.0)	0
Effective tax rate on income	15.2	23.3
IRAP	1.8	2.0
Effective tax rate, including IRAP	17.0	25.3

During the period an agreement was signed with the Italian Revenue Agency covering the complete definition of all the disputes connected with the tax periods 2016 and 2017 (see Note 38). The overall cost, which was already accrued in the previous year, is of € 4.8 million, in addition to € 0.2 million of interest cost, with all penalties waived. The agreed amount was paid in June. The € 0.5 million accrued in excess over the amount paid was reversed and booked to provision for taxes.

IRAP is levied only on the Italian companies and is computed applying a 5.26% rate to a broader taxable base calculated before the deduction of interest.

In compliance with the Consob communication dated 28 July 2006, relative to events, operations and matters which are not recurrent and do not occur frequently in the normal course of business, we point out the abovementioned tax benefit provided by the so-called "patent box" in 2019.

7. PROPERTY, PLANT AND EQUIPMENT

In the following table the composition of property, plant and equipment, their variation in detail, including the valuation of right-of-use assets (see Note 2), is shown

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
Cost					
Balance at 01.01.18	76,513	225,772	66,105	8,309	376,699
Additions	603	3,428	2,526	12,633	19,190
Disposals	(27)	(261)	(1,731)	(31)	(2,050)
Changes in reporting entities	3,605	0	225	0	3,830
Other changes	(3,490)	(1,069)	908	(6,160)	(9,811)
Balance at 31.12.18	77,204	227,870	68,033	14,751	387,858
IFRS 16 first time application	14,214	420	10,383	0	25,017
Balance at 01.01.19	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 31.12.19	92,762	233,176	92,182	19,596	437,716

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
Accumulated depreciation					
Balance at 01.01.18	41,000	180,717	51,973	0	273,690
Depreciation for the year	2,255	7,596	4,050	0	13,901
Disposals	(19)	(191)	(1,678)	0	(1,888)
Changes in reporting entities	1,078	0	148	0	1,226
Other changes	(547)	(1,757)	(349)	0	(2,653)
Balance at 31.12.18	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 31.12.19	48,016	193,906	62,452	0	304,374
Carrying amount at					
1 January 2018	35,513	45,055	14,132	8,309	103,009
31 December 2018	33,437	41,505	13,889	14,751	103,582
31 December 2019	44,746	39,270	29,730	19,596	133,342

Additions during the year of € 33.3 million, of which € 11.2 million related to right-of-use assets, refer mainly to investments made by the Parent Company (€ 15.0 million), to the Spanish subsidiary Casen Recordati S.L. (€ 5.3 million) and to the Turkish subsidiary Recordati İlaç (€ 2.1 million).

Other changes include the conversion into Euros of property, plant and equipment booked in different currencies resulted in a net decrease of € 1.4 million compared to their value at 31 December 2018, of which € 1.8 million is due to the devaluation of the Turkish Lira and € 0.4 million is due to the revaluation of the Tunisian Dinar.

The following table shows the valuation of the right to use the assets conveyed under leases, already included in the table above, determined as prescribed by IFRS 16 (see Note 2).

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Total
Cost				
Balance at 31.12.18*	3,132	0	543	3,675
First time application IFRS 16	14,214	420	10,383	25,017
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 31.12.19	20,239	496	17,263	37,998
Accumulated depreciation				
Balance at 31.12.18*	911	0	224	1,135
Depreciation for the period	3,896	255	6,702	10,853
Disposals	(631)	(7)	(1,141)	(1,779)
Other changes	20	(1)	19	38
Balance at 31.12.19	4,196	247	5,804	10,247
Carrying amount at				
31 December 2018*	2,221	0	319	2,540
31 December 2019	16,043	249	11,459	27,751

* Amounts at 31 December 2018 refer to property financial leases in accordance with IAS 17 requirements.

Right-of-use assets refer mainly to the office premises of a number of Group subsidiaries and of the cars used by medical representatives operating in their territories.

8. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 31 December 2019 and 2018 amount to € 1,161.8 million and € 672.1 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar right	Other	Advance payments	Total
Cost					
Balance at 01.01.18	584,105	197,421	18,354	46,680	846,560
Additions	113	35,046	1,498	29,022	65,679
Disposals	(151)	(1,346)	(6)	(9)	(1,512)
Changes in reporting entities*	18	137,078	23	1	137,120
Other changes	(1,624)	45,311	(921)	(45,483)	(2,717)
Balance at 31.12.18*	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 31.12.19	801,402	502,530	21,764	263,559	1,589,255
Accumulated depreciation					
Balance at 01.01.18	160,169	129,269	16,557	0	305,995
Depreciation for the year	27,370	15,205	384	0	42,959
Disposals	0	(1,346)	(11)	0	(1,357)
Changes in reporting entities	0	25,931	23	0	25,954
Other changes	(121)	(141)	(265)	0	(527)
Balance at 31.12.18	187,418	168,918	16,688	0	373,024
Depreciation 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 31.12.19	217,723	190,368	19,404	0	427,495
Carrying amount at					
1 January 2018	423,936	68,152	1,797	46,680	540,565
31 December 2018	395,043	244,592	2,260	30,211	672,106
31 December 2019	583,679	312,162	2,360	263,559	1,161,760

* Restated following the change in the allocation of the price of acquisition of Tonipharm S.a.s. (see Note 34)

Increases during the period refer to:

- 390.0 million U.S. dollars paid to Novartis AG for the acquisition of the worldwide rights to Signifor® and Signifor® LAR for the treatment of Cushing's disease and acromegaly in adult patients for whom surgery is not an option or for whom surgery has failed, and to Isturisa® (osilodrostat), an investigational innovative drug for the treatment of endogenous Cushing's syndrome.
- 120.0 million U.S. dollars for future payments due to Novartis AG as per the agreement for the acquisition of the worldwide rights to Isturisa® (osilodrostat). In particular, 20.0 million U.S. dollars at the approval, obtained in January 2020, of the product in Europe, 40.0 million U.S. dollars at the launch in the four main European countries and 60.0 million U.S. dollars at the approval, obtained in March 2020, of the product in the U.S.A..

- 30 million U.S. dollars paid to Aegerion Pharmaceuticals Inc. as per the license agreement for the exclusive commercialization rights in Japan for Juxtapid®, a product indicated for patients with homozygous familial hypercholesterolemia;
- a further € 30.0 million as per the agreement, signed in 2018 with Helsinn, for the acquisition of the exclusive commercialization rights to Ledaga® (chlormethine), indicated for the topical treatment of mycosis fungoides-type cutaneous T-cell lymphoma, in all the world excluding the U.S.A., China, Hong Kong and Israel;
- € 6.7 million for the renewal of the agreement with Amdipharm covering the distribution rights to TransAct® LAT;
- € 4.8 million milestone to Gedeon Richter as per the license agreement for Reagila® (cariprazine).
- "Other changes" includes the effect of the conversion into euros of the intangible assets booked in different currencies gives rise to a net increase of € 8.0 million as compared to 31 December 2018, mainly attributable to the revaluation of the Swiss franc (increase of € 4.9 million), the Russian ruble (increase of € 2.4 million) and of the U.S. dollar (increase of € 0.9 million).

9. GOODWILL

Goodwill at 31 December 2019 and 2018 amounted to € 578.0 million and € 577.8 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31 December 2018*	615,450
Exchange rate adjustments	187
Balance at 31 December 2019	615,637
Accumulated amortization	
Balance at 31 December 2018	37,664
Changes during the year	0
Balance at 31 December 2019	37,664
Carrying amount at	
31 December 2018*	577,786
31 December 2019	577,973

* Restated following the change in the allocation of the price of acquisition of Tonipharm S.a.s.

As prescribed by IFRS 3, the recognition of the purchase price allocation associated with the acquisitions completed in 2018, of the Italian company Natural Point S.r.l. and of the French company Tonipharm S.a.s., are to be considered definite.

Regarding the Italian company, the process for the measurement of the fair value of the assets and liabilities at the date of acquisition confirmed the preliminary treatment in the financial statements for the year 2018: the fair value of the brand Magnesio Supremo® at the date of acquisition was higher than its book value and therefore an amount of € 61.2 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to this asset and € 17.1 million to the relative deferred tax liabilities, while € 27.9 million were allocated to goodwill. Such goodwill was allocated to the specialty and primary care segment and is not tax deductible.

Regarding the acquisition of the French company Tonipharm S.a.s., acquired on 31 December 2018, the finalization of the process for the measurement of the fair value of the assets and liabilities at the date of acquisition resulted in some changes to the preliminary recognition in the financial statements for the year 2018. In addition to the identification of added value for the intangible assets Ginkor® and Alodont®, the € 0.4 million book value of an intangible asset was considered non recoverable and the deferred tax effect was recalculated in line with the tax reforms approved in France at the end of 2018 which include a gradual reduction in tax rates starting 2019 through 2022. Consequently, an amount of € 38.5 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to the intangible assets Ginkor® and Alodont®, € 10.2 million to the relative deferred tax liabilities, while € 28.4 million were allocated to goodwill. Such goodwill has been allocated to the specialty and primary care segment and it is not tax deductible.

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 euros for the preparation of the consolidated financial accounts using the year-end exchange rates. An overall increase of € 0.2 million as compared to 31 December 2018 resulted. In particular, the goodwill associated with the acquisitions in Russia, Tunisia, Switzerland, the Czech Republic and Poland increased respectively by € 1.9 million, € 1.5 million, € 0.3 million, € 0.2 million and € 0.1 million, while the goodwill associated with the acquisition in Turkey decreased by € 3.8 million.

Net goodwill at 31 December 2019, amounting to € 578.0 million, relates to the following operational areas, which represent the same number of cash generating units:

- France: € 74.2 million;
- Russia: € 27.7 million;
- Germany: € 48.8 million;
- Portugal: € 32.8 million;
- Treatments for rare diseases business: € 110.6 million;
- Turkey: € 37.2 million;
- Czech Republic: € 14.0 million;
- Romania: € 0.2 million;
- Poland: € 15.4 million;
- Spain: € 58.1 million;
- Tunisia: € 17.3 million;
- Italy: € 133.2 million;
- Switzerland: € 8.5 million.

As reported in the preceding note 2 - *Summary of significant accounting policies* and as required by IFRS 3, goodwill is not amortized systematically but is subject to impairment tests 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.

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 explicit period assumed for the calculation (2020-2022) are derived from the 2020 budget approved by the Board of Directors of the Parent on 19 December 2019 and, for the years 2021 and 2022, from specific forecasts prepared for the cash generating units subject to impairment testing approved by the Board of Directors of the Parent on 18 March 2020.

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 peculiarities 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	3.36%
Russia	10.80%
Germany	3.03%
Portugal	3.94%
Business dedicated to treatments for rare diseases	4.81%
Turkey	18.20%
Czech Republic	5.61%
Poland	5.69%
Spain	3.82%
Tunisia	12.13%
Italy	5.38%
Switzerland	3.81%

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 greater than the book value recognised in the financial statements at 31 December 2019 and therefore no loss in the value of goodwill was recognised.

10. OTHER INVESTMENTS

Investments in equity instruments of non-consolidated companies are as follows:

€ (thousands)	Balance sheet value		Percentage of equity owned	
	31.12.19	31.12.18	31.12.19	31.12.18
PureTech Health p.l.c., United Kingdom	35,597	17,997	3.3%	3.4%
Erytech Pharma S.A., France	2,888	2,694	2.4%	2.4%
Codexis Inc., U.S.A.	73	72	n.s.	n.s.
Fluidigm Corp., U.S.A.	5	7	n.s.	n.s.
Others	3	3	n.s.	n.s.
Total equity investments	38,566	20,773		

The main investment is that made in the U.K. company PureTech Health plc, specialized in investment in start-up companies dedicated to innovative therapies, medical devices and new research technologies. Starting 19 June 2015 the shares of the company were admitted to trading on the London Stock Exchange. At 31 December 2019 the overall fair value of the 9,554,140 shares held is of € 35.6 million. The € 17.6 million increase in value compared to that at 31 December 2018 is booked as a gain for the period recognized directly in equity, net of the relative tax effect, and shown on the statement of comprehensive income, in line with the accounting treatment applied in previous years.

Erytech Pharma S.A. is a French biopharmaceutical listed company focused on orphan oncology and rare diseases. The original investment of € 5.0 million consisted of a non-interest bearing loan which was converted into 431,034 shares in May 2013. The value of the investment was increased by € 0.2 million as compared to that at 31 December 2018 to take into account its fair value. The after-tax difference was booked to equity and recognized in the statement of comprehensive income, in line with the accounting treatment applied in previous years.

11. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 31 December 2019 are € 16.4 million, an increase of € 10.6 million compared to those at 31 December 2018. The increase is mainly attributable to the tax benefit provided by the so-called "patent box" agreed with the Italian tax authorities in December 2019 which can be used beyond 2020 (see Note 6).

12. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2019 and 2018 amount to € 71.5 million and € 81.2 million respectively. The main deferred tax assets and their change are analyzed below.

€ (thousands)	2019	2018
Balance at 1 January	81,227	73,297
Additions	6,763	16,968
Utilizations	(16,477)	(9,798)
Changes in reporting entities*	0	760
Balance at 31 December	71,513	81,227

* Restated following the change in the allocation of the price of acquisition of Tonipharm S.a.s (see Note 34)

€ (thousands)	Previous years' losses	Profit and loss temporary differences	Franking	Tax credits	Other	Total
Balance at 1 January	2,776	8,805	29,092	5,849	34,705	81,227
Additions	0	3,544	0	0	3,219	6,763
Utilization	(1,618)	(5,451)	(6,164)	(823)	(2,421)	(16,477)
Balance at 31 December	1,158	6,898	22,928	5,026	35,503	71,513

During 2017 the Parent and the subsidiary Italcimici S.p.A. took advantage of the faculty, allowed by tax law, to frank the differences between the higher book value of the 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 franked 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.

Regarding the Parent, the amounts franked relate to the goodwill, determined according to fiscal rules, arising from the acquisition of Italcimici S.p.A. and Pro Farma AG, both in 2016. The benefit deriving from the future fiscal deductibility of the franked amounts resulted in the recognition of deferred tax assets for an amount of € 22.2 million. The amount franked by Italcimici S.p.A. relates to the goodwill, determined according to fiscal rules, arising from a merger operation 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 2019 the deferred tax assets corresponding to Italcimici'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 transactions and includes also the effect of the application of IFRS 15 for an amount of € 2.5 million. Such caption also includes deferred tax assets related to components of the other comprehensive income amounting to € 2.0 million (€ 3.3 million at 31 December 2018).

13. INVENTORIES

Inventories at 31 December 2019 and 2018 amount to € 226.9 million and € 206.1 million respectively, net of their respective obsolescence provisions for slow moving or expiring pharmaceutical products of € 4.7 million and € 3.8 million. Composition of inventories is as follows:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Raw materials and supplies	66,286	54,403	11,883
Intermediates and work-in-process	35,067	27,546	7,521
Finished goods	125,532	124,135	1,397
Total inventories	226,885	206,084	20,801

The increase of € 20.8 million is due to the growth of the Group's business and to higher stocks in Russia in order to properly handle the transition to serialized products in line with the deadlines established by local authorities.

14. TRADE RECEIVABLES

Trade accounts receivable at 31 December 2019 and 2018 amount to € 297.0 million and € 245.7 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2019 is € 14.9 million (€ 14.6 million at 31 December 2018) and is considered to be sufficient to cover potential losses of certain receivables which, due to the nature of the customers in question or the destination markets, may be difficult to collect.

Average days of sales outstanding are 63, a slight increase compared to 61 at 31 December 2018. The allowance for doubtful accounts increased by € 0.3 million (reduction of € 0.8 million in 2018). Such difference is classified in selling expenses.

The Group uses a matrix to measure the expected credit losses of trade receivable 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 delinquencies calculated separately for exposures in different segments based on common credit risk characteristics, such as geographic region and age of customer relationship. The following table provides information about the exposure to credit risk for trade receivables as at 31 December 2019.

€ (thousands)	Gross carrying amount
Current (not past due)	265,677
1-30 days past due	15,379
31-60 days past due	5,289
61-90 days past due	5,208
More than 90 days past due	20,313
Total trade receivables	311,866

Additional information about how the Group assess the exposure to credit risk and the allowance for doubtful accounts is described in Note 33.

15. OTHER RECEIVABLES

Other receivables amount to € 79.9 million, an increase of € 41.5 million compared to those at 31 December 2018, and their breakdown is as follows:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Tax receivable	71,302	30,375	40,927
Balances due from employees and agents	2,582	2,928	(346)
Other	6,065	5,159	906
Total other receivables	79,949	38,462	41,487

The increase in tax receivable is mainly attributable to the tax benefit provided by the so-called "patent box" agreed with the Italian tax authorities in December 2019 and which can be used in 2020, for an amount of € 25.6 million (see Note 6). Tax receivable also included value added tax (VAT) receivable (€ 13.9 million) and advance payments of income tax paid in excess. Receivables from employees and agents comprise advances on expense accounts and other credits. Under "Other" are included advances paid to suppliers and other parties and to computed credits under licensing-in agreements.

16. OTHER CURRENT ASSETS

At 31 December 2019 other current assets amount to € 7.7 million (€ 5.2 million at 31 December 2018) and relate mainly to prepaid expenses.

17. FAIR VALUE OF HEDGING DERIVATIVES

At 31 December 2019 the value of hedging derivatives included under this account is of € 9.9 million.

The cross currency swaps covering the cash flows related to the notes issued and privately placed on 30 September 2014, for an amount of \$ 75 million, gave rise to a € 9.9 million asset which represents the potential benefit of a lower value in euros of the future dollar denominated capital and interest flows, in view of the revaluation of the foreign currency subsequent to the moment in which the loan and hedging instrument were negotiated. In particular, the change in fair value of the hedging instrument covering the \$ 50 million tranche of the loan, provided by Mediobanca, was positive for an amount of € 6.7 million, and that covering the \$ 25 million tranche of the loan, provided by UniCredit, yielded a € 3.2 million positive value change.

The fair value of such hedging derivatives is measured at level 2. The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve which reflects the relevant benchmark interbank rate used by market participants for these purposes when pricing interest rate swaps.

18. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

A break down is shown in the following table.

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Short term time deposits	46,539	25,615	20,924
Deposits in bank current accounts	141,346	172,350	(31,004)
Cash on hand	38	71	(33)
Total short term financial investments, cash and cash equivalents	187,923	198,036	(10,113)

Short term time deposits have maturities of three months or less.

At 31 December 2019 cash and cash equivalents are mainly denominated in Euros (99.5 million), in Pounds Sterling (13.3 million, mainly in the U.K. subsidiaries) and in U.S. dollars (63.9 million, mainly in the U.S. subsidiary Recordati Rare Diseases Inc.).

19. EQUITY ATTRIBUTABLE TO THE HOLDERS OF THE PARENT

Share capital - At 31 December 2019 the issued and fully paid share capital consists of 209,125,156 ordinary shares with a par value of € 0.125 each for a total of € 26,140,644.50 and remains unchanged compared to the preceding year.

Additional paid-in capital - At 31 December 2019 additional paid-in capital is € 83.7 million, unchanged compared to the preceding year.

Treasury stock – At 31 December 2019, 3,308,571 shares are held as treasury stock, an reduction of 1,845,000 shares compared to those held at 31 December 2018. The change is due to the sale of 1,845,000 shares, for an amount of € 26.2 million, to service the exercise of options granted to company employees under the stock option plans. The total cost incurred for the purchase of current treasury stock is € 93.5 million and the average purchase price per share is € 28.25.

Hedging reserve – In accordance with IFRS 9, the assets resulting from the measurement at market value of the cross currency swaps qualifying as cash flow hedges, the counterpart of the recognition in the income statement offsetting the valuation at year-end exchange rates of the covered foreign exchange loan, and the liabilities resulting from the measurement at market value of the interest rate swaps qualifying as cash flow hedges are recognized directly in equity as a hedging reserve. At 31 December 2019 this fair value measurement gives rise to a net liability, after-tax, of € 5.4 million.

Other reserves – These amount to € 64.7 million at 31 December 2019, an increase of € 21.6 million compared to those at 31 December 2018. Other reserves include the statutory reserve of the parent company in the amount of € 5.2 million, reserves for grants received for a total of € 15.5 million and reserves for amounts booked directly to equity in application of international accounting and reporting standards. The application of IFRS 2 and IAS 19 resulted in positive recordings of € 16.8 million and € 0.8 million respectively. The recognition of the gains associated with the investment in Puretech Health determined a positive after-tax effect of € 27.8 million while the recognition of the reduced value of the investment in Erytech Pharma determined an after-tax negative effect of € 1.4 million.

Retained earnings and net income for the year – These amount to € 999.7 million at 31 December 2019 and increase by € 101.7 million as compared to 31 December 2018. Net income for the year is € 368.8 million, an increase of 18.1% compared to the € 312.4 million 2018 net income. The shareholders' equity of the Italian companies includes untaxed reserves of € 101.1 million, net of € 16.6 million withholding tax already paid, and their distribution is subject to taxation under fiscal law. In accordance with IAS 12 deferred taxes are not recognized on these reserves until their distribution is resolved.

Interim dividend – During the year the Board of Directors of Recordati S.p.A. resolved to distribute an interim dividend for 2019 of € 0.48 per share, for a total amount of € 98.8 million.

Incentive plans – At 31 December 2019 the Company has three stock option plans in favor of certain group employees in place, the 2010-2013 plan, under which options were granted on 9 February 2011, on 8 May 2012, on 17 April 2013 and on 30 October 2013, the 2014-2018, plan under which options were granted on 29 July 2014 and on 13 April 2016 and the 2018-2022 plan, under which options were granted on 3 August 2018. The strike price of the options is the average of the parent company's listed share price during the 30 days prior to the grant date. Stock options are vested over a period of five years and those not exercised within the eighth year of the date of grant expire. Options cannot be exercised if the employee leaves the company before they are vested.

Stock options outstanding at 31 December 2019 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2019	Options granted during 2019	Options exercised during 2019	Options cancelled or expired	Options outstanding at 30.9.2019
Date of grant						
9.02.11	6.7505	73,500	-	(73,500)	-	-
8.05.12	5.3070	427,500	-	(185,000)	-	242,500
17.04.13	7.1600	25,000	-	-	-	25,000
30.10.13	8.9300	15,000	-	(10,000)	-	5,000
29.07.14	12.2900	2,171,000	-	(1,032,500)	-	1,138,500
13.04.16	21.9300	2,961,500	-	(544,000)	(199,500)	2,218,000
3.08.18	30.7300	4,818,000	-	-	(239,500)	4,578,500
Total		10,491,500	-	(1,845,000)	(439,000)	8,207,500

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

20. 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%, in the amount of € 3.3 million, was recognized as a liability since the transfer of this 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 variations of this 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 2019 loans total € 1,087.2 million. Loans include the liability, determined by the application of the new accounting principle IFRS 16, that represents the obligation of making the payments provided for in the existing lease contracts (see Note 2). The net increase of € 315.9 million compared to 31 December 2018 was determined by the granting of new loans for an amount of € 418.8 million, the effect of the first time application of IFRS 16 in the amount of € 25.0 million, new leasing liabilities for an amount of € 11.2 million and reimbursements of € 140.4 million. Reimbursements include € 61.3 million due to the early repayment of the privately placed notes issued by Recordati Rare Diseases on 13 June 2013 for a total of \$ 70 million, following the acquisition of FIMEI S.p.A. (shareholder of the Parent) by a Consortium of investment funds controlled by CVC Capital Partners, and € 10.3 million due to payments of lease liabilities. The conversion of loans in foreign currency gave rise to an increase of € 1.3 million.

The composition of medium and long-term loans at 31 December 2019 and 2018 is shown in the following table:

€ (thousands)	31.12.2019	31.12.2018
Loans granted to Recordati S.p.A.:		
Guaranteed senior notes issued by Recordati S.p.A. privately placed with international institutional investors in 2014 in two tranches: \$ 50 million at a fixed interest rate of 4.28% repayable semi-annually starting 2022 through 2026, transformed with cross currency swap into a € 37.3 million loan at a fixed interest rate of 2.895%, \$ 25 million at a fixed interest rate of 4.51% repayable semi-annually starting 2023 through 2029, transformed with cross currency swap into a € 18.7 million loan at a fixed interest rate of 3.15%.	*66,553	*65,266
Loan granted by Centrobanca, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2012 through 2022	*20,389	*27,186
Loan granted by UniCredit, at variable interest rate partly covered by an interest rate swap, repayable in semi-annual installments starting 2015 through 2020	*4,997	*14,893
Loan granted by ING Bank, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2016 through 2020	3,750	*11,220
Loan granted by Banca Nazionale del Lavoro, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2019 through 2020	*12,490	*24,977
Loan granted by Intesa Sanpaolo, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2019 through 2021	*16,637	*24,955
Guaranteed senior notes issued by Recordati S.p.A. privately placed with international institutional investors in 2017 at a fixed interest rate of 2.07% repayable in annual installments starting 2025 through 2032	*124,896	*124,888
Loan granted by Mediobanca, at variable interest rate covered by an interest rate swap, repayable in annual installments starting 2018 through 2024	54,000	64,500
Loan granted by UbiBanca, at variable interest rate covered by an interest rate swap, repayable in 2022	*49,972	*49,962
Loan granted by Unicredit, at variable interest rate covered by an interest rate swap, repayable in 2021	*49,967	*49,948
Loan granted by Intesa Sanpaolo, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2019 through 2025	*64,122	*74,808
Loan granted by Banca Passadore, at variable interest rate - 3 months' Euribor plus spread of 65 basis points - repayable in annual installments starting 2020 through 2022	*14,996	*14,994
Loan granted by Medio Credito Centrale, at a reduced interest rate of 0.5%, repayable in semi-annual installments starting 2019 through 2021	*2,995	*4,268
Loan granted by Mediobanca, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2020 through 2023	*149,471	*149,337
Loan granted by 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	*396,722	-
Loan granted by ING Bank, at variable interest rate, repayable in semi-annual installments starting 2021 through 2024	*22,395	-
Leasing liabilities associated with Recordati S.p.A.'s lease agreements	3,511	-
Loans granted to other Group companies:		
Guaranteed senior notes issued by Recordati Rare Diseases Inc. (U.S.) privately placed with international institutional investors in 2013: \$ 40 million at a fixed interest rate of 4.55% due 2023 (10 year bullet) \$ 30 million at a fixed interest rate of 4.70% due 2025 (12 year bullet)	-	*60,776
Loan granted by IFC-World Bank to Recordati Ilaç for an amount of TRY 71.6 million, at variable interest rate, repayable in quarterly installments starting 2016 through 2022	*4,763	*7,190
Various interest-free loans granted to Casen Recordati S.L. due within 2029	339	395
Loans granted to Opalia Pharma	-	41
Leasing liabilities associated with other Group companies lease agreements	24,196	1,626
Total amortized cost of loans	1,087,161	771,230
Portion due within one year	149,817	130,583
Portion due after one year	937,344	640,647

* Net of direct issue costs, amortized using the effective interest method. At 31 December 2019 overall residual costs are € 4.7 million mainly relative to the syndicated loan granted to Recordati S.p.A. by a pool of banks (€ 3.3 million), to the private placements by Recordati S.p.A. in 2014 and 2017 (€ 0.3 million) and to the loans granted by Mediobanca (€ 0.5 million), Intesa Sanpaolo (€ 0.2 million), IFC-World Bank (€ 0.2 million), ING Bank (€ 0.1 million) and Centrobanca (€ 0.1 million).

The repayment schedule of loans due after 31 December 2020, based on their amortization plans, is as follows:

€ (thousands)	
2021	160,097
2022	259,211
2023	162,082
2024	170,112
2025 and subsequent years	185,842
Total	937,344

The average effective interest rate at 31 December 2018, applying the rates resulting from the hedging instruments, is 1.52%.

In August the Parent undersigned a loan agreement with ING Bank for an amount of € 22.5 million. The main terms and conditions provide for variable interest rate fixed at the 6 months' Euribor plus a spread of 135 basis points with semi-annual interest payments and semi-annual repayment of principal starting December 2021 through December 2024. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan.

The financial covenants are the following:

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

The above conditions were fulfilled.

In June Recordati S.p.A. negotiated a loan for an amount of € 400.0 million aimed at supporting the Group's growth strategy. The loan, initially undersigned by Mediobanca, Natixis and Unicredit was subsequently syndicated involving a pool of Italian and international banks. The terms of the loan provide for a variable interest rate at the 6 months' Euribor (with a zero floor) plus a 135 basis points spread and a duration of 5 years with principal semi-annual repayment starting 30 June 2020 through June 2024. Funding, net of up-front commissions, took place on 30 July 2019. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were fulfilled during the period.

The main other long-term loans outstanding are:

a) A loan agreement undersigned with Mediobanca by the Parent in November 2018 for an amount of € 150.0 million. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a spread of 130 basis points with semi-annual repayments of principal from 23 November 2020 through 22 November 2023. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 1.619%. The measurement at fair value at 31 December 2019 of the swap generated a liability of € 2.2 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 30). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were fulfilled during the period.

b) A loan of € 4.3 million granted to the Parent in July 2018 by the Banca del Mezzogiorno-Mediocredito Centrale to fund investments in research and development, of which € 3.9 million at a reduced fixed interest rate of 0.50% to be repaid in six semi-annual installments starting 30 June 2019 through 31 December 2021, and € 0.4 million at a variable interest rate equal to the 6 months' Euribor plus a spread of 220 basis points, to be repaid in two installments on 30 June and 31 December 2021. The debt outstanding at 31 December 2019 is of € 3.0 million.

c) A loan agreement with Banca Passadore undersigned by the Parent in November 2017 for an amount of € 15.0 million, disbursed net of up-front commissions of 0.05%. The main terms and conditions provide for variable interest rate fixed at the three months' Euribor plus a spread of 65 basis points with quarterly payments of interest and a duration of 5

years with annual repayments of principal from November 2020 through November 2022. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were fulfilled during the period.

d) A loan agreement with Intesa Sanpaolo undersigned by the Parent in October 2017 for an amount of € 75.0 million, disbursed net of up-front commissions of 0.30%. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a spread of 95 basis points, semi-annual payments of interest and a duration of 8 years with semi-annual repayments of principal from June 2019 through October 2025. The debt outstanding at 31 December 2019 is of € 64.1 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 1.305%. The measurement at fair value at 31 December 2019 of the swap generated a liability of € 1.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 30). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were fulfilled during the period.

e) A loan agreement with UniCredit undersigned by the Parent in September 2017 for an amount of € 50.0 million. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a spread of 55 basis points with semi-annual payments of interest and the repayment of principal on 29 September 2021. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.698%. The measurement at fair value at 31 December 2019 of the swap generated a liability of € 0.5 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 30). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were fulfilled during the period.

f) A loan agreement with UBI Banca undersigned by the Parent in September 2017 for an amount of € 50.0 million. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a spread of 50 basis points with semi-annual payments of interest and the repayment of principal on 7 September 2022. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.714%. The

measurement at fair value at 31 December 2019 of the swap generated a liability of € 0.7 million. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were fulfilled during the period.

- g) A loan agreement with Mediobanca undersigned by the Parent in July 2017 for an amount of € 75.0 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 95 basis points and a duration of 7 years with annual repayments of principal from July 2018 through July 2024. The debt outstanding at 31 December 2019 is of € 54.0 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 1.29%. The measurement at fair value at 31 December 2019 of the swap generated a liability of € 1.0 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 30). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were fulfilled during the period.

- h) Privately placed guaranteed senior notes by the Parent in May 2017 for an overall amount of € 125.0 million at 2.07% fixed interest rate with repayment in annual instalments starting on 31 May 2025 through 31 May 2032. The note purchase agreement covering the notes includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:
- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
 - the ratio of consolidated operating income to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

The above conditions were fulfilled during the period.

- i) A loan agreement with Banca Nazionale del Lavoro undersigned by the Parent company in December 2016 for an amount of € 25.0 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 40 basis points and a duration of 4 years with semi-annual repayments of principal from March 2019 through September 2020. The debt outstanding at 31 December 2019 is of € 12.5 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.41%. The measurement at fair value at 31 December 2019 of the swap generated a slight liability which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 30). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:
- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;

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

The above conditions are fulfilled.

- j) A loan agreement with Intesa Sanpaolo undersigned by the Parent company in December 2016 for an amount of € 25.0 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 60 basis points and a duration of 5 years with semi-annual repayments of principal from June 2019 through December 2021. The debt outstanding at 31 December 2019 is of € 16.6 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.68%. The measurement at fair value at 31 December 2019 of the swap generated a liability of € 0.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 30). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions are fulfilled.

- k) A loan agreement with UniCredit undersigned by the Parent company in May 2015 for an amount of € 50.0 million. The main terms and conditions provide for variable interest rate fixed at the 6 months Euribor plus a spread of 80 basis points and a duration of 5 years with semi-annual repayments of principal from November 2015 through May 2020. The debt outstanding at 31 December 2019 is of € 5.0 million. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions are fulfilled.

- l) A loan agreement with ING Bank for an amount of € 30.0 million, originally undersigned by the Parent company on 8 January 2014, was re-negotiated on 12 June 2015 with only the interest rate being changed. Main terms are: variable interest rate equivalent to the 6 months' Euribor plus a spread of 85 basis points (as opposed to the 190 basis points in the previous agreement), and reimbursement of principal at the end of every six months starting July 2016 through January 2020. The debt outstanding at 31 December 2019 is of € 3.8 million. The loan was simultaneously covered with an interest rate swap qualifying as a cash flow hedge transforming the interest payable on the entire debt to a fixed interest rate of 1.913% following the above mentioned re-negotiation. The fair value measurement of the swap at 31 December 2019 generated a slight liability which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 30). The ING Bank loan agreement contains covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

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

The above conditions are fulfilled.

- m) A loan agreement with IFC-World Bank undersigned by the subsidiary Recordati Ilaç on 16 October 2014 for an amount of 71.6 million Turkish lira to finance the construction of a new production plant. Main terms are: variable interest rate equivalent to the 3 months' Trlibor plus a spread of 162 basis points, 8-year duration and reimbursement of principal at the end of every three months starting November 2016 through August 2022. The value in euros of the outstanding loan at 31 December 2019 is of € 4.8 million, resulting in a reduction of the liability by € 2.4 million as compared to that at 31 December 2018, of which € 0.6 million was due to the devaluation of the Turkish lira at the date of consolidation. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:
- the ratio of consolidated net debt to consolidated shareholders' equity must be less than 0.75;
 - the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
 - the ratio of consolidated operating income to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

The above conditions were fulfilled.

- n) Privately placed guaranteed senior notes by the Parent company on 30 September 2014 for an amount of \$ 75 million in two tranches: \$ 50 million at a fixed interest rate of 4,28% to be reimbursed bi-annually as from 30 March 2022 through 30 September 2026, and \$ 25 million at a fixed interest rate of 4.51% to be reimbursed bi-annually as from 30 March 2023 through 30 September 2029. The conversion of the loan into euros at 31 December 2019 resulted in an increase of the liability by € 1.3 million as compared to that at 31 December 2018 due to the revaluation of the U.S. dollar. The loan was simultaneously covered with two currency rate swaps transforming the overall debt to € 56.0 million, of which € 37.3 million at a fixed interest rate of 2.895% on the 12-year tranche and € 18.7 million at a fixed interest rate of 3.15% on the 15-year tranche. At 31 December 2019 the measurement at fair value of the hedging instruments generated an overall positive amount of € 9.9 million recognized directly to equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current assets (see Note 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 are the following:

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

The above conditions were fulfilled during the period.

- o) A loan agreement with Centrobanca undersigned by the Parent company on 30 November 2010 to fund a three-year research and investment program. The loan, for which Centrobanca received funding from the European Investment Bank, amounts to € 75.0 million of which € 30.0 million were cashed in during 2010 and € 45.0 million in the first quarter of 2011. The main terms and conditions provide for a variable interest rate and a duration of 12 years with semi-annual repayments of principal from June 2012 through December 2022. At 31 December 2019 the outstanding amount of the loan is € 20.4 million. During the month of June 2012 interest on the whole loan was covered with an interest rate

swap qualifying as a cash flow hedge. The current interest rate on the loan is 2.575%. The measurement at fair value of the hedging instrument at 31 December 2019 generated a liability of € 0.6 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 30). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

22. STAFF LEAVING INDEMNITIES AND OTHER BENEFITS

This provision at 31 December 2019 and 2018 is € 20.6 million and € 19.5 million respectively and reflects the Group's obligation towards its employees determined in accordance with IAS 19. The roll forward of this fund is as follows:

€ (thousands)	2019	2018
Balance at 1 January	19,547	21,093
Additions	1,892	1,899
Utilization	(1,674)	(2,106)
Change in reporting entities	0	114
Change in fair value	792	(1,453)
Balance at 31 December	20,557	19,547

This liability is to be mainly attributed to the staff leaving indemnity fund (TFR, trattamento fine rapporto) in the Italian companies. The value of this fund as measured in accordance with IAS 19 amounts to € 10.5 million. The remaining part of this provision comprises employee benefit plans in the French subsidiary Laboratoires Bouchara Recordati (€ 4.7 million), in the U.S. subsidiary Recordati Rare Diseases (€ 2.0 million), in the German subsidiary Recordati Pharma (€ 1.2 million) and in the other Recordati Rare Diseases companies (€ 1.0 million). The fair value calculation made using actuarial parameters updated at 31 December 2019 determined an increase of € 0.8 million compared to the value of the funds at 31 December 2018 which is recognized in the statement of comprehensive income, net of the tax effect, as prescribed by the relevant accounting principle.

23. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2019 are € 43.2 million, a net decrease of € 0.3 million over the balance at 31 December 2018. The roll forward of this account is as follows:

€ (thousands)	2019	2018
Balance at 1 January	43,486	17,554
Additions	1,457	1,417
Utilization	(1,771)	(2,831)
Changes in reporting entities*	-	27,346
Balance at 31 December	43,172	43,486

* Restated following the change in the allocation of the price of acquisition of Tonipharm S.a.s (see Note 34)

At 31 December 2019 no deferred tax liabilities were calculated on subsidiaries' undistributed earnings as, considering the current dividend policy applied by the Group and thanks to the substantial exemption from dual income taxation, no significant additional tax would have to be paid by the Group in the event of these dividend distributions.

Deferred tax liabilities related to components of the other comprehensive income amount to € 0.6 million (€ 0.9 million at 31 December 2018).

24. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2019 are € 22.3 million. They include mainly € 17.8 million of future payments due to Novartis AG upon commercialization of Isturisa® in some European countries and € 3.3 million which refer to the amount due for the acquisition of a further 10% of the share capital of Opalia Pharma which, based on the put and call options in place contractually, should occur not before 2022. The fair value of such purchase option is measured at level 2 as the valuation model considers the present value of expected payments.

25. TRADE PAYABLES

Trade accounts payable, which are entirely of a commercial nature and include allocations for invoices to be received, at 31 December 2019 and 2018 amount to € 175.5 million and € 165.0 million respectively.

26. OTHER PAYABLES

Other accounts payable at 31 December 2019 and 2018 amount to € 185.7 million and € 85.5 million respectively. Their composition is as follows:

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Personnel	30,048	27,336	2,712
Social security	15,219	14,953	266
Agents	649	716	(67)
Other	139,790	42,529	97,261
Total other payables	185,706	85,534	100,172

The line "Other" includes:

- € 89.0 million for future payments due to Novartis AG following the approval of Isturisa® (osilodrostat) and its progressive launch. In particular, 20.0 million U.S. dollars at the approval, obtained in January 2020, of the product in Europe, 20.0 million U.S. dollars at the launch in some European countries and 60.0 million U.S. dollars at the approval, obtained in March 2020, of the product in the U.S.A.;
- € 6.1 million due by Recordati Rare Diseases Inc. to the U.S. healthcare insurance schemes;
- € 4.4 million to be paid to the "Krankenkassen" (German healthcare schemes) by Recordati Pharma GmbH;
- € 1.8 million which results from a mandatory discount of 1.83% on the retail selling price of reimbursed medicines.

27. TAX LIABILITIES

Tax liabilities at 31 December 2019 and 2018 amount to € 21.1 million and € 42.1 million respectively and include tax provisions computed by the companies on the basis of estimated taxable income, net of tax advances already paid, and withholding taxes payable. The reduction compared to 31 December 2018 is a consequence of a different result from the compensation between tax credits and debits.

28. OTHER CURRENT LIABILITIES

At 31 December 2019 other current liabilities amount to € 12.5 million, a reduction of € 6.8 million as compared to those at 31 December 2018. An amount of € 11.9 million is attributable to the adoption of the accounting principle IFRS 15 and will be recognized in the income statement in variable installments based on the realization of the conditions for revenue recognition.

29. PROVISIONS

Provisions in place at 31 December 2019 amount to € 17.9 million and include tax provisions and other provisions for future contingencies which are uncertain as to timing and value. The following tables contain their composition and changes.

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Tax	604	644	(40)
Other	17,329	20,802	(3,473)
Total provisions	17,933	21,446	(3,513)

€ (thousands)	2019	2018
Balance at 1 January	21,446	48,322
Additions	3,002	3,183
Utilization	(6,515)	(30,059)
Balance at 31 December	17,933	21,446

Total provisions at year end are mainly comprised by those booked by the Parent and the other Italian companies (€ 7.4 million), by the French companies (€ 3.4 million), by the Spanish company Casen Recordati (€ 2.2 million) and by Recordati AG in Switzerland (€ 1.4 million).

30. FAIR VALUE OF HEDGING DERIVATIVES

The interest rate swaps covering the cash flows related to medium and long-term loans measured at fair value at 31 December 2019 give rise to a € 6.2 million liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans. The liability refers to the interest rate swaps covering the interest rate risk on loans granted by Mediobanca (€ 3.2 million), Intesa Sanpaolo (€ 1.1 million), UBI Banca (€ 0.7 million), Centrobanca (€ 0.6 million), UniCredit (€ 0.5 million), and Banca Nazionale del Lavoro (€ 0.1 million).

The measurement at fair value of the cross currency swaps stipulated by the Parent Company in November 2016 with Unicredit, covering two intercompany loans granted by the U.S. company Recordati Rare Diseases Inc. for a total nominal amount of 70 million U.S. dollars, was negative by € 1.7 million.

In October Recordati S.p.A. stipulated forward exchange contracts to cover the intercompany loan granted to Recordati AG for an amount of 228.9 million Swiss francs. The fair value of the derivative at 31 December 2019 was negative by € 2.9 million, which were booked to profit and loss compensating the exchange gains determined by the valuation of the underlying loan at current exchange rates.

The fair value of such hedging derivatives is measured at level 2. The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve which reflects the relevant benchmark interbank rate used by market participants for these purposes when pricing interest rate swaps.

31. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans at 31 December 2019 are € 13.4 million and comprise temporary use of lines of credit, overdrafts by foreign subsidiaries and interest due on existing loans. The revolving line of credit obtained in July 2017 by Recordati İlaç, the subsidiary in Turkey, for a maximum amount of 40 million Turkish lira and a 24 months' maximum duration, was extinguished.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IFRS 7 hereunder are stated the balance sheet values and fair values at 31 December 2019 of financial assets and liabilities:

€ (thousands)	Book value	Fair value
Financial assets		
Financial assets measured at fair value		
Equity investments	38,566	38,566
Fair value of hedging derivatives (<i>cash flow hedge</i>)	9,949	9,949
Financial assets not measured at fair value		
Short-term financial investments, cash and cash equivalents	187,923	187,923
Trade receivables	296,961	296,961
Other receivables	79,949	79,949
Financial liabilities		
Financial liabilities measured at fair value		
Fair value of hedging derivatives (<i>cash flow hedge</i>)	10,788	10,788
Other non-current liabilities	3,257	3,257
Financial liabilities not measured at fair value		
Borrowings		
- loans at variable interest rates	423,880	423,880
- loans at variable interest rates covered with interest rate swaps	443,787	443,787
- loans at fixed interest rates	125,234	132,896
- loans at fixed interest rates covered with cross currency swaps	66,553	64,631
- <i>leasing liabilities</i>	27,707	27,707
Trade payables	175,481	175,481
Other payables	206,800	206,800
Other non-current liabilities	19,035	19,035
Bank overdrafts and short-term loans	13,392	13,392

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 admitted financial investments 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 shall operate only with investment grade banks.

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

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

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 2019 the credit exposure is not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. In particular, at 31 December 2019, total trade receivables of € 311.9 million include € 20.3 million of receivables overdue by more than 90 days. Of these, € 6.1 million are receivables from public hospitals which, despite their long payment times, do not represent a significant risk situation. An allowance for doubtful accounts of € 14.9 million, which is considered to be sufficient to cover potential losses due to insolvency, is in place.

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 charges. The Group's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or variable interest loans covered 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 the change 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 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 2019 positions in currencies different from the euro in companies in countries belonging to the European Monetary Union, not covered by hedging instruments, are the following:

net receivables of 1,345.4 million Russian roubles;
net receivables of 2.1 million Swiss francs;
net receivables of 2.5 million U.S. dollars;
net receivables of 5.4 million Polish zloty.

Among the companies in countries outside the European Monetary Union, at 31 December 2019 the main net exposure in currencies different from their own, and not covered by hedging instruments, is in euros and in U.S. dollars. Net exposure in euros refer to the companies in the Czech Republic (net receivables of 1.8 million), Tunisia (net receivables of 1.5 million), Turkey (net payables of 5.2 million) Sweden (net payables of 3.3 million), Switzerland (net payables of € 2.9 million), Ukraine (net payables of 2.1 million), Mexico (net payables of 1.7 million) and Canada (net payables of 0.9 million). Net exposure in U.S. dollars refer to the companies in Switzerland (net payables of 112.6 million), Japan (net payables of 10.4 million) and Canada (net payables of 1.5 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 euros. At 31 December 2019 the net equity values of these companies are denominated mainly in U.S. dollars (232.5 million), in Pounds Sterling (14.8 million), in Swiss francs (167.6 million), in Turkish lira (401.8 million), in Czech crowns (351.9 million), in Romanian ron (39.6 million), in Russian roubles (3,747.5 million), in Polish zloty (25.9 million) and in Tunisian Dinars (53.5 million). The effect of exchange rate variations on the conversion of these values is recognized in the consolidated

statement of comprehensive income and booked to the translation reserve in shareholders' equity which, at 31 December 2019, is negative by € 146.9 million.

Liquidity Risk - The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for the 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. At 31 December 2019 the Group has at its disposal a supply of 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 financial assets and its loans 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 enough to satisfy investment needs, working capital requirements and the repayment of loans at their contractual due dates.

34. ACQUISITION OF COMPANIES

The following table summarizes the effects of the first time consolidation of Tonipharm S.a.s., of which the Group acquired 100% of its share capital on 31 December 2018, following the completion of the process for the measurement of the fair value of the assets and liabilities at the date of acquisition, which resulted in some changes of the preliminary values identified in the financial statements at 31 December 2018.

€ (thousands)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
Non-current assets			
Property, plant and equipment	40	0	40
Intangible assets	11,466	38,500	49,966
Non-current receivables	125	0	125
Deferred tax assets	760	0	760
Current assets			
Inventories	5,283	0	5,283
Trade receivables	3,262	0	3,262
Other receivables	32	0	32
Tax receivable	555	0	555
Other current assets	77	0	77
Short-term financial investments, cash and cash equivalents	90	0	90
Non-current liabilities			
Deferred tax liabilities	0	(10,153)	(10,153)
Current liabilities			
Trade payables	(4,493)	0	(4,493)
Other payables	(176)	0	(176)
Tax liabilities	(887)	0	(887)
Bank overdrafts and short-term loans	(261)	0	(261)
	15,873	28,347	44,220
Goodwill			28,416
Cost of the acquisition			72,636

The completion of the process for the measurement of the fair value of the assets and liabilities at the date of acquisition resulted in some changes to the preliminary recognition in the financial statements for the year 2018. In addition to the identification of added value for the intangible assets Ginkor® and Alodont®, the € 0.4 million book value of an intangible asset was considered non recoverable and the deferred tax effect was recalculated in line with the tax reforms approved in France at the end of 2018 which include a gradual reduction in tax rates starting 2019 through 2022. Consequently, an amount of € 38.5 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to the intangible assets Ginkor® and Alodont®, € 10.2 million to the relative deferred tax liabilities, while € 28.4 million were allocated to goodwill in the specialty and primary care segment. Such goodwill is mainly attributable to the future economic benefits expected from the integration of the company within the Group and is not tax deductible.

35. OPERATING SEGMENTS

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

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. As a consequence, well identified and separate business models and organizational structures were developed. All economic and financial data derive from precise accounting and do not discount allocation criteria.

The geographical 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 to add 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, who share the conviction that each person with a rare disease has the right to the best possible treatment. Our organizations work closely with specialists, healthcare professionals, patients' families and patient groups to spread knowledge, improve diagnosis and treatment, 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 Recordati in 2007.

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

The following tables show financial information for these two business segments as at 31 December 2019 and includes comparative data.

€ (thousands)	Specialty & primary care segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
2019				
Revenues	1,231,998	249,850	-	1,481,848
Expenses	(876,116)	(140,466)	-	(1,016,582)
Operating income	355,882	109,384	-	465,266
EBITDA inclusive of write-down of intangible assets⁽¹⁾				
	422,514	121,453	-	543,967
2018				
Revenues	1,137,403	214,832	-	1,352,235
Expenses	(798,465)	(111,551)	-	(910,016)
Operating income	338,938	103,281	-	442,219
EBITDA inclusive of write-down of intangible assets⁽¹⁾				
	390,571	108,508		499,079

* Includes the pharmaceutical chemicals operations

(1) Net income before provision for income taxes, financial (income) expenses, net, depreciation and amortisation and write-down of both property, plant and equipment and intangible assets.

The reconciliation of the net income and the EBITDA inclusive of write-down of intangible assets is reported below:

€ (thousands)	2019	2018
Net income	368,866	312,422
Provision for income taxes	75,278	105,513
Financial (income) expenses, net	21,122	24,284
Depreciation and amortization	78,248	56,860
Write-down of intangible asset	453	0
EBITDA inclusive of write-down of intangible assets⁽¹⁾	543,967	499,079

(1) Net income before provision for income taxes, financial (income) expenses, net, depreciation and amortisation and write-down of both property, plant and equipment and intangible assets

€ (thousands)	Specialty & primary care segment*	Rare diseases segment	Non-allocated**	Consolidated accounts
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 current assets	76,352	11,280	9,949	97,581
Short-term investments, 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		
31 December 2018				
Non-current assets***	1,214,096	226,466	20,772	1,461,334
Inventories	188,988	17,096	-	206,084
Trade receivables	206,389	39,353	-	245,742
Other current assets	38,371	5,284	6,414	50,069
Short-term investments, cash and cash equivalents	-	-	198,036	198,036
Total assets	1,647,844	288,199	225,222	2,161,265
Non-current liabilities***	63,638	2,652	640,647	706,937
Current liabilities	264,813	68,694	157,235	490,742
Total liabilities	328,451	71,346	797,882	1,197,679
Net capital employed	1,319,393	216,853		

* Includes the pharmaceutical chemicals operations.

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

*** Restated following the change in the allocation of the price of acquisition of Tonipharm S.a.s (see Note 34).

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

No single customer contributed over 10% to revenue in 2019 (none also in 2018).

The following table presents net revenues by geographic area:

€ (thousands)	2019	2018	Change 2019/2018
Europe	1,191,474	1,101,925	89,549
of which Italy	287,289	273,197	14,092
Australasia	85,465	62,295	23,170
America	152,626	136,751	15,875
Africa	52,283	51,264	1,019
Total revenue	1,481,848	1,352,235	129,613

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

36. NET FINANCIAL POSITION

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

€ (thousands)	31.12.2019	31.12.2018	Change 2019/2018
Deposits in bank current accounts and cash on hand	141,384	172,421	(31,037)
Short-term time deposits	46,539	25,615	20,924
Liquid assets	187,923	198,036	(10,113)
Bank overdrafts and short-term loans	(13,392)	(16,905)	3,513
Loans – due within one year	(140,963)	(69,591)	(71,372)
Loan notes issued ⁽¹⁾	-	(65,471)	65,471
Leasing liabilities – due within one year	(8,854)	(216)	(8,638)
Short term borrowings	(163,209)	(152,183)	(11,026)
Net current financial position	24,714	45,853	(21,139)
Loans – due after one year	(726,834)	(449,083)	(277,751)
Loan notes issued ⁽¹⁾	(181,708)	(183,740)	2,032
Leasing liabilities – due after one year	(18,853)	(1,410)	(17,443)
Non-current loans	(927,395)	(634,233)	(293,162)
Net financial position	(902,681)	(588,380)	(314,301)

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

37. 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 for the year	
	31.12.2019	31.12.2018	2019	2018
Recordati S.p.A.	435,426	336,058	241,092	217,330
Consolidation adjustments:				
- Margin in inventories	(59,066)	(58,411)	(655)	(23,361)
- Related deferred tax	16,618	16,296	322	6,577
- Other adjustments	(13,726)	(10,802)	(4,014)	(2,463)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already booked by Recordati S.p.A.	708,217	591,143	-	-
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	257,974	243,255	257,974	243,255
Dividends received from consolidated subsidiaries	-	-	(128,138)	(135,162)
Write-down of holdings in controlled companies	-	-	2,244	6,200
Translation adjustments	(146,866)	(154,146)	-	-
Consolidated financial statements	1,198,577	963,393	368,825	312,376

38. LITIGATION AND CONTINGENT LIABILITIES

In December 2015, the Italian Tax Police (*Guardia di Finanza*) notified the Company of their intention to commence a general income tax inspection covering the years 2009 through 2014 involving the Group company in Ireland, Recordati Ireland Ltd. The declared intention of the inspection was to evaluate the operational context of the foreign company in order to verify whether said company is in reality only formally localized abroad but is substantially managed/administered from Italy. On 28th February 2017 the Italian Tax Police (*Guardia di Finanza*) prescribed the extension of the income tax inspection to include the year 2015. After having analysed the documents and completed the investigation process, the Italian Tax Police finally revealed to Recordati Ireland Ltd, on 6th September 2017, their reasons for considering the Irish company subject to tax in Italy for corporate tax purposes in the reference period, resulting in an assessment of taxes allegedly owed to Italy, in the amount of € 109,4 million, against taxes of € 51,8 million already paid in Ireland. Recordati Ireland Ltd. filed its comments and observations on the findings reported in the above mentioned Tax Audits Reports within the legal deadlines. During 2018, the Lombardy Regional Directorate of the Italian Revenue Agency, in charge of Recordati S.p.A, reviewed the claims raised in the aforementioned audit report and carried out an in-depth analysis on the relations between Recordati S.p.A and the Irish subsidiary in the tax periods from 2009 to 2015. Following that analysis, the Agency concluded - confirming the soundness of the Company's thesis - that, in the tax periods from 2009 to 2015, the Irish company cannot be deemed a fictitious foreign resident company. However, according to the Agency, part of the profit made by the Irish subsidiary in the aforementioned financial years was attributable to Recordati S.p.A, due to an alleged management support provided by the Italian parent company to the Irish subsidiary. Based on those assumptions, the Agency made a proposal of tax settlement for Ires and Irap purposes with respect to the tax years from 2009 to 2015, wherein it required the payment of further taxes equal to a total of € 21.0 million, over € 4.9 million of interest and € 2.5 million for penalties, which Recordati S.p.A., with a view to avoid litigation, accepted and paid in November 2018. Finally, in relation to the same transactions occurred between Recordati S.p.A. and the Irish subsidiary in the tax periods 2016 and 2017, the Agency made a tax settlement proposal based on the same criteria applied in the previous years and requested payment of additional Ires and Irap - fully covered by existing provisions - for a total amount of € 4,8 million, in addition to € 0,2 million of interest, with no penalties imposed. Recordati S.p.A., again with a view to avoid litigation, accepted and paid the said amounts in June 2019. As from 2018 the same criteria defined by the Agency for the preceding years was applied and set out in a Commercial and Management Service Agreement.

39. RELATED PARTIES

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

Tax credits shown in the consolidated balance sheet at 31 December 2019 include those receivable from the controlling company FIMEI S.p.A. for an amount of € 40.6 million. This amount refers to tax liabilities computed by the parent Recordati S.p.A. based on estimated taxable income and transferred to the controlling company consequent to the participation in a tax consolidation grouping under tax laws in Italy. The amount includes the effect of the so-called "patent box" agreed with the Italian tax authorities in December 2019, for the part related to corporate tax.

During 2018, a majority of the Company's share was acquired by CVC Fund VII through the acquisition of Fimei S.p.A.. As a result, the new ultimate controlling party of the Group is CVC Capital Partners. The previous ultimate controlling party was Fimei S.p.A..

In compliance with the information required by article 38 of legislative decree 127/91, it is hereby specified that the overall compensation of the Directors and Statutory Auditors of the Parent for the performance of their specific functions, including those in other Group companies, during 2019 amount to € 2.6 million and € 0.1 million respectively.

Key management personnel compensation comprised the following.

€ (thousands)	2019	2018
Fixed remuneration	4,690	4,252
Non monetary benefits	57	56
Bonuses and other incentives	2,071	721
Share-based payments	1,390	849
Total	8,208	5,878

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.

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

40. SUBSEQUENT EVENTS

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

In January 2020 the European Commission has granted marketing authorisation for the orphan medicinal product Isturisa® (osilodrostat), indicated for the treatment of endogenous Cushing's syndrome (CS) in adults. The active substance of Isturisa® is osilodrostat, a cortisol synthesis inhibitor. Osilodrostat works by inhibiting 11-beta-hydroxylase, an enzyme responsible for the final step of cortisol biosynthesis in the adrenal gland. Isturisa® will be available as 1-mg, 5-mg and 10-mg film-coated tablets.

In March 2020 the FDA approved Isturisa® (osilodrostat) for the treatment of patients with Cushing's disease for whom pituitary surgery is not an option or has not been curative. Isturisa® is the first and only FDA-approved inhibitor of 11-beta-hydroxylase that has demonstrated normalization of cortisol levels in a significant portion of adult patients with a manageable safety profile, making this a novel treatment option for patients with Cushing's disease.

As from the month of February Italy and all the main countries in which the Group operates are impacted by the epidemiologic emergency due to the COVID-19 virus, declared a pandemic by the OMS in March. To face the emergency, in Italy, and subsequently also in other countries, restrictions to the circulation of people and provisions to support companies' economic activities have been introduced. The Group is implementing all possible measures and initiatives to guarantee the supply of medicines to its patients and the safety of its employees. Given the complex and constantly evolving situation it is not possible to predict possible future impacts at this time.

Except for the above, no significant events occurred subsequent to 31 December 2019.

41. SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2019

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.p.A. Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals	Italy	26,140,644.50	EUR	Line-by-line
INNOVA PHARMA S.p.A. Marketing and sales of pharmaceuticals	Italy	1,920,000.00	EUR	Line-by-line
CASEN RECORDATI S.L. Development, production, marketing and sales of pharmaceuticals	Spain	238,966,000.00	EUR	Line-by-line
BOUCHARA RECORDATI S.A.S. Development, production, marketing and sales of pharmaceuticals	France	4,600,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA Holds pharmaceutical marketing rights in Brazil	Brazil	166.00	BRL	Line-by-line
RECORDATI RARE DISEASES INC. Development, production, marketing and sales of pharmaceuticals	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD Development, production, marketing and sales of pharmaceuticals	Ireland	200,000.00	EUR	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. Development, production, marketing and sales of pharmaceuticals	France	14,000,000.00	EUR	Line-by-line
RECORDATI PHARMA GmbH Marketing and sales of pharmaceuticals	Germany	600,000.00	EUR	Line-by-line
RECORDATI PHARMACEUTICALS LTD Marketing and sales of pharmaceuticals	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. Marketing and sales of pharmaceuticals	Greece	10,050,000.00	EUR	Line-by-line
JABA RECORDATI S.A. Marketing and sales of pharmaceuticals	Portugal	2,000,000.00	EUR	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. Marketing of pharmaceuticals	Portugal	50,000.00	EUR	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. Marketing of pharmaceuticals	Portugal	50,000.00	EUR	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S. Holding company	France	57,000,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES MIDDLE EAST FZ LLC Marketing and sales of pharmaceuticals	United Arab Emirates	100,000.00	AED	Line-by-line
RECORDATI AB Marketing and sales of pharmaceuticals	Sweden	100,000.00	SEK	Line-by-line
RECORDATI RARE DISEASES S.à r.l. Development, production, marketing and sales of pharmaceuticals	France	320,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES UK Limited Marketing and sales of pharmaceuticals	United Kingdom	50,000.00	GBP	Line-by-line
RECORDATI RARE DISEASES GERMANY GmbH Marketing and sales of pharmaceuticals	Germany	25,600.00	EUR	Line-by-line
RECORDATI RARE DISEASES SPAIN S.L. Marketing and sales of pharmaceuticals	Spain	1,775,065.49	EUR	Line-by-line
RECORDATI RARE DISEASES ITALY S.R.L. Marketing and sales of pharmaceuticals	Italy	40,000.00	EUR	Line-by-line
RECORDATI BVBA Marketing and sales of pharmaceuticals	Belgium	18,600.00	EUR	Line-by-line
FIC MEDICAL S.à r.l. Marketing 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, marketing and sales of pharmaceuticals	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o. Marketing and sales of pharmaceuticals	Slovakia	33,193.92	EUR	Line-by-line
RUSFIC LLC Marketing and sales of pharmaceuticals	Russian Federation	3,560,000.00	RUB	Line-by-line
RECOFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. Marketing of pharmaceuticals	Turkey	10,000.00	TRY	Line-by-line
RECORDATI ROMÂNIA S.R.L. Marketing and sales of pharmaceuticals	Romania	5,000,000.00	RON	Line-by-line
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. Development, production, marketing and sales of pharmaceuticals	Turkey	180,000,000.00	TRY	Line-by-line
RECORDATI POLSKA Sp. z o.o. Marketing and sales of pharmaceuticals	Poland	4,500,000.00	PLN	Line-by-line
ACCENT LLC Holds pharmaceutical marketing rights	Russian Federation	20,000.00	RUB	Line-by-line
RECORDATI UKRAINE LLC Marketing of pharmaceuticals	Ukraine	1,031,896.30	UAH	Line-by-line
CASEN RECORDATI PORTUGAL Unipessoal Lda Marketing and sales of pharmaceuticals	Portugal	100,000.00	EUR	Line-by-line
OPALIA PHARMA S.A. Development, production, marketing and sales of pharmaceuticals	Tunisia	9,656,000.00	TND	Line-by-line
OPALIA RECORDATI S.à r.l. Marketing of pharmaceuticals	Tunisia	20,000.00	TND	Line-by-line
RECORDATI RARE DISEASES S.A. DE C.V. Marketing of pharmaceuticals	Mexico	16,250,000.00	MXN	Line-by-line
RECORDATI RARE DISEASES COLOMBIA S.A.S. Marketing of pharmaceuticals	Colombia	150,000,000.00	COP	Line-by-line
ITALCHIMICI S.p.A. Marketing of pharmaceuticals	Italy	7,646,000.00	EUR	Line-by-line
RECORDATI AG Marketing of pharmaceuticals	Switzerland	15,000,000.00	CHF	Line-by-line
PRO FARMA GmbH Marketing of pharmaceuticals	Austria	35,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES CANADA Inc. Marketing of pharmaceuticals	Canada	350,000.00	CAD	Line-by-line
RECORDATI RARE DISEASES JAPAN K.K. ⁽¹⁾ Marketing of pharmaceuticals	Japan	10,000,000.00	JPY	Line-by-line
NATURAL POINT S.r.l. ⁽²⁾ Marketing of pharmaceuticals	Italy	10,400.00	EUR	Line-by-line
RECORDATI RARE DISEASES AUSTRALIA Pty Ltd ⁽¹⁾ Marketing of pharmaceuticals	Australia	200,000.00	AUD	Line-by-line
TONIPHARM S.a.s. ⁽²⁾ Marketing of pharmaceuticals	France	257,700.00	EUR	Line-by-line
RECORDATI BULGARIA Ltd ⁽³⁾ Marketing of pharmaceuticals	Bulgaria	50,000.00	BGN	Line-by-line

(1) Established in 2018

(2) Acquired in 2018

(3) Established in 2019

Consolidated companies	PERCENTAGE OF OWNERSHIP										Total
	Recordati S.p.A. (Parent)	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Casen Recordati S.L.	Recordati Orphan Drugs S.A.S.	Recordati Rare Diseases S.à R.L.	Herbacos Recordati s.r.o.	Recordati İlaç A.Ş.	Opalia Pharma S.A.	Recordati AG	
RECORDATI SK s.r.o.							100.00				100.00
RUSFIC LLC			100.00								100.00
RECOFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş.								100.00			100.00
RECORDATI ROMÂNIA S.R.L.	100.00										100.00
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş.				100.00							100.00
RECORDATI POLSKA Sp. z o.o	100.00										100.00
ACCENT LLC	100.00										100.00
RECORDATI UKRAINE LLC	0.01		99.99								100.00
CASEN RECORDATI PORTUGAL Unipessoal Lda				100.00							100.00
OPALIA PHARMA S.A.	90.00										90.00
OPALIA RECORDATI S.à R.L.			1.00					99.00			100.00
RECORDATI RARE DISEASES S.A. DE C.V.	99.998					0.002					100.00
RECORDATI RARE DISEASES COLOMBIA S.A.S.				100.00							100.00
ITALCHIMICI S.p.A.	100.00										100.00
RECORDATI AG	100.00										100.00
PRO FARMA GmbH									100.00		100.00
RECORDATI RARE DISEASES CANADA Inc.	100.00										100.00
RECORDATI RARE DISEASES JAPAN K.K. ⁽¹⁾						100.00					100.00
NATURAL POINT S.r.l. ⁽²⁾	100.00										100.00
RECORDATI RARE DISEASES AUSTRALIA Pty Ltd ⁽¹⁾						100.00					100.00
TONIPHARM S.a.s. ⁽²⁾	100.00										100.00
RECORDATI BULGARIA Ltd ⁽³⁾	100.00										100.00

(1) Established in 2018

(2) Acquired in 2018

(3) Established in 2019

RECORDATI S.P.A. AND SUBSIDIARIES
ATTACHMENT 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	130,700
Accounting audit	Auditor of Parent Company	Subsidiaries	78,100
Accounting audit	Network of auditor of Parent Company	Subsidiaries	633,679
Due diligence	Auditor of Parent Company	Parent Company	115,349
Tax compliance	Network of auditor of Parent Company	Subsidiaries	18,651
Signature on returns and attestations	Auditor of Parent Company	Parent Company	44,000
Signature on returns and attestations	Network of auditor of Parent Company	Subsidiaries	25,450
Other services	Auditor of Parent Company	Parent Company	70,000

RECORDATI S.P.A. AND SUBSIDIARIES

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

1. The undersigned, Andrea Recordati, in his capacity as the Chief Executive Officer of the Company, and Fritz Squindo, as the Manager responsible for the preparation of the Company's financial statements, pursuant to the provisions of Article 154-bis, clauses 3 and 4, of Legislative Decree no. 58 of 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 Company's consolidated financial statements at and for the year ended 31 December 2019.

2. The undersigned moreover attest that:

2.1 the consolidated financial statements at 31 December 2019:

- have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19 July 2002;
- correspond to the amounts shown in the Company's accounts, books and records; and
- 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 report on operations 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 2020

Signed by
Andrea Recordati
Chief Executive Officer

Signed by
Fritz Squindo
Manager responsible for preparing
the company's financial reports

AUDITORS' REPORT



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 Telefono +39 02 6763.1
 Email it-fmauditaly@kpmg.it
 PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

*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 the Recordati Group (the "group"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of other comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Recordati Group as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

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 "Auditors' 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. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Aosta Bari Bergamo
 Bologna Bolzano Brescia
 Catania Como Firenze Genova
 Lecce Milano Napoli Novara
 Padova Palermo Parma Perugia
 Pescara Roma Torino Treviso
 Trieste Varese Verona

Società per azioni
 Capitale sociale
 Euro 10.345.200,00 i.v.
 Registro Imprese Milano e
 Codice Fiscale N. 00709600159
 R.E.A. Milano N. 512897
 Partita IVA 00709600159
 VAT number IT00709600159
 Sede legale: Via Vittor Pisani, 25
 20124 Milano MI ITALIA



Recordati Group
Independent auditors' report
31 December 2019

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. 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.

Measurement of goodwill

Notes to the consolidated financial statements: paragraphs 2 "Summary of significant accounting policies" and 9 "Goodwill"

Key audit matter	Audit procedures addressing the key audit matter
<p>The consolidated financial statements at 31 December 2019 include goodwill of €578.0 million, mainly arising from the significant acquisitions carried out in previous years.</p> <p>Annually or more frequently, if necessary, the directors check the recoverable amount of the goodwill by comparing its carrying amount to its value in use, calculated using a method that discounts expected cash flows.</p> <p>The key assumptions used to calculate value in use relate to the operating cash flows' forecasts over the calculation period and the discount and growth rates of those flows.</p> <p>The directors have forecast the operating cash flows for the explicit projection period (2020-2022) used for impairment testing on the basis of the 2020 budget approved by the parent's board of directors on 19 December 2019 and of the specific forecasts for 2021 and 2022, which were approved by the parent's board of directors on 18 March 2020.</p> <p>Considering the materiality of the caption and that impairment testing entails a high level of judgement by the directors, especially forecasting the operating cash flows, which takes into account the general economic performance and that of group's sector, the recoverability of goodwill was a key audit matter.</p>	<p>Our audit procedures, which also involved our own valuation specialists, included:</p> <ul style="list-style-type: none"> — understanding the process adopted to prepare the impairment test approved by the parent's board of directors; — understanding the process adopted to prepare the 2020-2022 business plan from which the expected cash flows used for impairment testing have been derived; — checking any discrepancies between the previous year business plans' figures and actual figures, in order to check the accuracy of the estimation process adopted by the directors; — analysing the reasonableness of the assumptions used by the directors to determine the recoverable amount of goodwill, including the operating cash flows of the 2020-2022 plan used by the parent. Our analyses included comparing the key assumptions used to the historical data and external information, where available; — analysing the reasonableness of the assumptions underlying the valuation model used by the parent to calculate the recoverable amount of goodwill; — assessing the appropriateness of the disclosures provided in the notes.



Recordati Group
Independent auditors' report
31 December 2019

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian 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 for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' 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 auditors' 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 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 the 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 ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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;
- obtain 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the 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



Recordati Group
 Independent auditors' report
 31 December 2019

uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

- evaluate 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;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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 communicate with those charged with governance, identified at the appropriate level 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 also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other 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 determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in this report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 13 April 2011, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2011 to 31 December 2019.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.



Recordati Group
 Independent auditors' report
 31 December 2019

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Recordati Industria Chimica e Farmaceutica S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 7 April 2020

KPMG S.p.A.

(signed on the original)

Claudio Mariani
 Director of Audit

RECORDATI S.P.A. AND SUBSIDIARIES

DISCLOSURE OF CONSOLIDATED NON-FINANCIAL STATEMENT 2019

PREPARED PURSUANT TO ARTICLE 4
OF ITALIAN LEGISLATIVE DECREE NO. 254/2016

114	Note on methodology
116	1 Profile of the Recordati Group
	1.1. The Recordati Group
	1.2. The Organisational and Management Model
	1.3. Internal Audit and Risk Management System
122	2. The Recordati Group's approach to Sustainability
	2.1. Sustainability in figures
	2.2. The Recordati Group's commitment to Sustainability
	2.3. The Recordati Group's Stakeholders
	2.4. Materiality analysis
	2.5. Direct and indirect economic benefits
129	3. Product quality and safety
	3.1. Research & Development and Intellectual Property
	3.2. Supply chain
	3.3. Audits and inspections
	3.4. Product serialisation
133	4. The Recordati Group's Employees
	4.1. The importance of our employees
	4.2. Diversity and equal opportunities
	4.3. Employee welfare
	4.4. Training and development of human capital
	4.5. Health and safety in the workplace
148	5. Focus on the Environment
	5.1. Commitment to environmental protection
	5.2. Energy use and emissions
	5.3. Management of water resources
	5.4. Waste management
159	GRI Index

NOTE ON METHODOLOGY

In recent years, the Recordati Group (hereinafter also "Recordati" or the "Group") has decided to take 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 2019 the Group's commitment to sustainability was reiterated with the preparation of the third 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 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 2019 with respect to the matters expressly specified by Italian Legislative Decree no. 254/16 (environmental, social, staff, 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 2019 Annual Report and the Corporate Governance and Share Ownership Report.

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 2019 (reporting period: 1 January to 31 December 2019).

The Non-Financial Statement 2019 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 table of GRI reporting indicators is attached for reference in the annex of this document. The report was prepared based on the results of the materiality analysis conducted in 2017, also deemed valid and consistent with the characteristics of the Group's business for the Non-Financial Statement 2019 and validated by the Risk and Sustainability Control Committee on 10 December 2019. This analysis 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 2019 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 2019, consolidated with the comprehensive approach in the Group's Consolidated Financial Statement¹. However, while ensuring the correct understanding of the company's business, it should be noted that:

- in line with the 2017 and 2018 accounts, the scope of information and data regarding environmental aspects (e.g. energy consumption, emissions, water consumption and waste) refer exclusively to the Group's production plants since such aspects are not deemed significant at other sites (with the exception of the Milan plant, for which energy consumption and related emissions from the offices at the site were also considered);
- in line with the 2018 report, the scope of information relative to health and safety and the principle accident indicators includes employees of the following production plants: Italy - Campoverde di Aprilia (Recordati S.p.A.), Ireland (Recordati Ireland Ltd), Czech Republic (Herbacos Recordati S.R.O.), Turkey (Recordati İLAÇ ve Hammaddeleri Sanayi ve Ticaret A.S.) and France - Nanterre (Recordati Rare Diseases S.A.R.L.); while for the following sites in Italy - Milan (Recordati S.p.A. and Innova Pharma S.p.A.), Spain (Casen Recordati S.L.), Tunisia (Opalia Pharma) and France - Bouchara (Laboratoires Bouchara Recordati S.a.s.) both office, plant and commercial staff are included. In this regard, the Group's willingness to gradually extend the reporting system of such data over the next few years to the workforce at all of the Group's offices and commercial sites is confirmed.

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 text. 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.

¹ The scope of the 2019 data also comprises the French company Tonipharm S.A.S, acquired at the end of 2018 and consolidated as of the start of the 2019 reporting period and the new company Recordati Bulgaria LTD set up in 2019. It should also be noted that Orphan Europe Switzerland GmbH was liquidated in 2019.

For more information regarding significant changes to the scope and share ownership of the Group during the reporting period, reference should be made to the *"Issuer Profile and General Information"* and *"Share ownership information"* sections of the *Corporate Governance and Share Ownership Report of the Recordati Group as of 31 December 2019*.

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 16 March 2020 and was approved by the Board of Directors of Recordati S.p.A. on 18 March 2020. 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 *"Report of the Independent Auditing Company"*.

Finally, it should be noted that in the context of continuous improvement, the Group has confirmed its commitment to a sustainability approach implemented through a progressive formalisation of its commitments and operating practices in line with the principles of the Code of Ethics adopted by the Group and Italian Legislative Decree no. 254/16.

In this regard, following the change in share ownership of the Group in 2018, Recordati S.p.A., embarked on a process in 2019 to update and progressively strengthen the Group's Code of Ethics with specific reference to the principles, commitments and management methods implemented by it as regards the main material sustainability topics for Recordati, and also with reference to the topics expressly referred to by Italian Legislative Decree no. 254/16. The Company expects to complete this update in the first half of 2020 with the finalization of the new Group Code of Ethics and the related communication and disclosure to all recipients of the document.

Finally, in 2019 the Recordati group started some preliminary activities for the development and formalization of a Sustainability Plan so as to define and promote a long-term sustainability strategy, based on macro-objectives and possible targets to be achieved with respect to the main material aspects for Recordati.

Contacts

For all information regarding the Non-Financial Statement of the Recordati Group, please refer to the following contacts:

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1. PROFILE OF THE RECORDATI GROUP

1.1. THE RECORDATI GROUP

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 principle reference market remains the European Market, which has been shown to be the second largest pharmaceutical market in the world, Recordati sells its products on over 150 markets, including through various licensing agreements, and markets pharmaceutical products under licence from primary pharmaceutical companies.

Recordati has six pharmaceutical manufacturing 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. Furthermore, thanks to licensing agreements with leading pharmaceutical companies Recordati products are distributed in more than 100 countries. 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 origin 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.

As of 1 January 2019 the Recordati group consolidated the profit and loss of the French company Tonipharm S.A.S., acquired at the end of 2018, present mainly in the over-the-counter self-medication LAR market and acquired the worldwide rights to Signifor® and Signifor® LAR, drugs for the treatment of Cushing's disease and acromegaly in adult patients for whom surgery is not indicated or has not been successful.

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.

1.2. THE ORGANISATIONAL, MANAGEMENT AND CONTROL MODELS

The main sustainability topics are regulated within the Organisational, Management and Control Model 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

In 2019, the company Natural Point S.r.l., acquired by Recordati in June 2018, adopted its own Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001. In addition, on 12 November, 2019, Natural Point S.r.l. appointed a Supervisory Board of collegiate composition. Following the adoption of the Model, all Natural Point employees underwent a specific training session.

In the second half of 2019, the parent company Recordati S.p.A. launched an update of its Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001 in order to bring it up to date with recent legislation on incitement to corruption between private individuals, trafficking in illicit influences, illegal intermediation and labour exploitation, employment of illegally resident third-country nationals, as well as the management of whistleblowing reports.

With regard to 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 Organic Law 2015/1 of 30 March 2015, is continuing the activities provided for in the Model through the action of its Supervisory Board. In 2019, activity focused on training the workforce on anti-bribery.

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 the Organizational Models (Italian and foreign) provide for dedicated channels for reporting irregularities or breaches by employees and regular staff training on the contents of the Models and the reference standards.

The Supervisory Bodies, appointed in the Group Companies, are collegiate and 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 activities plan. The Supervisory Bodies have their own expenditure budget and periodically refer to the Board of Directors and the Board of Statutory Auditors, where present. The 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., Italmichimi S.p.A. and Recordati Rare Diseases Italia S.r.l. submit their medical and scientific information and relationship management protocols, 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 2019, the aforementioned Companies were audited by Certiquality, which renewed and confirmed the Farmindustria Certification attesting the 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 "Internal Control and Risk Management System" of the Corporate Governance and Share Ownership Report.

The systematic approach of the Organisational, Management and Control Models pursuant to Legislative Decree no. 231/2001 is reinforced through 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 processing, the Recordati Group has adopted the new 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, in each European subsidiary, a Key Privacy Person 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. In 2019, the Recordati group obtained its own IT tool for the management of personal data and GDPR compliance. Training on GDPR and the Personal Data Management Model was provided in the branches in Spain (March 2019) and Ireland (May 2019) and in all Italian branches (December 2019). Overall, about 580 employees were trained in GDPR. Specific training on GDPR was also provided to the Key Privacy Persons in all the Group's European subsidiaries in November 2019. In 2019, the Turkish subsidiary Recordati Ilac implemented and put into operation its Personal Data Management Model pursuant to current legislation (KVKK Law No. 6698).

In 2019, the Parent Company continued to provide the training programme on Cyber-risks launched in 2018. During the year training sessions were provided in the subsidiaries in Spain, Russia, Portugal, Germany, Switzerland, CIS countries and in the subsidiaries of Recordati Rare Diseases, involving a total of around 1,000 employees.

The Recordati Group Code of Ethics

The Code of Ethics, adopted by all Group companies, is the practical and clear representation of the company's values, among which: integrity, product quality and safety, protection of employees, focus on the environment and sustainability.

The Code of Ethics also provides the rules of conduct for all recipients of the Code, particularly with regard to the subject of the prevention of active and passive corruption. On this issue, the Group has also adopted an Anti-Bribery Model that applies to all Group Companies and envisages the periodic assessment of the status of internal controls in compliance with the main international and national anti-bribery regulations in the countries in which the Group has an active presence. Such tools represent the firm commitment of the Group to conduct its business in line with the principles of transparency, honesty and ethics in all of the countries in which it operates, and to refuse all forms of corruption, demonstrating its awareness of the potential risks relating to the various relations with the Public Administration typical in the business areas in which the Group operates.

Distribution and diffusion of the Code of Ethics is carried out directly by the Parent Company to all the Group companies.

In 2019, following the extensive distribution of the Code of Ethics in 2018, distribution to the Group's remaining foreign branches was also completed. In addition, Recordati provided training to its employees: in 2019 training was provided to the Group's Italian companies on the Code of Ethics and on the Organizational Model pursuant to Italian Legislative Decree no. 231/2001 to 376 employees.

As well as Group employees, all providers and commercial partners of Recordati Group are required to comply with the Code of Ethics to the extent it applies to them, through:

- the supplier approval process, which requires all new suppliers to accept the Code of Ethics during the selection phase. This process is an integral part of the ATTITUDE project concerning the implementation of a new procurement management policy, currently in force in Italy and expected to be extended to all Group Companies by 2021;
- the presence in contracts with the Group's commercial partners of a specific clause regarding compliance with the Code of Ethics. The process of integrating this clause into existing contracts which started in 2015 in the larger Group companies, has been extended to all Group companies and is still ongoing.

At the date of publication of this document a revision of Recordati Group's Code of Ethics is in progress with the support of a leading consulting firm. Without prejudice to the principles set forth in the Recordati Group's current Code of Ethics, the document will be revised with a view to improving its legibility and usability and will be updated with additional conduct guidelines, also in compliance with the main material sustainability guidelines of Recordati.

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 refuse all forms of corruption. To this end, since 2009 the Group has conducted an assessment on its internal controls in line with international and national Anti-Bribery legislation in the countries where the Group has branches and has developed a Group Anti-Bribery programme and Handbook 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.

In 2019, the Group Anti-Bribery Manual was revised and enriched with new areas of attention, new examples of potential corruption risks and related behavioural guidelines.

The new 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.

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.

In 2019, the Manual was again distributed to Recordati's subsidiaries in Spain, France, Russia, CIS (Commonwealth of Independent States), Ireland and Germany, at the same time providing Anti-Bribery training sessions.

In 2020, distribution of the updated Anti-Bribery Manual will continue in the remaining subsidiaries of the Group, together with the provision of Anti-Bribery training sessions.

In addition, so as to improve communication, coordination and control activities between the Parent Company and the various branches, in 2019 the existing information flows on anti-corruption and anti-terrorism were improved and made fully operational, allowing, through dedicated channels, the interception and management of potential risk situations.

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 was designed and implemented in 2019. This tool, based on business intelligence systems, will make it possible to continuously monitor anomalous accounting transactions in mass and to plan audits with greater precision and accuracy. The continuous monitoring tool was released in December 2019 and is currently in use.

In terms of communication and training on the matter of anti-corruption and the contents of the Group's Anti-Bribery Manual, in 2019 all members of the Board of Directors of Recordati S.p.A. were informed of the policies and procedures adopted via the periodic report from the Group's Internal Audit and Compliance Manager. Furthermore, in 2019 dedicated anti-corruption training was given to 1303 employees, 376 of whom in Italian branches with the remaining 927 located in the Group's foreign subsidiaries.

As regards the channels for reporting breaches and anomalies of laws and internal procedures, the Company has for some time now 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 system².

In 2019, the existing whistleblowing channels were strengthened with the implementation of dedicated web portals and hotlines. In August 2019, in France, and in December 2019, for all of the Group's Italian companies, web portals and hotlines for whistleblowing were implemented and are now operational in addition to the one already operational at the Group's US subsidiary. 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 further information regarding the fight against corruption are described in more detail in the "Internal Control and Risk Management System" section of the Corporate Governance and Ownership Structure Report.

In 2019 no cases of corruption were recorded.

With regard to internal compliance and anti-corruption resources, in 2019 the Parent Company strengthened its Corporate Internal Audit & Compliance department by hiring, in September 2019, a Compliance Officer to coordinate compliance activities in foreign branches. In addition to Corporate resources, a Compliance Officer for the Rare Diseases business was hired at the Paris office in April 2019 to cover the compliance activities of Recordati Rare Diseases' branches in the EMEA region (Belgium, France, Germany, Austria, Switzerland, Greece, Italy, Middle East and North Africa, Spain and England).

In 2020, the Audit & Compliance department will be further strengthened by hiring a Compliance Officer in the Turkish branch and a Compliance Officer for the Russia and CIS countries, as well as a new internal auditor for verification and inspection activities on the functioning of the Internal Audit System.

1.3. THE 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 Catalogue of company risks, the System enables the 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 "Principle Risks and Uncertainties" section of the Annual Report and the "Internal Audit and Risk Management System" section of the Corporate Governance and Share Ownership Report, 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, risks related to 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.

In particular, in 2019, the Risk Catalogue was updated and submitted to the Board of Directors on four occasions: at the new Board of Directors' meeting, in February 2019, at the time of the approval of the three-year Business Plan, in May 2019, at the same time as an acquisition transaction, in July 2019, and for the annual update of the Catalogue, in December 2019.

During the updating of the 2019 risk catalogue, a benchmarking activity was carried out with the risks disclosed by the main pharmaceutical companies operating on the Italian and foreign markets. This comparison showed the substantial alignment of the types of risk mapped by the Recordati group with those published by the other leading companies examined.

² 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".

The Board of Directors, including on the basis of this review, that the level and nature of the risks identified by the Group Risk Catalogue, presented to the Board at the meeting of 19 December 2019, are compatible with the Group's strategic objectives.

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, risks in the HSE- Health, Safety and Environment area, 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, with legislation pertaining to the drug scientific information).
- Product responsibility (e.g. product recalls, 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 an internal audit plan 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 confront these risks, the Human Resources Department constantly monitors the size of the workforce within the various departments 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 the risk of being unable to source adequate commercial *partners* and the lack of control of 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, which allows the organic collection of relevant documentation such as certificates and declarations, further reduces the risk of partnerships with suppliers with unsuitable technical profiles, ethics and conduct.
- Compliance: within the scope of the compliance area, these include, as well as risks of committing offences against the Public Administration, risks related to non-compliance with international quality standards and legislation regulating the scientific information of the drug. 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*. As regards the 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 (as indeed the risk of demands for compensation as a result of side effects caused by its 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 2019 the Group directed its attention not only towards concrete actions to reduce environmental impact but also towards the more general theme of climate change. The Group is aware of the fact that climate change can determine various types of risks, e.g. financial risks (due to the increase in the cost of energy), operational risks (due to the increase in extreme phenomena such as drought or flooding in the territories in which the Group operates), health risks (due to the worsening of atmospheric pollution) and finally reputational risks (due to the growing sensitivity of stakeholders and the communities in the territories in which the Group operates). In this risk context the Group's intention is to put in place policies aimed at optimizing environmental impact and the appreciation of the territories in which it operates without losing the efficiency of its resources.

In 2019, the Group has therefore participated in the CDP (Carbon Disclosure Project) program demonstrating its awareness regarding climate change and setting the stage for further proposals for improvement. In 2020 climate change themes will be the object of further reflection and actions by the Group, including the definition of a risk category dedicated to climate change within its catalogue of business risks and, therefore, subject to specific assessment.

This information is described in more detail in the “*Focus on the Environment*”, “*The Recordati Group's Employees*” and “*The Supply Chain*” sections of the Non-Financial Statement and the “*Health, Safety and the Environment*” section of the Annual Report 2019. For a more detailed description of the management system of company risks, including the aforementioned non-financial risks, as well as the relative management methods, please refer to the “*Principle Risks and Uncertainties*” section of the Annual Report.

2. THE RECORDATI GROUP'S APPROACH TO SUSTAINABILITY

2.1. SUSTAINABILITY IN FIGURES

MORE THAN € 1.2 BILLION

of economic value generated and distributed by the Group in 2019

APPROXIMATELY € 3 MILLION DISBURSED

in donations and contributions in 2019³

166 AUDITS

carried out on suppliers to ensure product quality and security

45%

of the Group's workforce represented by women

93.5%

of employees hired on permanent contracts

MORE THAN 110,000 HOURS

of total training provided to employees in 2019

- 11%

reduction in water consumption at production facilities compared to 2018

APPROXIMATELY 32%

of electricity purchased is obtained from renewable sources and certified by Guarantees of Origin⁴

APPROXIMATELY -6%

tons of CO₂ emitted (Scope 2 Location based) by the Group's production plants in 2019

2.2. THE RECORDATI GROUP'S COMMITMENT TO SUSTAINABILITY

As noted by the Chief Executive Officer in the Letter to Shareholders of the Annual Report, in 2019 the Recordati Group launched various initiatives regarding sustainability, in line with its strategic, organisational and operational characteristics. 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 consider the interests of all stakeholders, taking into account the economic, social and environmental impacts of our work. Recordati's success as a pharmaceutical firm has brought, and must continue to bring, advantages both to patients and all those who collaborate with the Group: employees, clients, consumers, patients, associations, investors and the financial community, suppliers and strategic partners.

In order to transform the values and principles of sustainability into operational decisions and managerial activities, the internal engagement initiative launched in 2017 has been continued, aiming to:

- identify key stakeholders with whom to establish a positive dialogue and collaboration;
- identify and assess significant issues of economic, environmental and social sustainability relating to the Group's activities and its stakeholders;
- share the values, mission and processes involved in order to develop sustainability reporting procedures.

2.3. THE RECORDATI GROUP'S STAKEHOLDERS

Integrating corporate responsibility into a business approach means focusing on creating value for all relevant parties 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 corporate role relates to company activities, with the aim of identifying their expectations and setting significant targets to be achieved.

³ In 2019, as well as € 1.64 million disbursed in donations and contributions to foundations, associations, non-profit organisations and medical institutions, the Group also paid out approximately € 1.3 million of the amount allocated in 2017 to the "V. Buzzi" Children's Hospital in Milan.

⁴ Electricity produced from renewable sources, purchased for the Milan plants and for the Campoverde plant in Aprilia, certified by Guarantees of Origin.

THE RECORDATI GROUP'S STAKEHOLDERS



In order to increase the engagement of all of our stakeholders in their activities, optimising their roles and potential and in order to monitor the possible direct and indirect impacts of the Group's activities on the relevant parties, the Recordati Group has launched a number of stakeholder engagement initiatives, including:

- 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.

Furthermore, a function dedicated to the management of the relationship with the company's shareholders at the head of the Investor Relations area was identified. This function, within the company organization, manages relations with financial analysts and institutional investors and organises periodic meetings focused on providing economic and financial information.

Furthermore, given the strictly regulated nature of the pharmaceutical sector, industrial 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 2019, the Recordati Group collaborated with 70 industry associations located throughout its global business network, ensuring a constant and continuous flow of information.

INVOLVEMENT OF THE LOCAL COMMUNITY - EXTERNAL EMERGENCY PLAN

On Saturday 1 February 2020, a public meeting was held at Campoverde in 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 on the occasion of the publication on the website of the Prefecture of Latina of the new Recordati EEP pursuant to Italian Legislative Decree 105/15.

The meeting was a moment of constructive dialogue with the public and an opportunity to present to the public a summary of the prevention and protection activities carried out inside the Recordati plant so as to reduce the risks from major accidents. During the meeting, also attended by the Aprilia Municipal Councillor for Production Activities and the Plant Manager, the draft Emergency Plan was illustrated with the possible accident events studied in the latest Plant Safety Report and the actions to be followed by the population in case of emergency. All the information will be distributed in an information leaflet, prepared by Recordati, which will be sent to the entire population of Campoverde by the Municipality of Aprilia via the Civil Protection Department. The meeting ended positively with the promise of a further meeting on the occasion of the formalisation of the final EEP.

THE RECORDATI GROUP'S INDUSTRIAL ASSOCIATIONS, 2019

ITALY

- Pharmaceutical Industry
- Confindustria Medical Devices
- EFPIA
- ASSONIME

FRANCE

- LEEM (Les Entreprises du Médicament)
- AFIPA (Association Française de l'Industrie Pharmaceutique pour l'Automédication)
- CIP (Club Inter Pharmaceutique)
- Club Léonard de Vinci
- CRIP (Cercle de réflexion de l'industrie pharmaceutique)

BELGIO

- Pharma.be (General national association of the pharmaceutical industry)

GERMANY

- BAH - Bundesverband der Arzneimittel-Hersteller e.V.
- AGV Chemie - Arbeitgeberverband der Chemischen Industrie
- HK 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)

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

SPAGNA

- Farmaindustria
- Anefp (National Association of OTC products)
- AINFA

IRELAND

- Bio Pharmacemical 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)

PORTUGAL

- APIFARMA - Portuguese Pharmaceutical Association
- GROQUIFAR

POLAND

- Commercial Chamber "Farmacja Polska"

CZECH REPUBLIC

- SARAP - Slovenská asociácia spoločností v oblasti liekovej regulácie
- CASP - česká asociace pro speciální potraviny

RUSSIA

- GIM - Unimpresa

UKRAINE

- EBA - European Business Association

TURKEY

- Pharmaceutical Manufacturers Association of Turkey
- ICC - The İstanbul 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

GRECIA

- SFEE - Member of Hellenic association of Pharmaceutical Companies

TUNISIA

- CNIP - The National Chamber of Pharmaceutical Industry
- The Council of the Pharmacists Association

UNITED KINGDOM

- ABPI - Association of the British Pharmaceutical Industry

UNITED STATES

- American Association of Pharmaceutical Scientists
- American Chemical Society
- 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

DENMARK

- ENLI - Ethical Committee for the pharmaceutical industry

KAZAKHSTAN

- AIPM - Association of International Pharmaceutical Manufacturers in Kazakhstan

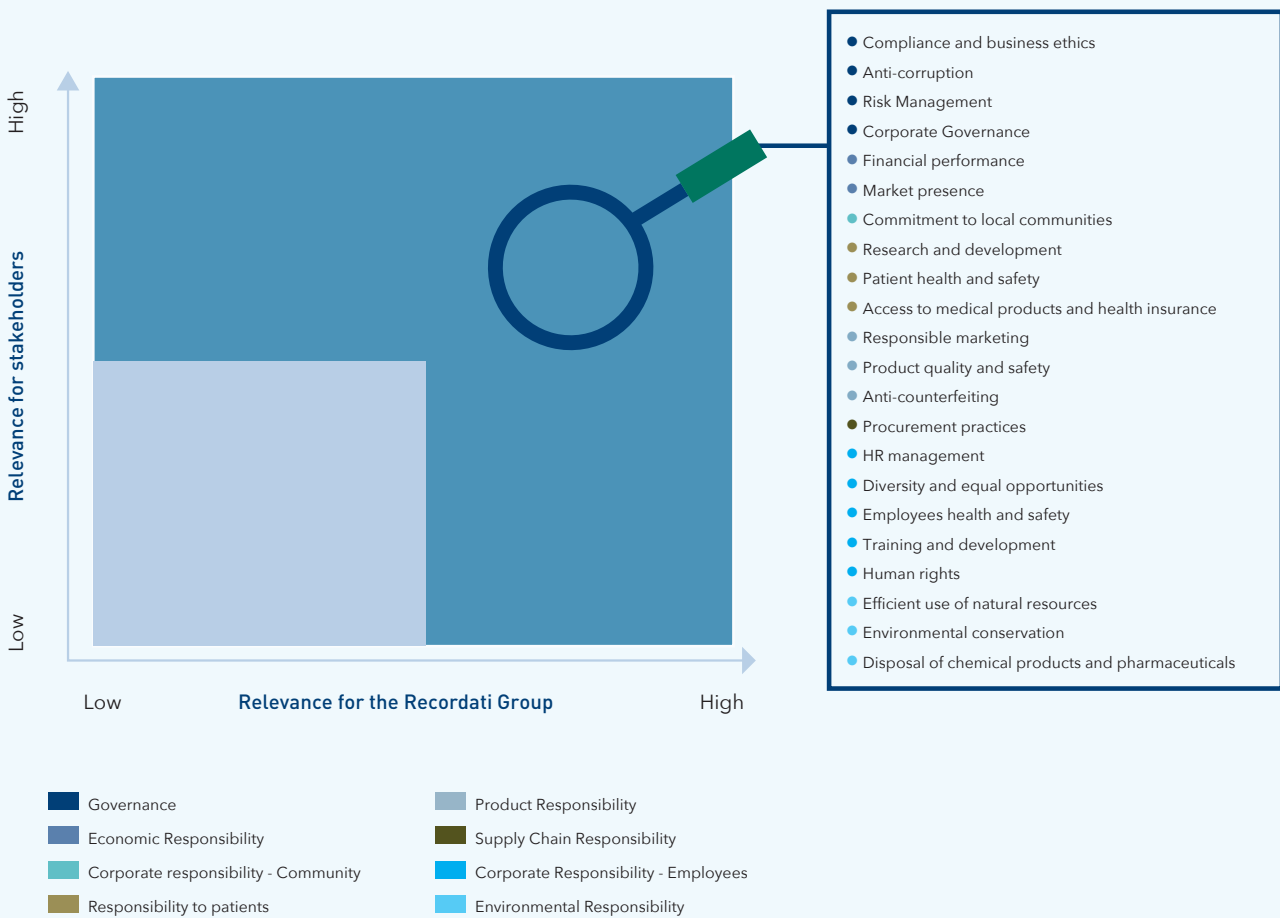
2.4. MATERIALITY ANALYSIS

In order to identify the main sustainability issues that relate to its business, in 2017 the Recordati Group launched an internal stakeholder engagement initiative in collaboration with senior management. The initiative promoted the discussion and debate of a range of economic, social, environmental, governance and product issues deemed significant for the industry and specifically required by Italian Legislative Decree, no. 254/2016. Given the continuity of the Group's business, the materiality analysis and the relative

results obtained were deemed valid for 2019 and consistent with the indications of the reporting standards and macro trends observed in the sector.

The materiality index represents the 22 issues selected according to their economic, social and environmental relevance both for the Recordati Group and for the relevant stakeholders.

THE RECORDATI GROUP'S MATERIALITY INDEX



The 22 topics highlighted by the materiality analysis are covered in this Statement in line with the reporting standards and the provisions of Italian Legislative Decree no. 254/2016.

It is noted that the issue of human rights, one of the significant themes highlighted by the materiality analysis, is expressed by the Group through its management of relations with employees, collaborators and supply chain operators in a manner that respects the principles and values of the

Group's Code of Ethics. In fact, the Group is committed to respecting basic human rights in accordance with the Conventions of the International Labour Organisation in all of the countries in which it operates. For more detail on the policies adopted relative to this topic, please refer to the relevant sections (e.g. "Supply chain", "Diversity and equal opportunities", "Health and safety in the workplace") of the Non-Financial Statement.

2.5. DIRECT AND INDIRECT ECONOMIC BENEFITS

During 2019, the activities of the Recordati Group in the field of the research and sale of medicines represented an important profitability factor for the Group and generated various economic advantages, including direct benefits for stakeholders through the distributed economic value as well as indirect benefits for the various associations or third-party organisations which receive donations and contributions from the Group.

Economic value generated and distributed by the Group

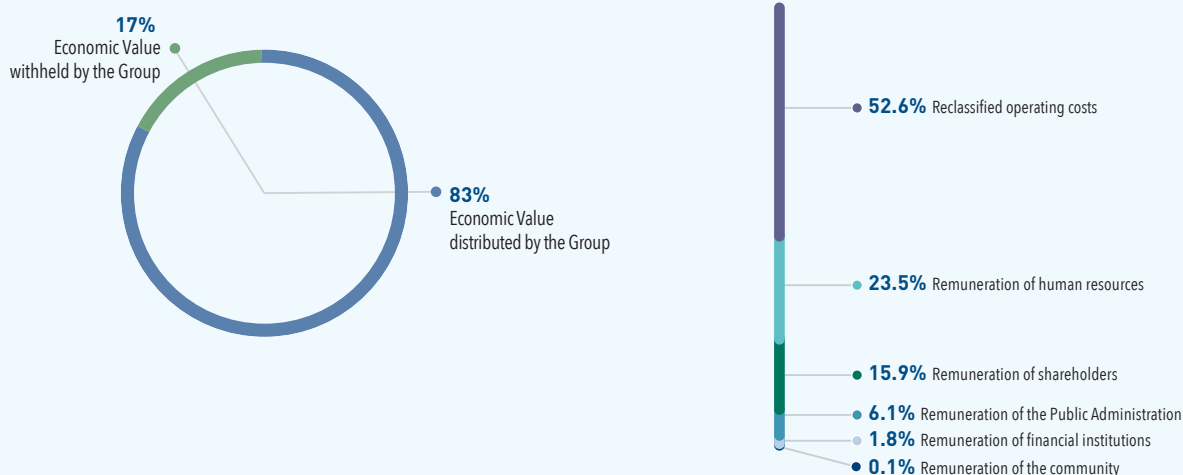
The Economic Value represents the wealth generated by the Recordati Group which is then distributed in various forms to stakeholders. Data regarding the creation and distribution of the economic value provides a basic indication of how the Group has generated wealth for its stakeholders, highlighting the economic benefits produced by the Group's entrepreneurial management which are directly shared with the main categories of stakeholders with whom the Group interacts and maintains medium to long-term relations: suppliers (reclassified operating costs), human resources (remuneration of human resources; staff costs); shareholders (remuneration of shareholders: profit distribution), financial institutions (remuneration of financial institutions:

financial charges) and the Public Administration (remuneration of Public Administration: taxes and duties) and local communities, patients and associations (donations).

In 2019, of the € 1,483 million of Economic Value generated by the Recordati Group, approximately 83% (equal to € 1,230.3 million) was distributed as follows:

- reclassified operating costs of € 647.2 million, represented predominantly by the costs of raw materials, consumables and services;
- remuneration of human resources for a total of € 289.1 million, represented predominantly by the salaries and wages of Group personnel;
- remuneration of shareholders for a total of € 194.8 million, attributable to the distribution of dividends to shareholders⁵;
- remuneration of the Public Administration, in the form of taxes, for € 75.3 million;
- remuneration of financial institutions for € 22.3 million, primarily formed of borrowing costs;
- community donations allocated and disbursed during the year, sponsorships and community contributions, for € 1.6 million.

DISTRIBUTION OF THE ECONOMIC VALUE GENERATED AND DISTRIBUTED BY THE RECORDATI GROUP IN 2019⁶



⁵ The value of the dividends distributed to shareholders refers to the balance for the 2018 financial year resolved in April 2019 for € 96.1 million, and the account for the 2019 financial year resolved in November 2019 for € 98.7 million.

⁶ The distribution 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".

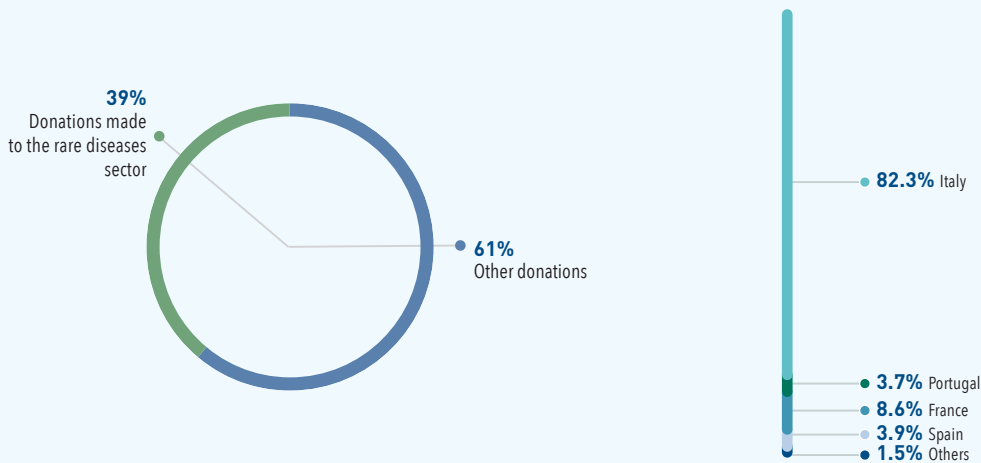
Donations and contributions

Our commitment to providing support to patients is an intrinsic value of the Recordati Group and is evidenced in the development of social projects and initiatives to support organisations operating in the field of health and medication. These include activities implemented by the Group each year to support the numerous associations that focus on the treatment of diseases and improving the quality of life of patients and their families, and research projects and initiatives by supporting social and cultural institutions which carry out their work diligently and passionately every day. In 2019, the Recordati Group disbursed, in addition to € 1.64 million in donations and contributions to foundations, associations, non-profit organisations and medical institutions,

approximately 1.3 million of the amount previously allocated to the "V. Buzzi" Children's Hospital in Milan, thus paying out a total of approximately € 3 million. The funds disbursed in 2019 to the "V. Buzzi" Children's Hospital in Milan are part of the amount allocated in 2017, equating to a total donation of approximately € 1.9 million in two years.

39% of the total donations was allocated to activities aimed at the treatment of rare diseases while the remaining 61% refers to contributions and donations awarded to social and cultural organisations and institutions in various countries: Italy (82.3%), Portugal (3.7%), France (8.6%), Spain (3.9%) and other⁷ countries (1.5%).

SUBDIVISION OF DONATIONS AND CONTRIBUTIONS ALLOCATED BY THE RECORDATI GROUP IN 2019



“V. BUZZI” CHILDREN'S HOSPITAL IN MILAN

Thanks to works entirely financed and directed by Recordati, in November 2019 the Vittore Buzzi Children's Hospital in Milan opened a new Paediatric Ward and renovated the Paediatric Neurology Outpatient Clinic area with rooms specially designed to be child-friendly, also in terms of colours and furnishings.

The operation, strongly supported by Recordati, involved a disbursement of approximately € 1.9 million and was dedicated to the memory of Giovanni Recordati who, before dying prematurely in 2016, guided the Group's expansion and led the way in the development of the sector dedicated to treatments for rare diseases.

Thanks to the new arrangement, the Paediatric and Paediatric Neurology departments have expanded and differentiated the treatment options for children with acute and chronic developmental neurological diseases. Specifically, the Paediatrics Multiple Operating Unit (UOC), with the opening of the new Single Operating Unit (UOS) Paediatric Ward has 18 new beds, bringing the total number of beds for ordinary hospitalisation up to 38. It will be better able to respond to the growing demand for emergency hospitalization and to implement care and treatment pathways, in scheduled hospitalization regime, for children suffering from chronic/complex disorders who need specialized or ultra-specialized and multidisciplinary assistance.

The introduction of two Paediatric Neurology inpatient beds at the new Single Operating Unit (UOS) of the Paediatric Ward and a dedicated area set up in this area with state-of-the-art equipment, will make it possible to treat the main acute and chronic neurological, paediatric disease: infantile and adolescent epilepsies - with particular focus on those which are drug-resistant, rare and genetic, epileptic encephalopathies - in an integrated manner and in a familiar and humanized atmosphere.

Thanks to Recordati's support, Buzzi Paediatric Neurology will be able to offer its young patients full-circle treatment options with traditional drugs and treatments, alternative drugs, and new drugs thanks to the various clinical trials in progress, confirming its position as Lombardy's reference point for rare neurological diseases.

⁷ The other countries category includes the donations in Tunisia (0.7%), Turchia (0.4%), Germany (0.4%) and Poland (0.03%).

Social initiatives and activities

As well as monetary donations, the Recordati Group provides a constant and significant contribution in the countries where its Companies are located by developing and implementing social and community initiatives, events and projects aimed at vulnerable groups, foreigners, people with disabilities and, more generally, people experiencing any kind of disadvantaged or difficult situation. The type of contribution offered depends on the people to whom it is directed and the characteristics of the association in question. In particular, the following initiatives are worthy of note:

- the contribution, in the form of material goods or hours of work, as in Ireland, the donation of food and clothing to the homeless;

- direct support of Recordati's personnel in the organization and management of social activities: this is the case in Ireland of participation in cleaning initiatives of the urban green area. In fact, in the Irish plant in Cork the company has participated in the Ringaskiddy community project for the protection of pollinators in the area and participates annually within the community in the "Earth Day Clean up" initiatives;
- the assignment of corporate services to institutions for the disabled: this is the case in Germany of Donau-Iller-Werkstätten (which is entrusted with a fleet management support service).

THE RECORDATI GROUP'S COMMITMENT TO IMPROVING ACCESS TO MEDICAL PRODUCTS AND HEALTH INSURANCE

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 which have a great impact on patients, their families and on society. A disease is defined as rare when its prevalence, understood as the number of cases in a given population, does not exceed a predefined threshold; in Europe this is 0.05% of the population, or 5 cases per 10,000 people. In order to treat these diseases, specialist medical products known as "orphan drugs" are developed.

Recordati Rare Diseases, the Group company operating in the rare diseases sector, shares the principle that every person affected by a rare disease has the right to the best treatment possible. For this reason, among the activities carried out by Recordati Rare Diseases is the support for patient associations for people affected by rare diseases, which help patients and their families by facilitating access to orphan drugs and treatment centres. Furthermore, Recordati's orphan drug specialists (ODS) actively collaborate with the medical community to facilitate dialogue between hospitals with limited expertise of rare diseases and specialist medical centres able to diagnose and treat rare conditions in an appropriate manner.

The US Company Recordati Rare Diseases Inc. has developed two separate programmes to provide assistance to patients eligible for financial support for their products: the Patient Assistance Program (PAP), valid for all products, and the Co-Pay Assistance Program (CAP):

- *Patient Assistance Program (PAP)*: this programme, in place for all products, enables Recordati Rare Diseases Inc. to supply products to medical professionals or hospitals which require free products to treat their. who (i) do not have adequate medical insurance to cover the cost of the drug; (ii) are able to show financial hardship that meets the criteria of Recordati Rare Diseases Inc.; and (iii) meet the eligibility requirements. To determine whether patients are eligible for the programme, including from a financial point of view, a case-by-case assessment is carried out by a third party appointed by Recordati Rare Diseases Inc. Once the eligibility requirements have been met, the patient is registered to the PAP for a period of up to six months, at the end of which a new assessment is carried out to confirm eligibility for continued participation in the programme.
- *Co-Pay Assistance (CPA)*: this support programme, available for three products (Carbaglu, Cystadane and Panhematin) offered by Recordati Rare Diseases Inc through a third party provides financial support to insured patients, for all or part of their financial responsibilities, for certain Recordati Rare Diseases Inc products up to a predefined maximum limit. In order to benefit from this assistance, patients must fulfil certain requirements such as being in possession of a valid medical prescription for the product and being insured by an insurance plan that does not cover the full cost of the prescription, etc.

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 national and European regulatory bodies before authorisation is given to commercialise 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 certain 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 regulatory bodies. Our plants are constantly subject to inspections and checks to ascertain compliance with current legislation and internal regulations.

In the product commercialisation phase, the Recordati Group has implemented a system to guarantee compliance with European Directives regarding anti-counterfeiting, respecting the requirements of the European Union with regard to product serialisation and the use of quality seals on product packaging. 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.

Compliance with legislation and regulations

The Recordati Group operates in full compliance with legislation and regulations in different fields thanks to dedicated and qualified employees. The Group's Code of Ethics states: *"ensuring the compliance of all conduct with applicable legislation and ethical regulations is a mandatory prerequisite for Recordati and our collaborators in every country in which we operate"*.

Important company figures 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 been awarded the GMP (Good Manufacturing Practice) certification for product quality and safety at all its plants issued by the relevant national and foreign authorities. The Campoverde di Aprilia site 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.

As regards cases of non-compliance, in 2019 the Group recorded a limited number of episodes as breaches and/or disputes reported by local authorities:

- in 2019 the Turkish subsidiary Recordati İlaç Sanayi ve Ticaret Anonim Şirketi received two warnings, without sanctions, from the competent local authority concerning two cases of non-conformity of the Company with the provisions of the so-called *"Promotion Regulation"*⁸. The first warning relates to the fact that the summary on the Company's website of the characteristics of one of its products did not correspond to the certified summary present on the Authority's system. The second warning, however, related to the failure to notify the Authority of the names of all the doctors sponsored to attend a conference financed by the same company;
- with regard to the administrative penalty of € 29,000 reported in the non-financial statement 2018 and imposed on the Turkish subsidiary Recordati İlaç Sanayi ve Ticaret Anonim Şirketi by the Local Social Security Institution (Turkey's Social Security Institution) following the alleged damage suffered as a result of the former's failure to give timely notification of price changes in some of the products marketed by it in the countries concerned, it should be noted that after the objection raised by the Company with the competent government authorities about the lack of clarity in the countries of reference was not accepted, the Company filed legal proceedings, still ongoing against the local Social Security Institution.

Finally, in 2019 Recordati Romania S.r.l. recalled 5 batches of Betaloc Zok 50 mg on a voluntary basis and without the Authority having imposed any sanctions on the Company or issuing a warning against it. The recall was carried out due to a printing error in the package leaflet, which was evaluated as having little impact by the Company due to the long-standing presence of the drug on the market and the supervision of the doctor. In addition to voluntarily withdrawing the packages, the Company nevertheless informed the pharmacies that received the incorrect package leaflet, providing them with the correct version in electronic format.

Similarly, without any sanction or warning from the authorities, Recordati S.p.A. recalled the FA5N77 lot of Lomexin cream, for an active substance titre below the defined specification limit (17.0 mg/g compared to the expected minimum of 18.5), found during the 24-month control time of the stability study.

⁸ The 'Promotion of Pharmaceutical Products for Human Use Regulation' published in the Turkish official journal No. 29405, on 3 July 2015.

3.1. 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, both through internal research programmes and 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's intellectual property is protected by its patents, which enable Recordati to transform its R&D investments into a profitable activity. 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 companies.

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 2019 the Group held 1,276 patents, of which 39 were granted in 2019.

In addition, patent applications were filed in 2019 for two innovations which are expected to be granted in the coming years.

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 8,000 registrations for 910 trademarks filed in the name of various companies. Approximately 50% of the trademarks are currently in use.

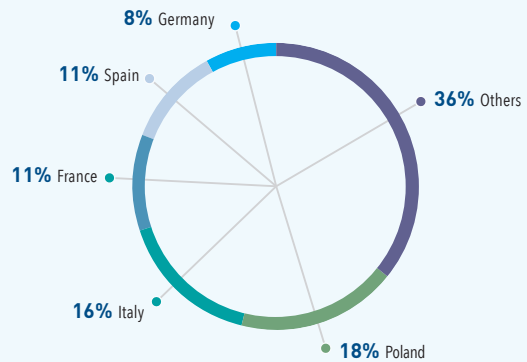
For more information on the Group's research and development activities please refer to the "Research and Development" section of the Annual Report.

3.2. SUPPLY CHAIN

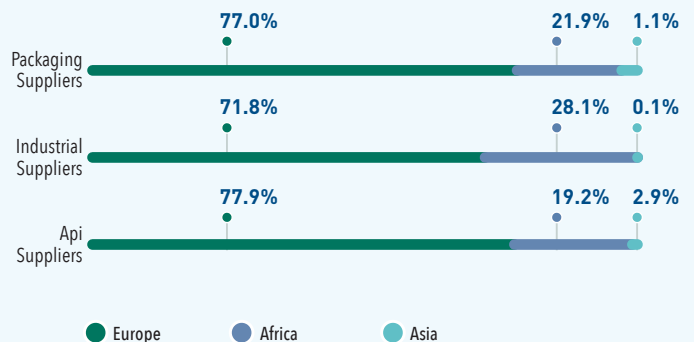
The supply chain of the Recordati Group operates within a highly regulated market and is characterised by the search for efficiency both in terms of financial viability and the maintenance of the supply chain. The Recordati Group is served by approximately 15,400 suppliers, predominantly located in the countries in which the Group operates manufacturing 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 APIs (Active Pharmaceutical Ingredients), packaging, industrial products and services and finished products.

In 2019 the Recordati Group interacted with around 480 certified API suppliers principally located in Europe and India. Approved suppliers for the packaging of medicinal products produced directly in the Group's plants numbered approximately 190, located principally in the countries in which the Group has a manufacturing site (of these, approximately 10% are approved suppliers for two or more factories). Suppliers of industrial materials and services for use in the Group's plants numbered approximately 1,460, with a pronounced local presence due to the type of goods and services. Finally, it should be noted that there are approximately 130 suppliers of finished products at Group level, with a pronounced predominance of European producers.

PERCENTAGE SUBDIVISION OF SUPPLIERS OF THE RECORDATI GROUP BY LOCATION, 2019



PERCENTAGE SUBDIVISION OF THE THREE SUPPLIER CATEGORIES OF THE RECORDATI GROUP BY LOCATION, 2019



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 documental 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. Our supplier selection criteria include:

- focus on the environment and the laws that regulate it;
- compliance with the Group's Code of Ethics which includes respect of the basic Human Rights of all employees, the prevention of child exploitation and the prohibition of forced or enslaved labour, in accordance with the International Labour Organisation. These selection criteria are binding and all suppliers must declare their commitment to the Code of Ethics and the practices contained therein.

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 data base to ensure supplier quality control and compliance with Recordati values.

3.3. AUDITS AND INSPECTIONS

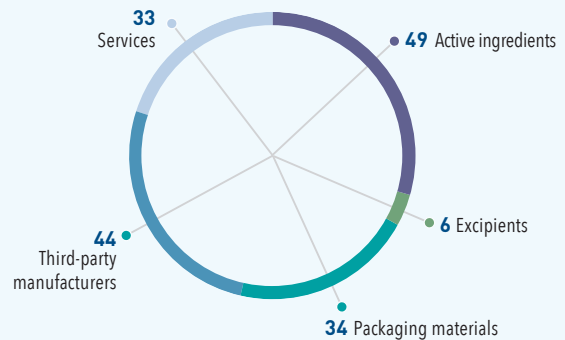
In order to ensure the quality and safety of its products and verify the compliance of its suppliers with quality, environmental, health and safety legislation and regulations, the policies implemented by the Recordati Group include periodic audits of the supply chain, as well as continuous inspections and self-inspections within its own manufacturing plants.

Supplier audits

One of the main control measures implemented in the supply chain are the audits carried out by the Group at third-party pharmaceutical companies which produce medicines, as well as suppliers of APIs, excipients and packaging. As well as assessments at the supplier approval stage, the supplies provided by suppliers are constantly monitored for quality assurance purposes.

In line with the current procedures for supplier approval, all suppliers, particularly those supplying active substances, excipients and services, are subjected to periodic audits as defined by a risk assessment rating. In fact, in 2019 the Pharmaceutical Division of the Recordati Group conducted 166 supplier audits, of which 26% related to third-party manufacturers, 30% to suppliers of active substances, 20% to suppliers of packaging, 20% to service suppliers and 4% to suppliers of excipients.

SUBDIVISION OF SUPPLIER AUDITS CONDUCTED BY THE PHARMACEUTICAL DIVISION BY PRODUCT CATEGORY, 2019



Regarding supplier inspections carried out by the Chemical and - Pharmaceutical Division, it should be noted that in the course of 2019 the Campoverde di Aprilia plant conducted six audits of suppliers of raw materials.

Production plant inspections

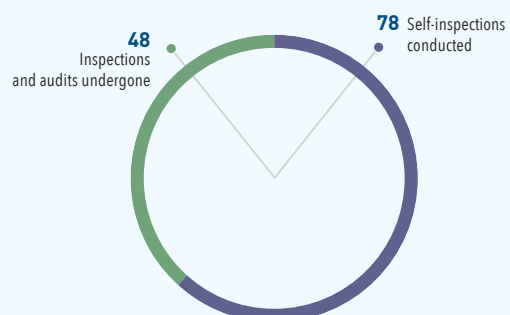
The production plants of the Recordati Group are regularly subjected to internal or external inspections (the latter by competent authorities, third-party companies and clients) in order to verify compliance with product quality regulations.

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. In particular, the manufacturing plants operate in line with GMPs (Good Manufacturing Practices) and are regularly verified by inspections conducted by national and international competent 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 2019, a total of 126 inspections and audits were carried out at the Group's pharmaceutical plants in order to assess product quality and safety. Of these, 78 (62%) were self-inspections carried out by the Group at its own plants while the remaining 48 (38%) were carried out by competent authorities (Health Ministries, Agencies, Certification Bodies, FDA and AIFA) and third-party companies.

SUBDIVISION OF QUALITY AND SAFETY INSPECTIONS/ AUDITS CARRIED OUT AT GROUP PHARMACEUTICAL PLANTS IN 2019



Among the inspections received in 2019, the pharmaceutical plants received inspection from regulatory bodies in order to review/grant manufacturing authorisations. In this regard, those conducted by the national authorities in Milan (Italy), Nanterre (France) for the secondary packaging of Recordati Rare Diseases products and Pardubice (Czech Republic) for the periodic renewal of the manufacturing authorisation are particularly interesting. In addition, inspections were also carried out in Utebo (Spain) for the periodic renewal of the production authorisation, but with the addition of the authorisations of the new packaging departments (separation of primary and secondary areas) and the authorisation of the primary and secondary packaging of tablets (needed for the new metoprolol bottle packaging line), all concluded with the renewal of the pre-existing authorisations and, where required, with the addition of supplementary authorisations.

In addition, inspections were also carried out by foreign authorities and in particular by Russia at the plants in Nanterre (France) and Cerkezkoy (Turkey). While the one carried out in Nanterre was aimed at renewing authorisations already in force, the one carried out in Cerkezkoy was aimed at authorising the site to produce certain pharmaceutical specialities for the Russian market, thus ensuring the presence of a back-up site for these products/markets. In the case of Nanterre the renewal of the existing authorizations has already been obtained, in the case of Cerkezkoy the procedures following the inspection itself (e.g. the presentation of a plan of possible corrective actions) are still in progress in order to successfully conclude the process.

The plant based in Kalaat El Andalous (Tunisia) received the inspection by the Iraqi authorities, which was successfully completed, thus allowing the potential expansion of the markets served by the plant.

In addition, as part of the marketing and sales activities for the Group's specialty products, national inspections were carried out in 2019 at Recordati Pharmaceuticals Ltd and Recordati Rare Diseases UK (both in the United Kingdom) for the renewal of the relative authorization; in these cases too pre-existing authorizations were renewed.

With a view to constantly improving production, it should be noted that in 2019 the plant based in Kalaat El Andalous (Tunisia) obtained ISO 27001 "Information Security Management" certification.

In addition to the inspections received from external bodies starting in 2019, the pharmaceutical manufacturing plants are subject to internal audits carried out by the Group's internal Quality Assurance department on an annual basis.

With respect instead to the inspections received by the two chemical and pharmaceutical plants, it should be noted that in 2019 a Quality Management System audit was carried out at the Campoverde di Aprilia plant by the Italian Medicines Agency (AIFA), the national pharmaceutical control body. The inspection covered compliance with GMP standards in relation to the production, control and storage processes of all active ingredients produced in the plant. Furthermore, the internal Quality Assurance department conducted 12 internal audits at the plant in Campoverde di Aprilia in the production, quality control and maintenance departments, and was subjected to 14 customer audits.

3.4. PRODUCT SERIALISATION

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: 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 will comply with legislative requirements by January 2019. All information generated in regard to the serialisation of individual packs shall be 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, USA and Korea the drugs marketed by the Recordati Group already fully comply with these safety requirements, while in Russia, where implementation of the legislation has been postponed to 1 July 2020, all the branches involved are proceeding with the activities needed to supply the market with packages complying with the legislative requirements.

4. THE RECORDATI GROUP'S EMPLOYEES

4.1. 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. 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 promote the value of quality performance.

In addition, the Group policy for the development and optimisation of human resources aims to incentivise professional growth and career development. This policy has been developed through our belief that the Group's results are closely linked to the ability of our employees to engage their own commitment and talent to reach targets. 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;
- encourage collaborators and employees to develop their skills by providing ad hoc training courses;
- hang on to and motivate the best 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;
- ensure employees' well-being health and safety;
- ensure social equity, equal opportunities and the respect of people, key factors for Recordati which constantly combats all forms of discrimination.

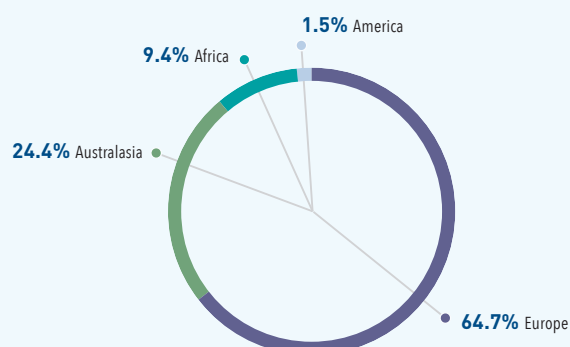
As of 31 December 2019, the Group's workforce was formed of 4,323 employees, with a gender division of 55% and 45% of men and women respectively. The workforce in 2019 was substantially in line with that recorded at the end of 2018 (4,142 employees).

The larger increases in absolute terms relate to the corporate structures of Recordati S.p.A. and the Turkish and Tunisian branches, but the founding of the Bulgarian and Baltic branches and more generally, the growth of the concerns operating in the Rare Diseases sector should also be considered. At present, the Group's workforce is also supplemented by a further 150 people who collaborate with the Group at various levels; approximately half of these collaborators are women.

SUBDIVISION OF EMPLOYEES AND COLLABORATORS BY GENDER, AS OF 31 DECEMBER 2019

Number of employees	2019			2018		
	Men	Women	Total	Men	Women	Total
Employees	2,376	1,947	4,323	2,276	1,866	4,142
Collaborators	80	68	148	74	34	108
Total	2,456	2,015	4,471	2,350	1,900	4,250

PERCENTAGE BREAKDOWN OF EMPLOYEES BY LOCATION, AS OF 31 DECEMBER 2019⁹



BREAKDOWN OF EMPLOYEES BY COUNTRY, AS AT 31 DECEMBER 2019 (%)

Total	100.00%
Italy	28.2%
Turkey	16.1%
France	9.1%
Tunisia	9.4%
Spain	7.3%
Russia	6.8%
Germany	4.9%
Portugal	2.9%
Poland	2.9%
Czech Republic	2.4%
Ukraine	2.0%
Ireland	1.7%
Greece	0.9%
Romania	0.6%
United States	0.8%
Switzerland and Austria	0.5%
Kazakhstan	0.4%
Benelux	0.4%
Japan	0.4%
Colombia	0.3%
Belarus	0.3%
Other Countries*	1.8%

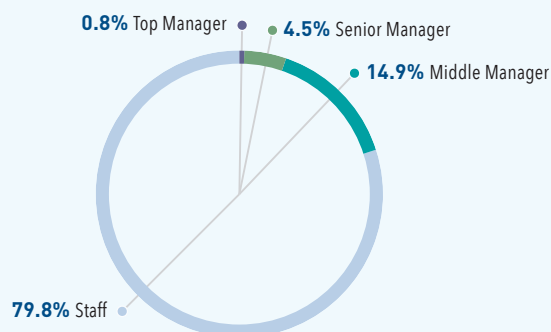
(*): The item "Other Countries" includes the employees who work in Armenia, Australia, Baltic countries, Brazil, Bulgaria, Canada, United Arab Emirates, Georgia, Malaysia, Mexico, United Kingdom and Sweden.

⁹ Australasia includes the Turkish branch (Recordati İLAÇ ve Hammaddeleri Sanayi ve Ticaret A.Ş.) and the Russian branch (RUSFIC LLC).

As regards the breakdown of Recordati Group's workforce by professional category, to facilitate a constant comparison between the various corporate positions and give a clearer picture of the organization, since 2019 the Group's employees have been divided into four categories: *Top Manager* (Vice President, Corporate Managers and General Branch Managers, Senior Managers (equivalent to Directors in Italy), *Middle Manager* (equivalent to Junior Directors in Italy) and *Employees* (the others). Up to 2018 *Top Managers* were included among the *Senior Managers*.

At the end of the year, as well as the 35 *Top Managers*, there were 195 *Senior Managers*, 645 *Middle Managers* and 3,448 *employees*: *Top Managers* and *Senior Managers* together account for 5% of the workforce. All *Top Managers* and *Senior Managers*, men and women, are hired locally¹⁰, in line with the figure for the previous years.

PERCENTAGE BREAKDOWN OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL, AS OF 31 DECEMBER 2019



Approximately 63% of the workforce is comprised of employees aged between 30 and 50, around 26% are over 50 and approximately 11% are under 30.

SUBDIVISION OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND AGE, AS OF 31 DECEMBER 2019

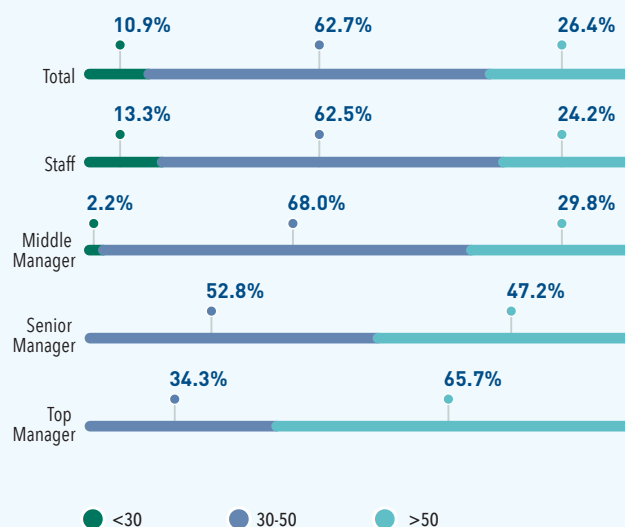
2019

Number of employees	<30	30-50	>50	Total
Top Manager	0	12	23	35
Senior managers	0	103	92	195
Middle managers	14	439	192	645
Staff	458	2,157	833	3,448
Total	472	2,711	1,140	4,323

2018

Top Manager	1	130	108	239
Senior Manager				
Middle Manager	20	462	259	741
Staff	418	2,053	691	3,162
Total	439	2,645	1,058	4,142

PERCENTAGE BREAKDOWN OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND AGE, AS OF 31 DECEMBER 2019



The selection process outlined by the recruitment policy can take place internally, through the development of horizontal and vertical career paths designed to develop the technical and professional skills of employees already operating within the Group through the self-application system, or externally through recruitment campaigns conducted directly or through the use of 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.

With a view to standardising the selection of candidates, a "Recruiting Grid" has been implemented in the HR departments of the various Group companies, aimed at supporting line managers involved in the selection of a new employee during the candidate interviewing 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 2019, 780 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 2019) of approximately 18%, while the number of employees who left the company was 599 (with an outbound turnover rate - the ratio of number of people leaving the Group to total Group workforce as of 31 December 2019 - of around 14%).

¹⁰ The *Top Manager* and *Senior Managers* hired locally include those born or who have permanent residence (such as naturalised citizens or holders of permanent visas) in the country they were hired.

SUBDIVISION OF TOTAL EMPLOYEES ENTERING AND LEAVING THE COMPANY BY GENDER AND AGE, AS OF 31 DECEMBER

Number of employees	2019					2018				
	<30	30-50	>50	Total	Turnover %	<30	30-50	>50	Total	Turnover %
New employees entering the Group										
Men	113	229	39	381	16%	84	209	32	325	14%
Women	150	209	40	399	20%	101	208	19	328	18%
Total	263	438	79	780	18%	185	417	51	653	16%
Turnover %	56%	16%	7%	18%		42%	16%	5%	16%	
Employees leaving the Group										
Men	55	164	62	281	12%	50	245	51	346	15%
Women	85	194	39	318	16%	70	238	33	341	18%
Total	140	358	101	599	14%	120	483	84	687	17%
Turnover %	30%	13%	9%	14%		27%	18%	8%	17%	

SUBDIVISION OF EMPLOYEES ENTERING AND LEAVING THE COMPANY BY GENDER, AGE AND LOCATION, AS OF 31 DECEMBER 2019

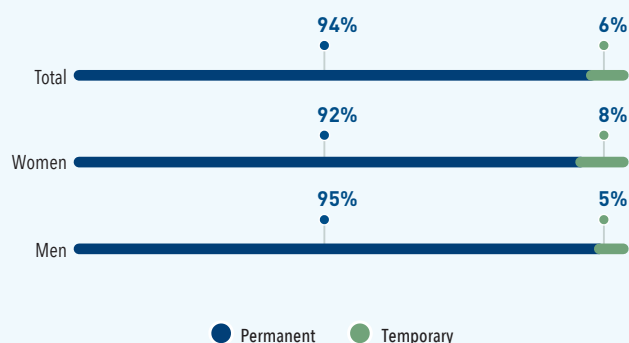
Number of employees	2019									
	<30	30-50	>50	Total	Turnover %	<30	30-50	>50	Total	Turnover %
Employees joining the Group - Europe					Employees leaving the Group - Europe					
Men	52	118	34	204	13%	27	76	54	157	10%
Women	59	115	33	207	17%	28	93	34	155	12%
Total	111	233	67	411	15%	55	169	88	312	11%
Turnover %	60%	15%	6%	15%		30%	11%	8%	11%	
Employees joining the Group - Australasia					Employees leaving the Group - Australasia					
Men	40	77	1	118	19%	18	66	3	87	14%
Women	27	71	4	102	23%	17	73	4	94	21%
Total	67	148	5	220	21%	35	139	7	181	17%
Turnover %	44%	17%	10%	21%		23%	16%	15%	17%	
Employees joining the Group - Africa					Employees leaving the Group - Africa					
Men	21	24	1	46	26%	10	21	1	32	18%
Women	63	18	0	81	36%	38	23	0	61	27%
Total	84	42	1	127	31%	48	44	1	93	23%
Turnover %	64%	16%	6%	31%		37%	17%	6%	23%	
Employees joining the Group - America					Employees leaving the Group - America					
Men	0	10	3	13	36%	0	1	4	5	14%
Women	1	5	3	9	31%	2	5	1	8	28%
Total	1	15	6	22	34%	2	6	5	13	20%
Turnover %	50%	45%	20%	34%		100%	18%	17%	20%	

The Recordati Group believes that offering a stable and long-lasting working relationship is an important factor to promoting employee motivation and represents an essential element of 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, AS OF 31 DECEMBER

Number of employees	2019			2018		
	Men	Women	Total	Men	Women	Total
Permanent Contracts	2,262	1,782	4,044	2,165	1,718	3,883
Temporary Contracts	114	165	279	111	148	259
Total	2,376	1,947	4,323	2,276	1,866	4,142

PERCENTAGE SUBDIVISION OF EMPLOYEES BY CONTRACT TYPE (PERMANENT OR TEMPORARY) AND GENDER, AS OF 31 DECEMBER 2019



In order to promote continuous improvement aimed at optimising the sharing of information regarding human resources, in 2017 a feasibility study was launched to assess the possibility of creating a centralised database, with the aim of collating the information (name, contract and wage) of all Group employees and implementing initiatives aimed at promoting maximum intra-group cooperation. In the two-year period 2018 -2019 assessment activities were continued with the selected partner, a leading multinational HR service provider, prioritising the installation of the HR Administration platform for the Parent Company, with the aim of using it as a basis for the construction of a Group database.

4.2. DIVERSITY AND EQUAL OPPORTUNITIES

As stated in the Code of Ethics, the Recordati Group is committed to offering equal working opportunities without any discrimination based on ethnic background, age, sexual orientation, physical or mental disability, nationality, religious beliefs or membership of political parties or unions, and guarantees all employees equal and meritocratic treatment. Furthermore, the Code of Ethics states the Group's commitment to "the respect for basic human rights, the prevention of child exploitation and the prohibition of forced or enslaved labour" in compliance with the Conventions of the International Labour Organisation.

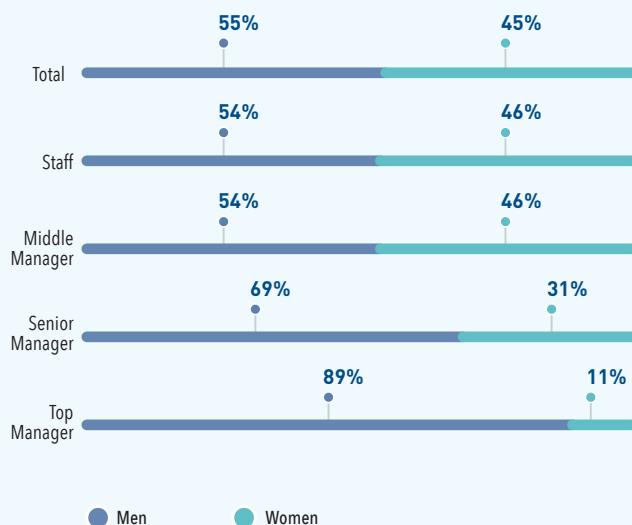
As such, all Group departments are committed to: adopting criteria based on merit, skills and professionalism; selecting, recruiting, training, rewarding and managing employees without discrimination; promoting the integration of employees from other countries.

The Group has a good gender balance, with 55% of employees represented by men and 45% represented by women. The workforce is evenly divided by professional category and the gender balance remains broadly in line with previous years.

SUBDIVISION OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND GENDER, AS OF 31 DECEMBER

Number of employees	2019			2018		
	Men	Women	Total	Men	Women	Total
Top Manager	31	4	35	167	72	239
Senior Managers	134	61	195			
Middle Managers	351	294	645	382	359	741
Staff	1,860	1,588	3,448	1,727	1,435	3,162
Total	2,376	1,947	4,323	2,276	1,866	4,142

PERCENTAGE BREAKDOWN OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND GENDER, AS OF 31 DECEMBER 2019



The Recordati Group always aims to ensure the maximum respect for the human rights of its employees. In this context, the Group's Code of Ethics states that a constant commitment to promoting and consolidating the culture of a safe working environment is one of the fundamental principles of the human resources management policy, aimed at implementing practices and preventative measures to protect the physical and psychological health and safety all Group employees.

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. As such, in compliance with the Conventions of the International Labour Organisation, the Group is committed to respecting basic human rights such as the prevention of child exploitation and the prohibition of forced or enslaved labour. Furthermore, the Group is committed to ensuring a healthy, clean and pollution-free environment in all of its sites and plants. In its internal and external working relations, the Group prohibits all cases of subjugation by violence, threat, deceit, abuse of authority, harassment of any kind, or exploration of a physical or psychological vulnerability or vulnerable situation.

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 to the conduct required and promoted by the Group. With reference to the management models adopted by the Group to protect the human rights of its employees, the Group has integrated a management policy which promotes the concept of inclusion, respects diversity and gives all employees a voice in order that every contribution be heard and considered.

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.

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.

4.3. EMPLOYEE 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. 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 internal stakeholders while also developing human, social and relational capital.

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 a health care plan), and "perks", which consist of goods or services made available to employees (e.g. company car, canteen or ticket restaurant).

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 format, every welfare initiative implemented by the Recordati Group aims to achieve both tangible and intangible results relating to the management of employee relations. In particular, these initiatives aim to promote:

- 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 concrete and proactive 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 technical and specialist training programmes, language courses, 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.

In 2018, the Parent Group launched 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 replaces a percentage of the overall 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 to 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

The company's welfare offer includes an IT platform which allows Recordati's employees to use the amounts allocated for welfare in the following manner:

- choose a service from among the suppliers that have an agreement with the Company operating the 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 cash advance;
- use a supplier not on the platform and then "upload on the platform" the relevant paid invoice; in this case there will be a refund of the paid receipt.

In 2019, on the one hand, the existing system was consolidated- managed through a dedicated platform - and, on the other, evaluations aimed at further expanding the range of services offered were started, so as to constantly meet workers' needs. 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.

With the aim of promoting work-life balance, a study will also be carried out in 2020 to assess the feasibility - technical and organizational - of implementing flexible working tools for employees.

At a contractual level, 89 people opted for part-time contracts, with a reduction of 9% compared to 2018. 84% of employees on *part-time* contracts are women.

BREAKDOWN OF EMPLOYEES BY PROFESSIONAL TYPE (FULL OR PART TIME) AND GENDER, AS OF 31 DECEMBER

Number of employees	2019			2018		
	Men	Women	Total	Men	Women	Total
Part Time	14	75	89	18	80	98
Full Time	2,362	1,872	4,234	2,258	1,786	4,044
Total	2,376	1,947	4,323	2,276	1,866	4,142

Remuneration 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 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 was carried out at Group level - by a leading consulting firm in the compensation field - of the existing MBO system; a number of important changes were introduced (in relation to the calculation mechanism, target and payout) -through the benchmark with the reference market and the subsequent design, which will initially be applied to the population of Top Managers starting from 2020 - aimed at increasingly valorising and rewarding the best performance, aligning the interests of managers with those of shareholders, and rewarding ad hoc 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 87% at Senior Management level, 95% at Middle Management level and 96% for all other employee categories. Instead, in terms of total¹¹ remuneration, the ratio is 84% for Senior Managers, 92% for Middle Managers and 93% for all other employee categories. At the Top Manager level, instead, the ratio is 107% in terms of basic salary and 110% in terms of total remuneration.

¹¹ 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 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 2019

Ratio between women and men	2019		2018	
	Basic Salary	Total Remuneration	Basic Salary	Total Remuneration
Top managers	107%	110%	70%	71%
Senior managers	87%	84%		
Middle managers	95%	92%	94%	87%
Staff	96%	93%	98%	90%

Principle internal engagement initiatives

The MBO system plays a key role in the definition of internal engagement and sharing initiatives, aimed at directing the Group's results and the energies and efforts of senior managers and middle managers towards a common goal through the definition of clear, challenging and shared objectives.

In terms of "soft" initiatives, significant importance is placed on the Recordati style of management. Developed through the identification of the distinctive managerial skills that have characterised the Group's evolution over the years and which will continue to overcome future challenges, this managerial approach is implemented through the skills appraisal process which promotes the sharing and discussion of assessments between the "assessor" and the "assessee" (manager and collaborator) in order to optimise and promote Recordati's distinctive managerial style.

Through the combination of MBOs and appraisals, managers are assessed in terms "what" they have achieved (individual targets assigned by the Group) and "how" these achievements are reached (conduct which displays the use of managerial skills).

More generally, the principle internal engagement initiative is the Management Meeting of the Recordati Group, held each year in Milan. 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 scientific contributors from each branch. Furthermore, the sector meetings held by each company department with representatives of foreign branches are a 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. At a local level, conventions are organised for local management teams and staff operating in commercial facilities "in the field" (scientific consultants and area managers), representing important opportunities for sharing best practices and discussing commercial themes and products.

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 the events and initiatives that have characterised the Group during the given period.

As regards the most recent hires in the Recordati Group, an induction process is now carried out at corporate level. For employees of the Parent Company, this programme consists of a day-long course for new hires which takes place within six months of recruitment, enabling resources to have developed direct knowledge of the company structure before being guided by HR to receive a comprehensive overview of the organisation of the Recordati group.

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. 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 new resources 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 is invited to the head offices to meet 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.

4.4. 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 through individual training, on-the-job training, coaching, mentoring and one-to-one counselling.

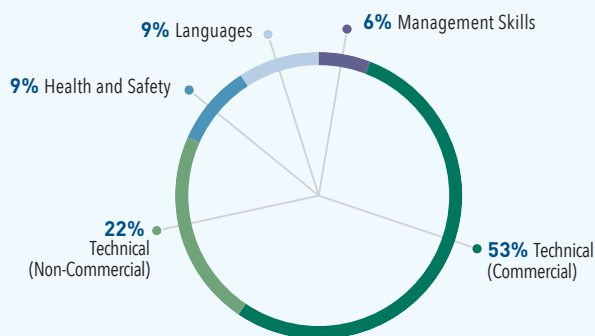
In this respect, the main initiatives promoted by the Group throughout the year have aimed to define and develop the technical, managerial and linguistic skills of managers, as well as offer training programmes to develop specialised and professional skills.

During 2019 the Recordati Group provided over 114,000 hours of training to its employees, an increase on the previous year, equating to 26.4 hours of training pro capita. In particular, 74% of all training hours was provided to staff, 21% to Middle Managers and 5% 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; in particular, the over 60,000 hours of "commercial" training, dedicated mainly to External Sales Force, one of the Group's driving forces of performance, are worth note.

BREAKDOWN OF PRO CAPITA TRAINING TIME PROVIDED TO EMPLOYEES ACCORDING TO PROFESSIONAL LEVEL AND GENDER

Average number of hours	2019			2018		
	Average number of hours Men	Average number of hours Women	Average number of hours Total	Average number of hours Men	Average number of hours Women	Average number of hours Total
Top Manager	9.5	10.8	9.6	16.8	25.9	19.6
Senior managers	28.6	34.9	30.5			
Middle managers	40.0	32.4	36.5	21.7	18.8	20.3
Staff	27.0	21.5	24.5	23.4	17.6	20.8
Total	28.8	23.6	26.4	22.7	18.2	20.6

PERCENTAGE BREAKDOWN OF TRAINING HOURS PROVIDED TO EMPLOYEES BY TRAINING TYPE, 2019



The intense expansion and internationalisation project of the Recordati Group has led to the need to develop a system to better understand, evaluate and optimise the Group's human capital. In this regard, in the last few years 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 skills that have characterised the Group's evolution over the years and which will continue to 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 an assessment of 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 (which in 2018 was replaced with a new, more user-friendly platform with more comprehensive and effective reporting capabilities) 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 working activities. The initial assessment is then reviewed by the manager's

superior or the department manager at corporate level. 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, the system automatically generates a development programme (accessible on the cloud platform) for each employee to develop any skills that fall below a certain threshold. Finally, 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 highly 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 gain a better understanding of their role and helps to construct a development plan. Employees with the required skills and experience may be offered opportunities to develop their role and enhance their performance. 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.

2019 was characterised by an initial phase of expansion of the population subject to assessment: in particular, in addition to the constant updating of the managerial population resulting from the Group's organisational changes, the new assessment period - for the branches in Ireland, Spain and Portugal - included the "second level" managerial population, i.e. the department managers reporting directly to the members of the Country Management Teams (direct reports to the Country General Manager) of each branch. In the two-year period 2018-2019, training continued in the same vein as in 2017, with individual training courses (ad hoc courses designed around an individual's needs) and departmental initiatives (ITIL - Information Technology Infrastructure Library - and Prince - Projects in Controlled Environments - for the entire IT team, Project Management for the Auditing team, promotion of best practices and insights on opportunities of the future market scenario for the sales force in terms of Products for Consumers), as well as initiatives aimed at broader areas of the company workforce ("lean organisation" techniques, waste-free culture, IT security training delivered to all employees at the Milan branch in 2018 and then rolled out to the entire External Sales Force).

Following the assessments made in the two-year period 2018-2019 various training and professional development initiatives were implemented. Many of these involved individual initiatives, such as the management coaching tool aimed at professionals operating in Italy and abroad. In most cases these initiatives were aimed at valued resources whose commitment to the Group has been recognised, offering the opportunity to further improve their performance by developing certain management skills such as assertiveness, leadership abilities or organisational and management skills. All of the projects are implemented with the involvement - from the planning stage onwards - of the manager concerned, the line manager and the HR department at corporate or branch level.

Managerial coaching is sometimes combined with technical coaching, either individually or in mini-groups.

The other projects covering 2018 and 2019 concerned:

- corporate Pharmaceutical Research and Development and the corresponding structures of the operating branches within Rare Diseases: an organisation of activities and projects was defined to effectively support the integration between branches and parent company and - through an ad hoc training course - the foundations were laid for a working method, inspired by a "matrix" model;
- the design and implementation by the HR Department, of a 360° feedback system aimed at providing the employees involved with feedback from their line Manager, colleagues in their own department and in other business units, and collaborators for comparison with their own self-appraisal, technically managed via a cloud-based platform.

In 2019, a number of ad hoc transversal training projects were also realised at Corporate level, based on the specific needs of the individual corporate Departments, particularly in the Procurement and Supply Chain area.

For the business units operating in the Procurement sector, the need to increase the effectiveness and efficiency of processes was identified: for this reason, a training plan was designed to allow participants to study in-depth topics such as the design and management of the supplier register, the identification of a Reporting and KPI system, and the construction of Key Risk Indicators. This was followed - for each topic - by a complex system of operational workshops, aimed at developing ad hoc indicators and tools, based on specific and concrete needs. The project, which involved all the employees present in the structure, also made it possible to build a shared culture in terms of skills, processes and vocabulary, thus facilitating work within the teams.

Within the Supply Chain business unit, a different plan was then built, with the aim of further developing professionalism and standardizing the skills of the team involved in process management, particularly in the transport sector. The project illustrated the topics starting from an introduction to the regulations governing national and international transport, to then examine how to set up an analysis in the transport area, to then assess the operators (who they are and what they do) and see how a tariff is constructed in its essential components. The expected output was the measurement of activity performance: this objective was achieved in the classroom, also by discussing a practical case, aimed at implementing this measurement by identifying the appropriate KPIs.

To complete the two initiatives mentioned above, targeted specialization courses (masters) were identified, with technical content, for some employees with professional growth potential.

With regard to operations involving broader sections of the corporate population, in 2019 the first of the courses related to GDPR (General Data Protection Regulation) was launched: the course was provided by a school specialized in e-learning. The first wave involved all the employees of the Milan and Campoverde offices, while the External Sales Forces will be involved in 2020, with a dedicated action.

In addition, again with reference to transversal issues, involving several corporate structures, an in-house training session was organized on updates on clinical trial regulations.

In line with the Group's constant expansion abroad, for many years now the Group has continued to provide language training for employees who need to improve their knowledge of languages, particularly English. This training takes place both through one-to-one individual courses and online courses on dedicated platforms for individual and group lessons. In addition, for some people who needed to improve their knowledge of English significantly and rapidly, targeted residential projects in the UK were launched.

Completing the corporate training activities in 2019, two other transversal courses were provided on the use of Microsoft application software (in particular Excel and MS Project).

As a Group initiative, a training project (to be held in-house at the Parent Company) for "Newly Appointed Team Managers" is being prepared - involving the HR departments of the branches - with the aim of giving the employees involved the managerial tools and professional creativity to best interpret the transition from a role of "professional" to one of "manager and developer of employee potential".

The course will include a series of highly interactive days in the classroom, 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 ("Being a Manager & Being a Manager in Recordati"). In this perspective, a series of interventions by some Top Managers of the organization will also be planned.

Ad hoc training projects have also been launched in foreign branches, depending on specific local needs. Some branches focused on commercial training and training - aimed at area managers - related to team management, motivation and development:

- in Russia, a training course has been created to share the best sales skills with the Area Managers who manage the Sales Force in the country;
- in France, a training programme has been developed for the network managing OTC products, also aimed at further improving commercial advertising;
- in Czech Republic and Poland the technical sales skills of the Area Managers have been integrated with people management skills, with a focus on motivation and communication.

A different type of programme was implemented in the German and Turkish subsidiaries respectively, where two projects were launched aimed at further developing the leadership skills of the Country Management Team:

- in Germany the Country Management Team has tried to identify a shared leadership style, with the aim of enhancing the shared vision and direction of the management team, especially since the arrival of the new General Manager;
- in Turkey, instead, the concepts of emotional leadership were developed to work on relational skills which, at this time of expansion of the organization, are particularly important to ensure the management and growth of employees in the face of new challenges.

4.5. HEALTH AND SAFETY IN THE WORKPLACE¹²

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 *"promoting and consolidating a culture of safety, raising awareness of risks, promoting responsible behaviour among all Recipients and working to protect the health and safety of those operating for the Company, 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"*.

At the Group's production sites, independently of the nature and purpose of the activities carried out, the prevention measures provided for by local legislation apply, 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 of health and safety roles and responsibilities, and each production plant has a level of autonomy over its health and safety budget. In particular, the person in charge of health and safety oversees working activities and ensures compliance with any received directives, verifying their correct implementation by workers and using personal initiative to carry out their role. In this regard, the Recordati Group complies with the regulations issued by industry certification bodies as in the case of the Tunisian pharmaceutical production plant that employs an OHSAS 18001-certified Management System.

Activities at each production site are controlled and monitored through inspections and audits.

In particular, in 2018 the production plant in Cork, Ireland received an inspection from the company Ramboll regarding the health and safety procedures in place at the site. The inspection did not reveal any irregularities and the report certifying the plant's compliance with health and safety regulations has been defined.

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. Moreover, dedicated fire prevention systems are available on site such as fire-fighting vehicles and portable fire extinguishers.

Finally, in order to reduce the risk of "man-machine" contact and therefore to ensure greater safety of packaging lines, additional guards have been installed.

In all production 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 produce it: 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.

In the Group's chemical-pharmaceutical and pharmaceutical plants, various health and safety risk assessment activities were carried out in 2019:

- at the Milan plant, the assessment of various risk categories, with particular reference to chemical risk, was updated using two different methodologies: MOVARISK for the production departments and ANARCHIM for the laboratories.

Risk assessments were also carried out for the following issues: vibrations, repetitive movements, personnel travelling abroad, use of technical gases (risk of asphyxiation), biological legionella, noise, manual traction and pushing.

All updates will be integrated into the risk assessment document which is currently under review.

Following updating of the analyses, in the event of intervention by external companies lasting more than 5 man-days, a specific interference risk assessment document is required, which is shared with the company responsible for the activity. To allow entry, companies must provide the documentation required by the standard for both the company and the personnel involved in advance. The list of personnel authorized to enter is shared with the reception and all guests receive general information about the risks present in the company and the behaviour to adopt;

¹² The scope of data relative to health and safety and the principle accident indicators, in line with the 2018 accounts include:
 - employees at the Group's production plants in Italy - Campoverde di Aprilia (Recordati S.p.A.), Ireland (Recordati Ireland Ltd), Czech Republic (Herbacos Recordati S.R.O.), Turkey (Recordati İLAÇ ve Hammaddeleri Sanayi ve Ticaret A.Ş.) and France - Nanterre (Recordati Rare Diseases S.à R.L.)
 - employees at production plants and commercial offices in the following sites: Italia - Milan (Recordati S.p.A. and Innova Pharma S.p.A.), Spain (Casen Recordati S.L.), Tunisia (Opalia Pharma) and France - Bouchara (Laboratoires Bouchara Recordati S.a.s.)
 However, a reporting system is currently being developed to process data regarding the workforce at all of the Group's offices and commercial sites.

- at the Campoverde di Aprilia plant, a seismic risk assessment is currently being carried out for the entire site, based on a geological, geomorphological and hydro-geological study and a seismic model. Launched in 2017, the study involves a dynamic analysis aimed at determining any structural deformations or strains in the tanks containing the most hazardous or critical substances. In 2018 instead, the same study was conducted for all the other departments at the plant. The study was completed in 2019 with the seismic vulnerability check on the management office building and the gatekeeper's lodge, considered strategic in case of emergency.

A chronoprogramme has been sent to the CTR that foresees the seismic adaptation of the 6 most critical reservoirs for the accidental scenarios related thereto over the next three years.

- at the Campoverde di Aprilia pharmaceutical chemical plant some improvements have also been made 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.
- at the Cork plant, a study of the entire thionyl chloride handling cycle was completed in 2018, which led to the identification of a number of improvements made in 2019 in terms of equipment and procedures at the site for the handling phase of this chemical agent from its arrival at the site to its loading into the storage tank in order to further strengthen the protection of the chemical risk for employees and the public. Also included among the measures taken is the purchase of kits for the treatment of diphtherin spills.
- In addition, a review of management activities/measures in the area of potentially explosive atmospheres (ATEX) and plant ageing was initiated at the Cork plant in 2019 to provide a risk-based approach for future asset maintenance projects.

During the year, the Group also implemented initiatives involving various production plants:

- at the Saint Victor site in France, a management system to regulate the management of workplace health and safety documentation was implemented, including training, safety procedures, risk assessments, operational instructions and the management of safety data sheets. Furthermore, in 2019, 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");
- The Milan plant obtained a renewal of the Fire Prevention Certificate issued by the Italian Fire Department which extends its validity until 12/04/2022. In the light of the regulatory update, a general assessment of the state of the building from the point of view of "fire prevention" is underway. Over the next few years, work is expected to be carried out on the construction of a new saturation extinguishing system for the storage of flammable liquids, expansion of the hydrant network, construction of a calm space and various interventions on the compartmenting of the buildings;

- in order to reduce the risk of asphyxiation related to the incorrect use of technical gases, fixed and/or portable oxygen percentage detection systems have been installed in rooms where nitrogen, a gas otherwise difficult to perceive, is used.

The Group's focus on terms of health and safety is also consolidated through the regular use and review of its assets at its production sites. At the Milan plant, assessments were carried out in 2018 aimed at obtaining the Static Stability Certificate (Certificato di Idoneità Statica - CIS). The Buildings Regulation of the Municipality of Milan, in force from 26 November 2014, introduced new provisions concerning the "Maintenance and periodic review of buildings" and consisting of the granting of the CIS, a document certifying the structural resistance of the building's supporting structure to the loads to which it is currently subjected, accompanied by an assessment of the condition of certain elements such as parapets, façades, walls, etc. On the basis of the results achieved, it is possible to determine the "supporting capacity" of the construction against the measures provided for by legislative measures at the time of construction, identifying any critical issues. In response to the above, at the Milan site the first phase of the evaluation was launched in 2018, consisting of a qualitative analysis of the production plant (first level assessment): document retrieval, geometric and typological surveys, load resistance assessments, crack surveys, temporal evolution analysis, maintenance assessment, assessment of interaction with external elements.

In 2018 the first assessment phase was completed and in 2019 the second phase continued, consisting of an analysis based on experimental and/or analytical surveys (second level assessment) according to the legislation in force at the time of construction. In 2020, in continuity with previous years, the data obtained will be entered into the dedicated management software.

The Recordati Group believes that the training and education of its employees is an essential instrument to ensure the prevention of health and safety risks. For this reason, each production plant implements training plans aimed at workers exposed to specific risks.

All personnel who work within the two chemical pharmaceutical plants (the Campoverde di Aprilia plant and the Cork plant) receive ongoing training in the application of GMPs, environmental protection procedures and workplace health and safety. New employees undergo a training period supported by experienced operators and theoretical lessons delivered by qualified personnel. The training activities at the plants are carried out according to the integrated Quality, Environmental and Safety Training Plan. The main health and safety training and educational activities focus on safety issues relating to the operational activities of managers, safety officers, the RLSSA (Work, Health and Safety and the Environment Representatives), vehicle operators, the emergency team, chemical operators and new employees.

The internal training and education programme was continued at the two chemical pharmaceutical plants in 2019. At the Campoverde di Aprilia factory, more than 1,800 hours of health and safety training was provided to all employees at all levels, in addition to 860 hours of specialist training dedicated to the internal emergency team. In particular, in the Campoverde di Aprilia plant in 2019, 370 people attended internal education and training courses, an increase on the 350 employees who attended in 2018. Instead, about 75 people took part in external training courses.

Specifically, at the Italian chemical-pharmaceutical plant the following training initiatives were carried out:

- refresher courses and practical exercises for the internal emergency team;
- training and education course for the use of industrial self-propelled trucks with on-board driver;
- training course on Major Accident Hazard with particular attention to the use of fire extinguishers in case of fire;
- training course on Significant Accident Hazard with special attention to ATEX Risks;
- specific training course for employees hired in the last two years on Chemical Risk, Machine Risk, ATEX Risk, Major Accident Risk and Chemical Plants;
- training and preparation for obtaining the toxic gas licence;
- periodic refresher course for Warned Persons (PAV), Experts (PES) and Suitable Persons (PEI);
- annual training course on critical incident risks (Legislative Decree no. 105/15) with particular attention to accidents and Chemical Risk.

Furthermore, in 2019 various pharmaceutical plants implemented numerous health and safety training programmes:

- in the Spanish site of Utebo in 2019 specific training sessions on the prevention of osteo-muscular pathologies for production, warehouse and maintenance employees were provided;
- at the French site in St. Victor, several training sessions were conducted on the following topics: awareness of musculoskeletal disorders, training on the prevention of disorders caused by noise in the workplace, training on the use of the defibrillator, safe driving certificate (CACES) for self-propelled industrial trucks;

- at the Milan site, a total of about 500 hours of health and safety training were provided with the involvement of all personnel on the following topics: training for new recruits, training and practical tests for emergency and first aid teams, correct use of PPE in the packaging department, correct use of PPE in laboratories, updating of Safety Officers and Managers, correct use of gases used in technical processes. In addition, the doctor in charge periodically promotes campaigns for prevention and promotion of health and safety in the workplace.

All work-related accidents and illnesses regarding the Group's production plants are recorded and managed through the quarterly report prepared by the Risk and Sustainability Control Committee. This system monitors key accident indicators and analyses the causes and circumstances of any incidents. Moreover, health and safety incidents are brought to the attention of the Group's senior management team at least once a year.

In all plants, 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. Specifically at the Milan plant, there is an infirmary equipped for the management of first aid with the daily physical presence of qualified healthcare operators. The current Health Surveillance Protocol will be updated in 2020 based on the results of the risk assessment document.

NUMBER OF ACCIDENTS AND HEALTH AND SAFETY INDICATORS OF GROUP EMPLOYEES BY GENDER, COUNTRY OR PRODUCTION SITE IN 2019
Italy (Campoverde di Aprilia) – Chemical pharmaceutical production plant

	2019 ¹⁴			2018		
	Men	Women	Total	Men	Women	Total
Injuries and Injury Index ¹³						
<i>Accidents in the workplace (No.)</i>	11	1	12	9	0	9
<i>Accidents during travel (No.)</i>	2	0	2	3	0	3
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	149.5	46.7	140.3	81.0	0	74.0
Frequency Index/Injury Rate (IR)	4.9	3.8	4.8	4.7	0	4.3
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	4.8%	1.8%	4.6%	5.0%	1.8%	4.7%

Ireland (Cork) - chemical pharmaceutical plant

	2019			2018		
	Men	Women	Total	Men	Women	Total
Injuries and Injury Index						
<i>Accidents in the workplace (No.)</i>	0	0	0	0	1	1
<i>Accidents during travel (No.)</i>	0	0	0	0	0	0
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	0	0	0	0	390.5	175.7
Frequency Index/Injury Rate (IR)	0	0	0	0	4,3	1,9
Occupational Disease Rate (ODR)		4.3	1.9	0	0	0
Absentee Rate (AR) (%)	2.6%	1.2%	2.1%	5.7%	5.4%	5.6%

Italy (Milan) - Pharmaceutical production plant and offices

	2019			2018		
	Men	Women	Total	Men	Women	Total
Injuries and Injury Index						
<i>Accidents in the workplace (No.)</i>	3	1	4	6	2	8
<i>Accidents during travel (No.)</i>	1	1	2	2	4	6
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	24.6	100.6	50.9	33.6	86.7	51.9
Frequency Index/Injury Rate (IR)	1.6	1.5	1.5	3.1	4.4	3.6
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	3.2%	3.3%	3.3%	2.7%	2.7%	2.7%

¹³ The severity index represents the ratio between the number of days lost due to professional injury/disease and the total number of working hours in the same period, multiplied by 200,000 (Source: Sustainability Reporting Guidelines - Version GRI Standards, Global Reporting Initiative).

The frequency index represents the ratio between the total number of injuries and the total number of hours worked in the same period, multiplied by 200,000 (Source: Sustainability Reporting Guidelines - Version GRI Standards, Global Reporting Initiative).

The occupational disease rate represents the ratio between the number of cases of work-related diseases and the number of hours worked in the same period, multiplied by 200,000 (Source: Sustainability Reporting Guidelines - Version GRI Standards, Global Reporting Initiative).

The absenteeism rate is the percentage of daily absences against the total number of working days in the same period (Source: Sustainability Reporting Guidelines - Version GRI Standards, Global Reporting Initiative).

¹⁴ The days of absence related to the employees of the pharmaceutical chemical plant in Campoverde di Aprilia include 125 days lost in 2019 due to an accident occurred in 2018.

Czech Republic - Pharmaceutical production plant

	2019			2018		
	Men	Women	Total	Men	Women	Total
Injuries and Injury Index						
<i>Accidents in the workplace (No.)</i>	0	2	2	0	0	0
<i>Accidents during travel (No.)</i>	0	0	0	0	0	0
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	0	0	0	0	0	0
Frequency Index/Injury Rate (IR)	0	19.3	15.4	0	0	0
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	0.0%	1.8%	1.5%	2.7%	6.5%	5.4%

Spain¹⁵

	2019			2018		
	Men	Women	Total	Men	Women	Total
Injuries and Injury Index						
<i>Accidents in the workplace (No.)</i>	3	7	10	2	4	6
<i>Accidents during travel (No.)</i>	0	0	0	0	0	0
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	30.2	46.4	38.0	14.3	9.1	11.7
Frequency Index/Injury Rate (IR)	2.2	5.4	3.8	1.5	3.2	2.4
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	2.7%	2.3%	2.5%	2.2%	5.6%	3.9%

Tunisia¹⁶

	2019			2018		
	Men	Women	Total	Men	Women	Total
Injuries and Injury Index						
<i>Accidents in the workplace (No.)</i>	8	5	13	5	2	7
<i>Accidents during travel (No.)</i>	0	1	1	0	0	0
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	43.1	9.1	24.2	21.1	3.8	11.5
Frequency Index/Injury Rate (IR)	4.1	2.6	3.3	2.7	0.9	1.7
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	3.1%	8.4%	6.0%	2.6%	6.6%	4.8%

15 The figures include the Spanish employees of the production plant and offices.

16 The figures include the Tunisian employees of the production plant and offices.

Turkey - Pharmaceutical production plant

Injuries and Injury Index	2019			2018		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	5	2	7	7	2	9
<i>Accidents during travel (No.)</i>	0	0	0	0	0	0
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	7.4	4.1	6.4	24.7	6.8	19.3
Frequency Index/Injury Rate (IR)	3.5	3.3	3.4	4.8	3.2	4.3
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	0.3%	0.4%	0.3%	0.3%	0.2%	0.3%

France (Bouchara)¹⁷

Injuries and Injury Index	2019			2018		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	8	8	16	1	4	5
<i>Accidents during travel (No.)</i>	0	0	0	0	0	0
Cases of work-related diseases (No.)	0	1	1	0	1	1
Severity Index (Lost Day Rate LDR)	386.4	418.5	405.9	63.3	250.2	175.5
Frequency Index/Injury Rate (IR)	8.0	5.2	6.3	3.8	3.8	3.8
Occupational Disease Rate (ODR)	0	0.6	0.4	0	0	0
Absentee Rate (AR) (%)	7.0%	3.1%	4.6%	7.9%	6.0%	6.7%

France (Nanterre) - Distribution Centre (Recordati Rare Diseases)

Injuries and Injury Index	2019			2018		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	0	0	0	0	0	0
<i>Accidents during travel (No.)</i>	1	0	1	0	0	0
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	36.7	0	17.1	0	0	0
Frequency Index/Injury Rate (IR)	12.4	0	5.9	0	0	0
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	3.1%	0.5%	1.6%	0.9%	0.5%	0.7%

¹⁷ The figures include the French employees of the branch Laboratoires Bouchara Recordati S.a.s. the production plant and offices.

5. FOCUS ON THE ENVIRONMENT¹⁸

5.1. COMMITMENT TO ENVIRONMENTAL PROTECTION

As stated in the Code of Ethics, the Recordati Group considers environmental protection to be a vital component of its general approach to company activities aimed at supporting the sustainable development of the regions in which it operates. To this end, in the course of its operational management and activities the Group has adopted a policy aimed at reducing the negative impact that company activities may have on the environment and complying with all related legislative and regulatory requirements, including:

- the promotion of environmentally sustainable processes and procedures through the use of advanced environmental technology, energy efficiency and the sustainable use of resources;
- evaluation of the environmental impact of all company activities and processes;
- collaboration with stakeholders both internally (employees) and externally (institutions) to optimise the management of environmental issues;
- active employee participation through regular environmental training plans and the adoption of behavioural principles that have a positive impact on the environment in the course of operational activities;
- compliance with environmental protection standards through the implementation of appropriate management and monitoring systems.

The Group is committed to ensuring environmental sustainability at its production plants and all branches are required to comply with local legislation, minimising energy use and effectively managing water resources. Environmental sustainability compliance officers, whose roles include formal responsibilities with precise operational powers, are particularly important in this regard.

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. The Recordati Group responds to any cases of increased environmental risk by implementing a series of internal inspections. The active pharmaceutical ingredients manufacturing 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. In addition, the Campoverde di Aprilia site is included in the national inventory of plants likely to cause 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.

In addition, the Campoverde di Aprilia plant, following voluntary notification to the competent authorities in 2001, in accordance with article 9 of Italian Ministerial Decree. 471/99, on the potential contamination of the soil and water of the site resulting from past industrial production, was included in 2001 in the provisional list, established in the same year, of contaminated sites in the Lazio Region; the administrative procedure started by the Company in 2004 following this communication is still pending, the Company is awaiting feedback from the local authorities. In the meantime, all the necessary containment measures and monitoring actions have continued to be implemented in connection with this historical contamination, in accordance with applicable regulations.

With reference to the aforementioned internal inspection plan, it should be noted that in 2019 the Campoverde di Aprilia plant received an environmental audit from a consulting firm and, in turn, carried out five environmental audits of intermediaries and waste disposal plants. Furthermore, the inspection aimed at renewing the environmental certificate ISO 14001 and monitoring the transition to the new ISO 14001:2015 regulation carried out in May 2019 by the accredited company DNV GL was particularly significant. The audit considered all areas of the system: current policy, planning, legal compliance, implementation and operation, monitoring, corrective action and review. The result confirmed the implementation by all Recordati personnel of the management system, which complies with the standards and the provisions of current legislation, therefore able to provide a high level of environmental protection and safety.

During the two days of the audit, the inspectors carried out an in-depth documentary check and an inspection of the plant, which highlighted, among the positive aspects, the continuous commitment to reducing environmental impact with particular attention to atmospheric emissions.

In fact, the new abatement system in operation for the Latina Wing, the project underway for the Rome Wing and the increase in emission monitoring systems were highlighted.

In the closing report of the inspection, no non-conformities were found, but only 2 observations of a formal nature and an opportunity for improvement.

The Campoverde di Aprilia plant also supplemented its training and information programme with specific training for the changes to the Environmental Management System associated with the application of the new standard ISO 14001:2015, informing employees at all levels of the plant's environmental policies, projects and objectives as well as the environmental risks associated with the plant's activities. The analysis

¹⁸ The information and data regarding environmental aspects (energy use, emissions, water use and waste) refer exclusively to the Group's production plants as such aspects are not deemed significant at other sites (with the exception of the Milan plant, where the energy consumption and relative emissions of the offices of the said plant were also considered).

conducted previously enabled the definition of the Risk Management procedure associated with the Site's Environmental Management, and thus the measures to be implemented in order to identify and assess the risks associated with the context and the interested parties, defining, if necessary, the mitigation actions to reduce the risk factors to an acceptable level.

These measures enable the organisation to gain:

- a better impression of the medical community and the market, and thus a potential increase in market competitiveness;
- a reduction in the costs related to production shut-offs following accidents and/or emergencies and associated with any remediation activities or the management of fires or other emergencies;
- a reduction in direct and indirect costs linked to disputes and/or complaints by Clients or the external Community, Environmental Associations, Supervisory Bodies, etc., relating to non-compliant atmospheric emissions, non-compliance waste, odour and noise emissions over the permitted limits, environmental remediation;
- a positive image to Customers and the medical community as a result of the reduction in environmental risks associated with its activities and compliance with legislation.

In addition to the environmental inspections, it is noted that:

- in the course of recent 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. In this regard, in 2013 the site received the "Responsible Care Award" for SMEs from the European Chemical Industry Council (CEFIC) in recognition of the continuous improvements achieved by the site in the last five years. The plant's environmental 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;
- as well as the Campoverde di Aprilia plant, it is noted that the production plant in Tunisia is also certified according to standard ISO 14001:2015;
- with the renovation of the offices on the 3rd and 4th floors at the Milan plant, the air conditioning systems serving them were replaced. This made it possible to replace the old machines with new, more energy-efficient machines fitted with inverters. The same intervention was made to the systems serving part of the offices on the 2nd floor.

5.2. ENERGY USE AND EMISSIONS

Energy use

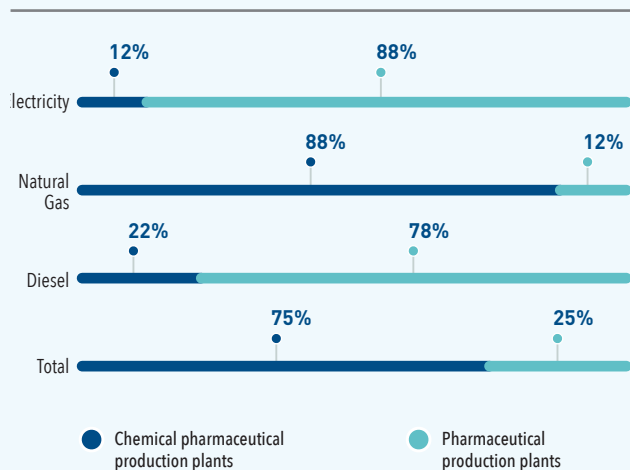
The Recordati Group manages the general use of energy resources through a range of initiatives to reduce energy use, with the aim of improving energy efficiency in all of the Group's industrial and commercial operations. The main energy resources used at the Group's production plants are electricity, natural gas, diesel and fuel oil. In 2019, the Group's plants consumed approximately 627 TJ, a slight increase of 2% compared to the previous year due to the overall increase in production volume.

In consideration of this, thanks to continuous efforts to improve energy efficiency the increase in energy use is negligible and is not proportional to the increase in the Group's industrial production. In addition, it should be noted that the share of electricity purchased from renewable sources relates to the supply of electricity for the Milan and Cork plants and for the first year also the St. Victor (France) and Campoverde di Aprilia plants. Specifically for the plants in Italy (Campoverde di Aprilia and Milan), following a study on electricity consumption, the share of energy purchased from renewable sources was increased through an update to the supply contract which provides for the supply of electricity from renewable sources guaranteed by certificates of Guarantee of Origin for the entire year 2019. These changes in supply have led to a significant increase in the share of electricity purchased from renewable sources. The use of fuel oil, attributable to the distribution plant of the French subsidiary Recordati Rare Diseases based in Nanterre, is due for 2018 to the operation of the emergency generator due to a power failure. In contrast, no exceptional need of this kind occurred in 2019, which is why consumption of this fuel has not been recorded.

ENERGY USE AT THE PRODUCTION PLANTS OF THE RECORDATI GROUP BY SOURCE¹⁹

Type of fuel	Unit of measurement	2019	2018	% Variation
Purchased electricity	kWh	29,471,706	31,671,271	-6.9%
	GJ	106,098	114,017	
<i>originating from renewable sources²⁰</i>	kWh	10,022,377	1,498,981	569%
	GJ	36,081	5,396	
Natural Gas	m ³	14,684,544	14,135,292	4.0%
	GJ	518,409	498,269	
Diesel	Litres	69,342.00	67,912.62	2.5%
	GJ	2,492	2,431	
Fuel oil	Litres	0	658	-100%
	GJ	0	27	
Total	GJ	626,999	614,744	2%

PERCENTAGE SUBDIVISION OF ELECTRICITY USE BY PRODUCTION PLANTS, SUBDIVIDED BY USAGE AND TYPE OF PLANT, 2019



Energy use in pharmaceutical production plants was recorded at approximately 155 TJ (25% of the total), in line with the values for 2018. Compared to chemical pharmaceutical plants, pharmaceutical plants used higher quantities of diesel (78% of the diesel consumed by the Group) to produce electricity and more electricity was bought from the national grid. However, in 2019 energy use by the Group's chemical pharmaceutical production plants was 472 TJ (75% of the total), a slight increase on the previous year.

ENERGY USE AT PHARMACEUTICAL PRODUCTION PLANTS BY FUEL SOURCE

Type of fuel	Unit of measurement	2019	2018	% Variation
Purchased electricity	kWh	25,915,525	26,565,569	-2.4%
	GJ	93,296	95,636	
<i>originating from renewable sources</i>	kWh	8,131,023	1,136,854	615%
	GJ	29,272	4,093	
Natural Gas	m ³	1,690,807	1,647,294	-2.8%
	GJ	59,691	58,067	
Diesel	Litres	54,342	52,521	3.9%
	GJ	1,953	1,880	
Fuel oil	Litres	0	658	-100%
	GJ	0	27	
Total	GJ	154,940	155,610	-0.4%

ENERGY USE AT CHEMICAL PHARMACEUTICAL PRODUCTION PLANTS BY FUEL SOURCE

Type of fuel	Unit of measurement	2019	2018	% Variation
Purchased electricity	kWh	3,556,181	5,105,702	-30.4%
	GJ	12,802	18,381	
<i>originating from renewable sources</i>	kWh	1,891,354	362,127	423%
	GJ	6,809	1,303	
Natural Gas	m ³	12,993,737	12,487,998	4.2%
	GJ	458,718	440,202	
Diesel	Litres	15,000	15,388	-2.2%
	GJ	539	551	
Total	GJ	472,059	459,134	2.8%

¹⁹ Lower Calorific Value (LCV) of natural gas: 0.035 GJ/m³; average density of diesel: 0.838 kg/ltr; LCV of diesel: 42.87 GJ/ltr; average density of fuel oil: 0.98 kg/ltr; LCV of fuel oil: 41.007 GJ/ltr (Source: Italian Ministry of the Environment and the Protection of Land and Sea, Table of National Standard Limits, 2018).

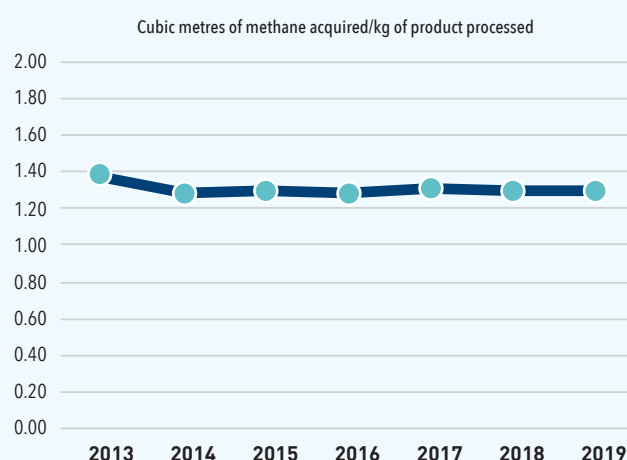
²⁰ The share of electricity purchased from renewable sources derives from the national energy mix and concerns the plants in Milan (Italy), Campoverde di Aprilia (Italy), Cork (Ireland) and St. Victor (France). However, only the supply of electricity from renewable sources from the Milan and Campoverde di Aprilia plants is guaranteed by certificates of Guarantee of Origin, and is therefore not included in the calculation of Scope 2 emissions (according to the "Market based" approach).

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. In 2019, the proportion of self-generated electricity used internally increased by 7% compared to 2018, with a slight increase also of the electricity sold and a reduction of that purchased. The increase in energy production at the Campoverde di Aprilia plant compared to 2018 relates predominantly to the malfunction of the co-generation plant in March and December 2018 which had led to the need to buy in a higher percentage of electricity. It should also be noted that while the usage of methane per kilogram of material (chemical intermediates, solvents and improvements products) at the plant remained consistent, the use of methane per turnover unit (in thousands of Euro) fell in 2019 by approximately 3%, demonstrating an improvement trend of the co-generation system's energy efficiency.

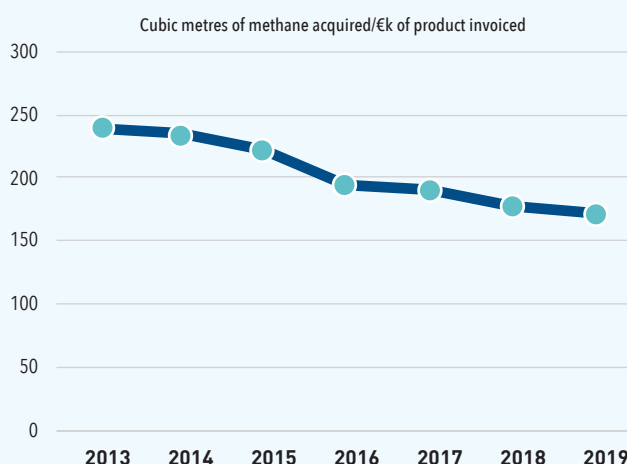
ELECTRICITY AND THERMAL ENERGY GENERATED AND SOLD BY THE CAMPOVERDE DI APRILIA CO-GENERATION PLANT

Type of fuel	Unit of measurement	2019	2018	% Variation
Self-generated electricity	kWh	31,634,104	29,685,824	7%
Consumed internally	kWh	27,762,183	25,829,795	7%
Sold externally	kWh	3,871,921	3,856,029	0.4%
Self-generated and consumed thermal energy	Kg of steam	72,099,000	65,795,000	9%

RATIO OF CUBIC METRES OF METHANE ACQUIRED AGAINST KILOGRAMS OF PRODUCT PROCESSED BY THE CAMPOVERDE DI APRILIA PLANT, 2019



RATIO OF CUBIC METRES OF METHANE ACQUIRED AGAINST TURNOVER (IN THOUSANDS OF EURO) GENERATED BY THE CAMPOVERDE DI APRILIA PLANT, 2019



THE CO-GENERATION SYSTEM AT THE CAMPOVERDE DI APRILIA PLANT

In 1994, following the increased demand for electricity and thermal energy determined by the production 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 - Figure 1) 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.



Figure 1
Exhaust gases vent and recovery boiler - Co-Generation System - Campoverde di Aprilia Plant

If this steam had not been produced by the recovery of gases in the turbine, it is estimated that in 2019 an annual amount of around 4.5 million m³ of gas would have been used.

As described above, the co-generation system at the Campoverde di Aprilia plant features a gas turbine (Figure 2) fuelled by methane gas at a pressure of 15 bar and above constructed by the company SOLAR (model TBM-T50), coupled by a reduction gearbox to a GEC Alsthom alternator.

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.

The gas turbine is composed of three main pieces of machinery: the compressor, the combustion unit and the power turbine. The compressor draws in air from the environment through filters, compressing it in the combustion chamber (combuster). The sparks generated by the spark plugs in the ignition chamber light the flame in the combustion chamber. The expansion of the discharged gases causes the power turbine to rotate, enabling the transmission of mechanical energy to the rotator shaft to which it is keyed. The final conical cog of the compressor shaft is connected to the gearbox.

The reduction gearbox, which is a coupling mechanism with a rotating body able to vary the torque and the angular speed, enables the reduction in rotation speed of the power turbine from 15,000 g/min to 1,500 g/min, the correct rotation speed for the generation of electricity at a voltage of 6300 V and a frequency of 50 Hz.

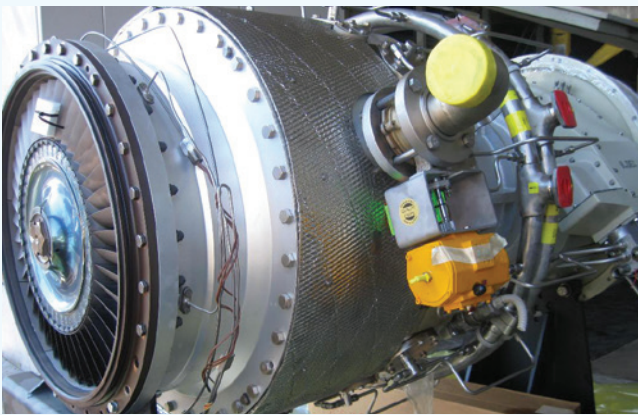


Figure 2
The gas turbine during its replacement (left); the dismantled reduction gearbox during installation (right) (August 2016)

The gas turbine and reduction gearbox continue to operate 24 hours a day year-round, except for the scheduled site closures in August (at least three weeks), in the last eight days of December and at Easter (except in the last three years).

The manufacturer of the two machines, Turbomach, recommends a full service at its offices at least every 32,000 hours of operation, which in the Campoverde di Aprilia plant is the equivalent of four years. This service requires the gas turbine and the reduction gearbox to be completely dismantled, replacing the machines with equivalent newly serviced systems with operating times reset to zero.

In 2016 the control system of the entire machine was replaced with a new, more reliable system.

Both the gas turbine and the reduction gearbox are covered by Maintenance Service Agreements and are continuously monitored by the manufacturer. Furthermore, both the turbine and the reduction unit are subject to ordinary maintenance activities twice a year by Turbomach technicians.

This enables the Recordati site at Campoverde di Aprilia to guarantee the constant supply of electricity to its systems for safety reasons.

In 2019 the combustion air filtration system of the cogeneration plant was replaced. The new filtration system consists of new modules suitable to withstand air humidity, a new air cooling system using a dedicated exchanger and a new air ducting system.

The air intake is equipped with a prefiltration system with 24 filters and a main filtration system with as many filters with a higher degree of filtration.

The new system installed has a number of advantages including a reduction in the number of compressor washes, increased efficiency of the combustion air compressor and increased dust containment capacity - a cause of lower turboalternator performance and wear and tear.

Principle initiatives to reduce energy consumption implemented by the Recordati

In recent years, the Italian Parent Group has launched a reduced energy consumption policy through the implementation of initiatives aimed at company vehicles, the technological modernisation of IT equipment such as printers and photocopiers, and the use of LED lighting. This plan is enabling the Group to reduce energy usage and mitigate the environmental impact resulting from the use of company equipment, promoting a more efficient use of energy resources and reducing CO₂ equivalent gases. Attention to the environment is therefore one of the primary themes for 2019, confirming the Group's commitment to optimising environmental impact and enhancing the value of the areas in which it operates without ever detracting from the efficiency of its tools.

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. The Recordati group obtained a C score during its first year of participation, demonstrating its awareness of the topic.

In 2019 the Group also carried out a monitoring and control activity to assess the emissions of its global fleet of company vehicles. This led the Parent Group to request a detailed six-monthly report from all branches in order to highlight the energy consumption and CO₂ emissions of vehicles used by the Group. This enabled the Group to optimise investments and evaluate corrective actions, where necessary. 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 2019, a total of 2,063 company cars were in use by employees of the Recordati Group, while the average CO₂ emissions emitted by the vehicles was 107 g/km, according to the new Worldwide Harmonized Light-Duty Vehicles Test Procedures (WLTP). For internal combustion vehicles, the application of the WLTP translates to higher official values for fuel consumption and emissions compared to the measurements made with the procedure used in 2017. Nonetheless, the Group is continuing its objective to progressively and consistently reduce this statistic over the coming years²¹. In this regard, the Group has a rigorous vehicle selection policy, encouraging the selection of technologically advanced hybrid solutions which have a reduced environmental impact.

In the last few years the Group has promoted various energy efficiency initiatives implemented at individual branches, including the gradual and systematic replacement of bulbs with new LED or energy-efficient bulbs. In addition, at the French plant in Saint Victor, a study was carried out for the installation of photovoltaic panels in order to limit energy consumption, while at the Milan plant a feasibility study was carried out for the installation of a cogeneration plant.

One important action by the Group in 2019 was the implementation of an online portal (e.point) to manage energy consumption data with collection of supply contracts and invoices for the Milan, Campoverde, Utebo, Saint Victor, Nanterre and Cork sites. The implementation of this portal made it possible, following the collection of data for the Italian sites of Milan and Campoverde di Aprilia, to calculate the total CO₂ emission from the energy purchased and to cancel it through the purchase of electricity from 100% renewable sources (Certificates of Guarantee of Origin).

For purchases made on Italian territory, a "Zero Emission" certificate was also obtained for 2019, thereby eliminating the greenhouse gas emissions associated with the purchase of electricity for the year 2019.

In 2020 a feasibility study will be carried out in order to verify the possibility of obtaining such certification also for the sites of Utebo, Saint Victor, Nanterre and Cork.

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 promoted initiatives to increase employee awareness regarding energy saving according to a training plan agreed with Parent Group and smaller projects approved at local level. In a tangible demonstration of this commitment, in 2012 the plant's efforts to reduce energy consumption were recognised by the SEAI (Sustainable Energy Authority of Ireland) with the *Energy Efficiency Award* for SMEs.

The energy efficiency initiatives at the Campoverde pharmaceutical chemical plant concerned:

- the replacement of the lamps in the office building's lighting system with LED lamps with a consequent reduction in consumption and reduction of fire risks due to incandescent lamps;
- the installation of an air conditioning system in the VRF type office building with lower power consumption;
- the installation of a new ACU for the supply of primary air into the building with lower energy consumption thanks to its heat recovery system;
- drafting of an energy analysis presented to ENEA in December 2019.

In addition, the investment for the replacement of 4 of the 5 power factor correction switchboards of the plant is currently being approved, allowing the total power factor correction capacity of these switchboards to be restored and reducing the reactive electricity consumed by the plant.

In 2019, a design study was also conducted at the Campoverde di Aprilia plant, together with an external company, for the installation of an energy monitoring system, namely the installation of a series of energy meters and a network for monitoring and recording measurements in order to be able to implement an energy consumption reduction study in the future.

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 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 harmful to the ozone. Other initiatives to reduce emissions have taken place:

- at the Saint Victor plant in France, where emission points have been equipped with air filters to prevent the release of hazardous particles. Each filtering system is regularly maintained by the internal maintenance department;
- 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, detection sensors have been installed in the most critical area of the system;

²¹ Average emissions of the vehicle fleet were calculated on the basis of estimated annual CO₂ emissions and annual mileage of company vehicles.

- at the Cork plant in Ireland, with the completion in 2017 of the project to replace obsolete refrigerators which used R-22 as the refrigerating gas with new units using R404a, a gaseous mix with a much lower impact on the ozone layer. Furthermore, all emission points at the plant in Ireland are monitored according to the requirements of the National Environment Agency;
- at the Pardubice plant in the Czech Republic, where a new air conditioning unit was installed in cleanrooms which does not contain gases such as freon which are harmful to the ozone layer. The new system also offers greater efficiency and reduces energy consumption;
- at the Cerkezkoj plant in Turkey, where all emission points were constantly monitored in 2018, with the installation of new ventilation systems in production and laboratory areas and the insertion of six new emission sources (a total of 31 points of emission have been declared). Emissions were measured by an accredited laboratory; emission values related to the production process are well below locally permitted limits. In order to constantly monitor GHG and other harmful emissions, the renewal of measurements from all sources on the site is planned for 2020.

At the Campoverde di Aprilia plant in 2019, measures implemented to reduce emissions of harmful substances into the atmosphere specifically regarded the following actions:

- after a study was conducted in 2017 to assess the optimisation of atmospheric emission treatment and mitigation systems, a new control system to moderate emissions related to the works at the Latina Wing building was installed, replacing the two existing water scrubbers (joint project with the company Amec Foster Wheeler). In 2019 the design study to strengthen the abatement system of the Rome Wing, which will be completed in 2020, was close to completion. In addition, in 2020 the project study will be carried out to strengthen the plant emission abatement system 45/46 to be able to proceed with its installation;
- in 2018 the works to recondition the discharge areas of the centrifuges used to isolate wet active substances were completed. The project aimed to isolate the discharge zone from the surrounding area and to install UTA air treatment units able to monitor particulate contamination according to the parameters set forth by the ISO 14644 guidelines for class 8 environments, or class D environments according to EU GMP;
- to minimise both pollutant emissions and fuel consumption, the EMS monitoring system for the TG1/1 and TG1 turboalternator emission chimneys was installed in 2019;
- In 2019, two additional cooling systems containing R-22 as a refrigerant gas were uninstalled and replaced with the VRF system, the chiller of the office building, and the chiller of the company canteen. Following the replacements made, in the Campoverde plant, only one refrigerating unit containing R-22 refrigerant gas remained;

- In 2019 action was taken to purchase a new drum emptying machine for emptying drums containing Thiophenol at plant 15 in order to exclude the possibility of vapours escaping during this operation. For the same purpose, in 2019, a four-yearly monitoring programme of approximately 12 km of pipelines containing hazardous substances was implemented. The monitoring, based on pipe thickness analysis, started and ended in 2019 with the first 3 km of pipeline checked. This will keep the pipelines under control and minimize the probability of leakage and therefore the emission of hazardous substances into the atmosphere.

In 2019, Scope 1 direct emissions relating to the use of energy for industrial production (natural gas, diesel and fuel oil) remained mainly in line with those of the previous year; furthermore, in 2018 the proportion of Scope 1 direct emissions caused by the Group's fleet of vehicles fell by approximately 20%.

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 39% under the Market based approach. The latter high reduction is due to the purchase of energy from renewable sources certified by Guarantee of Origin for the Milan and Campoverde di Aprilia plants.

GREENHOUSE GAS EMISSIONS (TONS OF CO₂) FROM RECORDATI'S PRODUCTION FACILITIES AND CAR FLEET ²²

	2019	2018	% Variation
Direct emissions (Scope 1)	36,904	35,232	5%
<i>Relating to energy consumption</i>	29,185	28,056	4%
<i>Relating to the company vehicle fleet²³</i>	7,719	7,176	7%
Indirect emissions (Scope 2) - Location-based approach ²⁴	10,705	11,407	-6%
Indirect emissions (Scope 2) - Market-based approach ²⁵	8,201	13,427	-39%

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 2019. Other emissions into the atmosphere 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 90% of total annual emissions are recorded.

²² Source of emission coefficient data for natural gas, diesel and fuel oil: Italian Ministry of the Environment and the Protection of Land and Sea, Table of National Standard Limits, 2019.

²³ Scope 1 emissions relating to the use of fuel oil by company vehicles have been estimated based on the average mileage of each car and the average emission rating of fleet vehicles (107 g/km).

²⁴ 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, 2017).

²⁵ The market-based approach uses an emission factor defined on a contractual basis with the electricity supplier. Given the supply of electricity from renewable sources from the Milan and Campoverde di Aprilia plants guaranteed by certificates of Guarantee of Origin, these plants have not been included in the calculation of Scope 2 emissions (according to the "Market based" approach). For all other plants, given the absence of specific contractual agreements with electricity suppliers, the emission factors relating to the national "residual mix" (source of the residual mix) were used: AIB European Residual Mixes 2018 (Version 1.2, 2019-07-11) and AIB European Residual Mixes 2017 (Version 1.13, 2018-07-11).

OTHER EMISSIONS (KG/YEAR) FROM RECORDATI GROUP'S PRODUCTION FACILITIES²⁶

	2019	2018
Nitric oxide (NO _x)	13,802	11,389
Sulphur oxide (SO _x)	75	25
Persistent Organic Pollutants (POP)	0	0
Volatile Organic Pollutants (VOC)	2,586	4,178
Hazardous Air Pollutants (HAP)	1,916	1,923
Particulate Matter (PM)	3,848	4,103
Methane (CH ₄)	0	0
Others	5,469	415

5.3. MANAGEMENT OF WATER RESOURCES

In recognition of the value of natural resources, the Recordati Group is developing production processes aimed at reducing water usage. In particular:

- 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 and 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 is 110,330 m³/year and corresponds to approximately 4% of the Group's annual water intake. Each year, the chemical and physical characteristics (pH, suspended solids, BOD5, COD, metals, aromatic solvents, chlorinated aromatic solvents, aliphatic solvents and surfactants) of the waste water, non-potable groundwater and potable water from the aqueduct are monitored at the Milan plant on a monthly basis;
- for the building in Milan, 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 with geothermal heat pump technology, a new well was excavated in 2019 to replace the one currently in use, which will subsequently be used as a back-up;
- at the Cork plant in Ireland, particular focus was given to water use, particularly water used to ensure the correct operation of the scrubbers. In any case, water usage is constantly monitored to identify any anomalies and facilitate prompt intervention when required. At the same plant, in 2017 a study was carried out to assess the current performance of the biological process used to treat waste water, identifying any measures that could improve the treatment process in terms of stability and the effective removal of polluting substances. This study, which aimed to verify the plant's compliance with the more stringent regulations due to enter into force in the coming years, was completed in 2018. The new legislation will be in force from 2020 and for such purpose a specific budget was approved in 2019 to adapt to the new regulations and comply with the legislative requirements;

- at the Utebo factory in Spain, groundwater used to ensure the correct operation of the heat pumps in the heating and air conditioning system is returned to the groundwater system;
- at the Saint Victor plant in France, all industrial waste water is treated in a 20 m³ tank before being disposed of as pharmaceutical waste. 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. Furthermore, a study is currently being conducted into the recovery of grey water for cooling and irrigation purposes.

In 2019, the overall water intake at the Group's production plants fell by 11% compared to 2018. In particular, total water intake in 2019 was 2.5 million cubic metres, of which 34% was surface water, 55% was groundwater and the remaining part was taken from aqueducts. It should also be noted that in 2019, 20% of total water intake at the Group's production plants was recycled and reused internally.

WATER INTAKE AT RECORDATI GROUP PRODUCTION PLANTS BY SOURCE

	Unit of measurement	2019	2018	% Variation
Surface water	m ³	854,060	1,204,150	-29%
Groundwater	m ³	1,374,022	1,364,326	1%
Aqueduct	m ³	289,472	248,506	16%
Total	m³	2,517,554	2,816,982	-11%

PERCENTAGE OF RECYCLED WATER AT RECORDATI GROUP PRODUCTION PLANTS

	2019		2018		
	Unit of measurement	Total	% of total water intake	Total	% of total water intake
Quantity of water recycled and reused	m ³	493,436	20%	471,287	17%

²⁶ Any significant changes in other emissions into the atmosphere 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.

5.4. 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 with an internal code: HW (Hazardous Waste) such as solvents, excess pharmaceuticals, filters, pharmaceutical waste and contaminated celite, and SNHW (Special Non-Hazardous Waste) such as clean glass, special waste similar to sold urban waste (SUW), paper, cardboard, wood and iron. 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. From 2020, non-hazardous waste from the production process will be sent to a waste-to-energy plant (a plant in which, using the heat developed during the combustion of waste, steam is produced and used for the direct production of electricity).

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. As well as the paper forms used to identify transported waste, the SISTRI Waste Tracking System is also applied, enabling the prompt and accurate tracking of special waste throughout the supply chain.

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 certain types of waste, this project has resulted in a significant reduction in costs, due not only to the internal management but also the reduction in number of transport journeys and containers used. The reduction in the number of journeys is in line with the policy of reducing external environmental impacts;
- 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, following a specialised study, a new procedure is currently being developed at the Cork plant to provide a detailed emergency plan to manage the release of thionyl chloride, the most reactive and hazardous chemical used in the plant processes;
- 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. A project has also been developed for the possible recycling of wastewater discharges for water reuse through an effluent evaporation system. Through this process only the sludge to be disposed of as waste would remain and annual water consumption would be reduced. In addition, a project is being implemented at the French site of St. Victor for the disposal and recycling of used batteries in collaboration with the Telethon organization;
- at the Cerkezoy plant in Turkey, all waste is classified according to three main categories: domestic waste (such as food waste), recyclable and non-hazardous waste (such as paper, cardboard, plastic, glass and aluminium packaging) and hazardous waste. A specific policy has been adopted at the plant to regulate waste collection, storage, recycling and transfer procedures. This policy includes a waste tracking system which monitors the transfer of special waste throughout the supply chain in real time. In 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 waste water treatment plant, a number of improvements have been made which have led to a reduction in the pollution values of waste water. Furthermore, these optimisation measures 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 compressor units have been installed, one for paper and cardboard and one for special waste similar to SUW.

A total of 6,063 tonnes of waste was produced in 2019, of which 56% was hazardous waste (substances defined as hazardous in the country of origin) and 44% 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

Metodo di smaltimento	Unit of measurement	2019			2018		
		Hazardous waste	Non-hazardous waste	Total	Hazardous waste	Non-hazardous waste	Total
Reuse	tonnes	3	1	4	-	1	1
Recycling	tonnes	44	600	644	36	551	587
Compost	tonnes	-	24	24	-	24	24
Recovery	tonnes	1,420	803	2,223	1,606	957	2,563
Incineration	tonnes	530	25	555	403	18	421
Landfill	tonnes	55	35	90	34	72	106
Storage on site	tonnes	3	-	3	2	-	2
Other ²⁷	tonnes	1,322	1,198	2,520	1,121	1,067	2,188
Total	tonnes	3,377	2,686	6,063	3,202	2,690	5,892

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 to reducing the amount of packaging entering the waste system and increasing consumer recycling activities through re-engineering its products. The Group ensures that the materials used in its packaging can be recycled or incinerated without causing any negative environmental impacts or producing hazardous waste.

For example, the paper and cardboard used for the boxes and the paper used for the package leaflets are completely recyclable and use ecologically sustainable materials such as wood pulp from responsibly managed forests. Moreover, where possible the Recordati Group is committed to reducing the weight of packaging material and the proportion of non-recyclable waste. When coordinating these initiatives, the Group works with national recycling organisations such as CONAI (Consorzio Nazionale Imballaggi).

²⁷ 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.

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.

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
Compliance and business ethics	GRI 419: Socio-economic compliance	Fight against active and passive corruption	Recordati Group	Caused by the Group
	GRI 206: Anti-competitive practices			
Anti-corruption	GRI 205: Anti-corruption	Fight against active and passive corruption	Recordati Group	Caused by the Group
Risk management	N/A	N/A	Recordati Group	Caused by the Group
Corporate Governance	N/A	N/A	Recordati Group	Caused by the Group
Financial performance	GRI 201: Financial performance	Social	Recordati Group; Investors and the financial community	Caused by the Group
Market presence	GRI 202: Market presence	Relating to staff	Recordati Group;	Caused by the Group
Commitment to local communities	GRI 203: Indirect financial impacts	Social	Recordati Group; Local community;	Caused by the Group
Access to medical products and health insurance	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
Patient health and safety	GRI 416: Customer health and safety	Social	Recordati Group; Clients and consumers; Patients and associations	Caused by the Group
Anti-counterfeiting	GRI-417: Marketing and labelling	N/A	Recordati Group	Caused by the Group
Responsible marketing	GRI-417: Marketing and labelling	N/A	Recordati Group;	Caused by the Group
Product quality and safety	GRI 416: Customer health and safety	Social	Recordati Group	Caused by the Group
Procurement practices	GRI 414: Supplier Social Assessment	Social	Recordati Group; Suppliers and strategic partners	Caused by the Group and directly connected to its activities
	GRI 308: Supplier Environmental Assessment	Environmental		
HR management	GRI 401: Employment	Relating to staff	Recordati Group; Employees	Caused by the Group
Diversity and equal opportunities	GRI 405: Diversity and equal opportunities	Relating to staff	Recordati Group; Employees	Caused by the Group
Employee health and safety	GRI 403: Health and safety in the workplace	Relating to staff	Production plants; Suppliers and strategic partners	Caused by the Group and directly connected to its activities
Training and development	GRI 404: Training and education	Relating to staff	Recordati Group; Employees	Caused by the Group
Human rights	GRI 414: Supplier Social Assessment	Human rights	Recordati Group; Suppliers and strategic partners	Caused by the Group and directly connected to its activities
Efficient use of natural resources	GRI 302: Energy	Environmental	Production plants	Caused by the Group
	GRI 303: Water			
Environmental conservation	GRI 305: Emissions	Environmental	Production plants	Caused by the Group
	GRI 307: Environmental compliance			
Disposal of chemical products and pharmaceuticals	GRI 306: Effluents and waste	Environmental	Production plants	Caused by the Group

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 Organisation	Page 114
102-2	Activities, brands, products, and services	Page 116; Annual Report, “Business activities” section
102-3	Location of headquarters	Page 114
102-4	Location of operations	Pages 12-13; page 116
102-5	Ownership and legal form	Corporate Governance and Share Ownership Report, “Issuer profile and general information” section
102-6	Markets served	Page 116
102-7	Scale of the organisation	Page 133; Annual Report, “Summary of results” section; Corporate Governance and Share Ownership Report, “Issuer profile and general information” section
102-8	Information on employees and other workers	Pages 133-134; page 136; page 138
102-9	Supply chain	Pages 130-131
102-10	Significant changes to the organisation and its supply chain	Pages 114-115; Corporate Governance and Share Ownership Report, “Introduction” and “Share ownership information” sections
102-11	Precautionary Principle or approach	Pages 119-121
102-12	External initiatives	Pages 122-124
102-13	Membership of associations	Page 124; pages 127-128
Strategy		
102-14	Statement from senior decision-maker	Annual Report, “Letter to Shareholders” section
102-15	Principle impacts, risks and opportunities	Pages 120-121
Ethics and integrity		
102-16	Values, principles, standards, and norms of behaviour	Pages 117-119
Governance		
102-18	Governance structure	Corporate Governance and Share Ownership Report, “Issuer profile and general information” section
Stakeholder engagement		
102-40	List of stakeholder groups	Page 123
102-41	Collective bargaining agreements	Page 137
102-42	Identifying and selecting stakeholders	Pages 122-123
102-43	Approach to stakeholder engagement	Pages 122-123
102-44	Key aspects revealed by stakeholder engagement initiatives	Page 125
Reporting practices		
102-45	Entities included in the Consolidated Financial Statements	Pages 114-115
102-46	Defining report content and topic boundaries	Pages 114-115; page 159

Indicator		References and other information	Omissions
102-47	List of material topics	Page 125; page 159	
102-48	Restatements of information	Pages 114-115	
102-49	Changes in reporting	Pages 114-115; page 125; page 159	
102-50	Reporting period	Page 114	
102-51	Date of most recent report	<i>The previous Consolidated Non-Financial Statement was published by the Recordati Group on 15 March 2019.</i>	
102-52	Reporting cycle	Page 115	
102-53	Contact point for questions regarding the report	Page 115	
102-54	Chosen "in accordance" option	Page 114	
102-55	GRI content index	Pages 160-166	
102-56	External assurance	Pages 168-172	

TOPIC-SPECIFIC STANDARDS

GRI 200: ECONOMIC SERIES (2016)

Material aspect: Financial performance

GRI-103: Management approach (2016)

103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Page 126
103-3	Evaluation of the management approach	Page 126

GRI-201: Financial performance (2016)

201-1	Direct economic value generated and distributed	Page 126
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Material aspect: Market presence

GRI-103: Management approach (2016)

103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Pages 133-134
103-3	Evaluation of the management approach	Pages 133-134

GRI-202: Market presence (2016)

202-2	Proportion of senior management hired from the local community	Page 134
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Material aspect: Indirect financial impacts

GRI-103: Management approach (2016)

103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Pages 127-128
103-3	Evaluation of the management approach	Pages 127-128

Indicator	References and other information	Omissions
GRI-203: Indirect financial impacts (2016)		
203-1	Infrastructure investments and services supported	Page 127
Material aspect: Anti-corruption		
GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Pages 117-119
103-3	Evaluation of the management approach	Pages 117-119
GRI-205: Anti-corruption (2016)		
205-1	Operations assessed for risks related to corruption	Pages 117-119
205-3	Confirmed incidents of corruption and actions taken	Page 119
Material aspect: Anti-competitive behaviour		
GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Pages 117-119
103-3	Evaluation of the management approach	Pages 117-119
Material aspect: Anti-competitive behaviour (2016)		
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	<i>No legal action for anti-competitive behaviour, anti-trust cases or monopoly practices was reported during the year.</i>
GRI 300: ENVIRONMENTAL SERIES (2016)		
Material aspect: Energy		
GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Pages 148-154
103-3	Evaluation of the management approach	Pages 148-154
GRI-302: Energy (2016)		
302-1	Energy consumption within the organisation	Pages 149-151 <i>This indicator considers production plants only, except for the site in Milan, Italy, where site offices were also considered.</i>
Material aspect: Water		
GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Pages 148-149; page 156
103-3	Evaluation of the management approach	Page 156
GRI-303: Water (2016)		
303-1	Water intake by source	Page 156 <i>This indicator considers production plants only, except for the site in Milan, Italy, where site offices were also considered.</i>

Indicator		References and other information	Omissions
Material aspect: Emissions			
GRI-103: Management approach (2016)			
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159	
103-2	The management approach and its components	Pages 148-149; pages 154-156	
103-3	Evaluation of the management approach	Pages 154-156	
GRI-305: Emissions (2016)			
305-1	Indirect (Scope 1) GHG emissions	Page 155 <i>This indicator considers only the Group's car fleet and production plants only, except for the site in Milan, Italy, where site offices were also considered.</i>	
305-2	Indirect (Scope 2) GHG emissions	Page 155 <i>This indicator considers production plants only, except for the site in Milan, Italy, where site offices were also considered.</i>	
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	Page 156 <i>This indicator considers production plants only, except for the site in Milan, Italy, where site offices were also considered.</i>	
Material aspect: Effluents and waste			
GRI-103: Management approach (2016)			
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159	
103-2	The management approach and its components	Pages 148-149; pages 157-158	
103-3	Evaluation of the management approach	Pages 157-158	
GRI-306: Effluents and waste (2016)			
306-2	Waste by type and disposal method	Pages 157-158 <i>This indicator considers production plants only, except for the site in Milan, Italy, where site offices were also considered.</i>	
Material aspect: Environmental compliance			
GRI-103: Management approach (2016)			
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159	
103-2	The management approach and its components	Pages 148-149	
103-3	Evaluation of the management approach	Pages 148-149	
GRI-307: Environmental compliance (2016)			
307-1	Non-compliance with environmental laws and regulations	<i>In 2019 the Group did not record any cases of breaches of environmental laws and regulations.</i>	
Material aspect: Supplier Environmental Assessment			
GRI-103: Management approach (2016)			
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159	
103-2	The management approach and its components	Page 118; pages 129-131	
103-3	Evaluation of the management approach	Pages 129-131	

Indicator	References and other information	Omissions
GRI-308: Supplier Environmental Assessment (2016)		
308-1	New suppliers that were screened using environmental criteria Page 118; page 131	<i>As per the new procurement process, all suppliers for Italian Companies are selected based on compliance to environmental regulations. This process will be extended to all Group Companies by the end of 2021.</i>

GRI 400: SOCIAL SERIES (2016)**Material aspect: Employment**

GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Pages 134-138
103-3	Evaluation of the management approach	Pages 134-138
GRI-401: Employment (2016)		
401-1	New employee hires and employee turnover	Page 135
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Pages 137-138 <i>The benefits described do not vary based on contract type or professional level.</i>

Material aspect: Health and safety in the workplace

GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Pages 142-147
103-3	Evaluation of the management approach	Pages 142-147
GRI-403: Occupational health and safety (2016)		
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Pages 145-147 <i>This indicator considers production plants only, with the exception of sites in Italy (Milan), Spain, Tunisia and France (Bouchara), for which office and commercial staff are also considered.</i>

Material aspect: Training and education

GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Pages 139-141
103-3	Evaluation of the management approach	Pages 139-141
GRI-404: Training and education (2016)		
404-1	Average hours of training per year per employee	Page 140
404-2	Programs for upgrading employee skills and transition assistance programs	Pages 140-141

Material aspect: Diversity and equal opportunities

GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Pages 133-134; pages 136-139
103-3	Evaluation of the management approach	Pages 133-134; pages 136-139

Indicator	References and other information	Omissions
GRI-405: Diversity and equal opportunities (2016)		
405-1	Diversity of governance bodies and employees	Page 134; page 136; Corporate Governance and Share Ownership Report, "Board of Administrators" section
405-2	Ratio of basic salary and remuneration of women to men	Page 139
Material aspect: Supplier Social Assessment		
GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Page 118; pages 129-131
103-3	Evaluation of the management approach	Pages 129-131
GRI-414: Supplier Social Assessment (2016)		
414-1	New suppliers that were screened using social criteria	Page 118; page 131
		<i>As per the new procurement process, all suppliers for Italian Companies are selected based on compliance to environmental regulations. This process will be extended to all Group Companies by the end of 2021.</i>
Material aspect: Customer health and safety		
GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Page 129
103-3	Evaluation of the management approach	Page 129
GRI-416: Customer health and safety (2016)		
416-1	Assessment of the health and safety impacts of product and service categories	Page 129
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Page 129
Material aspect: Marketing and labelling		
GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Page 129; page 132
103-3	Evaluation of the management approach	Page 129; page 132
GRI-417: Marketing and labelling 2016		
417-2	Incidents of non-compliance concerning product and service information and labelling	Page 129
417-3	Incidents of non-compliance concerning marketing communications	Page 129
Material aspect: Socio-economic compliance		
GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159
103-2	The management approach and its components	Page 129
103-3	Evaluation of the management approach	Page 129

Indicator		References and other information	Omissions
GRI-419: Socio-economic compliance (2016)			
419-1	Non-compliance with laws and regulations in the social and economic area	Page 129	
Material aspect: Risk management			
GRI-103: Management approach (2016)			
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159	
103-2	The management approach and its components	Pages 119-121	
103-3	Evaluation of the management approach	Pages 119-121	
Material aspect: Corporate Governance			
GRI-103: Management approach (2016)			
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159	
103-2	The management approach and its components	Pages 116-119	
103-3	Evaluation of the management approach	Pages 116-119	
Material aspect: Access to medical products and health insurance			
GRI-103: Management approach (2016)			
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159	
103-2	The management approach and its components	Page 128	
103-3	Evaluation of the management approach	Page 128	
Material aspect: Research and development			
GRI-103: Management approach (2016)			
103-1	Explanation of the material topic and its boundary	Page 114; page 125; page 159	
103-2	The management approach and its components	Pages 129-130	
103-3	Evaluation of the management approach	Pages 129-130	

Milan, 18 March 2020

p. Board of Directors
 Chief Executive Officer
 Andrea Recordati

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT



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(Translation from the Italian original which remains the definitive version)

Independent auditors' report on the consolidated non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of the Consob Regulation adopted with Resolution no. 20267 of 18 January 2018

*To the board of directors of
 Recordati Industria Chimica e Farmaceutica S.p.A.*

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "decree") and article 5 of the Consob (the Italian Commission for listed companies and the stock exchange) Regulation adopted with Resolution no. 20267 of 18 January 2018, we have been engaged to perform a limited assurance engagement on the 2019 consolidated non-financial statement of the Recordati Group (the "group") prepared in accordance with article 4 of the decree and approved by the board of directors on 18 March 2020 (the "NFS").

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Recordati Industria Chimica e Farmaceutica S.p.A. (the "parent") for the NFS

The directors are responsible for the preparation of an NFS in accordance with articles 3 and 4 of the decree and the "Global Reporting Initiative Sustainability Reporting Standards" issued in 2016 by GRI - Global Reporting Initiative (the "GRI Standards").

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of an NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for the identification of the content of the NFS, considering the aspects indicated in article 3.1 of the decree and the group's business and characteristics, to the extent necessary to enable an understanding of the group's business, performance, results and the impacts it generates.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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 Pescara Roma Torino Treviso
 Trieste Varese Verona



Recordati Group
Independent auditors' report
 31 December 2019

The directors' responsibility also includes the design of an internal model for the management and organisation of the group's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the group's policies and the identification and management of the risks generated or borne.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, compliance with the decree's provisions.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibility

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the NFS with the requirements of the decree and the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries, primarily of the parent's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

- 1 Analysing the material aspects based on the group's business and characteristics disclosed in the NFS, in order to assess the reasonableness of the identification process adopted on the basis of the provisions of article 3 of the decree and taking into account the reporting standards applied.
- 2 Analysing and assessing the identification criteria for the reporting scope, in order to check their compliance with the decree.



Recordati Group
 Independent auditors' report
 31 December 2019

- 3 Comparing the financial disclosures presented in the NFS with those included in the group's consolidated financial statements.
- 4 Gaining an understanding of the following:
 - the group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the decree;
 - the entity's policies in connection with the aspects set out in article 3 of the decree, the achieved results and the related key performance indicators;
 - the main risks generated or borne in connection with the aspects set out in article 3 of the decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 5a).

- 5 Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

Specifically, we held interviews and discussions with the parent's management personnel. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

Furthermore, with respect to significant information, considering the group's business and characteristics:

- at parent and subsidiaries level,
 - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence,
 - b) we carried out analytical and limited procedures to check, on a sample basis, the correct aggregation of data in the quantitative information;
- we visited the Recordati Industria Chimica e Farmaceutica S.p.A.'s Milan site, which we have selected on the basis of its business, contribution to the key performance indicators at consolidated level and location, to meet its management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators. With reference to the subsidiary Recordati Ireland Ltd., we performed the same procedures through inquiries over the telephone.



Recordati Group
Independent auditors' report
31 December 2019

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2019 consolidated non-financial statement of the Recordati Group has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the decree and the GRI Standards.

Milan, 7 April 2020

KPMG S.p.A.

(signed on the original)

Claudio Mariani
Director of Audit

CORPORATE GOVERNANCE REPORT AND OWNERSHIP STRUCTURE

FINANCIAL YEAR 2019

pursuant to article 123 *bis* of the Consolidated Law on Finance no 58 of 24 February 1998

Approved on 18 March 2020 by the Board of Directors

Website: www.recordati.it

GLOSSARY

CG Code: the Corporate Governance Code for listed companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., the Italian Banking Association, Ania (national insurance association), Assogestioni (national association of asset management companies), Assonime (association of joint stock companies) and Confindustria (Confederation of Italian Industry). It should be noted that the Committee published a new version of the Code on 31 January 2020, to be applied by listed companies as from 2021, which the Company is currently examining in order to assess its most appropriate application.

CC: the Italian Civil Code.

Board: the Board of Directors of Recordati S.p.A.

Issuer: Recordati S.p.A.

Year: the financial year to which this Report relates (2019).

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 the Consob with Resolution No. 17221 of 12th March 2010 (as subsequently amended) concerning transactions with related parties.

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: Legislative Decree No. 58 dated 24th February 1998, (*Testo Unico della Finanza*) the TUF.

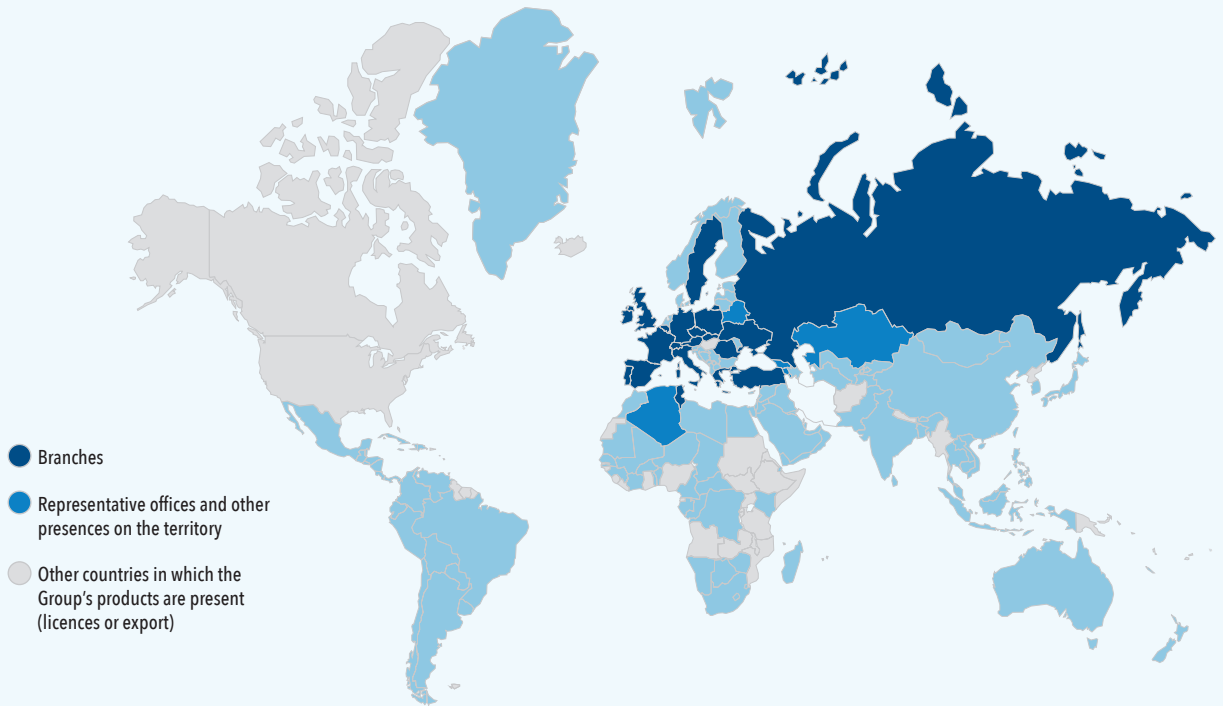
1. PROFILE OF THE ISSUER AND GENERAL INFORMATION

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 Spa (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 31 December 2019, 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

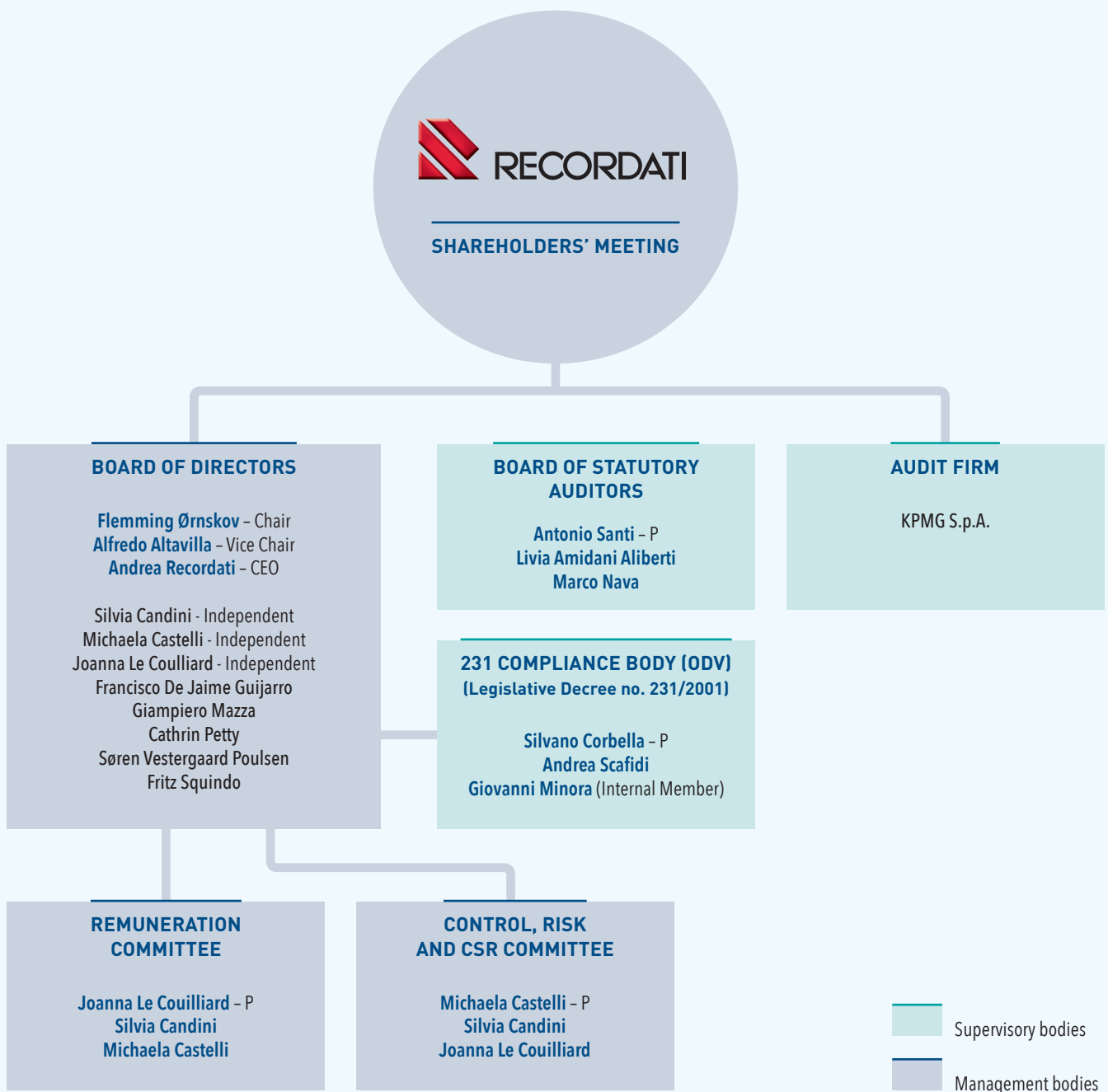


The primary objective of Recordati's corporate governance system is the creation of value for shareholders, without, however, losing sight of the social importance of the activity performed and of all the stakeholders involved. Recordati's values are identified in the Code of Ethics, updated, most recently, by the Board of Directors on 4 May 2017 (which may be consulted on the Recordati website¹).

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 Committee and the Control, Risk and CSR Committee, both consisting exclusively of independent directors.

Below is a graph representing the corporate governance structure of the Company as at 18 March 2020:



¹ http://www.recordati.it/en/corporate_governance/compliance_programmes/recordati-code-of-ethics-amended-on-4th-may-2017.pdf

Recordati adheres to and complies with the Corporate Governance Code for listed companies as published in July 2018² with the additions and necessary amendments resulting from the characteristics of the Group as mentioned in this Report. It should be noted that the Corporate Governance Committee published a new version of the Code on 31 January 2020 in order to be applied by listed companies from 2021 onwards, which the Company is currently examining in order to assess its most appropriate application.

The information contained in this document, unless otherwise indicated, refers to the financial year ended 31 December 2018 and, in relation to specific issues, updated at the date of its approval by the Board of Directors (18 March 2020).

In some cases the Report makes reference to documents and information which may be consulted on the Company's website (<http://www.recordati.it>).

Change of Control (2018) and takeover bid (2019)

It should be recalled, as already reported in the previous 2018 Corporate Governance Report, that on 29 June 2018, the members of the Recordati family, then as shareholders of Fime 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 share capital of Fime S.p.A. which, on that date, held 51.79% of the Company's share capital.

On 6 December 2018, in implementing the aforementioned agreement, the shareholders of Fime S.p.A. completed the transfer of their entire shareholding in Fime S.p.A. to Rossini Investimenti S.p.A. (a company designated for this purpose under the aforementioned agreement).

As a result of this transfer, CVC Capital Partners VII Limited became the controlling shareholder of the Company pursuant to article 2359, paragraph 1, number 2, of the Civil Code and article 93 of the TUF, as evidenced by the notification received pursuant to article 120 of Legislative Decree no. 58/1998.

Also on 6 December 2018, following the transfer of the aforementioned shares, the legal requirements were met for the promotion by Rossini Investimenti S.p.A. of a mandatory takeover bid, pursuant to and for the purposes of articles 102 and 106, paragraph 1-bis, of the TUF concerning a maximum of no. 97,735,180 ordinary shares of the Company, representing 46.735% of the share capital of Recordati S.p.A. and excluding the no. 5,172,571 of the Issuer's treasury shares, equal to 2.473%, and including a maximum of 2,091,500 ordinary shares of Recordati S.p.A. in the event that all stock options deriving from the existing Stock Option Plans are exercised (the "Mandatory Takeover Bid").

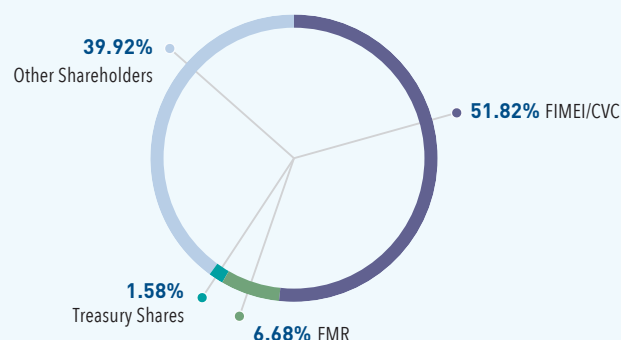
On 21 December 2018, the Mandatory Takeover Bid was authorised by Consob and on 2 January 2019 the subscription period began.

On 1st February 2019, the subscription period for the Mandatory Takeover Bid was completed: no. 59,816 ordinary shares of Recordati S.p.A. were subscribed, equal to 0.061% of the shares that were concerned by the Bid and, therefore, equal to approximately 0.029% of the Company's share capital. Therefore, on 8 February 2019, the date of payment of the transfer price owed to the holders of the subscribed shares and the simultaneous transfer of these shares to the bidder, the shareholding held by Fime (as the actual purchaser designated in the Bid) in Recordati S.p.A. was equal to 51.820% of the share capital.

In consideration of the final results of the Mandatory Takeover Bid, the conditions for the exercise of the Commitment and the Right to Squeeze-out pursuant to article 108, paragraphs 1 and 2, and article 111 of the TUF were not met.

2. OWNERSHIP STRUCTURE (pursuant to Art. 123-bis, paragraph 1 of the TUF)

Below is a graph representing the ownership structure as at 31 December 2019.



a) Structure of the share capital and rights attaching to shares (pursuant to Art. 123 bis, paragraph 1, letter a) of the Consolidated Finance Act)

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; Art. 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 Art. 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 84-quater of the Issuers' Regulations may also be consulted, available on the Company website (http://www.recordati.it/en/corporate_governance/remuneration/remuneration_reports/).

² This may be consulted on the website of Borsa Italiana: <http://www.borsaitaliana.it>.

STRUCTURE OF THE SHARE CAPITAL

	No. Shares	% of share capital	Listed/unlisted
Ordinary shares	209,125,156	100	Listed on the <i>Mercato Telematico Azionario</i> (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 Art. 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 Art. 123-bis, paragraph 1, letter c) of the TUF)

On the basis of notifications received, in accordance with article 120 of Legislative Decree no. 58/1998 and other information received, as at 17 March 2020, the following parties held shares, either directly or indirectly, amounting to more than 3% of the share capital ("significant holdings").

SIGNIFICANT SHAREHOLDINGS

Declarant	Shareholder	Percentage (%) of ordinary share capital	Percentage (%) of voting share capital*
CVC CAPITAL PARTNERS	FIMEI S.p.A.	51.82%	51.82%
	Fidelity Management & Research Company LLC		
	Fidelity Management & Research (Japan) Limited		
	FIAM LLC		
	FMR Investment Management (UK) Limited		
FMR LLC	Fidelity Institutional Asset Management Trust Company	6.675%	6.675%

* As is known treasury stock consists of shares on which voting rights are only temporarily suspended in accordance with the law.

As at 18 March 2020, Recordati S.p.A. also held no. 4,210,619 treasury shares equal to 2.0134% 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 Art. 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 Art. 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 Art. 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 Art. 123-bis, paragraph 1, letter g) of the TUF)

On 29 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 July 4, 2018, this Contract was published pursuant to art. 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 6 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 29 June 2018, Rossini Holdings S.à.r.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.à.r.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 4 July 2018, these Agreements were disclosed pursuant to art. 122 of the TUF.

On 6 December 2018, two agreements were executed amending the aforementioned Investment Agreements, both of which were notified pursuant to art. 122 of the TUF on 11 December 2018.

On 6 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 art. 122 of the TUF (the "PSP Shareholders' Agreement").

This PSP Shareholders' Agreement was published pursuant to art. 122 of the TUF on 11 December 2018.

On 6 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 art. 122 of the TUF (the "Alpinvest Shareholders' Agreement"). This Alpinvest Shareholders' Agreement was published pursuant to art. 122 of the TUF on 11 December 2018.

On 19 February 2019, with reference to the investment agreements executed between Andrea Recordati, on one hand, and Rossini Luxembourg S.à r.l. and Rossini Holdings S.à r.l., on the other hand, on June 29th 2018 (as amended on December 6th 2018) (hereinafter referred to as the "AR Agreements"), which include some significant shareholders' agreements pursuant to art. 122 of the TUF, paragraph 1 and 5 and were already disclosed to public on 1st July and 11st December 2018, the following amendment was disclosed: on February 14th 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.à r.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 n.5, registered at 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.à r.l. and Rossini Holdings S.à r.l., on the other hand, as subsequently amended on December 6th, 2018 likewise the AR Agreements the "FS Agreements"), which were disclosed to the market on 4th July and 11st December 2018. On 14th February 2019, the Rossini Luxembourg shares subject to the FS Agreement have been 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 Art. 123 bis, paragraph 1, letter h) of the TUF) and By-Laws provisions concerning public tender offers to purchase (pursuant to Art. 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 – for a total of €864 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 Art. 104, paragraphs 1 *ter* of the Consolidated Law on Finance nor do they allow the application of neutralisation rules pursuant to Art. 104-bis, paragraphs 1 of the Consolidated Finance Act.

i) Authorisation for increase of share capital and acquisition of treasury shares (pursuant to Art. 123-bis, paragraph 1, letter m) of the TUF)

The Board of Directors was authorised to increase share capital, pursuant to CC Art. 2443, by a Shareholders' Meeting of 11 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 CC Art. 2441, last paragraph and TUF Art. 134, second paragraph, 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 Art. 2420-ter of the C.C. 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 11 April 2019 a Shareholders' Meeting renewed the authorisation to purchase and assign treasury shares, pursuant to CC articles 2357 *et seq.*, until approval of the financial statements at 31 December 2019, scheduled for 29 April 2020. 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 7,500,000, which corresponds to a total potential payment of not more than was €280,000,000, 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. 3,308,571 treasury shares in portfolio, which represented 1.5821% of the share capital.

On the basis of this shareholders' resolution, on 18 February 2020, a treasury share purchase programme 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 9 March 2020. On 13 March 2020, a new programme was launched, for the same purpose. On the basis of the first programme, the Company purchased no. 878,970 for a total disbursement of EUR 33,999,837.75. In implementation of the second programme, the Company, starting from 13 March 2020 until 17 March 2020, purchased no. 342,578 for a total disbursement of EUR 11,342,671.72.

In consideration of the expiry of the current authorisation which will occur when the Shareholders' Meeting is held to approve the financial statements as at 31 December 2019, the Board resolved to submit a proposal to the Shareholders' Meeting convened to approve the 2019 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 relative item on the agenda, which will be made available within the legal time limits on the Company website and elsewhere, may be consulted for further information.

j) Management and co-ordination (pursuant to Art. 2497 *et seq.* of the CC)

On 28 February 2019, the Company's Board of Directors, newly appointed by the Shareholders' Meeting of 5 February 2019, established the management and coordination activities carried out by Rossini Luxembourg S.à.r.l. in relation to Recordati S.p.A. pursuant to articles 2497 and following of the CC. On the same date, the Board of Directors verified that the Company meets the requirements set out in Article 16, paragraph 1, letter b), c) and d) of the Market Regulations approved by Consob with resolution 20249/2017. The Company has therefore complied with the disclosure requirements set forth in article 2497-*bis* of the Italian Civil Code, as per art. 16, paragraph 1, letter a) of the same Regulation, in accordance with the law.

The exercise of this activity by Rossini Luxembourg S.à.r.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.

Specific regulations on the management and coordination activities carried out by Rossini Luxembourg S.à.r.l. on Recordati S.p.A. and on the information flows of Recordati S.p.A. to, in particular, Rossini Luxembourg S.à.r.l. were approved by the Board of Directors of Recordati S.p.A. in 2019, following a process which involved, from the onset, the independent directors and the Board of Statutory Auditors.

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 Art. 123 *bis*, paragraph one, 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 Report on Remuneration published in accordance with Art. 123-ter of the TUF. The information required by Art. 123 *bis*, paragraph one, 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 ART. 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 edition of the Code, which may be consulted on the website of Borsa Italiana at the address <https://www.borsaitaliana.it/comitato-corporate-governance/codice/2018clean.pdf>. Reasons are given where it was decided not to follow those principles or operating criteria either in the corresponding section of this report or in the corresponding section of the Report on Remuneration.

As already stated, during the 2020 financial year, the Company will consider the new edition of the Code published on 31 January 2020 - and to be applied from 2021 onwards - in order to assess its most appropriate application.

The main characteristics of the risk and internal control management systems in relation to financial reporting, including consolidated reporting, requested by Art. 123-*bis* paragraph 2, letter b) of the TUF are illustrated in the report on internal control and risk management (Sect. 11a).

The procedures for the functioning of shareholders' meetings, its principal powers, the shareholder rights and the procedures for exercising them, required by Art. 123-*bis*, paragraph 2, letter C) of the TUF, are illustrated in the section of the Report on Shareholders' Meeting (Sect. 11a).

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 Art. 123-bis paragraph 2, letter d) of the TUF, are illustrated in the section of the Report on the Board of Directors (Sect. 4) and, in more detail for the Committees, in the section of the Report on internal Board Committees (Sect. 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 (Sect. 4.2.2.).

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND SUBSTITUTION OF DIRECTORS

(PURSUANT TO ART. 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:

Art. 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 TUF Art. 122, the parent company, subsidiaries and companies subject to joint control pursuant to TUF Art. 93, 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 TUF Art. 148, third paragraph, 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 TUF Art. 148, third paragraph, 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 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 Issuers' Regulations adopted by Consob Resolution No. 19856 of 25 January 2017, as well as CONSOB resolution no. 28 of 28 January 2020, 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 Art. 147-ter, paragraph one 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 Art. 147-ter, paragraph four 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 do not lay down any additional requirements for the independence of Directors with respect to those contained in Art. 148, paragraph 3, of Legislative Decree No. 58/1998, because the Company adheres to the CG Code and the Board of Directors verifies possession of the requirements of independence in accordance with the 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 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 CC.

With regard to the regulations on gender balance in corporate bodies Italian Law no. 160 of 27 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', which occurred on 1 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 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 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 new edition of the Code published in 2020 confirms these recommendations with reference to the first renewal following the cessation of the effects of law provisions that impose a quota equal to or greater than that recommended by the Code, while no longer providing for the specification, which the current version of the Code provides, that if this quota corresponds to a non-integer number, such number shall be rounded down.

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 ART. 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 1 January 2019 to 5 February 2019

The Shareholders' Meeting of 11 April 2017 had appointed a Board composed of nine directors, of which six are independent, for three years, expiring with the shareholders' meeting called to approve the financial statements for the year ended on 31 December 2019; among these directors, three were female, in accordance with the criteria indicated by the applicable provisions on gender balance (at least 1/3 of the members must be represented by the least represented gender) and a minimum number of independent directors (at least one-third of the Board in the issuers belonging to the FTSE-Mib index³). On the occasion of the aforementioned appointment, a single slate of candidates for the office of Director was presented by the majority Shareholder FIMEI S.p.A.⁴ The Board of Directors was elected with a favourable vote of 75.3% of the share capital.

Subsequently, in the context of the completion of the corporate changes relating to the shareholding structure of Recordati S.p.A. occurring on 6 December 2018, which has already been disclosed in the introduction and in section 2 dedicated to Ownership Structure, the Chair of the Board of Directors, executive director, Alberto Recordati, the non-independent and non-executive director Marco Vitale and the independent director Paolo Fresia have resigned from all positions held respectively in Recordati S.p.A.

The Board of Directors, at its meeting of 6 December 2018, following the completion of the aforementioned corporate changes:

-acknowledged the resignation of the aforementioned directors and consequently resolved, pursuant to art. 2386 of the CC and art. 17 of the By-Laws, the appointment by co-optation of Mr Giampiero Mazza, of Ms Cathrin Petty and Mr Søren Vestergaard-Poulsen, who remained in office until the next shareholders' meeting;

- appointed Giampiero Mazza as Chair of the Board of Directors;
- in order to allow for full replacement with voting rights of the management body slate of Recordati pursuant to article 15 of the By-Laws, also acknowledged the resignation of 6 December 2018 from the other Directors in office on the same date (appointed by the Shareholders' Meeting of 11 April 2017 at the proposal of the majority shareholder FIMEI S.p.A.) - namely, Andrea Recordati (Vice-Chair & CEO), Fritz Squindo (non-independent and executive director) and Rosalba Casiraghi, Michaela Castelli, Elisa Corghi and Mario Garraffo (these last four all being independent and non-executive directors) with effect from the next Shareholders' Meeting, following the completion of the corporate changes relating to the indirect shareholding structure of Recordati S.p.A. that occurred on 6 December 2018;
- consequently, resolved to convene the Ordinary Shareholders' Meeting for the replacement of the management body on 5 February 2019.

The composition of the Board of Directors from 1 January 2019 to 5 February 2019 and the titles of each Director during this period are summarised below:

Giampiero Mazza	Chair	Executive	-	*BoD 06.12.2018
Andrea Recordati	Vice-Chair and CEO	Executive	-	*Shareholders' Meeting 29.04.1998
Rosalba Casiraghi	Director	Non-Executive	Independent	* Shareholders' Meeting 17.04.2014
Michaela Castelli	Director	Non-Executive	Independent	* Shareholders' Meeting 17.04.2014
Elisa Corghi	Director	Non-Executive	Independent	* Shareholders' Meeting 11.04.2017
Mario Garraffo	Director	Non-Executive	Independent	* Shareholders' Meeting 29.04.1999
Cathrin Petty	Director	Executive	-	* BoD 06.12.2018
Soren 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

³ The Corporate Governance Code recommends (application criterion 3.C.3) that at least one third the board of directors of issuers belonging to the FTSE-Mib be made up of independent directors. In the case that is not a whole number, the result is rounded down.

⁴ The slate presented by FIMEI S.p.A., together with the additional related documentation filed pursuant to the law and the applicable regulations available on the www.recordati.it (section: Investors / Shareholders' Meetings / 2017). The slate submitted the candidature of the following: Mr Alberto Recordati, Mr Andrea Recordati, Mr Fritz Squindo, Ms Rosalba Casiraghi, Ms Michaela Castelli, Ms Elisa Corghi, Mr Marco Vitale, Mr Mario Garraffo, Mr Paolo Fresia

Current composition

The Board of Directors in office at the date of this report was appointed by a Shareholders' Meeting held on 5 February 2019 for three years, with the term of office expiring at the time of the Shareholders' meeting held to approve the financial statements for the year ended 31 December 2021.

The Shareholders' Meeting held on 5 February 2019 had appointed a board composed of eleven directors, of which 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 two for a Board composed of more than seven members)⁵:

- 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 presented by the shareholder FIMEI S.p.A., holder, as at that date, of 51.79% of the share capital;
- 1 director (Silvia Elisabetta Candini) taken from the minority slate presented by SGR and institutional investors holding a total of 1.303% of the share capital.

The most voted slate was the one presented 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 capital⁶. The voting capital represented 78.454% of the Issuer's share capital.

Please note that the outgoing Board of Directors with the Shareholders' Meeting of 5 February 2019, taking into account the results of the Board self-assessment process at the beginning of the 2018 financial year and the recommendations of the Corporate Governance Code, also following the amendments introduced in July 2018, sent to the Shareholders guidelines in relation to the appointment of the new Board of Directors in the Directors' Report on the only item on the agenda of the Shareholders' Meeting, concerning the appointment of the new administrative body.

In particular, the outgoing Board of Directors "Having regard to the consolidated rules of corporate governance according to which the number of members of the board must be adequate to the size and complexity of the organizational structure of the Company and having regard to the positive operating dynamics of the administrative body registered in the last three years" expressed guidelines pursuant to which "at the time of formulating the proposals to the Shareholders' Meeting, the Shareholders should ensure that the number of directors to be elected for the 2019-2021 three-year period be between nine and twelve and so that the new composition, as already recommended by the same Code and in continuity with the past, adequately represent, in relation to the activity carried out by the Company, the different components (executive, non-executive, independent) and the professional and managerial skills and experience necessary for good business management, also taking into account the international dimension of Recordati"⁷.

The controlling shareholder accepted these guidelines.

The composition of the Board of Directors as at the date of this Report and the titles of each Director at that date are summarised below:

Flemming Ørnskov	Chair	Non-Executive	-	*Board of Directors meeting of 05.02.2019
Alfredo Altavilla	Vice Chair	Non-Executive		*Board of Directors meeting of 05.02.2019
Andrea Recordati	CEO	Executive	-	*Shareholders' meeting of 29.04.1998
Silvia Candini	Director	Non-executive	Independent	*Shareholders' meeting of 05.02.2019
Michaela Castelli	Director	Non-executive	Independent	*Shareholders' meeting of 17.04.2014
Joanna Le Couilliard	Director	Non-executive	Independent	*Shareholders' meeting of 05.02.2019
Francisco Javier de Jaime Guijarro	Director	Executive		*Shareholders' meeting of 05.02.2019
Giampiero Mazza	Director	Executive	-	*Board of Directors meeting of 06.12.2018
Cathrin Petty	Director	Executive		*Board of Directors meeting of 06.12.2018
Søren Vestergaard-Poulsen	Director	Executive		*Board of Directors meeting of 06.12.2018
Fritz Squindo	Director	Executive		*Board of Directors meeting of 14.03.2013

^{*} Date of first appointment to the Board of Directors

⁵ The Corporate Governance Code recommends (Application Criterion 3.C.3) that for issuers included in 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.

⁶ The presented 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).

⁷ The Directors' report on the only point on the agenda of the Shareholders' Meeting of 5 February 2019 can be consulted at www.recordati.it, (section: Investors/Shareholders' Meetings/2019).

The personal and professional characteristics of each Director - which range from economic, financial and managerial subjects also, for some of them, with significant international experience in the business sectors in which the Company and the Group operate, to legal and corporate governance matters - are documented in Attachment 1 to this Report along with the offices held by Directors in other listed companies.

In this regard, 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 5 February 2019 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 art. 2390 of the CC with reference to the positions held by them in other companies and disclosed on that date.

Following the appointment of Mr Ørnskov, on 2 October 2019, as CEO of Galderma SA, a company operating worldwide mainly in the dermatological market, the Board of Directors of the Company assessed both the profile of the possible existence of competing activities and, therefore, of a conflict of interest both as regards compatibility in terms of timing and, therefore, whether this new position were compatible with the level of diligence in performing the duties of Recordati's non-executive Chair. Following in-depth discussion, the Board agreed with the Chief Executive Officer and Mr Ørnskov's assessment regarding the lack, at that date, of a conflict of interest between the latter's new position as CEO at Galderma and his position as Chair of Recordati, without prejudice to the need for constant monitoring of the situation to avoid future conflicts. With regard to compatibility in terms of timing, the Board acknowledged the positive assessment and commitment made by Mr Ørnskov on the basis of the situation at that date as well as his awareness that this compatibility should be further verified over time. In this respect, the Board undertook to monitor this assessment over time, possibly resuming discussion and assessment of the issue in the Board meeting, if appropriate.

On 5 February 2019 the Board of Directors confirmed that Silvia Candini, Michaela Castelli and Joanna Le Couilliard met the independence requirements, which was subsequently confirmed on 14 February 2020 following the annual renewal of the assessment.

Subsequently, at the Board of Directors' meeting of 18 March 2020, during which this Report was approved, no. three Directors resigned, effective as of the next Shareholders' Meeting, which will be held on 29 April 2020 on a single call: Flemming Ørnskov, Soren Vestergaard-Poulsen and Francisco Javier de Jaime Guijarro resigned due to increased professional commitments.

In light of the resignation of Mr Flemming Ørnskov, the Board of Directors intends to appoint, as soon as Mr Ørnskov's resignation becomes effective, Mr Alfredo Altavilla as new Chairman of the Board of Directors.

The Shareholders' Meeting will then be called upon to take the relevant decisions regarding the integration of the Board of Directors, upon redetermination of the number of its members.

FIMEI S.p.A. (Recordati's majority shareholder) has 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 has already selected a limited number of high profile candidates to the Board that will 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.

For further information - in particular in relation to certain guidelines on the appointment of new directors which the Board will address to the Shareholders, taking into account the results of the Board's self-assessment process held at the beginning of the 2020 financial year - reference should be made to the Directors' Report on the relevant item on the agenda, which will be made available, also on the Company's website, in accordance with the law.

TABLES COMPOSITION AND STRUCTURE OF THE BOARD AND COMMITTEES

BOARD OF DIRECTORS IN OFFICE AS AT 31 ST DECEMBER 2019												Control, Risk and CSR Committee		Remuneration Committee	
Office	Members (name and surname)	Year of birth	In office since	In office until	Slate (M/m)*	Exec.	Non Exec.	Indep under Code	Indep under TUF	No of attendances ***	Number of other positions in listed companies ****	***** No of attendances ***	***** No of attendances ***		
Chair	FLEMMING ØRNSKOV	1958	5.2.2019	Approval of 2021 financial statements	M		X			11/11	2				
Vice-Chair	ALFREDO ALTAVILLA	1963	5.2.2019	Approval of 2021 financial statements	M		X			11/11	2				
Chief Executive Officer ◊	ANDREA RECORDATI	1971	5.2.2019	Approval of 2021 financial statements	M	X				11/12	0				
Director	SILVIA ELISABETTA CANDINI	1970	5.2.2019	Approval of 2021 financial statements	m		X	X	X	11/11	0	M	8/8		
Director	MICHAELA CASTELLI	1970	5.2.2019	Approval of 2021 financial statements	M		X	X	X	12/12	5	P	8/8		
Director	FRANCISCO JAVIER DE JAIME GUIJARRO	1964	5.2.2019	Approval of 2021 financial statements	M	X†				7/11	3				
Director	JOANNA SUSAN LE COUILLIARD	1963	5.2.2019	Approval of 2021 financial statements	M		X	X	X	10/11	3	M	8/8		
Director	GIAMPIERO MAZZA	1969	5.2.2019	Approval of 2021 financial statements	M	X†				12/12	0				
Director	CATHRIN PETTY	1973	5.2.2019	Approval of 2021 financial statements	M	X†				11/12	0				
Director•	FRITZ SQUINDO	1956	5.2.2019	Approval of 2021 financial statements	M	X				12/12	0				
Director	Søren VESTERGAARD-POULSEN	1969	5.2.2019	Approval of 2021 financial statements	M	X†				9/12	1				

DIRECTORS NO LONGER IN OFFICE DURING THE REFERENCE FINANCIAL YEAR (2019)												Control, Risk and CSR Committee		Remuneration Committee	
Office	Members (name and surname)	Year of birth	In office since	In office until	Slate (M/m)*	Exec.	Non Exec.	Indep under Code	Indep under TUF	No of attendances ***		***** No of attendances ***	***** No of attendances ***		
Director	ROSALBA CASIRAGHI	1950	11.4.2017	5.2.2019	M		X	X	X	1/1		M	0/0		
Director	ELISA CORGHI	1972	11.4.2017	5.2.2019	M		X	X	X	1/1		M	0/0		
Director°	MARIO GARAFFO	1937	11.4.2017	5.2.2019	M		X	X (**)	X	1/1			P 1/1		

• This symbol indicates the director responsible for the internal control and risk management system.

◊ This symbol indicates the main 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 as he/she holds management positions in parent companies or CVC group companies.

(*) 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).

(**) The Board has assessed Mr Mario Garraffo as independent, despite the fact that he has been Director of the Company for more than nine years over the last twelve years, considering that, due to his specific skills and professionalism and his constant activity of control and stimulation of the Board, he has demonstrated that he has maintained his characteristics of independence and freedom of judgement in evaluating acts of the management.

(***) 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 in the reference year).

(****) This column shows the number of positions as a 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 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: "P" 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 184.

INDICATE THE QUORUM REQUIRED FOR THE SUBMISSION OF SLATES AT THE LAST APPOINTMENT: 1%

Number of meetings held during 2019	Board of Directors:	Control Risk and CSR Committee:	Remuneration Committee:
	12	8	8

4.2.1. Succession Planning

The Board, as early as 2012 - when adhering to the amendments made to the Corporate Governance Code in December 2011 - determined that it was not necessary to adopt a formalised succession plan for executive directors; this determination was confirmed in subsequent years since, over time, no situations emerged that had highlighted that it was advisable to adopt it.

Taking into account the changes in the ownership structure at the end of 2018 and the appointment of the new Board of Directors on 5 February 2019, the Company again submitted this assessment to the Board in 2019 and the Board considered adopting, after consulting the Control, Risk and CSR Committee, a plan for the CEO and the Director in charge of the internal control and risk management system,⁸ 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. As of the date of this report, the process of finalising this plan is underway and it is estimated that it will be adopted by the Board by the first half of 2020.

4.2.2 Diversity criteria and policies (pursuant to article 123-bis, paragraph 2(d)-bis TUF and Principle 2.P.4 of the Corporate Governance Code)

Legislative Decree no. 254/2016 on non-financial information, implementing Directive 2014/95/EU, (which entered into force on 25 January 2017) introduces the obligation for listed companies to disclose, in the report on corporate governance relating to financial years beginning from 1 January 2017, detailed information on diversity policies "applied in relation to the administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender or educational and professional backgrounds, as well as a description of the objectives, methods of implementation and results of these policies. In the event that no policy is applied, the Company is required to clearly and articulate reasons for this choice.

As part of the self-assessment process of the Board of Directors that took place at the beginning of 2018, the Company carried out a specific study in this regard, inviting the Directors to provide comments in relation to the diversity issues of the members of the Board for the purpose of determinations about the adoption of specific policies aimed at promoting diversity.

The results of this study were examined by the Board of Directors as part of the general analysis of what emerged overall from the answers to the questionnaires received, held at the Board meeting of 8 February 2018; in this regard, it should be noted that no specific reports have emerged aimed at guiding the Board in relation to its policies in matters of member diversity

with regard to aspects such as age, gender composition and training and professional development.

The Board, following an in-depth discussion, therefore deemed it unnecessary to prepare a formal policy to promote diversity in these aspects, taking into account that the Board, even in the absence of such a formal policy and, in particular, through the self-assessment process, can already effectively monitor and identify its optimal qualitative and quantitative composition over time; the Board considered - as part of a process of empowerment that involves, on the one hand, the board itself and on the other, the shareholders, which, if specific needs arise for the proper functioning of the Board - including critical issues related to aspects related to the diversity of its members - resorting, as already done in 2017 and again in 2018 preliminary to the shareholders' meeting of 5 February 2019, the formulation of any recommendations to members before the appointment of the new board and the board of statutory auditors or request the integration of the Board with the appointment of a new director(s) even during the term of office, if these needs cannot be postponed to the renewal of the mandate.

This assessment, as described above, also applies with regard to what is recommended more generally by the Corporate Governance Code, following the amendments introduced in July 2018 with reference to principle 2.P.4, regarding the application by the Issuer of diversity criteria, including as regards gender, in the composition of the board of directors and the Board of Statutory Auditors, with due regard to the priority objective of ensuring adequate competence and professionalism of its members. Moreover, as already mentioned, with regard to gender balance, Italian Law no. 160 of 27 December 2019 (2020 Budget Law) introduced at the regulatory level the quota reserved for the least represented gender equal to 'at least two-fifths' of the members and established that this allocation criterion applies for 'six consecutive terms of office', 'from the first renewal of the management and supervisory bodies of companies listed on regulated markets after the date of entry into force of this law', which occurred on 1 January 2020.

In this regard, as already mentioned in the section concerning the composition of the Board of Directors, it is recalled that the outgoing Board with the Shareholders' Meeting of 5 February 2019, taking into account the outcomes of the Board self-assessment process at the beginning of the 2018 financial year as recommended by the Corporate Governance Code, sent to the Shareholders guidelines in relation to the appointment of the new Board of Directors in the Directors' Report on the only item on the agenda of the Shareholders' Meeting of 5 February 2019, concerning the appointment of the new administrative body.

In particular, the outgoing Board "having regard to the consolidated rules of corporate governance according to which the number of members of the board must be adequate to the size and complexity of the organisational structure of the Company and having regard to the positive operating dynamics of the management body registered in the last three years" expressed guidelines pursuant to which "at the time of formulating the proposals to the Shareholders' Meeting, the Shareholders must ensure that the number of directors to be elected for the 2019-2021 three-year period be between nine

⁸ Taking into account that the current structure provides that the position of director in charge of the internal control system and risk management will be entrusted to the Executive Director - Group General Manager - Mr Fritz Squindo. This structure will in any case be evaluated by the Board of Directors during 2020 in the light of the recommendation of the 2020 edition of the Code - to be applied from 2021 - which provides that the CEO is also the director in charge of the internal control system.

and twelve and so that the new composition, as already recommended by the same Code and in continuity with the past, adequately represent, in relation to the activity carried out by the Company, the different components (executive, non-executive, independent) and the professional and managerial skills and experience necessary for good business management, also taking into account the international dimension of Recordati."

It is confirmed that the controlling shareholder has accepted these guidelines and, in particular, that four out of the eleven members of the Board are of the less-represented gender, and that, more generally, the new composition highlights that the objective of ensuring adequate competence and professionalism of the members of the Board, including those of an international nature, has been pursued. The Board of Directors, one year after its appointment, has therefore carried out an in-depth board review process, with the support of an external consultant, the results of which have not detected any need for intervention regarding the composition of the Board with regard to aspects such as age, gender composition and training and professional background (for further information regarding the board review process, please refer to section 4.3.1. and, for further information in relation to certain guidelines for the appointment of new directors taking into account the results of the board review process in view of the next completion of the Board of Directors to be resolved upon by the Shareholders' Meeting on 29 April 2020, please refer to the Directors' Report on the related item on the agenda, which will be made available, also on the Company's website, in accordance with the law).

Therefore, the issue is correctly supervised.

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 assessment made of the functioning of the Board and its committees with particular reference to this aspect.

Taking into account the above and the fact that in the 2019 financial year the new Corporate Governance Code was expected to be issued, the Company postponed the submission to the Board of the updated guidelines relating to the said criteria. The advisability of introducing them will in any event be submitted to the Board during the examination of the new 2020 edition of the Code to be applied from 2021.

4.2.4. Induction Programme

Following the appointment of the Board of Directors and the Board of Statutory Auditors on 11 April 2017, the Chairman and Chief Executive Officer did not consider it necessary to organize a specific induction session because, with the exception of Ms Corghi and Mr Santi, the other directors and auditors were already part of the outgoing administrative and control bodies.

In May 2018, the Chairman and the Chief Executive Officer organised, as a specific induction session, a visit to the Milan production site for Independent Directors and Statutory Auditors.

Following the appointment of the new Board of Directors on 5 February 2019, the Chairman and the Chief Executive Officer organised various induction sessions in favour of directors and statutory auditors.

In particular, the heads of the Specialty and Primary Care Business Unit, the Rare Diseases Business Unit and the Pharmaceutical Italy Business Unit attended these induction sessions with specific in-depth analysis of the business. In addition, the managers of the Group Industrial Operations and Research and Development Departments also attended the induction sessions, providing a detailed presentation of the activities and organisational structures of these Departments. The Head of Research and Development Department also provided a focus on Recordati's product pipeline. Finally, the Chief Executive Officer organised a visit to the Milan production plant for Directors and Statutory Auditors.

Generally speaking, during the course of meetings of the Board of Directors, the Chief Executive officer gives information required to present 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 transactions, in addition to the annual analysis of the Recordati Risk Map.

4.3 ROLE OF THE BOARD OF DIRECTORS

(pursuant to Art. 123-bis, paragraph 2, letter d) of the TUF)

During the course of the year, the Board of Directors met 12 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 3 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/>).

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 CG Code in December 2011, the Board of Directors generally considered a time interval of three days prior to the Board meeting to be appropriate.

The Chair of the Board of Directors newly appointed on 5 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.

During 2019 the notice period is changed from a minimum of 2 days to a maximum of six days before the board meeting. 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 Control Risk 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.

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), 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 year and in the meetings already held in 2020 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, the Chief of the Legal Service and Corporate Affairs (also acting as the Secretary to the Board), as well as the Chief of the Group Internal Audit Function (who also acted as Data Protection Officer and internal member of the 231 Compliance Body (ODV).

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. In accordance with article 22 of the By-Laws, the Board is the corporate body endowed 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 CC. Art. 2365, paragraph 2, the Board of Directors is also authorised to decide on the following matters:

- mergers in the cases established by CC articles 2505 and 2505 bis;
- establishment or suppression 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 entitled to appoint and dismiss, following an obligatory opinion from the Board of Statutory Auditors, the Financial Reporting Officer, pursuant to TUF Art. 154-bis.

The Board is also responsible, in compliance with the CG Code, for the following:

- examination and approval of strategic, industrial and financial plans of the Company and the Recordati Group and monitoring implementation of these;

- 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 sustainability of the Company's activities in the medium to long-term;
- 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;
- 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;
- attribution and cancellation of mandates to CEOs and the Executive Committee, 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;
- the establishment, after examination of the proposals from the Remuneration 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;
- 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 provisions;
- examination and approval prior to strategic economic or financial operations 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 24 November 2010 (and last revised in 2017); establish guidelines to identify significant transactions;
- conduct, once a year, an evaluation of the size, composition and functioning of the Board of Directors and its committees and possibly indicate the type of management and professional figures whose presence on the Board would be useful, before the appointment of a new Board;
- communication, in the Corporate Governance Report, of the means of application of the CG Code;
- subject to the opinion of the Control, Risk and CSR Committee, the definition of the guidelines for the internal control and risk management system, so that the principal risks to which the issuer and its subsidiaries are exposed are correctly identified and adequately measured, managed and monitored. It also determines the degree to which risks are compatible with management of the Company that is consistent with its strategic objectives;
- the selection of 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 system);
- the selection of a Risk, Control and CSR Committee, which by conducting the appropriate fact-finding activity, has the task of supporting the Board of Directors in its assessments of the internal control and risk management system and also those relating to the approval of periodic financial reports;
- subject to the opinion of the Risk, Control and CSR Committee, the assessment, at least annually, of the adequacy of the internal control and risk management system with respect to the nature of the company and its risk appetite and also of its effectiveness;

- subject to the opinion of the Risk, Control and CSR Committee, the approval, at least annually, of the working plan drawn up by the Chief of the Internal Audit Function, after, amongst other things, consultation with the Board of Statutory Auditors and the Director with Responsibility for the internal control and risk management system;
- subject to the opinion of the Risk, Control and CSR Committee, a description of the main characteristics of the internal control and risk management system in the Corporate Governance Report and a report on its assessment of its adequacy;
- after consultation with the Board of Statutory Auditors, and assessment of the results furnished by the external statutory auditor in its letter of recommendations (if provided) and in its report on basic issues arising from its external statutory audit;
- on the basis of a proposal submitted by the Director with Responsibility for the internal control and risk management system, subject to the approval of the Risk, Control and CSR Committee and after consultation with the Board of Statutory Auditors, the appointment and removal of the Chief of the Internal Audit Function ensuring that he or she has adequate resources and sets their remuneration consistent with company policies;
- the appointment and removal of members of the Company's 231 Compliance Body formed and functioning in accordance with Legislative Decree No. 231/2001;
- the adoption of an Organisation and Control Model drawn up in accordance with Legislative Decree No. 231/2001 and the approval of amendments to it for compliance with changes in legislation and regulations as they come into force from time to time.

The Company has decided to take advantage, with effect from 20 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 Art. 70, paragraph 8 and with Art. 71, paragraph 1-bis of the Issuers' Regulations.

It should be noted that, in implementation of the above, during 2019, the Board, in particular:

- evaluated and approved the agreement to mutually terminate the long-term employment relationship between the Company and Mr Alberto Recordati.
- following the renewal of the Board of Directors by the Shareholders' Meeting of 5 February 2019, assigned the positions of Chair (Mr Flemming Ornskov) and Vice-Chair (Mr Alfredo Altavilla) and confirmed the appointment of Chief Executive Officer (Mr Andrea Recordati), also renewing the assignment of previous operating powers. Furthermore, on the same date, it renewed the establishment of the Remuneration Committee and of the Control, Risk and CSR Committee. The Board also confirmed the previous assessment by the outgoing Board not to proceed with the establishment of an appointment committee;
- on 11 February 2019, the Board resolved upon, after consulting with the Remuneration Committee and after consulting with the Board of Statutory Auditors, the remuneration of the Chair and the Chief Executive Officer, including the fixing of the termination indemnity and the fee for participation in the internal board Committees; it also evaluated and approved, after consulting with the Remuneration Committee, the mutual resolution agreement of the long-term employment relationship between the Company and Mr Andrea Recordati, thus remaining, from 11 February 2019, only an administrative relationship;
- on 28 February 2019 assessed the exercise by Rossini Luxembourg S.à.r.l of the management and co-ordination activity towards the Company pursuant to articles 2497 and following of the Italian Civil Code;
- appointed two new key management personnel as employees of the Company identified as the new Head of Corporate Development (from 11 February 2019) and the new CFO (from 1 November 2019);
- set the objectives for 2019 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 responsible for the internal control and risk management system, approved the work plan prepared by the head of the internal audit function for 2019; assessed the general trend of management and monitored the implementation of the 2017-2019 Three-Year Business Plan, by comparing, amongst other things, actual with budgeted results taken from the approved 2019 budget, carried out as generally established practice when quarterly accounting reports are approved;
- examined the impairment analyses concerning the 2019 financial statements, the economic assessment assumptions and the forecast assumptions used for these purposes;
- examined the 'Risk Map' relating to the 2019 financial year, updated with respect to that examined for the 2018 financial year, and the consequent 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 2017-2019 Three-Year Plan, also with a view to the medium/long-term sustainability of the Company's activities; the Board subsequently approved the update of the Risk Map simultaneously with the approval of the 2019-2021 Three-Year Plan, following a transaction for the acquisition of rights to products considered relevant and upon the approval of 2020 Budget;
- approved the most relevant company provisions;
- at the beginning of 2019, 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 in charge of the internal control and risk management system, with particular reference to the such system, on the basis of the information provided on the occasion of the Board's meeting, through specific reports and/or other documentation (e.g. organisation charts) presented by the Group Auditing Manager, the Control, Risk and CSR Committee, by the 231 Compliance Body pursuant to Legislative Decree 231/01, by the Director in charge of the internal control and risk management system and by the Managing Director;
- set the performance targets related to the variable component of the remuneration of the Chief Executive Officer (Mr Andrea Recordati) for 2019;
- with the favourable opinion of the Control, Risk 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;
- at the beginning of 2019 confirmed as subsidiaries that have strategic importance, referring to mainly size criteria (turnover) or in consideration of the special nature of the market where the subsidiary operates (in particular, the orphan drug market): Laboratoires Bouchara Recordati S.a.s, Recordati Ireland Ltd., Jaba-Recordati S.A., Recordati Pharma GmbH, Innova Pharma S.p.A., Orphan Europe SARL, Recordati Ilac Recordati Rare Diseases Inc., Rusfic Llc and Casen Recordati SL;
- 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 a financing agreement);
- approved the proposal to amend the Stock Option Plan 2018-2022 to be submitted to the Shareholders' Meeting of 18 April 2019 in order to include within the class of beneficiaries of the Plan the Chief Executive Officer – already a participant in the Plan by virtue of his previous employment with Recordati – who is no longer an employee of the Company since 11 February 2019;

- also taking into account the results of the self-assessment process carried out at the beginning of 2018, the Board (which, as a reminder, carries out the functions assigned by the Code to the Appointments Committee) formalised through its own Report on guidelines to Shareholders on the composition of the Board of directors to be appointed by the Shareholders' Meeting called on 5 February 2019;
- in May 2019 it approved the new Three-Year Plan 2019-2021 confirming the assessment relating to the compatibility of the level and nature of the risks as identified in the updated Group Risk Map with the Group's strategic objectives set out in the new Plan;
- approved specific regulations on the management and coordination activities performed by Rossini Luxembourg S.à.r.l. on Recordati S.p.A. and on the information flows of Recordati S.p.A. to, in particular, Rossini Luxembourg S.à.r.l, qualifying that decision as a 'decision influenced by management and coordination activities' and, therefore, subject to the special regulations provided for by article 2497-ter of the Italian Civil Code. In particular, the Board of Directors of the Company acknowledged that Recordati's interest in proceeding with the adoption of these regulations is substantiated by its interest in defining and limiting the categories of information being the subject matter of the flows as well as determining the subjective perimeter of the persons authorised to request and supply the information, allowing the flows to be traced and monitored;
- received information on the process for the assignment of the audit engagement for 2020-2028 and, at the beginning of 2020, acknowledged the recommendation of Recordati's Internal Control and Audit Committee (Board of Statutory Auditors) in this regard;
- approved the new MBO scheme for top managers (excluding Executive Directors who receive a variable remuneration for this role and therefore only the CEO);
- at the end of 2019, examined and approved the 2020 Group budget;

In 2020, as at the date of this Report, the Board, in particular:

- set targets for 2020 to be disclosed to the market;
- launched two programmes for the purchase of treasury shares 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 correlated 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 responsible for the internal control and risk management system, approved the work plan prepared by the head of the internal audit function for 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 2020 financial statements, the economic valuation assumptions and the forecast assumptions used for these purposes.

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 Control, Risks 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 Control, Risk and CSR Committee at the meeting held on 31 January 2020 and then by the Board of Directors on 14 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 19 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 18 March 2020, effective as of the next Shareholders' Meeting, the Board already stated in the same meeting that it will proceed to formulate certain guidelines to the shareholders and in particular to the controlling shareholder, with reference to the size of the Board.

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 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 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 1 January 2019 to 5 February 2019, the role of Chair was held by Mr Giampiero Mazza, appointed in office by the Board of Directors which had co-opted him at the meeting held on 6 December 2018.

Following the appointment of the new Board of Directors on 5 February 2019, the role of Chair was assigned to Flemming Ørnskov; neither Mr Mazza, nor Mr Ørnskov have been assigned operational powers in their terms of office.

Subsequently, at the Board of Directors' meeting of 18 March 2020, during which this Report was approved, Mr Flemming Ørnskov resigned, effective as of the next Shareholders' Meeting, which will be held on 29 April 2020 on a single call due to increased professional commitments.

In light of the resignation of Mr Flemming Ørnskov, the Board of Directors intends to appoint, as soon as Mr Ørnskov's resignation becomes effective, Mr Alfredo Altavilla as new Chairman of the Board of Directors.

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,⁹ (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.

From 1 January 2019 to 5 February 2019 the role of Vice-Chair was held by Mr Andrea Recordati; following the appointment of the new Board of Directors on 5 February 2019, the role of Vice-Chair, who is responsible for the functions provided for in the By-Laws in the event of absence or impediment of the Chair of the Board of Directors, was assigned to Mr Alfredo Altavilla.

From 16 August 2016 - following confirmation and immediately after the appointment of the new board of directors resolved on 5 February 2019 - Andrea Recordati, as Managing Director, 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 CG Code.

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 CEO 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 1 January 2019 to 5 February 2019, in addition to Andrea Recordati, Chief Executive Officer, and Fritz Squindo, Director, in light of the functions performed by each, Giampiero Mazza, Chairman, on the one hand, and Cathrin Petty and Søren Vestergaard-Poulsen, the Directors who were co-opted by the Board of Directors on 6 December 2018, on the other hand, were also executive Directors, because they hold management positions in the indirect parent company or in other CVC companies, pursuant to the Code; they were not, however, granted individual operating powers.

With reference to the new Board of Directors appointed by the Shareholders' Meeting of 5 February 2019, Andrea Recordati, Chief Executive Officer, and Fritz Squindo, General Manager for the Coordination of Management and CFO, are executive directors (until 1 November 2019 and subsequently Group General Manager), in light of the functions performed by each, as are Javier De Jaime Guijarro, Giampiero Mazza, Cathrin Petty and Søren Vestergaard-Poulsen, because they hold management positions in the indirect parent company or in other CVC companies, they have not been granted individual operating powers.

4.6 INDEPENDENT DIRECTORS

From 1 January 2019 to 5 February 2019, four Directors (Michaela Castelli, Elisa Corghi, Rosalba Casiraghi and Mario Garraffo), 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 Code on 8 February 2018 by the Board of Directors.

With reference to the new Board of Directors appointed by the Shareholders' Meeting of 5 February 2019, three directors (Michaela Castelli, Silvia Candini

⁹ Please refer to what is already indicated in Section 4.3.

and Joanna Le Couillard) stated, when presenting the slates, that they meet the independence requirements established by art. 148, paragraph 3, of the TUF and by the Code of Corporate Governance, 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 directors were met.

In implementation of the provisions of the Code, the Board of Directors - on 14 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 three 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 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 newly appointed Independent Directors met on several occasions during 2019 to discuss governance and risk control issues, in particular with regard to the Regulations on the management and coordination activities performed by Rossini Luxembourg S.à.r.l. on Recordati S.p.A. and the information flows of Recordati S.p.A. to, in particular, Rossini Luxembourg S.à.r.l. which were approved by the Board of Directors of Recordati S.p.A.

Information about 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 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.

4.7 LEAD INDEPENDENT DIRECTOR

Currently, a lead independent director has not been appointed, however, the Control, Risk and CSR Committee, following the outcome of the board review process carried out between 2019 and 2020, recommended the appointment of a lead independent director and the Board agreed that this should be done and will proceed to implement this recommendation in the near future, also in the light of the Board's integration, which will be submitted to the Shareholders' Meeting on 29 April 2020.

Previously, and until 5 February 2019, in response to the request of the Independent Directors, the Board appointed Mr Mario Garraffo as *lead independent director*, who was given the power to convene, on his own initiative or at the request of other independent and/or non-executive Directors, specific meetings of independent or non-executive Directors only, to discuss issues of interest with respect to the fulfilment of their obligations with reference to the takeover bid already mentioned in Section 1 and more generally with respect to the functioning of the Board or the management of the Company.

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 Important 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 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 Community 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 Important 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) of which the General Manager for the coordination of management and CFO (from 1 November, Group General Manager), 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 Issuer 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 obligations of communication to the market 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 2019 the following black out periods were identified: prior to the publication of the preliminary data for the 2018 financial year and prior to the 2019 half-yearly report.

On the basis of the organisational structure of the Issuer, no new persons significant for the application of the regulations were identified in 2019.

6. INTERNAL COMMITTEES OF THE BOARD

The Board of Directors has formed a Remuneration Committee and a Control, Risk and CSR Committee among its members, both with consultative and proposal-making functions composed exclusively of independent directors.

7. APPOINTMENTS COMMITTEE

For some time, and most recently following the appointment of the new Board of Directors on 5 February 2019, the Board did not consider it necessary to form an Appointments Committee,¹⁰ but expressly reserved the duties assigned to the latter by the CG Code to itself sitting in plenary session. This is mainly because until now no difficulty has been encountered in making appointment proposals, partly due to the presence of a Shareholder who holds legal control of the Company¹¹ (and therefore in consideration of the narrow shareholder base) and also because it is therefore considered preferable to reserve the functions that the CG Code attributes to an Appointments Committee, and which the Board already performed, to the Board sitting in plenary session.

In this respect, at the end of 2018, the outgoing Board of Directors with the Shareholders' Meeting of 5 February 2019, taking into account the results of the Board self-assessment process completed at the beginning of the 2018 financial year and the recommendations of the Corporate Governance Code, also following the amendments introduced in July 2018, sent to the Shareholders some guidelines in relation to the appointment of the new Board of Directors in the Directors' Report on the only item on the agenda of the Shareholders' Meeting, concerning the appointment of the new administrative body.

In particular, the outgoing Board of Directors “*having regard to the consolidated rules of corporate governance according to which the number of members of the board must be adequate to the size and complexity of the organisational structure of the Company and having regard to the positive operating dynamics of the management body registered in the last three years*” expressed guidelines pursuant to which “*at the time of formulating the proposals to the Shareholders' Meeting, the Shareholders should ensure that the number of directors to be elected for the 2019-2021 three-year period be between nine and twelve and so that the new composition, as already recommended by the same Code and in continuity with the past, adequately represent, in relation to the activity carried out by the Company, the different components (executive, non-executive, independent) and the professional and managerial skills and experience necessary for good business management, also taking into account the international dimension of Recordati*”.¹²

The controlling shareholder has accepted these guidelines.

Taking into account the results of the board review process carried out between 2019 and 2020 and in light of the resignation of the directors Mr Flemming Ørnskov, Mr Søren Vestergaard-Poulsen and Mr Francisco Javier de Jaime Guijarro at the board meeting held on 18 March 2020 with effect from the next Shareholders' Meeting, the Board has already stated in the same meeting that it will proceed to formulate some guidelines to the shareholders and in particular to the controlling shareholder, with reference to the size of the Board, in view of the Shareholders' Meeting of 29 April 2020 that will be called to complete the Board, subject to re-determination of the number of directors.

8. REMUNERATION COMMITTEE

Please consult the relevant part of the Report on Remuneration published in accordance with Art. 123-ter of the TUF for information on this section.

¹⁰ Even if from the December 2011 edition onwards, the Corporate Governance Code recommends the creation of such a committee (Principle 5.P.1).

¹¹ Also following the transfer of control by the Recordati family to a consortium of funds controlled by CVC on 6 December 2018.

¹² The Directors' report on the only item on the agenda of the shareholders' meeting of 5 February 2019 can be consulted at www.recordati.it (section: Investors/Shareholders' Meetings/2019).

9. DIRECTORS' REMUNERATION

Please consult the relevant part of the Report on Remuneration published in accordance with Art. 123-ter of the TUF for information on this section.

10. CONTROL, RISK AND CSR (Corporate Social Responsibility) COMMITTEE

As at the date of this report, the Control, Risk and CSR Committee is composed of the following non-executive and independent Directors: Ms Michaela Castelli, lawyer, Chairman, Ms Silvia Candini and Ms Joanna Le Couilliard.

The Committee met eight times during the financial year (sessions lasted around 2 hours, except for one meeting in which the newly-appointed Committee Regulations were approved). The Committee met three times during the current 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 Chairman of the Committee and with regard to individual items on the agenda, various non-members have participated in some meetings, in particular the General Manager for the Co-ordination of Operations (who is also the Director responsible for the internal control and risk management system and, from 1 November, Group General Manager), the Chief of Group Audit, the 231 Compliance Body (ODV) pursuant to Legislative Decree 231/01, 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 Control, Risk and CSR Committee

The Control, Risk and CSR Committee performs consultation functions and provides proposals to the Board of Directors. Through appropriate investigation and evaluation in its designated areas, it supports the Board with regard to the internal control and risk management system and on sustainability issues (intended as the processes, initiatives and activities carried out to oversee the Company's commitment to sustainable development along the value chain), as well as with regard to the approval of periodic financial reports. More specifically, it expresses opinions on the following:

- a) the guidelines for the internal control and risk management system, so that the principal risks to which the Company and its subsidiaries are exposed are correctly identified and adequately measured, managed and monitored, and on the determination of criteria to assess whether such risks are compatible with management of the Company that is consistent with its strategic objectives and with a view to sustainability in the medium to long-term;
- b) on the selection of one or more Directors who are given responsibility for the creation and maintenance of an effective internal control and risk management system;

- c) an assessment, at least annually, of the adequacy of the internal control and risk management system with respect to the nature of the company and its risk appetite and also its effectiveness;
- d) the approval, at least annually, of the work plan drawn up by the Chief of the Group Audit Function;
- e) the description of the main characteristics of the internal control and risk management system and on the assessment of its adequacy in the Corporate Governance Report;
- f) the assessment of the results furnished by the external statutory auditor in its letter of suggestions (if provided) and in its report on basic issues arising from its external statutory audit;
- g) the appointment and removal of the Chief of the Group Audit Function (formerly the Internal Control Officer in accordance with Art. 150 of Legislative Decree No. 58/1998), on the assignment of adequate resources to the latter to fulfil his/her duties and on the remuneration set for him/her consistent with Company policy.

Furthermore, in its work to support the Board of Directors, the Control, Risk and CSR Committee:

- shall assess, together with the Financial Reporting Officer appointed to prepare the corporate accounting documents and after consultation with the external statutory auditors and the Board of Statutory Auditors, the correct use of accounting policies and their consistency in the preparation of the consolidated financial statements, prior to approval of the consolidated financial statements by the Board of Directors;
- shall express opinions on specific aspects concerning the identification of the main corporate risks;
- shall examine periodic reports for the assessment of the internal control and risk management system and those of particular importance prepared by the Group Audit Function;
- shall monitor the independence, adequacy and effectiveness of the Group Audit Function;
- shall require the Group Audit Function to investigate specific operational areas, reporting promptly to the Chairman of the Board of Statutory Auditors;
- shall report to the Board, at least semi-annually, when annual and interim financial reports are approved, on its activities and also on the adequacy of the internal control and risk management system;
- shall make proposals to the Board of Directors regarding changes to be made to the Organisational Model established pursuant to Legislative Decree 231/01 adopted by the Company;
- shall make proposals to the Board of Directors regarding the appointment of members of the 231 Compliance Body (ODV) created pursuant to Legislative Decree No. 231/01 and regarding the allocation of an annual budget to that body;
- shall express an opinion on the appointment of the Financial Reporting Officer appointed to prepare the corporate accounting documents;
- shall express an opinion on the Regulations for Related-Party Transactions which the Company must adopt in compliance with Consob Regulation No. 17221 of 12 March 2010 and also on any subsequent amendments to those regulations;
- 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 regulations governing related-party transactions adopted by the Company, unless they consist of Related-Party Transactions which concern remuneration;

- shall assist the Board of Directors on the implementation of recommendations contained in the Corporate Governance Code for listed companies in relation to the internal control and risk management system;
- monitors sustainability issues connected to business activities and to the dynamics of interactions with all stakeholders;
- examines sustainability plan guidelines and how to implement sustainability policies;
- examines the overall layout of the sustainability report and how the report's contents are presented, as well as the completeness and transparency of information provided in it;
- expresses, upon request by the Board, an opinion on sustainability issues.

Following a specific Board resolution, taking into account that the Committee is called upon to support the Board in assessing and making decisions relating to risk management, the Committee was also assigned the preliminary examination of a Contingency Plan: *i.e.* a plan for the CEO and the Director in charge of the internal control and risk management system¹³ containing, in the event of early termination or impediment, even temporary, to the performance of their duties, the guidelines for the succession process aimed at management continuity in the short to medium-term; the Committee will provide specific advice to the Board on the subject.

At the meetings mentioned above, the Committee mainly carried out the following activities:

- it examined the periodic reports by the 231 Compliance Body (ODV) as per Legislative Decree 231/2001 and by the Group Audit Officer along with the results of audits conducted by the Audit Department;
- it examined the proposed Audit Plan for 2019 and supervised its progress during the financial year;
- it acknowledged the Supervisory Committee's action plan for 2019;
- after consultation with the firm of auditors 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 use of accounting policies and their consistency in the preparation of the consolidated financial statements;
- it formulated a proposal for submission to the Board concerning the expenditure budget of the Supervisory Committee for the operating expenses of the committee itself concerning the application of the Organisation, management and control model pursuant to Legislative Decree 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 2018 financial year concerning the internal control and risk management system;
- it examined the organisational structure of the Group Audit function;
- it examined the actions implemented by the Company with the aim of providing non-financial information, as required under Legislative Decree No. 254/2016 concerning the 2019 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 2019 financial year, updated with respect to that examined for the 2018 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 2017-2019 Three-Year Plan, also with a view to the medium/long-term sustainability of the Company's activities; the Committee subsequently examined the update of the Risk Map at the same time as the approval of the Three-Year Plan 2019-2021 and following a transaction for the acquisition of rights to products considered relevant;
- 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 2018 Annual Report and the 2019 half yearly interim financial report;
 - the work plan prepared by Chief of Group Audit for 2020;
- it reported to the Board twice on its activities, at the time of approval of the 2018 Annual Report and the 2019 half yearly interim financial report; the Chairman 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;
- in its capacity as the Committee for Related-Party Transactions, it carried out the three-year periodic review of the Related Party Transactions Procedure, not recognising the need to propose substantial changes to the Board;
- examined the recommendations of the Chair of the Corporate Governance Committee;
- 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;
- it examined the results of compliance checks with certain protocols forming part of the Organisational Model pursuant to Legislative Decree 231/2001 on environmental and occupational safety issues;
- it focused specifically on governance and risk control aspects, in particular with regard to the Regulations on the management and coordination activities carried out by Rossini Luxembourg S.à.r.l. on Recordati S.p.A. and the information flows of Recordati S.p.A. to, in particular, Rossini Luxembourg S.à.r.l. which were subsequently approved by the Board of Directors of Recordati S.p.A.;
- it examined the analysis of the sustainability matrix for the purpose of the 2019 non-financial report;
- it recommended that the annual self-assessment process of the Board and its committees be conducted with the support of an external consultant and reviewed its results in preparation for the Board's review, making some recommendations.

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 Control, Risk and CSR Committee for 2019 in order to provide it with adequate financial resources for the performance of its duties.

¹³ Given that the current structure provides that the position of director in charge of the internal control and risk management system is entrusted to the Executive Director - Group General Manager - Mr Fritz Squindo. This structure will in any case be evaluated in terms of 'comply or explain' by the Board of Directors during 2020 in the light of the recommendation of the 2020 edition of the Code - to be applied from 2021 - which provides that the CEO is also the director in charge of the internal control system.

11. 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.¹⁴

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 2019, Recordati updated its Risk Map on several occasions: at the beginning of 2019 as an update with respect to what was examined for the 2018 financial year and, subsequently, at the time of the approval of the Three-Year Plan, 2019-2021 following a transaction for the acquisition of rights over products considered significant and, finally, at the time of the approval of the 2020 budget, at the Board of Directors' meeting held on 19 December 2020.

Furthermore, in a meeting held on 18 March 2020, with the opinion in favour of the Control, Risk and CSR Committee, the Board considered that the 2020 guidelines for the internal control and risk management system of the Company and the Recordati Group, approved in the previous financial year were still adequate, so 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.

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 Control, Risk and CSR Committee and by the Supervisory Committee pursuant to 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 whistle blowing channels in place in all Group branches. In the course of 2019, these existing whistle blowing channels were strengthened with the introduction of additional tools: in the Parent Company and in all the Italian subsidiaries and in the French subsidiary of Recordati Rare Diseases Sarl, web portals and telephone hotlines dedicated to reporting breaches of applicable regulations, the Code of Ethics and internal procedures were implemented and made available to Group employees. These new channels will also be made available, according to a defined implementation plan, to all the other subsidiaries of the Group.

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 the Issuer has had an organisational model in place pursuant to Legislative Decree No. 231/2001 on administrative liability of companies, which is continuously updated and also a control model pursuant to 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 Control, Risk and CSR Committee; the Board of Statutory Auditors; the executive director responsible for overseeing the internal control system; and the 231 Compliance Body (ODV)) 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 Chairman 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 Control, Risk and CSR Committee, and the Board of Directors.

11.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.

¹⁴ For more information, see the section "Main Risks and Uncertainties" of the 2017 Consolidated Financial Statements of the Recordati Group.

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 Manager appointed to prepare corporate accounting documents. 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 Manager appointed to prepare corporate accounting documents with the support of the Group Internal Audit & Compliance 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 Internal Audit & Compliance 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 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 appointed to prepare corporate accounting documents 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 Control, Risk and CSR Committee and the Financial Reporting Officer and the Director in charge of 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 Legislative Decree 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 14 on the Board of Statutory Auditors.

11.1 DIRECTOR WITH RESPONSIBILITY FOR THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

On 5 February 2019 (and previously on 11 April 2017), the Board of Directors confirmed the appointment of Mr Fritz Squindo as Executive Director with responsibility for the internal control system the General Manager for the coordination of operations and CFO until 1 November 2019, and subsequently, Group General Manager.

The Director Responsible for supervising the functionality of the internal control and risk management system:

- 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 2019 financial year (again with the assistance of the outside company Deloitte S.p.A.) of which he informed the Control, Risk and CSR Committee and the Board on several occasions during 2019;
- 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.

The Executive Director responsible for monitoring the functionality of the internal control system:

- may request the Group Audit & Compliance Function to investigate specific operational areas and compliance with internal rules and procedures in carrying out company operations, reporting promptly to the Board of Directors, to the Chair of the Control, Risk and CSR Committee and to the Chair of the Board of Statutory Auditors;
- shall report promptly to the Control, Risk and CSR Committee (or to the Board of Directors) with regard to problems and difficulties found in carrying out their activities or of which they have nevertheless learnt, so that the Committee (or the Board) make undertake appropriate initiatives.
- shall submit a proposal to the Board of Directors for the appointment and removal of the Chief of the Group Audit & Compliance Function and also on the remuneration for him, consistent with Company policy.

11.2 CHIEF OF THE GROUP AUDIT & COMPLIANCE FUNCTION

It is the responsibility of the Board of Directors to appoint and remove the chief of that function on the basis of a proposal submitted by the Director responsible for the internal control and risk management system, 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 Chairman, also following the renewal of the Board of Directors on 5 February 2019. Additionally, the Board confirmed the Chief of the Group Audit & Compliance Function as the Internal Control Officer pursuant to Art. 150 of Legislative Decree No. 58/1998.

When he was appointed, the Board, having consulted with the Risk, Control and CSR Committee, 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.

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;
- to promptly prepare reports on events of particular importance;
- to submit periodic reports to the Board of Statutory Auditors, the Control, Risk and CSR Committee, the Board of Directors, the Director with responsibility for the internal control and risk management system and the CEO;
- 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 Control, Risk 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 Control, Risk 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.

In detail, during the course of the Financial Year and in meetings of the Board of Directors already held in 2020, the Chief of Group Audit & Compliance:

- explained the annual work programme and the organisational structure of his function to the Control, Risk 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 Control, Risk 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 Year.

The Board of Directors was informed by the Control, Risk 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 2019.

11.3 ORGANISATIONAL MODEL PURSUANT TO 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., Italmidici 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 the first half of 2019, Natural Point S.r.l. adopted its own Organisational Model pursuant to the aforementioned decree.

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 Decree 231/2001 and of the organisational model. The 231 Compliance Bodies (ODV), 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 231 Compliance Body has its own internal regulations and operate in accordance with a specific programme. The Supervisory Bodies also periodically report to the boards of directors and of statutory auditors.

In particular, the 231 Compliance Body of Recordati S.p.A. appointed by the Board of Directors on 11 April 2017, 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 2019, in the Group's Italian companies, special training on Models pursuant to Italian Legislative Decree 231/01 was provided to all newly hired employees, to staff employed in the marketing and sales departments, as well as distance training sessions for the entire External Operating Force, for a total of 376 employees.

For the subsidiaries located abroad, policies with a function similar to those of the organisational model pursuant to Legislative Decree 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 14 March 2018 Spanish subsidiary Casen Recordati adopted a Management and Control Organisational Model in compliance with Ley Organica 2015/1 of 30 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 Legislative Decree 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 231 Compliance Body has been appointed and is operative, as required by best practices. In 2019, the 231 Compliance Body of the Spanish subsidiary met periodically and prepared and implemented a plan of activities and verifications and provided training sessions on the themes of the Model (including, in particular, those concerning anti-corruption) to all staff of the subsidiary.

In 2012, the Board of Directors, assisted by the then Risk, Control and CSR Committee, had also assessed whether to assign the functions of the 231 Compliance Body (pursuant to Legislative Decree No. 231/2001 in accordance with Law No. 183/2011 – the 2012 "Stability" Law), and decided in favour of Recordati continuing to maintain a Supervisory Committee as a highly specialised unit, dedicated entirely to the supervision of ethical, preventative, organisational and management procedures adopted to prevent incurring liability within the meaning of 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 Legislative Decree 231/2001, are constantly monitored by the 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 231 Compliance Body. The specific part includes, inter alia, a "map" of the areas where the risk of crime 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/

11.4 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 values, including: protection of the individual; fairness and equality; ethical conduct and compliance with the law; loyalty; the confidentiality of information; respect of the interests of all stakeholders; professionalism; and the protection of health and the environment.

The Code of Ethics is normally adopted by all the companies of the Recordati Group.

By way of the Code of Ethics, the Group undertakes to ensure equal employment opportunities without discrimination, to lead the way in the protection of the environment and of individual health, to promote and protect the health of our employees, and to provide technical and career training for them.

In conducting operations, the Group ensures that there is a constant balance between the pursuit of profit and the observance of the law and of ethics, while taking account of corporate social responsibility and the need to prevent the risk of violations of the law.

The Code of Ethics establishes the rights, duties and responsibilities of all those who work for Recordati in whatever capacity and represents a point of reference in regulating the various activities of all companies of the Group. The conduct specified in the Code of Ethics concerns a range of areas within the organisation. The rules of conduct established in the Code of Conduct include: the need to avoid conflicts of interest; the prohibition of corruption, unlawful favouritism, and collusion; responsibilities in the use and protection of company information; and relations with government, political organisations, trade unions, and the media.

The Code of Ethics is an integral part of the model of management, organisation and control pursuant to Legislative Decree 231/2001 for Italian companies and is one of the cornerstones of the model itself.

Observance of the Code of Ethics is not only required of directors, management, employees, and all who work within the Group, but is also an integral part of the obligations of trading partners and other third parties, such as vendors, consultants, agents, partners, and whoever has relations with the companies of the Recordati Group.

Distribution and dissemination of the Code of Ethics is handled directly by the Parent Company for the Italian companies of the Group. All employees are provided with a copy of the Code of Ethics, and it is also available on the Company's website.

The current version of the Recordati Group's Code of Ethics is in the final stage of being revised and a new version of the Code will be issued in 2020. Subject to all the principles already present in the Code, the document will be reviewed with a view to greater legibility and usability and will be updated with further behavioural guidelines.

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 2019 the Manual was distributed again to Recordati's subsidiaries in Spain, France, Russia, Turkey, CIS countries, Ireland and Germany, simultaneously with the offer of training sessions.

During 2019, training sessions dedicated to anti-corruption were provided to a total of 1303 employees, of whom 376 in the Italian branches and 927 in the Group's foreign branches.

During 2020, the distribution of the updated Anti-Bribery Manual will continue in the remaining branches of the Group, together with the provision of Anti-Bribery training sessions according to a training plan shared with the Board of Directors.

Furthermore, in order to improve the communication, coordination and supervisory activities between the Parent Company and the Group's various subsidiaries, specific information flows regarding anti-corruption and counter-terrorism were improved and put in operation in 2019, through dedicated channels, in order to intercept and manage situations of potential risk.

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 Legislative Decree 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. Moreover, in 2019 the Group has also implemented in each branch concerned a new IT application for the management of the activities envisaged by the GDPR.

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).

11.5 AUDIT FIRM

KPMG S.p.A. is the firm of external auditors appointed to audit the Company for 2019. The appointment was formally made by a Shareholders' Meeting on 13 April 2011 for the years 2011-2019, as proposed by the Board of Statutory Auditors.

With the approval of the financial statements for the 2019 financial year this engagement will come to an end.

In light of the above, the Board of Statutory Auditors, in its capacity as the Internal Control and Audit Committee, therefore launched in 2019, with the assistance of the Company, a specific procedure for the selection of the new audit firm to be appointed for the years 2020-2028, in accordance with current legislation and, in particular, Article 16 of Regulation (EU) No. 537/2014. As a result of the selection procedure, the Internal Control and Audit Committee has prepared a reasoned recommendation to the Board of Directors and then to the Shareholders' Meeting.

For further details, please refer to this recommendation, which will be published in accordance with the law.

11.6 THE FINANCIAL REPORTING OFFICER

From 3 May 2007 and until 18 March 2020 the role of Manager in charge of preparing the accounting and corporate documents is entrusted to Mr Fritz Squindo, General Manager for the coordination of management and CFO until 1 November 2019 and, subsequently, Group General Manager. On 18 March 2020, after receiving the opinion of the Control, Risk and CSR Committee, the Board of Directors appointed, as Financial Reporting Officer, Mr Luigi La Corte, the new Group CFO with effect from 1 November 2019.

Already during the appointment, it was confirmed that he satisfied the requirements of respectability and professionalism laid down in the applicable legislation and in the Company's By-Laws, which stipulate, in Art. 25, that the Financial Reporting Officer must not only satisfy the requirements of respectability 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 18 March 2020, by the Board of Directors updating those previously adopted since 2007.

11.7 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 Control, Risk and CSR Committee and also the Director Responsible for the internal control and risk management system, the Chief of Group Audit & Compliance, the Supervisory Committee pursuant to Legislative Decree No. 231/01, and senior representatives of the external audit firm have participated in various meetings on invitation of the Chairman of the Committee and on individual items on the agenda.

The Board of Statutory Auditors of the Company and the Supervisory Committee pursuant to 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.

11.8 REGULATIONS FOR CONTROLLED FOREIGN COMPANIES LOCATED IN NON-EU COUNTRIES

In relation to the provisions of Art. 15 and Art. 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 31 December 2019 the regulatory provisions of Art. 16 of the Markets Regulations have applied to the Turkish subsidiary Recordati İlaç Sanayi Ve Ticaret Anonim İrketi, 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.

12. DIRECTORS' INTERESTS AND RELATED-PARTY TRANSACTIONS

Subject to the favourable opinion of the Control and Risk Committee (now the Risk, Control and CSR Committee identified as the Committee Responsible pursuant to Art. 4 paragraph 3 of Consob Regulation No. 17221 of 12 March 2010, in a meeting held on 24 November 2010, the Board adopted

"Regulations for related-party transactions" in accordance with Art. 2391-bis of the Italian Civil Code and with the Regulations just mentioned 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 1 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 Control and Risk 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 character.

The following was performed on the basis of these Regulations:

- the Risk, Control and CSR Committee (now the Control, Risk 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 Management 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 manager appointed to prepare corporate accounting documents (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 executives with strategic responsibilities 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 Art. 2389, paragraph one 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 Art. 2389, paragraph three of the Italian Civil Code;
- shareholders' resolutions pursuant to Art. 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 Art. 114-bis of the Consolidated Finance Law 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 executives with strategic responsibilities, 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 executives with strategic responsibilities, 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 Art. 114, paragraph 1 of the Consolidated Finance Law, to comply with the provisions of Art. 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.

The Company Annual Report may be consulted with regard to transactions with related parties carried out in 2019.

It should be noted that on 10 June 2019, 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. However, Consob has not yet issued the secondary regulations that the Authority must provide for in order to implement the Directive (the relevant consultation of 31 October 2019 expired on 1 December 2019).

The Company will proceed to update the abovementioned procedure following the completion of the reference legislative and regulatory framework which is required to be implemented.

13. APPOINTMENT OF STATUTORY AUDITORS

The appointment of Statutory Auditors is governed by art. 26 of the By-Laws, which is given below:

"Art. 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 Chairman 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. In accordance with articles 144-*quater* and 144-*septies* of CONSOB resolution no. 28 of 28 January 2020, the 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 Art. 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, Law no. 160 of 27 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 1 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 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 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 new edition of the Code published in 2020 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 current version of the Code does provide, 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 Legislative Decree No. 39/2010, as amended by 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.

14. STATUTORY AUDITORS (COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LETTERS D AND D-BIS, OF THE CONSOLIDATED FINANCE LAW)

The composition of the Board of Statutory Auditors in office on the closing date of the Year is shown below. The Board was appointed by the Ordinary Shareholders' Meeting of 11 April 2017 and its term of office will expire at the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2019.

At the Ordinary Shareholders' Meeting of 11 April 2017, two slates for the position of statutory auditor were presented: one by the shareholder FIMEI S.p.A., holder of 108,308,905 ordinary shares equal to 51.791% 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 institutional investors, who collectively held 1,587,431 shares equal to 0.7591% 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

Mr Marco Nava
Mr Marco Rigotti
Ms Livia Amidani Aliberti

Alternate Auditors

Ms Patrizia Paleologo Oriundi
Mr Marco 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 Chairman
Mr Marco Nava	Statutory Auditor
Ms Livia Amidani Aliberti	Statutory Auditor
Ms Patrizia Paleologo Oriundi	Alternate Auditor
Mr Andrea Balelli	Alternate Auditor

The voting share capital represented 78.595% of the share capital with voting rights of the Issuer. A total of 117,279,915 shares were in favour of slate no. 1 (56.081% of the share capital with voting rights). A total of 46,973,778 shares were in favour of slate no. 2 (22.462% 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 2017).

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 2019 AND CURRENTLY IN OFFICE

Office	Members	Year of birth	Year first appointed	In office since	In office until	Slate (M/m)*	Indep.as per CG Code	Indep. as per TUF	(%)**	Number of other offices***
Chairman	ANTONIO SANTI	1977	2017	11.4.2017	Approval of 2019 financial statements	m	X	X	12	1
Statutory Auditor	LIVIA AMIDANI ALIBERTI	1961	2014	11.4.2017	Approval of 2019 financial statements	M	X	X	12	2
Statutory Auditor	MARCO NAVA	1960	2008	11.4.2017	Approval of 2019 financial statements	M	X	X	12	0
Alternate Auditor	PATRIZIA PALEOLOGO ORIUNDI	1957	2014	11.4.2017	Approval of 2019 financial statements	M	X	X	N/A	3
Alternate Auditor	ANDREA BALELLI	1975	2017	11.4.2017	Approval of 2019 financial statements	m	X	X	N/A	1

* 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 the percentage 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 positions 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 when directors were last appointed:

1%

Number of meetings held during 2019:

12

Statutory auditors' fees are set by a Shareholders' Meeting when they are appointed.

The fees for the Board of Statutory Auditors in office were set by a Shareholders' Meeting held on 11 April 2017, at the same amounts as previously set, with an annual fee of €50,000 for the Chairman of the Board of Statutory Auditors and of €35,000 for each Statutory Auditor, gross of withholding tax.

Details of the fees earned in 2019 are nevertheless given in detail in the Remuneration Report.

During the Year the Board of Statutory Auditors met 12 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 2020. The percentage attendance of Auditors in these meetings in 2019 is shown in the table above.

In application of Art. 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 after its appointment. It was found from the outcome of that verification that all the Statutory Auditors in office possessed the requirements for independence according to Art. 148 of the TUF and also with regard to independence requirements contained in the CG Code. This assessment was repeated, with a positive outcome, on 11th February 2020.

The Board of Statutory Auditors noted, in particular, that the requirement of independence of the statutory auditor Mr Marco Nava continued to be met, despite holding the position for more than nine years, having taken account of the parameters of substance and not of form.

The Board of Statutory Auditors, in the performance of its activities, liaised with the Chief of Group Audit and with the Control, Risk 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 231 Compliance Body appointed in accordance with 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 and Control, Risk and CSR Committee.

As previously stated in this Report, it should also be noted that the Board of Statutory Auditors, by participating in the meetings of the Board of Directors, receives periodic updates on operations and on developments within the regulatory and legislative framework.

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, for example with regard to the Regulations on the management and coordination activities performed by Rossini Luxembourg S.à.r.l. on Recordati S.p.A. and the information flows of Recordati S.p.A. to, in particular, Rossini Luxembourg S.à.r.l. which were approved by the Board of Directors of Recordati S.p.A.;
- 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 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 7 April 2010, as subsequently amended.

More specifically, the CICA 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 Legislative Decree No. 39/2010, the duties of the CICA 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).

The Board of Statutory Auditors has checked the independence of the audit firm KPMG S.p.A., checking both compliance with legislative provisions and the nature and extent of services other than financial auditing provided to a number of subsidiaries by the same audit firm and by the entities belonging to the latter's network. For information concerning services other than those of auditing the accounts provided by the audit firm to the Company and its subsidiaries, reference may be made to the relative attachment "Disclosure of auditors' fees for accounting audits and other services" to the consolidated financial statements at 31 December 2019 and the draft separate financial statements of Recordati S.p.A. at 31 December 2019.

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 art. 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.).

15. 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 of the TUF we report that the company:

- from 28 May 2012 and until 14 January 2018 used the SDIR - NIS network managed by Bit Market Services, a company belonging to the London Stock Exchange Group, located at 6 Piazza degli Affari, Milano, for the transmission of regulatory information;
- from 15 January 2018, 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 30 July 2014;

- from 19 May 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 9 April 2014.

As part of the Company's organisational structure, Ms Marianne Tatschke, the Investor Relations & Corporate Communications Manager, is the person responsible for managing relations with shareholders.

In addition, the tasks of the Group Legal Service and Corporate 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 department 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).

16. SHAREHOLDERS' MEETINGS

In accordance with Art. 9 of the By-Laws in force, Shareholders' Meetings are convened in the manner and within the legal time limits on the Company 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 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 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 Consolidated Finance Act, inclusive of the publication of extracts in daily newspapers. These provisions apply to Shareholders' Meetings for which the notice to convene is published after 1 January 2013.

Following amendments made by the Shareholders' Meeting of 13 April 2011 to the By-Laws, Art. 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 Art. 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 capital stock."

In accordance with Art. 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 Art. 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 Art. 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, Art. 135-undecies of the TUF, inserted by Legislative Decree No. 27/2010 introduced 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 an authorisation, by the end of the second day of market trading prior to the date set for the Shareholders' Meeting in first or second call, 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 Corporate 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 Art. 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 Consolidated Finance Act, 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 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 2019 financial year, the Shareholders met twice:

On 5 February 2019, in a single call, for the appointment of the new Board of Directors; 78.454% of the share capital with voting rights attended this meeting. The outgoing Board of Directors was attended by Mr Giampiero Mazza, Chair, Mr Andrea Recordati, Vice-Chair and Chief Executive Officer, Ms Michaela Castelli, lawyer, Mr Fritz Squindo, Ms Cathrin Petty and Mr Soren Vestergaard-Poulsen. Also present were the Statutory Auditors, Mr Antonio Santi, Chair, Mr Marco Nava and Ms Livia Amidani Aliberti, Statutory Auditors. The slates submitted and the outcome of the voting, together with the additional documentation filed in accordance with the law and applicable regulations can be consulted on the website www.recordati.it, (Investors/ Shareholders' Meeting/2019 section).

On 11 April 2019 on first call with 78.762% of the share capital with voting rights in attendance. At this Shareholders' Meeting, the Shareholders approved the financial statements for the year ended 31st December 2018 and authorised amendments to the Stock Option Plan 2018-2022 and the purchase and use of treasury shares. The Shareholders' Meeting also cast a non-binding vote on the first section of the Remuneration Report.

During this Shareholders' Meeting the following Directors were in attendance in addition to the Chair: Mr Alfredo Altavilla, Vice Chair, Mr Andrea Recordati, Chief Executive Officer, Ms Michaela Castelli, lawyer, Mr Giampiero Mazza, Mr Fritz Squindo, Ms Silvia Candini, Ms Joanna Le Coulliard, Mr Francisco Javier De Jaime Guijarro. Also present were the Statutory Auditors, Mr Antonio Santi, Chair, Mr Marco Nava and Ms Livia Amidani Aliberti.

The Board of Directors, during the said Shareholders' Meeting reported on the activity conducted and planned and answered a number of the Shareholders'

questions. The volume containing a copy of the proposed separate financial statements and consolidated financial statements, with the accompanying reports and the Directors' Reports on the proposals concerning items placed on the agenda was handed out at the entrance and also sent to shareholders who had taken part in recent meetings and who had requested one in order to ensure adequate disclosure of the necessary information so that they could take the decisions for which they are responsible with full knowledge of the facts. The above documentation, together with the results of the votes, has been made available and it may be consulted on the Company website www.recordati.it in the section: Investors, Shareholders' Meetings, 2019.

The Remuneration Committee considered that there was no need to report to the Shareholders' Meeting on how it had carried out its duties, because that information was already contained in the Remuneration Report made available to shareholders before the meeting.

During the 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.

17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LETTER A) OF THE TUF)

At the Board of Directors' meeting of 18 March 2020, during which this Report was approved, Mr Flemming Ørnskov (Chair), Mr Søren Vestergaard-Poulsen and Mr Francisco Javier de Jaime Guijarro Directors resigned, effective as of the next Shareholders' Meeting, which will be held on 29 April 2020 on a single call. Flemming Ørnskov, Søren Vestergaard-Poulsen and Francisco Javier de Jaime Guijarro resigned due to increased professional commitments.

The Shareholders' Meeting will then be called upon to take the relevant decisions regarding the completion of the Board of Directors, upon redetermination of the number of its members.

For further information - in particular in relation to certain guidelines on the appointment of new directors which the Board will address to the Shareholders, taking into account the results of the Board's self-assessment process held at the beginning of the 2020 financial year - reference should be made to the Directors' Report on the relevant item on the agenda, which will be made available, also on the Company's website, in accordance with the law.

The Issuer does not apply any additional corporate governance practices, other than those described in the preceding sections of this Report.

18. CHANGES OCCURRING SINCE THE END OF THE YEAR

There were no further changes in the Company's corporate governance structure.

19. OBSERVATIONS ON THE LETTER OF THE CHAIR OF THE CORPORATE GOVERNANCE COMMITTEE OF 19 DECEMBER 2019

The recommendations in the letter of the chair of the Corporate Governance Committee dated 19 December 2019 were brought to the attention, first, of the Chairman of the Board of Directors, the Chief Executive Officer, and the chairman of the Board of Statutory Auditors (to whom the letter was addressed) as well as to the other Statutory Auditors and members of the Control, Risk and CSR Committee and members of the Remuneration Committee on 2 January 2020.

Subsequently, on 7 February 2020, prior to the Board of Directors' discussion of the results of the board review process, **the letter was also distributed to all the other directors** and the recommendations contained therein have been the subject of specific in-depth examination and discussion by the Board.

In particular, in addition to what was already discussed by the Board itself in its self-assessment of the recommendation concerning the quality of the information provided to the Board and in the assessment of the independence of directors who have declared themselves independent with regard to the recommendation concerning the strict application of the independence criteria defined by the Code, the Board acknowledged that the assessment of the ex ante establishment of quantitative and/or qualitative criteria for the assessment of the significance of any relationship between the independent director and the company or related parties will be brought to the attention of the Board when assessing the new features of the new Corporate Governance Code, which also proposes this recommendation.

With regard to the recommendation on the integration of sustainability in the definition of strategies and remuneration policy, also on the basis of an analysis of the importance of the factors that may affect the generation of value in the long term, it was acknowledged that the Company has already begun a specific process in this regard, which is being discussed and monitored by the Control, Risk and CSR Committee.

Finally, in relation to the recommendation on the adequacy of the remuneration of non-executive directors and members of the Board of Statutory Auditors, also in the light of a comparative analysis, we refer, for the latter, to the discussion on the Directors' report to the Shareholders' Meeting on the appointment of the new Board of Statutory Auditors (on the agenda for the 2020 Shareholders' Meeting).

Milan, 18 March 2020

for the Board of Directors
Chief Executive Officer
Andrea Recordati

ATTACHMENT 1

PROFESSIONAL OVERVIEW OF THE DIRECTORS AND STATUTORY AUDITORS

DIRECTORS

Flemming Ørnskov

Since October 2019, Dr. Flemming Ørnskov serves as the Chief Executive Officer of Galderma SA. From 2013 to January 2019, when the company was acquired by Takeda, he was Chief Executive Officer of Shire, the global leader in rare diseases.

Dr. Ørnskov has extensive international, strategic and operational experience in the pharmaceutical and biotech sectors, as well as medical expertise as a physician with training in pediatrics.

Prior to joining Shire, from 2010 to 2013, he was Chief Marketing Officer and Global Head, General and Specialty Medicine at Bayer AG. Previous leadership roles included Global President, Pharmaceuticals and Over-the Counter at Bausch & Lomb, Inc. Chairman, President and Chief Executive Officer of LifeCycle Pharma A/S (now Veloxis Pharmaceuticals A/S), and President and Chief Executive Officer of Ikaria, Inc.

Earlier in his pharmaceutical career, he held roles of increasing responsibility at Merck, Inc. and Novartis AG, following a distinguished career working in hospitals and academic medicine.

Dr. Ørnskov received his MD from the University of Copenhagen, MBA from INSEAD, and Master of Public Health from Harvard University.

He currently serves as Lead Independent Director for the Waters Corporation, Inc, Chairman of the Board of Directors of Centogene NV, and Board Member of Karo Pharma AB.

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 Nanjing and in 1999 head of Asian Operations.

He has been involved in Business Development since 2001, becoming responsible for coordination of the alliance with General Motors and, in 2004, being assigned responsibility for management of all Group 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 Fabrikası 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 in Milan and Chairman of the Nomination and Compensation Committee), Conceria Pasubio S.p.A. and I3P (VC Incubator of the Politecnico of Turin).

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.

Silvia Elisabetta Candini

Liceo Classico degree, undergraduate degree in Economics (summa cum laude) at Università Commerciale Luigi Bocconi and Exchange Programme at The Wharton School (MBA) of University of Pennsylvania.

After graduation in 1994, she joins Lehman Brothers London in the Corporate Finance team and, subsequently, in the Origination team, where she works on marketing and structuring of IPOs and convertible bonds. In 1996, she moves to the Debt Origination team at JP Morgan London to cover Italian banks and local authorities as issuers.

From 1998 to 2008 she continues to work at JP Morgan in the fixed income sales & trading department, assuming responsibility for the distribution to Italian institutional clients of "plain vanilla" and structured fixed income products, such as senior and subordinated securities issued by financial institutions (including first subordinated bond issue of Generali), senior and subordinated corporate notes, high yield and emerging markets bonds, securitizations (ABS, MBS and CDOs), Credit Default Swaps, Credit linked Notes. Other relevant structured trades include equity linked notes to traditional funds (Henderson), Hedge Funds (GLG) and Indexes (Itraxx, Eurostock50).

Since 2009, co-founder and managing partner of Studio C&C, providing Family Office and financial advisory services to High Net Worth private clients. Current roles:

- Independent Director, Member of the Audit, Risk and Sustainability Committee and Member of the Remuneration Committee with Recordati S.p.A.

Michaela Castelli

Born in Rome on 7 September 1970, graduated in Law and a specialization course in financial law, she began working in London dealing with Capital Market. Has experience working with major legal firms in Italy, dealing with corporate and financial markets law. Worked for the Italian Stock Exchange for 9 year where she dealt with assisting, in close collaboration with the supervisory authority (CONSOB), quoted issuers on matters concerning extraordinary operations, price sensitive information, compliance and corporate governance.

Registered in Milan Bar Association, she is an expert in corporate organization and compliance, internal audits and 231 regulations, she was consultant and member of the Boards of Directors of listed and not listed companies, standing auditor on Boards of Auditors and member of several supervisory boards.

Author of sector publications and lecturer on various continuous education courses on corporate and financial markets law; participated in numerous conferences as a speaker.

- Chairperson of Acea SpA, Chairperson of Sea SpA and Nexi SpA, where she is also member of internal Committees.
- Member of the Board of Directors of Recordati SpA and La Doria SpA
- Chairperson of the Supervisory Board of Teva Srl and Nuova Sidap
- Member of the Board of Statutory Auditors of Autogrill Italia SpA.

Joanna Le Couilliard

Joanna Susan 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. She is a graduate of Cambridge University and a Chartered Accountant.

She is currently a Non-Executive Director at Circassia Pharmaceuticals plc, Cello Health plc and Alliance Pharma plc, all listed on the London Stock Exchange.

Francisco Javier de Jaime Guijarro

Francisco Javier de Jaime Guijarro graduated in law from Universidad Pontificia de Comillas (Madrid) in 1987 and in 1990 obtained a master in business administration at the University of Houston (USA).

He started his career in 3i Group in 1990 as investment controller at the London office (1990-1991) and after as regional director at the Madrid office (1992-1997).

In September 1997 he joined CVC Capital Partners as co-general director to lead the Spanish market, one of the most important market for CVC. In 2003 he was appointed as managing partner of CVC Capital Partners and since 2008 he took the responsibility to also lead the Italian market.

He is currently a member of the board of directors in the following companies: Baranoa Directorship S.L., Tendam Retail S.A., Tendam Brands S.A., Tendam Fashion S.L.U., Deoleo S.A., Vitalia Plus SA, Vivaly Inversiones Globales S.L., Naturgy Energy Group, S.A., Promotora de Informaciones S.A. CVC Advisers (Luxembourg) S.à r.l., CVC Investment Advisory Services S.L., CVC Capital Partners SICAV-FIS SA., Campania de Gestión e Inversión Jade., Jade Agroalimentación SL., Fundación CVC España., Recordati S.p.A. Italia, Universidad Privada de Madrid S.A. He is also a director of the Fundación Humana Spes foundation.

Giampiero Mazza

Giampiero Mazza graduated *summa cum laude* from Rice University (Houston, Texas, USA) in 1991 with a degree in Economics and in 1996 completed a Master in Business Administration at the Harvard Business School (Boston, Massachusetts, USA).

He started his career as a 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 firm, where he actually is Managing Partner, Head of the Italian office and 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., Recordati S.p.A., Multiversity S.r.l. (iii) chairman of the board with delegated powers in Rossini Investimenti S.p.A., and in FIMEI S.p.A.

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.

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.

Søren Vestergaard-Poulsen

Søren Vestergaard-Poulsen holds a Masters Degree in Economics and Business Administration from Copenhagen Business School.

He serves as Managing Partner at CVC Capital Partners, where he joined in 1998. Søren also oversees private equity activities in the Nordic region of Europe. He sits on the board of the CVC Capital Partners advisory business and is a member of the Europe/North America Private Equity Board and the Growth Fund Investment Committee.

Prior to joining CVC, he worked for McKinsey & Co.

He is currently a board member of the following companies: Sarcina Holdings S.à r.l., Sarcina Holdings Jersey Limited, Ahlsell AB (publ), Mholdings S.à r.l., Kirk Beauty Investments S.A., Keravel S.à r.l., NEWS Capital (Luxembourg) S.à r.l., CVC Advisers (Luxembourg) S.à r.l. and Recordati S.p.A.

He is also member of the supervisory board of Douglas GmbH.

MEMBERS OF THE BOARD OF STATUTORY AUDITORS

STATUTORY 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.

He is member of the Board of Statutory Auditors and accounting auditor of companies operating in different sectors; amongst the others he is CONI's Accounting Auditor, Chairman of the Board of Statutory Auditors of Acea Produzione S.p.A. and member of the Board of Statutory Auditors of Rothschild & Co Wealth Management Italy SIM.

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
- Quantyx UK Ltd: compliance officer and AML officer.

Marco Nava

Marco Nava graduated in Economics and Commerce and in Jurisprudence at the Università Cattolica del Sacro Cuore of Milan. He started his career as an accountant in 1988. He has been registered as an auditor since the first publication of the register (1995). He performs his principal activity as an accountant with his own offices in a partnership of accountants and lawyers. He is a statutory auditor and external auditor for companies operating in various sectors.

Marco Nava holds positions in the following companies:

1. Director of Nava Viganò Revisori Associati Srl.
2. Sole director of Tazat Srl.
3. Chairman of the Board of Statutory Auditors of Cavenaghi S.p.A.
4. Chairman of the Board of Statutory Auditors of Dott. G. Cavenaghi S.p.A.
5. Chairman of the Board of Statutory Auditors of Euclidea SIM S.p.A.
6. Chairman of the Board of Statutory Auditors of Fratelli Re S.p.A.
7. Chairman of the Board of Statutory Auditors of Italmichici Srl.
8. Chairman of the Board of Statutory Auditors of LCS S.p.A. with external audit.
9. Chairman of the Board of Statutory Auditors of Max Moda S.p.A.
10. Chairman of the Board of Statutory Auditors of RBR Valvole S.p.A.
11. Chairman of the Board of Statutory Auditors of Synlab Italia Srl.
12. Chairman of the Board of Statutory Auditors of ICCS S.p.A.
13. Chairman of the Board of Statutory Auditors of Data Medica Padova S.p.A.
14. Chairman of the Board of Statutory Auditors of Natural Point Srl.
15. Chairman of the Board of Statutory Auditors of Innova Pharma S.p.A.
16. Chairman of the Board of Statutory Auditors of Recordati Rare Diseases Italy Srl.
17. Chairman of the Board of Statutory Auditors of NUVAP S.p.A. with external audit.
18. External Auditor Associazione Italiana Medicina Nucleare (AIMN).
19. External Auditor Musixmatch S.p.A.
20. External Auditor Tensive Srl.
21. External Auditor Kroll Associates Srl.
22. External Auditor Poliambulatorio Euganea Medica Srl.
23. External Auditor Synlab Analytics & Services Italia Srl.
24. External Auditor Synlab Analytics & Services Srl.
25. External Auditor Baluardo Servizi Sanitari Srl.
26. External Auditor Si Consulting Srl.
27. Statutory Auditor Campo S.p.A.
28. Statutory Auditor National Instruments Italy Srl.
29. Statutory Auditor Yazaki Europe Limited Italia Srl.
30. Statutory Auditor Synlab Holding Italy Srl.
31. Statutory Auditors of Recordati Industria Chimica e Farmaceutica S.p.A.
32. Statutory Auditors of Giuseppe & Fratelli Bonaiti Srl with external audit.
33. Statutory Auditors of Motork Italia Srl.
34. Statutory Auditors of Camaieu Italia Srl.
35. Sole Member of Compliance Committee Giuliani S.p.A.
36. Sole Member of Compliance Committee CM Engineering srl.
37. Sole Member of Compliance Committee TOMA S.p.A.
38. Sole Member of Compliance Committee ForMAW Srl.

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' of the Associazione "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 Chiara Assicurazioni S.p.A.;
- Chairman of the Board of Statutory Auditors of Close up S.p.A.;
- Chairman of Auditors' of Consorzio Universitario per l'Ingegneria nelle Assicurazioni;
- Statutory Auditor of Engineering Ingegneria Informatica S.p.A.;
- Statutory Auditor of Esprinet S.p.A. (listed on the Milan Stock Exchange);
- Statutory Auditor of Ge.si.ass scarl;
- External Auditor of Fondazione Antonio e Giannina Grillo Onlus;
- Vice Chairman of the Board of Directors of Fondazione Biscozzi- Rimbaud;
- Chairman of the Board of Statutory Auditors of Helvetia Vita S.p.A.;
- Chairman of the Board of Statutory Auditors of Helvetia Italia S.p.A.;
- Chairman of the Board of Statutory Auditors of Mediapason S.p.A.;
- Shareholder Director of Quisi snc di Patrizia Paleologo & C.;
- Chairman of the Board of Statutory Auditors of Virgin Active S.p.A.;
- Statutory Auditor of Banca Farmafactoring S.p.A.;
- (listed on the Milan Stock Exchange);
- Chairman of Auditors' of the Associazione AODV231;
- Alternate Auditor of Autogrill S.p.A. (listed on the Milan Stock Exchange).

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 Fedaiia Spv Srl
- Sole Director of Gardenia Spv Srl
- Sole Director of Italian Credit Recycle Srl
- Sole Director of Restart Spv Srl
- Sole Director of Rienza Spv Srl
- Sole Director of Re Vesta Srl
- Statutory Auditor Airport Cleaning Srl
- Statutory Auditor Axis S.p.A.
- Statutory Auditor Danesi Caffè S.p.A.
- Statutory Auditor of Leonardo Energia Scarl
- Statutory Auditor of Infoblu S.p.A.
- 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.
- Chairman of the Board of Statutory Auditors of Salvatore Ferragamo S.p.A.
- Chairman of Supervisory Body ex D.Lgs 231/2001 of Salvatore Ferragamo S.p.A.
- Statutory Auditor of Sirti S.p.A.
- Chairman of the Board of Statutory Auditors of Wellcomm Engineering S.p.A.

This publication is a summary of the Annual Reports 2019 which contain the financial statements of Recordati S.p.A. and the consolidated financial statements together with management reports in their integral form, the Disclosure of Non-financial Information 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).

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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