Annual Report 2017

RECORDATI

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Recordati, an international Group

REVENUE
(Million Euros)
1,288.1

NET INCOME
(Million Euros)
288.8

EMPLOYEES
EXCEED 4,100

Recordati is a growing international pharmaceutical group. It actively seeks new opportunities and faces the challenges of a constantly changing marketplace with determination.

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 2017 the group generated revenues of € 1,288.1 million and has a staff of 4,176 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 Czech Republic and Slovakia, Romania, Poland, Russia and the other countries belonging to the Commonwealth of Independent States (C.I.S.), Ukraine, Turkey, Tunisia, U.S.A., Canada, Mexico and in some South American countries. Recordati sells its products in 135 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. Recordati develops, produces and sells drugs for the treatment of rare diseases through Orphan Europe and Recordati Rare Diseases, two companies dedicated mainly to metabolic deficiencies of a genetic nature.

The Group's most important products 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.

The company's commitment in the uro-genital therapeutic area and its know-how and expertise accumulated over 40 years of research and study has led to its being the European partner of established international pharmaceutical companies. Silodosin, a molecule used in the treatment of benign prostatic hyperplasia discovered by Kissei and developed for the European markets by Recordati, is one of the Group's most important specialties. This product is now marketed successfully in 37 countries. Also pitavastatin, a latest generation statin for controlling hypercholesterolemia, discovered and developed by Kowa, was obtained under license for Europe.

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 intends to reinforce its presence in the international pharmaceutical market and to extend its rare disease business worldwide.

Letter to our shareholders

To Our Shareholders,

The financial results obtained in 2017 emphasize the continued growth of the Group, with revenues and profitability increasing significantly.

All business segments and the main corporate products contributed to these results. Group consolidated revenue for 2017 is € 1,288.1 million, up 11.6% over the preceding year. International sales are € 1,029.6 million, up 12.4% and now represent 79.9% of total revenue. Operating income, at 31.6% of sales, is € 406.5 million, a growth of 24.1% compared with the preceding year. Net income is € 288.8 million, an increase of 21.6%, with a further improvement as margin on sales which is now 22.4%.

At 31 December 2017 the Group's net financial position records a net debt of € 381.8 million compared to net debt of € 198.8 million at 31 December 2016. During the period dividends were distributed, the acquisition of the marketing rights to the metoprolol based products from AstraZeneca was concluded and three Bayer Consumer Health products were acquired for the French market, for an overall disbursement of € 456.5 million. Shareholders' equity increases to € 1,027.2 million.

In 2017 a number of initiatives were pursued in line with the group's strategy of continued growth and development.

In January the European Union Commission granted the European marketing authorization for its orphan medicinal product Cystadrops® 3.8mg/mL. Cystadrops® is the first eye-drop solution containing cysteamine hydrochloride approved in the European Union for "the treatment of corneal cystine crystal deposits in adults and children from 2 years of age with cystinosis". The European Commission had granted Cystadrops® orphan drug designation in November 2008. Cystadrops® eye-drop solution was developed specifically for cystinosis patients by Orphan Europe (Recordati group). Cystinosis is a rare congenital lysosomal storage disorder recognized as a severe life threatening condition. It is characterized by an accumulation of cystine crystals which negatively affects all organs in the body, especially the kidneys and eyes. Cystinosis benefits from systemic treatment with cysteamine orally administered. However, oral cysteamine does not adequately address ocular cystinosis because of the non-vascularization of cornea. Without a proper, continued, local eye treatment, cystine crystals accumulate in the cornea, leading to severe consequences and possibly to blindness in the long term.

In February an exclusive worldwide licensing agreement covering the know-how developed by the Meyer Hospital in Florence (Italy) for the development of a treatment for pre-term babies affected by retinopathy of prematurity (ROP) was signed. The treatment is currently being investigated in a phase II clinical trial by the Meyer Hospital, while Recordati will complete the clinical development and the regulatory steps necessary to obtain the marketing approval for the drug. Retinopathy of prematurity (ROP) is a potentially blinding eye disorder that primarily affects premature infants weighing about 1.25 kg or less that are born before 31 weeks of gestation. This disorder, which usually develops in both eyes, is a rare condition, however presenting as one of the most common causes of visual loss in childhood that can lead to lifelong vision impairment and blindness. Furthermore, within the deal, Recordati shall support other Meyer projects in the rare disease area over a period of three years based on a mutually agreed plan. This collaboration between public and private institutions recognizes the important results obtained by the internal research conducted by the pediatric hospital in Florence.

In May Recordati signed an agreement with AstraZeneca for the acquisition of the rights to Seloken®/Seloken® ZOK (metoprolol succinate) and associated Logimax® fixed dose combination (metoprolol succinate and felodipine) treatments in Europe. The transaction was successfully concluded on 30 June (on 10 July for part of the transaction related to Romania). The consideration for the acquisition of the assets is of $ 300 million (€ 267 million). In addition, royalties for the use of the existing product brands will be due to AstraZeneca for an agreed period. Overall net sales in Europe in 2016 of the brands object of the transaction are of around € 100 million. Metoprolol succinate is 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. It is a widely used drug in all European countries which will enable us to reinforce our product portfolios in a number of our European subsidiaries, in particular in Poland, France and Germany. Furthermore, existing sales of the metoprolol brands will provide the base to enter new markets and thus complete our European geographical footprint. Recordati has significant experience in the marketing of treatments for cardiovascular disease and has an existing portfolio of medicines for hypertension and related conditions as well as an established salesforce across European markets.

On May 31, 2017, Recordati S.p.A. issued and privately placed a bond for a total of € 125.0 million with Pricoa Capital Group. The main terms and conditions provide for a 2.07% fixed interest rate and a duration of 15 years with repayment in annual instalments starting on 31 May 2025. The transaction, the object of which is to provide the necessary liquidity to support the growth of the group, was able to take advantage of the favourable market conditions.

In June Recordati 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, which already received an Orphan Drug Designation in the EU. Additional indications linked to NGF defects are also contemplated in the scope of the partnership. Neurotrophic keratitis is a rare degenerative corneal disease which in its more severe forms affects less than one person out of 10,000 worldwide, and is initiated by an impairment of trigeminal nerve. Impairment or loss of corneal sensory innervation is responsible for corneal epithelial defects, ulcer, and perforation. The most common causes of loss of corneal innervation are: viral infection (herpes simplex and herpes zoster keratoconjunctivitis), chemical burns, physical injuries, and corneal surgery. Neuroma, meningioma, and aneurysms may also determine a compression of the trigeminal nerve or ganglion and produce an impairment of corneal sensitivity. Furthermore, systemic diseases such as diabetes, multiple sclerosis, and leprosy may decrease sensory nerve function or damage sensory fibres compromising corneal sensitivity. The corneal epithelium is the first cell layer of the disease showing changes and defects, with poor predisposition to self-healing. The progression of the disease may lead to corneal ulcers, melting, and perforation leading to dramatic impairment to patients' sight.

During July Gedeon Richter Plc. was granted marketing authorization from the European Commission for Reagila® (cariprazine), a novel antipsychotic for the treatment of schizophrenia in adult patients, valid for all European Union Member States. In August 2016 Richter and Recordati had signed an exclusive license agreement to commercialize cariprazine in Western Europe, Algeria, Tunisia and Turkey. The European application for the treatment of schizophrenia included results from three placebo and partly active controlled positive 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. A clinical trial with positive results was also carried out in patients suffering from predominant negative symptoms of schizophrenia. The high relevance of these results is the base 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).

During December three Bayer Consumer Health brands for the French market, Transipeg®, TransipegLib® and Colopeg®, were acquired. Transipeg® and TransipegLib® are macrogol based laxatives for the treatment of symptomatic constipation in adults and Colopeg® is a large volume bowel cleanser indicated in preparation for endoscopic exploration. The 2016 net sales of the products in France amount to around € 10 million. The acquisition of Transipeg®, TransipegLib® and Colopeg® which are well-known brands in France, is in line with our strategy to reinforce our product portfolio in this market in the area of gastroenterology.

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 and in some South American countries. 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 2017 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 decided to initiate 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.

During 2017 a number of initiatives related to business sustainability were put in place.

We believe that the strict implementation 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 support during 2017.

DIVIDENDS

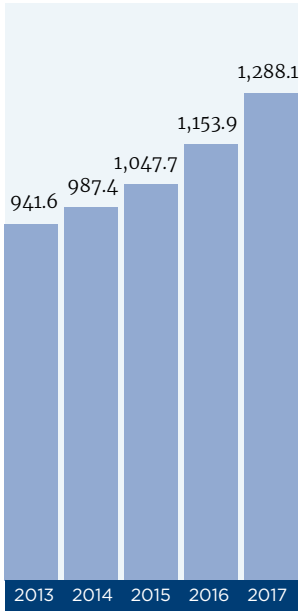
Based on the results obtained, the Board of Directors of the parent company will propose to the shareholders a dividend of € 0.43 per share, in full balance of the interim 2017 dividend of € 0.42, to be paid to all shares outstanding at ex-dividend date, excluding those in treasury stock, as from 25 April 2018 (record date 24 April 2018), with ex-dividend on 23 April 2017 (against presentation of coupon no. 21). The full 2017 dividend is therefore of € 0.85 per share (€ 0.70 per share in 2016).

Alberto Recordati
Chairman

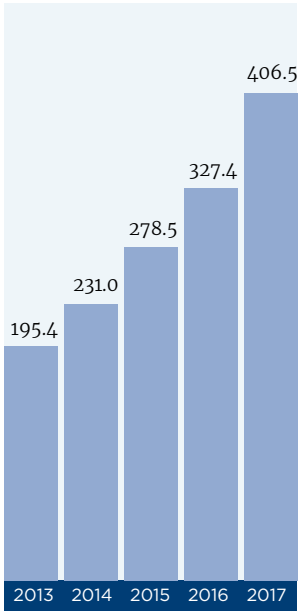
Andrea Recordati
Vice Chairman and Chief Executive Officer

The Group in figures

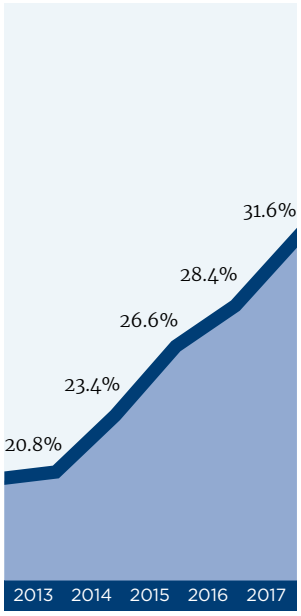
REVENUE
Milions of Euro



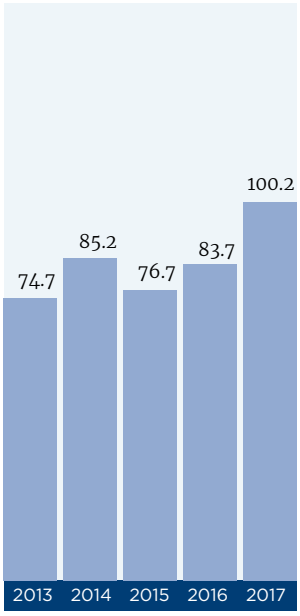
OPERATING INCOME
Milions of Euro



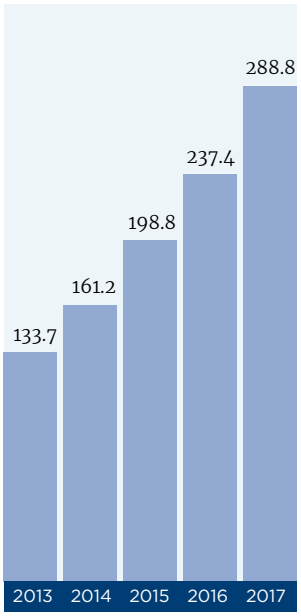
OPERATING INCOME AS % OF REVENUE



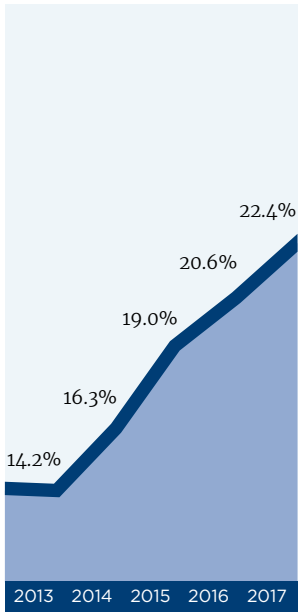
R&D EXPENSES
Milions of Euro



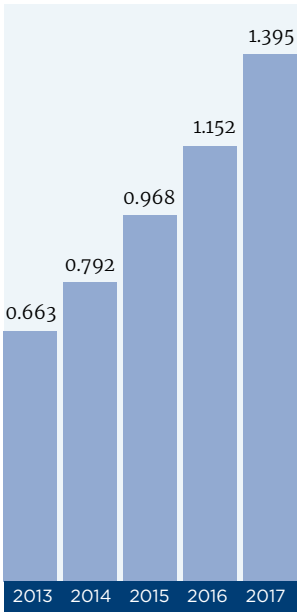
NET INCOME
Milions of Euro



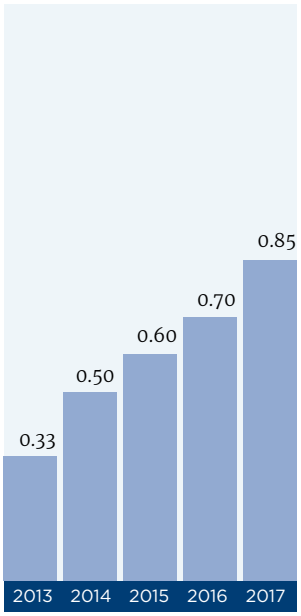
NET INCOME AS % OF REVENUE



NET INCOME PER SHARE Euro



DIVIDEND PER SHARE Euro



GEOGRAPHICAL COMPOSITION OF PHARMACEUTICAL SALES

20.1% Italy

10.0% France

9.8% Germany

8.8% USA

8.6% Russia, Ukraine and other CSI

6.9% Turkey

6.6% Spain

3.3% Portugal

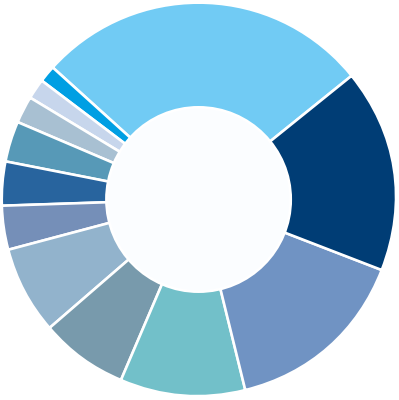
4.2% Other CEE

3.8% Other West Europe

3.1% North Africa

14.8% Other International sales

PHARMACEUTICAL SALES BY THERAPEUTIC AREA



15.2% Gastrointestinal and Metabolism

27.5% Cardivascular

2.1% Dermatology

3.6% Ginecology

1.8% Anti-infective

7.4% Muscolo-skeletal, Analgesia

3.4% Central Nervous System

7.2% Respiratory

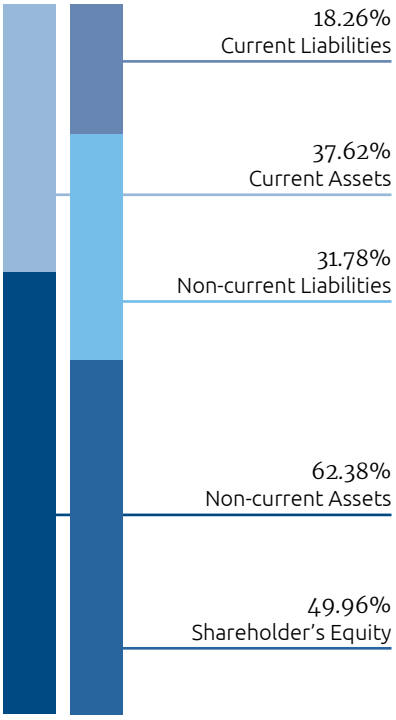
3.5% Sense organs

10.2% Urology

1.2% Others

16.9% Treatments for Rare Diseases

BALANCE SHEET AT 31 DECEMBER 2017



SHAREHOLDER'S EQUITY

Milions of Euro

1,027.2

NET FINANCIAL POSITION

Milions of Euro

(381.8)

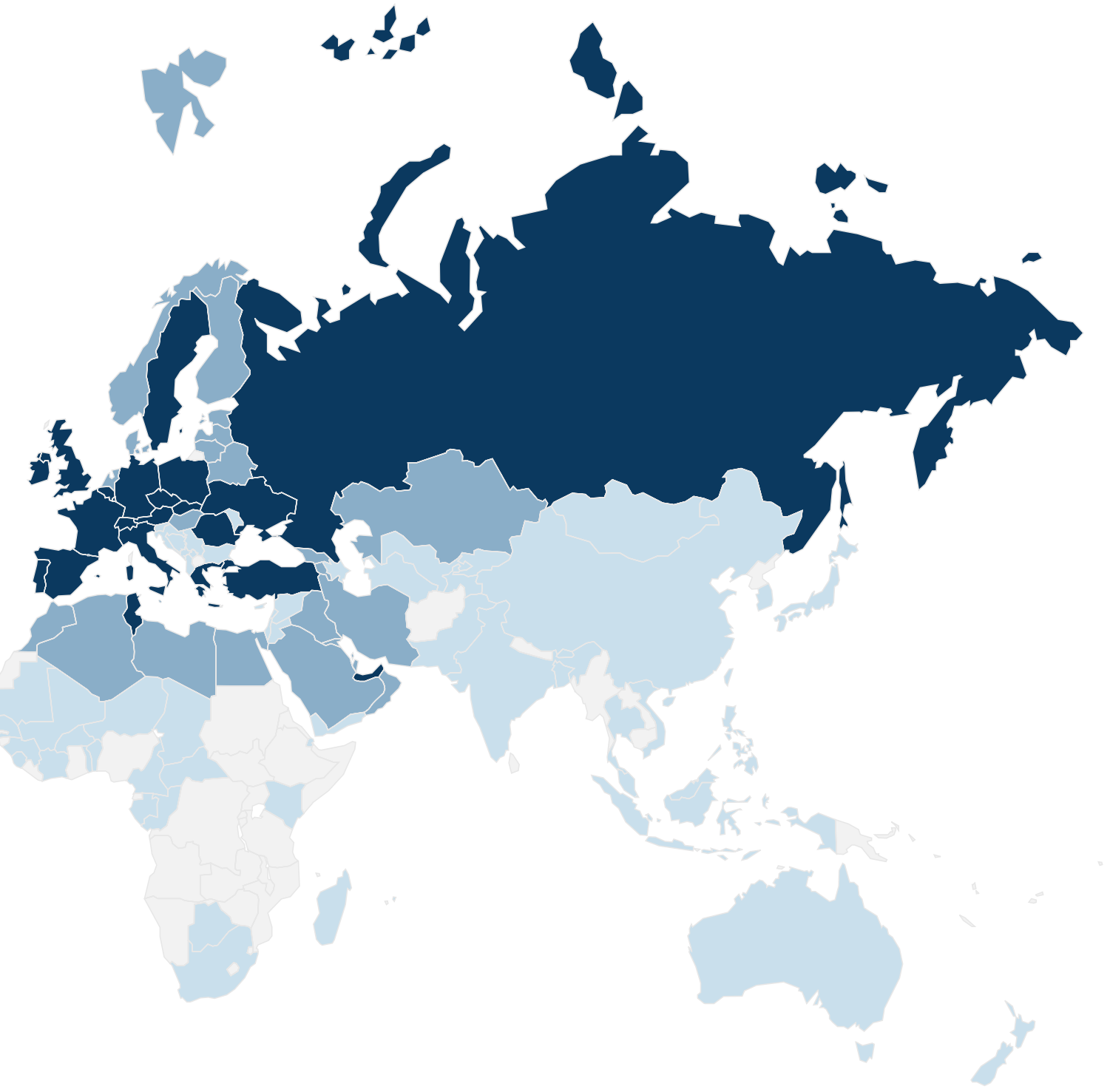
Geographical presence

135
COUNTRIES

Subsidiaries

Branches and other forms of territorial presence

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



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 as well as for male sexual functional disorders.

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 $ 1,165 billion in 2017, up by 3.9% over the preceding year, and is expected to continue to grow reaching $ 1,390 billion in 2020 (source: IMS – Market Prognosis). 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. Other than in the more industrialized countries, steady growth of global healthcare expenditure has been and will continue to be seen in emerging countries, where access to medical care is progressively expanding, in this way generating significant growth in the demand for medicines, especially in primary care.

As regards therapeutical segments, it is estimated that by 2020 85% of global spending will derive mainly from drugs used for non contagious diseases and that original brands will represent around 52% of pharmaceutical expenditure. Original brands will be used mainly in more developed countries, while the use of generics will be more common in emerging markets. Over the counter (OTC) products, which have reached a total value of $ 125 billion (MAT June 2017, up by 4.6%), are expected to continue to grow, in developed economies as well as in emerging ones, supported by socio-demographic (increased attention to prevention and access to self-medication) and economic (increased cost containment measures by public healthcare schemes and increased spending power of the population) factors. Furthermore, increased attention will be paid to the treatment of rare diseases. In 2017, $ 124 billion (+8.8% over 2016) were spent for treatments for rare diseases, a market estimated to grow on average by 11%, and which will reach $ 209 billion by 2022 when it will represent 21.4% of the global prescription drug market, excluding generics (*source:* Evaluate Pharma).

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.

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

CORPORATE PRODUCTS

ZANIDIP®/CORIFEO®/LERCADIP® (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 lipofilicity 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.

ZANIPRESS®/ZANEXTRA®/ LERCAPREL®/LERCARIL® (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 widespread disease. It manifests with problems linked to urination, such as reduced urine stream, increased frequency and urgency and nocturia. 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.

Silodosin is a powerful antagonist of the α1 adrenergic receptors with a high affinity for α1A receptors. Blocking of the α1A receptors leads to a rapid increase in urine flow and an improvement in both irritative symptoms (frequency, urgency, nocturia) and obstructive symptoms (hesitancy, incomplete emptying of the bladder, intermittency, weak stream). As demonstrated by a study conducted in Europe by Recordati on more than 800 patients, the administration of silodosin leads to an improvement in urine flow after only 2-6 hours and rapid relief from both

obstructive and irritative symptoms in the course of 3-4 days. Symptom improvement is maintained during long term treatment. The safety and tolerability of silodosin has been assessed with positive results on 1,600 patients.

The low incidence of orthostatic and vasodilatory side effects make it a well-tolerated treatment even in patients who take antihypertensive medication. In all the clinical studies conducted until now, Urorec® has been found to be highly effective, so much so that it is considered a valid and innovative alternative to treatments currently in use.

Silodosin is the result of original research by the Japanese pharmaceutical company Kissei Pharmaceutical Co. Ltd. and was obtained under license by Recordati for the whole of Europe and a number of countries in the Middle East and Africa. The clinical development of the product was conducted by Recordati for its own markets. Recordati has successfully launched the drug in 37 countries including France, Germany, Italy, Spain, Russia and other CIS markets, Tunisia, Turkey and Switzerland.

Recordati published the results of the SIRE clinical trial, conducted on more than 1,000 patients, which confirmed, in clinical practice, the efficacy of silodosin in reducing the most bothersome symptoms associated with BPH. Following recent evidence in the literature describing silodosin as an alpha blocker which is highly effective in reducing bladder obstruction, a new clinical trial was conducted in the Italian population which confirmed these observations in patients with BPH by using urodynamic evaluation methods.

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 already been successfully launched in Spain, Portugal, Switzerland, Ukraine, Greece, Russia, Georgia and Turkey.

SELOKEN®/SELOKEN® ZOK/ BETALOC® 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.

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, anti-inflammatory, 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 PHOSPHOSODA®

Both brands are bowel cleansers used in preparation for any diagnostic procedure which requires emptying of the intestines, such as colonoscopy or x-rays and belong to the Spanish company Casen Recordati.

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 Italy, France, Ireland, Greece and Romania while the presence of Phosphosoda® was extended to France, Germany, Ireland, Russia, Turkey and will soon be launched in Greece.

POLYDEXA®, ISOFRA® AND OTOFA®

These are fixed cominations 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®, 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® il marketed in Italy.

Reuflor® is an 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

THE 30TH ECNP CONGRESS, PARIS

The 30th Congress of the European College of Neuropsychopharmacology (ECNP), the most important European neuro-psychopharmacological event in 2017, took place in Paris from the 2nd to the 5th of September and was well attended.
During this important European event, a satellite symposium dedicated to "treatment of schizophrenia negative symptoms in the light of current therapeutic possibilities" was held. Three well-known clinicians, from Italy Prof. Galderisi, Professor of Psychiatry at the University of Naples, from Austria Prof. Fleischhacker, President of the University of Innsbruck and from the U.S. Prof Cutler of the University of Florida exchanged views on themes that significantly impact the life of patients, caregivers and the community and announced that soon a new therapeutic option, based on cariprazine, useful in the treatment of the negative symptoms of schizophrenia, will be available.
Reagila® (cariprazine), the novel atypical antipsychotic that Recordati will start marketing in Western Europe during 2018, has clinically shown to be effective, not only for the positive symptoms of schizophrenia (hallucinations, delirium) but also to act incisively on the negative symptoms (deficiency of normal emotional responses or other thought processes) of the disorder, enabling the patient to recover a normal emotional life. This activity constitutes an important novelty because to date the existing treatments work well on the positive symptoms but do not adequately address the negative symptoms.

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 Portugal and Turkey and by licensees in other territories. In 2017 the product line was completed with the introduction of wet wipes that have been launched in Poland, the Czech Republic and Slovakia.

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.

LOMEXIN®/FALVIN® (fenticonazole)

Lomexin® (fenticonazole), originated by Recordati, is an antimycotic that is widely used. 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.

Lomexin® has a wide range of action and is also effective at low concentrations without creating resistances. It is available in different forms and very flexible doses and is well tolerated.

Fenticonazole is a modern drug and is supported by years of experience in clinical practice. 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 incontinency 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 the first Italian drug to be approved by the American Food and Drug Administration and to be marketed in the United States of America, and is widely used in many countries.

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)

Lopressor® 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 gynecological gels developed by the Spanish subsidiary Casen Recordati.

It is a regenerative non-hormonal treatment of the vaginal mucus indicated mainly for vaginal dryness that was also launched in Italy in 2015 to complement Recordati's gynecological offering.

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, where it is market leader with a share of 29.5%, and in Switzerland.

VITAROS®/VIRIREC® (alprostadil)

Is the first topical cream 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 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.

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

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

OUR PRIMARY AND SPECIALTY CARE SUBSIDIARIES

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. and Italchimici S.p.A. 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. In 2016 it was enriched with the Italchimici products.

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. Cardicor® (bisoprolol), a drug belonging to the beta-blocker class indicated for the treatment of chronic, stable, moderate to severe heart failure, associated with reduced systolic ventricular function. Administered in addition to ACE inhibitors and diuretics, it is today considered a gold standard. Rextat® (lovastatin), together with the brand Lovinacor® (lovastatin) marketed by Innova Pharma, a well-known and trustworthy statin, it has a favourable cost/benefit profile in first line pharmacological treatment of dyslipidemia and is supported by extensive scientific documentation and clinical trials.

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® was added to the Italian urology portfolio. It is a food supplement based on serenoa repens which is widely used in clinical practice to improve the urinary tract and prostate functions.

Peptazol® (pantoprazole), a proton pump inhibitor frequently used for the treatment of gastro esophageal reflux disease and in the prevention of gastro duodenal ulcers caused by NSAIDs, belongs to a large and competitive market. It 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.

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.

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 out-patient clinics for the treatment of acute and severe pain.

In the respiratory area, Aircort® (budesonide) is a line of products available in a number of formulations widely used in disorders of the upper and lower respiratory tract and in

bronchial asthma and allergic or perennial rhinitis.

In the antiinfective therapeutic area Recordati offers Isocef® (ceftibuten), a third generation easy to use oral cephalosporin thanks to its once a day dosing regimen, and Diezime® (cefodiezime), an injectable antibiotic used specifically in the treatment of severe bacterial infections resistant to the most common antibiotics. This specialty is particularly indicated for debilitated and/or immunosuppressed patients.

Peridon® (domperidone) is a gastroprokinetic widely used in adults for the treatment of symptoms such as nausea, vomiting, disturbances of the upper gastrointestinal tract, regurgitation. This farmacological treatment is backed up by a line of dietary supplements (PeridoNatural®), based on ginger, camomile and vitamin B, which has been positively received as a natural adjuvant for digestion disorders in children and adults due to its optimal safety profile.

Rupafin® (rupatadine) is a valid therapeutic solution for the treatment of rhinitis and rash caused by seasonal or perennial allergies due to its particular mechanism of action. In 2016 an oral suspension pediatric formulation was added to the adult solid administration form.

Recordati's gastrointestinal product portfolio in Italy includes Citrafleet® (sodium picosulfate), a bowel cleanser used in the preparation of colonoscopy procedures, and Casenlax® (macrogol), an osmotic laxative particularly indicated in chronic constipation as it is not absorbed in the intestine and therefore appropriate also for pediatric use.

In the field of food intolerance, Lacdigest® is a well known preparation based on the enzyme tilactase indicated in cases of lactose intolerance due to primary and secondary lactase deficiency.

Completing the pharmacological portfolio, the Unicexal™/Cexidal® (ciprofloxacin and corticosteroid for topical use) line represents a valid treatment option in primary care for ear, nose and throat infections.

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®, TransAct®LAT, Eumill®, Dentosan®, Imidazyl®, Naprosyn®, hold leading positions in their reference markets.

The Alovex® line comprises Alovex® active protection, indicated for the treatment of aphthas and mouth sores, Alovex® dentizione, a product specifically created for newborns which provides rapid relief from pain and irritation caused by teething and Alovex® labiale, for the treatment of lip herpes.

In the antihaemorrhoids segment the Proctolyn® line reinforced its leadership.

TransAct®LAT is a transdermal patch containing flurbiprofen, a non steroidal antiinflammatory drug, indicated for the symptomatic relief of localized pain involving the musculoskeletal system which is well positioned in its market of reference.

In the natural eye drops segment the Eumill® line consolidates its position thanks to the performance of the traditional Eumill® freshening and soothing eye drops and Eumill® Protection, the lubricating and moisturizing drops which help to counteract ocular dryness and fatigue. The line also comprises Eumill® Naso for adults and children, in physiological solution and seawater saline solution for daily nasal cleansing and protection against allergens and pollution. A single dose hypertonic form was launched in 2017. 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® is a brand well-known both by doctors and pharmacists mainly thanks to the chlorhexidine based mouthwash line which represents a benchmark in the treatment of bacterial plaque. As from 2017 an innovative and practical single dose form is available alongside the traditional bottle. The Dentosan® line also comprises toothpaste gel and toothbrushes.

In the gastrointestinal field, products available over-the-counter in the farmacies 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.

Recordati also offers an OTC line of cough medicines which comprises Recotuss® Sedativo, syrup and tablets containing dextromethorphan bromide, an effective active principle for the symptomatic treatment of dry cough, and Recofluid®, a fluidifying mucolitic syrup which does not contain saccharose nor glucose and can therefore be administered to diabetics.

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), the urology area with Urorec® (silodosin), the anti-allergy segment with Wystamm® (rupatadine) and more recently the gastrointestinal area with Citrafleet®, a bowel cleanser in preparation for diagnostic procedures such as colonoscopy.

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® and Hexamer®) maintain their leadership and notoriety in the segment of winter maladies and Exomuc® is now the best-known and leading mucolytic containing N-acetyl cysteine. In 2017 the product offering was further enhanced with the launch of Hexatoux®, the first 100% natural spray cough medication. The formulation is based on calendula officinalis, eucalyptus (eucalyptus globulus), linseed oil and vegetable glycerol extracts, substances that are noted for their hydrating, softening and anti-irritation properties.

In December 2017, in line with the strategy of the Group to reinforce the product portfolio in this market, three products were acquired: Transipeg®, TransipegLib® and Colopeg®. The first two are macrogol based laxatives for the treatment of symptomatic constipation in adults while Colopeg® is a large volume bowel cleanser indicated in preparation for endoscopic exploration.

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 additional 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 first class products to specialists in this field. The most important of these includes Ortoton® (metocarbamol), a muscle relaxant used for back pain which is the main product of the subsidiary and is leader in its class, Recosyn® (hyaluronic acid), which is available in four different formulations for specific treatment regimens, Lipotalon® (dexamethasone palmitate) and SportVisTM (biocompatible hyaluronic acid adapted for soft tissues).

Recently the company has enhanced its product portfolio with the introduction of Binosto® (alendronic acid), a treatment for osteoporosis, a condition which often arises during menopause. Binosto® is presented as effervescent tablets, a unique and innovative formulation, which reduces the risk of vertebrae and hip fractures and has a lower risk of gastrointestinal side effects.

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.

Recordati Pharma has also developed a strong presence in the field of urology. In addition to Urorec® (silodosin), a drug for the treatment of benign prostatic hyperplasia, the German subsidiary also successfully markets Kentera® (oxybutynin transdermal patch), indicated for urinary incontinence.

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, Mirfulan®, a leading brand for diaper rash and JHP-Rödler®, a cough and cold medicine. Laxbene® Junior, a product for the treatment of constipation in children over six months of age, has created

important synergies between the gastrointestinal specialist line and the OTC presence.

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, in other markets of the C.I.S. (Commonwealth of Independent States), in Ukraine and in Central Asia. The success of our organizations in these territories is largely based on the progressive success 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, continue to increase their market shares.

Corporate products Procto-Glyvenol® (tribenoside), Urorec® (silodosin) and Lomexin® (fenticonazole) are growing.

Over the end of 2016 and January 2017 the Russian subsidiary successfully launched Livazo® (pitavastatin), which was very well received by the specialists in the sector.

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®, and White Carbo®, an intestinal adsorbant, are also well appreciated brands.

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. During 2017 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®.

TURKEY

Recordati Ilaç, 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, areas in which it successfully launched Kentera® (oxybutynin transdermal patch) and Alipza® (pitavastatin) during 2017, as well as of gynecology and physical medicine and rehabilitation.

The corporate products Lercadip® and Zanipress®, Urorec®, Gyno-Lomexin® and Procto-Glyvenol® together with the local brands Cabral® (phenyramidol), a muscle relaxant, Aknetrent® (isotretinoin), a treatment for severe acne, Mictonorm® and Mictonorm SR®

(propiverine hydrochloride), a treatment for hyperactive bladder and urinary incontinence, Hippurin® (methenamine), a treatment for infections of the urinary tract, Kreval®/Kreval Forte® (butamirate citrate) indicated for the control of pre and post-operative acute cough, Prepagel® (escin, salicylic acid), for use in cases of bruises, sprains, hematoma, and the antibiotic Ciprasid® (ciprofloxacin), continue to perform well.

Recordati Ilaç completed an important investment program for the construction of a new production plant in Cerkerzkoy which has a production capacity of 80 million packs per year. Declared GMP compliant by the Turkish authorities in March 2016, the new site is now fully operational and in 2017 produced a number of different products for various therapeutic indications for a total of 56.5 million packs.

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. The company operates successfully in the fifth largest European pharmaceutical market recording significant growth during the year.

The subsidiary's products for bowel cleansing and oral rehydration are well appreciated and belong to market segments in which the company is an undisputed leader. Worth mentioning are the well-known brands Citrafleet®, a bowel cleanser used in preparation for diagnostic procedures that require emptying of the intestines, and the rehydrating solution Bi-OralSuero®, both leaders in their classes.

Other highly appreciated products that have contributed to the development of the Spanish subsidiary are the statin for hypercholesterolemia Livazo® and the treatment for benign prostatic hyperplasia Urorec®, which continue to grow thanks to their efficacy.

The subsidiary's product portfolio was enhanced with the introduction of three lactobacillus reuteri based products: Reuteri® drops, a complete treatment in drops form for gastrointestinal disturbances, regurgitation and colic in infants, Casenbiotic® drops, indicated in cases of diarrhea in infants, and Gastrus®, a combination of two lactobacillus reuteri strains for the treatment of helicobacter pilory.

Completing Casen Recordati's portfolio is Virirec® (alprostadil), the first topical cream treatment for erectile dysfunction which is growing significantly since reimbursement status was granted by the public healthcare system.

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 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. The company markets branded generic drugs with leading products in dermatology and in the gastrointestinal and respiratory therapeutic areas.

Recent additions to this portfolio include the antihypertensive Zanextra® (lercanidipine+enalapril) and two treatments for asthma and chronic obstructive pulmonary disease (COPD), Eolide® (budesonide) and Noto® (formoterol+fumarate dehydrate), as well as Urorec®, Goldix® Duo, a medication for colds and flu, and Psoriasone® (calcipotriol and betamethasone), a gel for topical use widely used in the Tunisian

market for the treatment of psoriasis.

Opalia manufactures most of its products in a modern, cGMP certified production facility specialized in liquid and semi-solid forms.

In 2015 the company received the FIPA Award (Foreign Investment Promotion Award) from the Tunisian government for both the investment made in the country and for the great capability and flexibility shown in overcoming economic difficulties.

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. Its established presence in the cardiovascular area stems from the strong appreciation shown by the medical community and specialists for the subsidiary's 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, which today is the leading brand in the calcium channel blocker + ACE inhibitor market in units, and Urorec® leader in its class for the treatment of benign prostatic hyperplasia.

TransAct® LAT, is a leading product in the market for transdermal patches within the topical antirheumatic class of drugs and Egostar® in the vitamin D3 market.

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®, a leader in the market for detoxification therapies and tonics for fatigue, is the most important. Aloclair®, for the treatment of mouth sores, has also achieved encouraging results.

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 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 antihypertensive Lercan® (lercanidipine).

The subsidiary's portfolio was enriched with the launch of Veral® (diclofenac), a gel for muscular pain relief, Vitaros® (alprostadil), a topical cream for the treatment of erectile dysfunction and Uprox® XR, an extended release tablet formulation of tamsulosin for benign prostatic hyperplasia.

In 2017 the subsidiary's presence in the cardiovascular area was reinforced with the successful launch of the antihypertensive Lercaprel®, the combination of lercanidipine with enalapril, and the integration into its portfolio of Betaloc® ZOK (metoprolol succinate), acquired from AstraZeneca.

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 analgesic, anti-inflammatory and dermatological medicines.

It is particularly strong on the market for self-medication products such as Procto- Glyvenol®, an increasingly well appreciated treatment for haemorrhoids which in 2017 has extended the line with the introduction of wet wipes, the analgesics Valetol® and Acylpyrin® which are among those most used in the country, Veral® Gel for muscular and articular pain relief, Lipovitan®, a hepatic supplement and Avilut® and Rybilka® for eye health and childcare respectively.

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.

In 2017 Herbacos Recordati's product portfolio was significantly extended with the introduction of Betaloc® (metoprolol succinate) indicated in the treatment of hypertension and other cardiac disorders, Mictonorm® (propiverine hydrochloride), a treatment for hyperactive bladder, and Avilut® GOLD (lutein, zeaxanthin), a dietary supplement which combats macular degeneration due to aging, which further enlarges the Avilut® line offering.

GREECE

Recordati Hellas Pharmaceuticals S.A. has a growing presence on the cardiovascular market. It successfully markets Lercadip® (lercanidipine) and its fixed combination with enalapril Lercaprel®, Lopresor® (metoprolol), a selective beta-blocker indicated for the treatment of various cardiovascular diseases and in particular for hypertension and angina pectoris, and as from 2017 also Zaneril® (lercanidipine+enalapril). As from September of the same year the company's portfolio was further extended with the introduction of Vitaros®, the first topical cream for

the treatment of erectile dysfunction.

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

SWITZERLAND

The Recordati group is present in Switzerland through Recordati AG, resulting from the merger of Recordati S.A. and Pro-Farma AG acquired in 2016. The company is headquartered in Zug and also operates in Austria. It markets the Group's corporate products and in particular the antihypertensives Zanidip® and Zanipress®, the statin Livazo® and Urorec®, a treatment for benign prostatic hyperplasia, as well as specialties in selected therapeutic areas with include prescription and OTC drugs, both proprietary and in-licensed.

The main brands in the Pro Farma portfolio are Lacdigest® (tilactase), used in lactose intolerance, Tretinac® (isotretinoin), a treatment for severe acne, and Urocit® (potassium citrate) for the prevention of kidney stones.

ROMANIA

Through Recordati Romania S.R.L., Recordati is also present in this Eastern European country. The Romanian subsidiary promotes both prescription and OTC products successfully. In 2017 Recordati Romania has extended its product portfolio with the introduction of Betaloc® (metoprolol succinate), indicated in the treatment of arterial hypertension and other cardiac disorders, which is now its largest product.

The company's main products include Procto- Glyvenol®, a growing tribenoside based treatment for hemorrhoids, Lomexin®, Tergynan® an anti-infective product used in gynecology, and Urorec®.

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 slight constipation, and Citrafleet®, a bowel cleanser used in preparation for diagnostic procedures which require emptying of the intestines.

The subsidiary's presence in the urological area was reinforced with the launch of Vitaros®, an innovative topical treatment in cream form for erectile dysfunction, which was launched in July 2017.

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

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 treatment exists for only around 300 of these.

Due to the extensive spectrum of existing diseases physicians may never see a patient with a rare disease. For that reason and due to the scarcity of available information 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 and to ensure that scarce knowledge and available resources are made available these are often shared through international cooperation channels.

Patient numbers are so small that a rare disease is often not "adopted" by the pharmaceutical industry and hence the expression "orphan drug".

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 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 hematological conditions and about 30% of the orphan drug market consists of drugs for rare inborn errors of metabolism.

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

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

ORPHAN EUROPE AND RECORDATI RARE DISEASES: THE RECORDATI COMPANIES DEDICATED TO ORPHAN DRUGS

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

Our specialties indicated for the treatment of rare and orphan diseases are marketed directly all over Europe, in the Middle East, in the U.S.A., Canada, Russia and in some Latin American countries, and through selected partners in other parts of the world. In June 2017 a representative office was opened in Malaysia with the intention of extending operations to the Asia-Pacific regions.

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, and Cystadrops® (cysteamine chlorhydrate), recently launched, used in the treatment of the ocular manifestations of nephropathic cystinosis.

The Recordati group received two international awards: 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, which recognized the important results obtained by the group in the development of orphan drugs and the efforts made to improve the diagnosis and treatment of rare diseases.

The growth of Orphan Europe, the success of Recordati Rare Diseases in the U.S.A., the establishment of a dedicated company in Canada, the consolidation and development of our presence in Latin American countries and in Malaysia, are confirmation of Recordati's commitment to becoming a worldwide player in the segment dedicated to rare diseases.

NEW ACTIVITIES AND DEVELOPMENTS

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. Retinopathy of prematurity (ROP) is a potentially blinding eye disorder that primarily affects premature infants weighing about 1.25 kg or less that are born before 31 weeks of gestation. The smaller a baby is at birth, the more likely that baby is to develop ROP. This disorder, which usually develops in both eyes, is a rare condition, however presenting as one of the most common causes of visual loss in childhood that can lead to lifelong vision impairment and blindness. Furthermore, within the deal, Recordati shall support other Meyer projects in the rare disease area over a period of three years.

In June 2017 Recordati 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 which in its more severe forms affects less than one person out of 10,000 worldwide, and is initiated by an impairment of trigeminal nerve. The progression of the disease may lead to corneal ulcers and perforation leading to dramatic impairment to patients' sight.

IN EUROPE, MIDDLE EAST, AFRICA

Recordati operates directly in Europe, the Middle East and Africa through Orphan Europe. a company entirely dedicated to the research, development and marketing of treatments for rare diseases. The company markets treatments mostly for inborn errors of metabolism and focuses on drugs for some of the most uncommon diseases. It has developed worldwide coverage, through its dedicated subsidiaries and commercial agreements with qualified distributors. It also operates 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. 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 in all countries.

In January 2017 the European Union Commission granted the European marketing authorization for the orphan medicinal product Cystadrops® 3.8mg/mL. Cystadrops® is the first eye-drop solution containing cysteamine hydrochloride approved in the European Union for "the treatment of corneal cystine crystal deposits in adults and children from 2 years of age with cystinosis". Cystinosis is a rare congenital lysosomal storage disorder recognized as a severe life threatening condition. It is characterized by an accumulation of cystine crystals which negatively affects all organs in the body, especially the kidneys and eyes. Cystinosis benefits from systemic treatment with cysteamine orally administered. However, oral cysteamine does not adequately address ocular cystinosis because of the non-vascularization of cornea. The benefit of Cystadrops® is its ability to reduce corneal cystine crystal accumulation. Without a proper, continued, local eye treatment, cystine crystals accumulate in the cornea, leading to severe consequences and possibly to blindness in the long term.

IN NORTH AMERICA

The Recordati group operates successfully in North America where it has established a consolidated presence. Recordati Rare Diseases Inc., the group's U.S. subsidiary dedicated to treatments for rare diseases, offers a portfolio of products the main ones of which are Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Carbaglu® (carglumic acid) indicated for the treatment of hyperammonaemia due to N-acetyl glutamate synthase deficiency (NAGS deficiency), Cystadane® (betaine anhydrous) used in the treatment of homocystinuria to lower the blood levels of homocysteine and Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers.

Starting April 2017 the Recordati group has reinforced its presence in North America with the establishment in Canada of Recordati Rare Diseases Canada Inc.. The new subsidiary is based in Toronto and is the exclusive provider of several treatments including Carbaglu® (carglumic acid), Cystadane® (betaine anhydrous) and Cosmegen® (injectable dactinomycin), which have received approval by the regulatory authorities. Dedicated personnel works nation-wide together with sector specialists to support and make these treatments available to all patients who need them.
The use of Carbaglu® is increasing and has become the gold standard for the treatment of patients suffering from hyperammonaemia due to NAGS deficiency in Canada.

The company is working together with the Canadian national authorities to register treatments already available in the U.S.A. in order to make these precious therapies also available to Canadian patients.

Recordati Rare Diseases, committed to reduce the impact of these extremely rare and devastating diseases, works closely with specialists, healthcare professionals, patients' families and patient groups to meet the needs of people affected by these disorders, spread the scarce knowledge available and facilitate patient access to treatment.

IN NEW MARKETS

In the segment dedicated to rare diseases, the Recordati group continues to extend its activities outside Europe, the Middle East, Africa and North America to an increasing number of countries and into new geographical areas.

In 2017 it has consolidated its presence in Latin American countries in some of which such as in Brazil, Colombia, and Mexico, it operates through its own subsidiaries. In Brasil, at Atibaia, Recordati Rare Diseases Brazil has set up its own warehouse which was inspected and authorized by the local health authorities. In Colombia efforts continue in order to make its product portfolio available to all the main reference centres which treat hyperammonaemia, intermittent acute porphyria and nephropathic cystinosis. In Mexico our subsidiary obtained the inclusion in the National Formulary List of key products such as Pedea®, Cosmegen® and Cystagon®.

In Russia Recordati's organization guarantees access to treatments to patients living in the more remote areas of the country. In June 2017 a representative office was opened in Malaysia with the intention of extending operations to the Asia-Pacific regions.

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
Vedrop®	tocofersolan	Treatment or prevention of vitamin E deficiency in paediatric patients and adolescents suffering from congenital or hereditary chronic cholestasis
Chemet®	dimercaptosuccinic acid (DMSA)	Treatment of heavy metals poisoning
Wilzin®	zinc acetate	Treatment of Wilson's disease

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 strategy.

The Recordati Rare Diseases Foundation (previously Orphan Europe Academy) 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.

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.

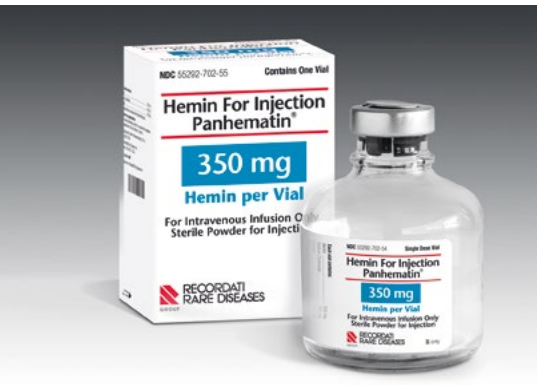
Research and development

In 2017 research and development activities were concentrated on programs in rare diseases and urology.

In 2017 research and development activities were concentrated on programs in rare diseases and urology. Regarding the rare diseases segment, marketing approval was received for Cystadrops®, cysteamine gel based eye drops for the ocular manifestations in patients suffering from cystinosis. Furthermore, activities progressed for the pharmaceutical and clinical development of new formulations of carglumic acid and hemin. Partnerships were finalized for the development of therapies to benefit patients suffering from severe conditions such as neurotrophic keratitis and collaborations with research institutes were initiated for the advancement of new projects, one of which is a new therapeutic approach in Retinopathy of Prematurity (ROP). In 2017 the European Commission granted marketing authorization for Reagila® (cariprazine), a novel antipsychotic for the treatment of schizophrenia in adult patients, for which Richter and Recordati had signed an exclusive license agreement in 2016.

PRODUCT DEVELOPMENT PIPELINE

name	originator	indication	development status
CYSTADROPS®	Recordati	Corneal cysteine crystal deposits in patients with cystinosis	Approved in EU in January 2017
FORTACIN™	Plethora Solutions	Premature ejaculation	Marketing authorization transferred to Recordati
REAGILA®	Gedeon Richter	Schizophrenia	Approved in EU
methadone		Treatment of cancer-related pain in cases of resistance or intolerance to opioids	Under review in France
GRASPA®	Erytech	Acute lymphoblastic leukemia (ALL) in patients with first recurrence of Philadelphia chromosome negative ALL	Filed in EU
		Acute myeloid leukemia (AML) in patients >65 unfit for chemotherapy	Phase II b
CARBAGLU®	Recordati	Hyperammonaemia due to NAGS deficiency and to the main organic acidemias	Development of new formulations in EU and USA Pre-filing in the USA for the organic acidemias indication
REC 0551	Recordati/Meyer Hospital (Florence)	Retinopathy of Prematurity (ROP)	Formulation development Phase II in Italy
REC 0438	Recordati/UFPeptides	Overactive bladder in patients with spinal lesions	Proof of concept planning in EU
REC 0559	Recordati/MimeTech	Neurotrophic keratitis	Formulation development Clinical development planning
REC 0545	Recordati/AP-HP	Acute decompensation episodes in MSUD	Formulation development Clinical development planning



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 2017 to enrich our pipeline and ensure the group's future growth.

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 2017 to enrich our pipeline and ensure the group's future growth. 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 2017 are summarized in the following paragraphs.

UROLOGY AND ANDROLOGY

Research in urology

Recordati's discovery programs in urology are primarily focused on the search for innovative treatments to address micturition disorders, which are frequent in the elderly, but also afflict groups of patients suffering from conditions often defined as rare, such as s*pina bifida*.

REC 0438

REC 0438 is a product candidate which would be administered by intravesical means in patients 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 of patients' quality of life. Following the completion of the study conducted in healthy volunteers, in 2017 the study conducted in adult patients with spinal lesions of a post-traumatic nature was completed. The data confirmed that the drug is well tolerated locally, it is not absorbed systemically. Thus, a second European trial involving patients with spinal lesions has been planned to evaluate the tolerability of repeated administrations, both in a hospital environment and at home, of the drug. This study will be considered a "Proof of Concept" because the efficacy of the drug in reducing bladder hyperactivity of neurological origin, using urodynamic testing, will be evaluated. If positive results are obtained, this trial could lead to the development of the drug in a pediatric population with neuropathic hyperactive bladder secondary to *spina bifida*.

Urorec® (silodosin)

In 2017 a single center clinical trial was concluded at the Federico II university in Naples to evaluate, using urodynamic testing, the efficacy of silodosin in reducing bladder neck obstruction in patients with benign prostatic hyperplasia who are slated for surgery. Final results showed a statistically significant and clinically relevant reduction of the bladder neck obstruction in these patients, both in terms of urodynamic parameters and of symptoms, so much so that all of the patients declared that their condition had improved sufficiently to avoid or at least postpone surgery.

Registration in new markets of silodosin (Urorec® and Silodyx™) was an ongoing activity also in 2017. A number of new marketing authorizations were obtained. In particular, the product was approved in Australia where it was launched in July 2017.

Fortacin™ (lidocaine+prilocaine)

Fortacin™ is an easy-to-use fast acting topical spray formulation of lidocaine and prilocaine for the treatment of premature ejaculation. Premature ejaculation is a common form of sexual dysfunction in men.

Epidemiological studies conducted in the U.S.A. and in Europe indicate a prevalence of 20% to 30% in men of all ages. In view of its upcoming commercialization in a number of European countries, during 2017 the protocol for a post-authorization study (Drug Utilization Study) to evaluate the utilization of the drug in clinical practice through the monitoring of prescription databases was filed with the European Medicines Agency for its review. The final report is expected in 2020.

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 2017 a pan-European procedure was initiated with the objective of updating and harmonizing the information directed at the medical community and patients in the European Union. A cumulative analysis of the data collected over the years from the numerous interventional and observational clinical trials conducted with the drug, and of the extensive worldwide post-marketing experience, was made.

Livazo® (pitavastatin)

Pitavastatin is a latest generation statin indicated for the reduction of elevated total and LDL cholesterol in patients suffering from primary hypercholesterolemia and combined dyslipidemia. During 2017 a change in the Summary of Product Characteristics (SmPC), to include the indication and dosing for the use of the product in children over the age of 6 years, based on the results obtains from clinical trials conducted in line with a pediatric investigation plan approved by the Pediatric Committee of the European Medicines Agency (EMA), was approved at European level.

PSYCHIATRY

Reagila® (cariprazine)

Cariprazine is an orally active and potent dopamine D3/D2 receptor partial agonist with preferential binding to D3 receptors and partial agonist at serotonin 5-HT1A receptors. In 2016 an agreement was signed between Recordati and Gedeon Richter for the commercialization of cariprazine, a novel antipsychotic drug, in Western Europe and in Algeria, in Tunisia and in Turkey and for the development of a pediatric clinical program in Europe.

During 2017 the marketing authorization application (MAA) filed with the European Medicines Agency for the use of cariprazine for the treatment of schizophrenia was approved by the European Commission. Schizophrenia is psychic disorder characterized by a severe alteration of behavior and perception (hallucinations) and thought (delusions) disturbances. The delusions and hallucinations are also referred to as positive or productive symptoms which are accompanied by negative symptoms, characterized by apathy, loss of affectivity and poor ideation which are responsible for the patient's loss of contact with reality and his or her withdrawal into a world incomprehensible to others. The clinical dossier for cariprazine is currently under review by Swissmedic, in order to obtain marketing authorization for the product also in Switzerland.

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, an application was submitted to the French authorities for the approval of the use of methadone for this condition. The application is currently under review and approval is expected during 2018.

Lomexin® (fenticonazole)

Fenticonazole is a topical antimycotic drug originated by Recordati. During 2017 an i*n vitro* study was initiated to test the molecule's antimycotic and antibacterial activity on strains of microorganisms isolated from patients. This data will allow the evaluation of the drug's potential for the treatment, not only of mycosis, but also of mixed vaginal infections. This information is particularly interesting as 20-30% of women with bacterial vaginitis are also infected with Candida. Furthermore, the development of a new formulation of soft vaginal capsules, with a different excipient composition, was initiated with the objective of improving patients' treatment compliance.

TREATMENTS FOR RARE DISEASES

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

promote research and development in the more relevant areas (metabolic diseases, neonatology).

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 July 2014 Carbaglu® was granted Orphan Drug Designation (ODD) by the FDA for its use in the treatment or organic acidemias and is currently in a pre-filing phase in the U.S.A. for this indication.

Recordati is developing a new 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.

Following the positive outcome of the clinical development a Marketing Authorization Application was filed with the European Medicines Agency (EMA) to obtain the new indication. The application was positively appraised and in January 2017 marketing approval in the European Union was received for Cystadrops® to treat patients aged over two years affected by cystinosis.

GRASPA® (L-asparaginase)

Asparagine is a tumor growth factor for some blood tumors, and the enzyme L-asparaginase has been shown to possess a powerful antitumor activity, due to its capacity to degrade asparagine in plasma thus making it unavailable to the neoplastic cells which are unable to produce it. As the enzyme is highly toxic, part of the patient population does not tolerate the treatment protocols that include the use of L-asparaginase well and thus is not able to receive appropriate treatment. For these patients (mainly relapsed patients, senior and elderly adults) an important medical need is currently not adequately met.

GRASPA® is a new alternative for asparaginase administration originated by the French biotechnology company Erytech Pharma: it is L-asparaginase encapsulated in homologous (hemo-compatible) human red blood cells (erythrocytes). GRASPA® reduces the toxicity and hypersensitivity issues associated with L-asparaginase treatments, while effectively suppressing the plasmatic bioavailability of asparagine.

Following the completion of the phase III study GRASPALL, which investigated the efficacy and safety of Graspa® (L-asparaginase encapsulated in human hemocompatible erythrocytes) in the treatment of acute lymphoblastic leukemia (ALL), and the successive request of more detailed information by the European Medicines Agency (EMA) a Marketing Authorization Application was submitted to EMA in October 2017.

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.

REC 0551

In February 2017 an exclusive worldwide licensing agreement covering the know-how developed by the Meyer Hospital in Florence (Italy) for the development of a treatment for pre-term babies affected by retinopathy of prematurity (ROP) was signed. Retinopathy of prematurity (ROP) is a potentially blinding eye disorder that primarily affects premature infants weighing about 1.25 kg or less that are born before 31 weeks of gestation (a full-term pregnancy has a gestation of 38–42 weeks). The smaller a baby is at birth, the more likely that baby is to develop ROP. This disorder–which usually develops in both eyes–is a rare condition, however presenting as one of the most common causes of visual loss in childhood that can lead to lifelong vision impairment and blindness. REC 0551 is currently being investigated in a phase II clinical trial and results are expected in the first half of 2018.

REC 0559

In June 2017 Recordati and 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 2018.

INTELLECTUAL PROPERTY IN THE RECORDATI GROUP

Intellectual property in the Group is protected by its patents which allow the company to make its investments in research and development profitable. The European and international patent requests indicate numerous countries in which it is possible to obtain patent protection following a positive evaluation of the patentable requisites (mainly novelty and the innovative phases of development), assessed in line with local laws and regulations.

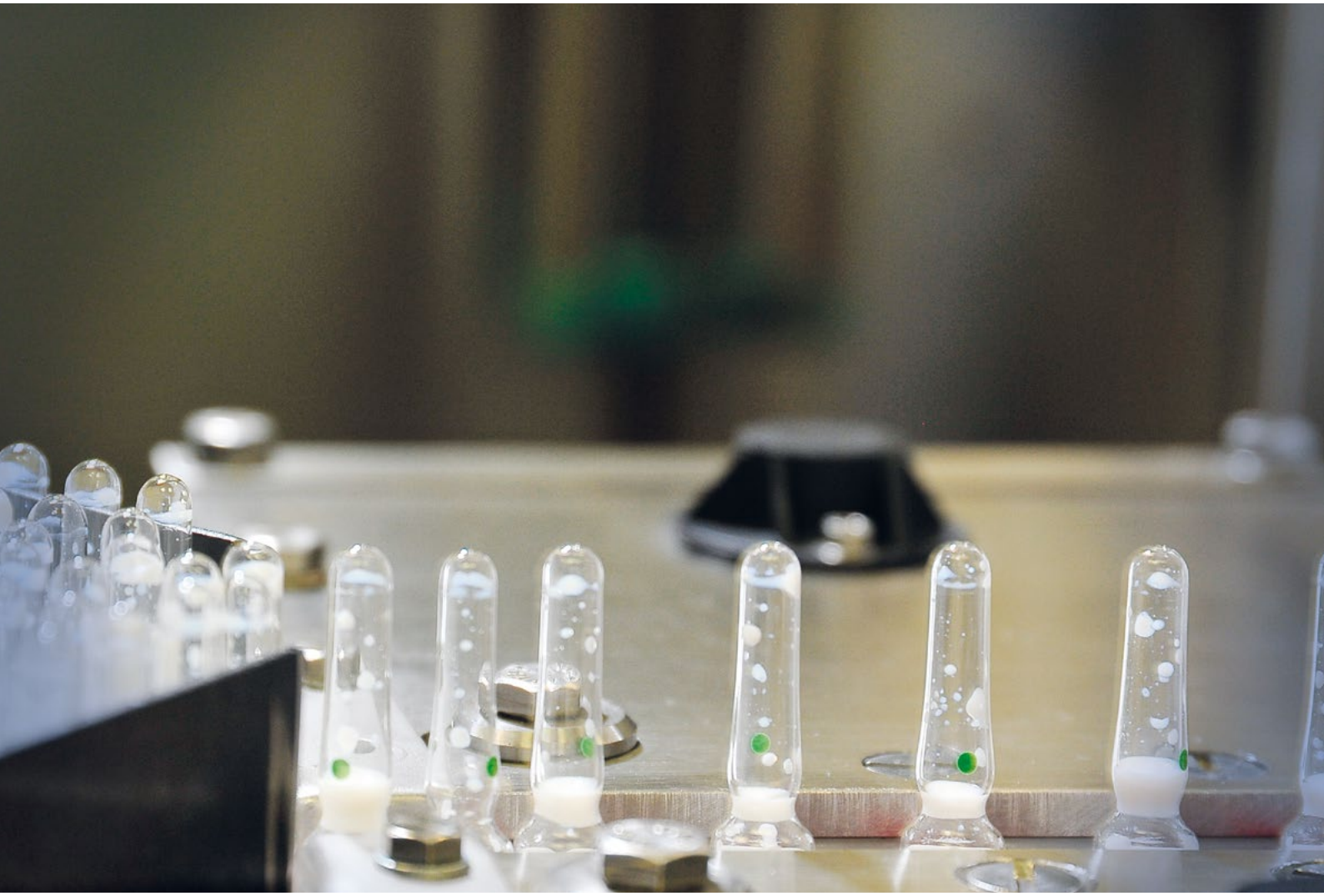
The abovementioned protection, which can differ country by country, depends on the type of application made and the objective pursued. The patent application may be made to protect new compounds, manufacturing processes, therapeutical indications, devices and the composition of materials. In the countries in which Recordati seeks patent protection the patents are mainly granted for a duration of 20 years as from the date on which the application is filed. This duration can be extended for a further 5 years in some countries, mainly in Europe and the U.S.A., following the approval of the pharmaceutical product by the local healthcare authorities.

The patent portfolio is monitored regularly, together with the interested operational units, in order to identify potential violations and initiate any necessary legal action. The Recordati group also benefits from intellectual property protection through license agreements for products and compounds which have been patented by other companies.

At 31 December 2017 the Recordati group holds 518 patents of which 72 were granted in 2017.

Proprietary brands and commercial brands also protect the group's intellectual property. This type of protection, which varies from country to country, is based principally on their use together with their registration. Rights to a brand are obtained through national, international or European Union registrations. These are usually granted for a renewable period of 10 years. The Recordati group holds around 7,000 registrations of 800 brands filed under the names of different companies. Around 65% of the brands are currently in use.

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.

Recordati produces a number of active ingredients and intermediates for the pharmaceutical industry. It has two pharmaceutical chemical plants and six sites for pharmaceutical production.

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 and dimenhydrinate. 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 380,000 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 semifinished 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, methylations, chloromethylations 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 years has resulted in the installation of 12 new reactors and a latest generation three stage distillation unit. During 2017 five new reactors were added, four for the production of lercanidipine and one for the production of tribenoside.

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 together with an extremely versatile pilot plant equipped for the small scale production, in accordance with cGMP *(current Good Manufacturing Practices)*, of active ingredients.

In 2016 a high containment HP-API pharmaceutical isolator (glove box) was installed in the plant's research laboratories.

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 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 new dedicated plant was built in Cork in Ireland. The plant is certified according to cGMP *(current Good Manufacturing Practices)* standards and covers an area of around 44,000 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 21,000 sq. m. and produces 58 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 35 million packages per year.

TURKEY

The Turkish site in Çerkezköy, built on 45,000 sq. m. of land, occupies a surface area of approximately 19,000 sq. m. and currently produces 56.5 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 2015 and has a production capacity of 80 million packs per year. It has substituted the production site in Esenyurt which was closed down in December 2016 after transferring all production to the new manufacturing site.

SPAIN

The Spanish plant is situated near Zaragoza covering a surface area of 8,800 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 12 million packs a year.

TUNISIA

The Tunisian plant is situated near Tunis. It covers an area of around 7,500 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 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 2.5 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.

PROJCTS FOR THE FUTURE

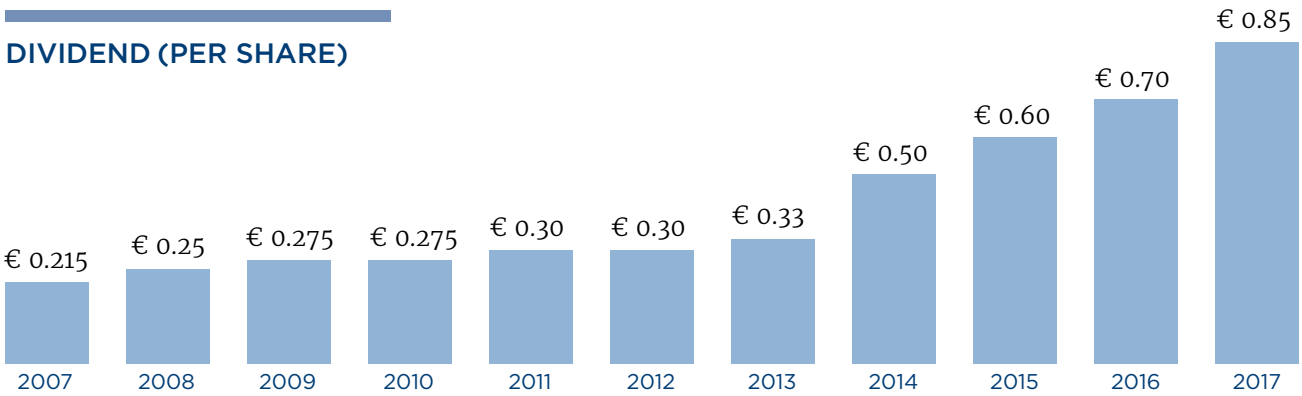
In compliance with the new directive which will regulate the traceability of pharmaceutical products in the vaious markets, known as the Serialization and Tamper Evidence measures, activities started in 2017 to implement the new legal requirements in our different plants.

The project, called WINGS FOR THE FUTURE, involves the plants in Milan, Saint Victor, Utebo and Nanterre, which, as from 2019, will be able to supply products packaged according to the directives in the various countries.

With the objective of always ensuring increased efficiency in production plants already operating at high levels of production excellence, in 2017, starting with the plant in Milan, the application of the principles of Lean Manufacturing is being implemented. These manufacturing principles will be progressively extended to the other plants within the Group.

The Recordati share

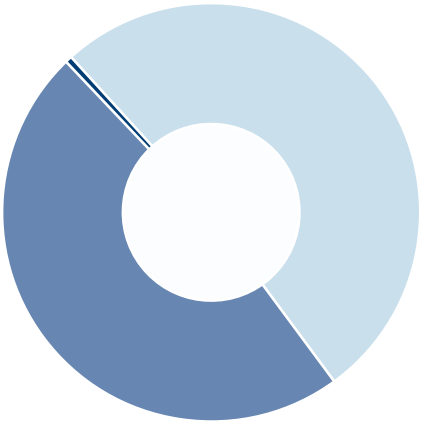
DIVIDEND (PER SHARE)



THE RECORDATI SHARE AT 31 DECEMBER 2017

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):	€ 1.381
Dividend per share:	€ 0.85

PRINCIPAL SHAREHOLDERS AT 31 DECEMBER 2017



0.4%
Treasury Stock

51.8%
FIMEI*

47.8%
Free Float

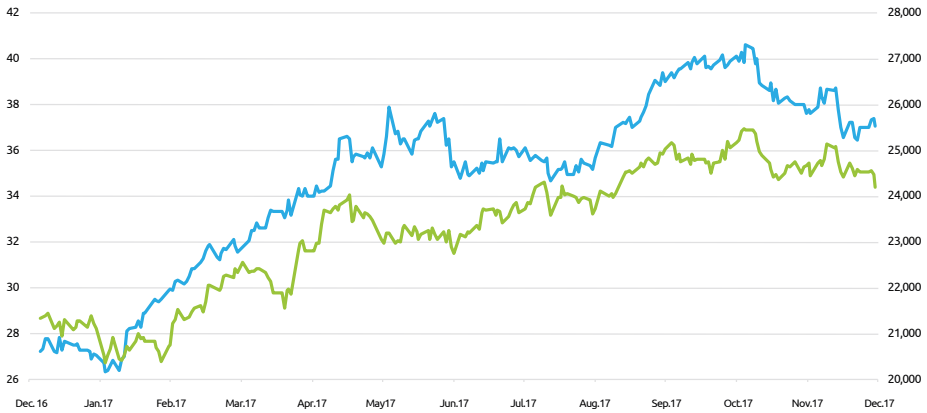
** FIMEI is 100% owned by the Recordati family*

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)

Financial highlights

REVENUE

€ (thousands)	2017	%	2016	%	Change 2017/2016	%
TOTAL REVENUE	1,288,123	100.0	1,153,942	100.0	134,181	11.6
Italy	258,551	20.1	237,615	20.6	20,936	8.8
International	1,029,572	79.9	916,327	79.4	113,245	12.4

KEY CONSOLIDATED P&L DATA

€ (thousands)	2017	% of revenue	2016	% of revenue	Change 2017/2016	%
Revenue	1,288,123	100.0	1,153,942	100.0	134,181	11.6
EBITDA[1]	454,661	35.3	371,217	32.2	83,444	22.5
Operating income	406,492	31.6	327,423	28.4	79,069	24.1
Net income	288,799	22.4	237,431	20.6	51,368	21.6

(1) Operating income before depreciation, amortization and write down of both tangible and intangible assets.

KEY CONSOLIDATED BALANCE SHEET DATA

€ (thousands)	31 December 2017	31 December 2016	Change 2017/2016	%
Net financial position[2]	(381,780)	(198,771)	(183,009)	92.1
Shareholders' equity	1,027,237	903,940	123,297	13.6

(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

€	2017	2016	Change 2017/2016	%
Net income[3]	1.395	1.152	0.243	21.1
Shareholders' equity[3]	4.932	4.404	0.528	12.0
Dividend	0.85	0.70		
SHARES OUTSTANDING:				
- average during the year	207,030,319	206,117,418		
- at December 31	208,261,894	205,233,894		

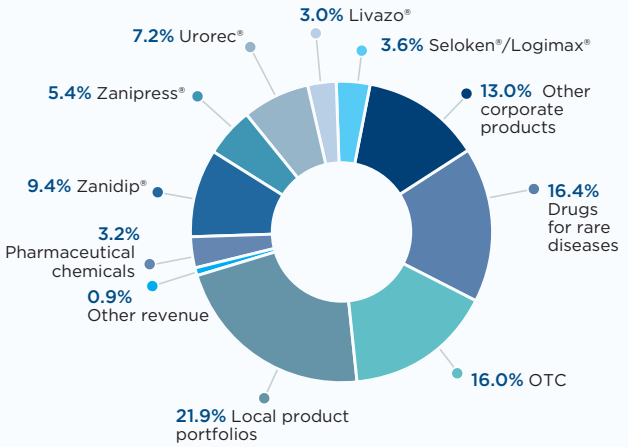
(3) Net income per share is based on average shares outstanding during the year net of average treasury stock. Average treasury stock amounted to 2,094,837 shares in 2017 and 3,007,738 shares in 2016. Shareholders' equity per share is based on total shares outstanding at year end net of treasury stock. Treasury stock amounted to 863.262 shares at 31 December 2017 and 3.891.262 shares at 31 December 2016.

2017 operational and financial reviews

REVIEW OF OPERATIONS

Net consolidated revenue in 2017 is € 1,288.1 million, up 11.6% over the preceding year, with an increase in international sales of 12.4% to € 1,029.6 million, which represent 79.9% of total sales. Pharmaceutical sales are € 1,247.2 million, up by 12.0%. Pharmaceutical chemicals sales are € 40.9 million, up by 1.9%, and represent 3.2% of total revenues. 2017 revenues include an overall amount of € 72.0 million which correspond to revenues generated by the Italian company Italchimici S.p.A. and the Swiss company Pro Farma AG, acquired in 2016 and consolidated respectively as from 1 June and 1 July of that year, as well as to the sales as from 1 July of the metoprolol based products acquired from AstraZeneca. Excluding these acquisitions sales growth would have been of 5.4%.

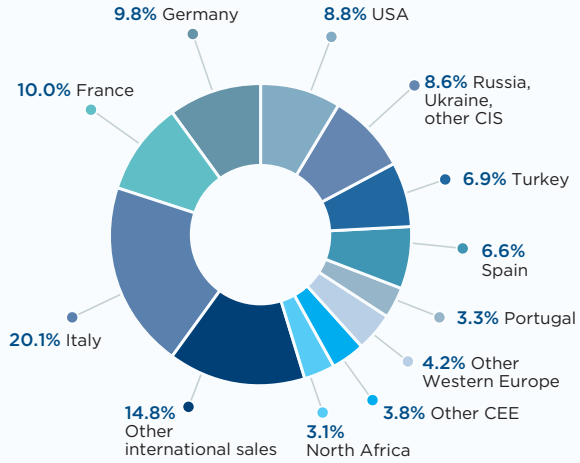
SALES BY BUSINESS



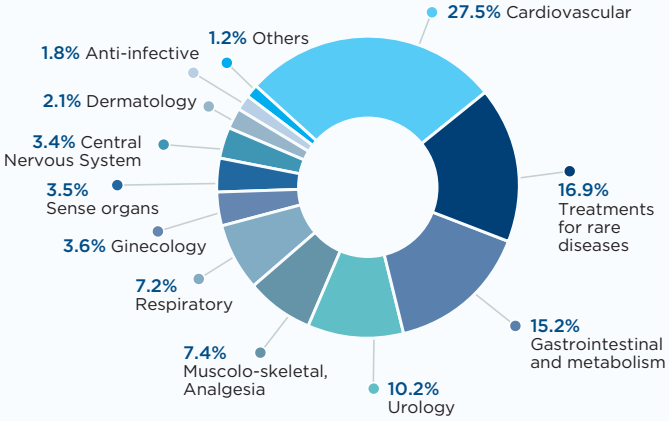
PHARMACEUTICALS

The group's pharmaceutical business, which represents 96.8% 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, in the United States of America, Canada, Mexico and in some South American countries through our own subsidiaries and, in the rest of the world, mainly through licensing agreements with pharmaceutical companies of high standing. We have gradually extended our 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.

Pharmaceutical sales by geography in 2017 are shown below:



Pharmaceutical sales by therapeutic area in 2017 are shown below:



Corporate products

The performance of products sold directly in more than one market (corporate products) during 2017 is shown in the table below.

€ (thousands)	2017	2016	Change 2017/2016	%
Zanidip® (lercanidipine)	120,633	113,999	6,634	5.8
Zanipress® (lercanidipine+enalapril)	69,213	69,075	138	0.2
Urorec® (silodosin)	92,756	85,198	7,558	8.9
Livazo® (pitavastatin)	39,224	35,129	4,095	11.7
Seloken®/Seloken® ZOK/Logimax® (metoprololo/metoprololo+felodipina)	46,984	0	46,984	n.s.
Other corporate products*	270,381	238,465	31,916	13.4
Drugs for rare diseases	211,241	186,806	24,435	13.1

** Include the OTC corporate products for an amount of € 102.5 million in 2017 and € 84.3 million in 2016 (+21.5%).*

Zanidip® (lercanidipine) is an antihypertensive calcium channel blocker discovered and developed entirely in the Recordati research laboratories and is available in 101 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 lipofilicity 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)	2017	2016	Change 2017/2016	%
Direct sales	69,189	62,150	7,039	11.3
Sales to licensees	51,444	51,849	(405)	(0.8)
Total lercanidipine sales	120,633	113,999	6,634	5.8

Direct sales of lercanidipine based products are up by 11.3% mainly due to the sales in Switzerland which are made directly to the market by our subsidiary there as from September of 2016. Sales increase also in Germany and in France, where the brand Lercan® is now sold directly by our subsidiary following the termination of the license agreement with Pierre Fabre. Sales to licensees, which represent 42.6% of total lercanidipine sales, are down by 0.8% as a consequence of reclassification of sales previously made to Pierre Fabre to direct sales.

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)	2017	2016	Change 2017/2016	%
Direct sales	55,036	51,815	3,221	6.2
Sales to licensees	14,177	17,260	(3,083)	(17.9)
Total lercanidipine+enalapril sales	69,213	69,075	138	0.2

Direct sales of Zanipress® in 2017 are up by 6.2% mainly due to the performance of the product in Germany, France and Switzerland. This product is marketed in Italy by Recordati and Innova Pharma with the brands Zanipril® and Lercaprel® and by co-marketers Italfarmaco and Polifarma with the brands Coripren® and Atover® respectively. Sales recorded in 2017 by Zanipril® and Lercaprel® are € 14.9 million, down by 8.0% due to competition from generic versions of the product. Overall the product has achieved a market share of 28.9% (IMS Retail Sales, C9B3, Italy). In France the lercanidipine/enalapril fixed combination is marketed by Laboratoires Bouchara Recordati and by Pierre Fabre under their respective brands Zanextra® and Lercapress®. Sales of Zanextra® are € 11.1 million, up by 5.9%. Overall the product has achieved a market share of 25.7% (GERS Retail Sales, C9B3, France). In Germany, Recordati Pharma sells Zanipress®, which recorded sales of € 13.3 million, up by 45.5%. The lercanidipine/enalapril fixed combination is also sold by Berlin Chemie (Menarini group) as Carmen ACE® and by Meda as Zaneril®. Overall this product is the second largest in its class with a market share of 37.0% (IMS Retail Sales, C9B3, Germany). In Turkey Recordati Ilaç markets Zanipress® which recorded sales of € 6.5 million, slightly down due to a negative currency effect following the devaluation of the Turkish lira. In local currency sales of Zanipress® in Turkey grow by 21.2%. In Portugal, where sales of Zanipress® are € 3.4 million (-12.4%), and in Spain where sales of Zanipress®, Lercapress® and Coripren® are € 3.6 million (-6.3%), generic versions of the product are present in the market. The lercanidipine/enalapril fixed combination is also sold by our marketing organizations in Greece, Switzerland, Ireland, Russia, Ukraine and other C.I.S., Poland and in North Africa. Sales to licensees, which represent 20.5% of total sales, are down by 17.9% and include the effect of the change in Switzerland from licensed out to directly sold in the market.

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 37 countries and has achieved a share of 20.5% of the alpha blocker segment of the BPH market in the 15 main European countries. Silodosin based products are sold directly by our subsidiaries under the brand Urorec® and by licensees under the brand Silodyx™ and generated sales in 2017 of € 92.8 million, up by 8.9%. Urorec® is doing particularly well in Italy achieving sales in 2017 of € 24.9 million (+10.7%). The product is also well accepted by physicians in France, Turkey and Spain where sales are € 15.7 million (+14.1%), € 9.4 million (+6.3%) and € 8.8 million (+9.3%) respectively. Urorec® is also growing significantly in Russia where it generated sales of € 3.0 million (+28.7% in local currency) in 2017.

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 2017, including sales to co-marketers in Spain, Portugal and Greece, are € 39.2 million, up by 11.7%, and have achieved a share of 6.9% of the statins market in the six main countries.

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 therapeutical 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 and the sales consolidated as from 1 July. The products are sold directly in Germany, Poland, France, Czech Republic, Romania, Switzerland, Italy, Spain and Greece and through distribution agreements in other European countries. Sales of these products in 2017, as from 1 July, are € 47.0 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.

- 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 2017 are € 28.4 million, up by 16.4%, 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 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 Italy, France, Ireland, Greece and Romania while the presence of Phosphosoda® was extended to France, Germany, Ireland, Russia, Turkey and will soon be launched in Greece. In 2017 sales of CitraFleet® are € 22.9 million (+3.7%) and those of PhosphoSoda® are € 4.7 million (-12.8%). Fleet enema and Casenlax®, two other gastrointestinal products, generated sales of € 10.8 million (-0.3%) and € 8.7 million (+20.1%) respectively.

- Polydexa®, Isofra® and Otofa® are combination products for the treatment of ENT infections sold mainly in Russia. In 2017 sales of Polydexa® are € 28.0 million, those of Isofra® are € 17.8 million while Otofa® generated sales of € 4.8 million. Overall sales are up compared to the preceding year.

- 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 Casenbiotic®, Bioralsuero®, Reuteri® and Gastrus® in Spain and Portugal. Sales of these products in 2017 are € 28.1 million.

- 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 2017 are € 22.1 million, up by 29.7%.

- 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 2017 are € 20.6 million, an increase of 10.8%, and are generated mainly in France, North Africa and Russia.

- 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 this product for 2017 are € 16.9 million, down by 0.1% over the preceding year.

- 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 € 10.3 million (-4.2%) in 2017.

- 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 incontinency and the treatment of bladder and urethral spasms and is marketed under the brands Genurin® and Urispas®. Sales of this product in 2017 are € 9.1 million, down by 15.0%.

- 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. Sales of Kentera® are € 8.1 million (-5.0%) in 2017.

- 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 2017 total € 7.4 million, down by 29.4% following the entry of generic versions of the product on the market.

- 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 2017 are € 6.3 million (+4.2%) and are generated mostly in Greece and in Germany.

- Abufene® and Muvagyn® are gynaecological products indicated for menopausal symptoms. Sales of these products in 2017 are € 5.6 million (+13.4%) and € 2.8 million respectively.

- Lacdigest® (tilactase) is an enzyme based preparation indicated in cases of lactose intolerance due to primary and secondary lactase deficiency. Sales of this product in 2017 are € 4.3 million and are generated in Italy and in Switzerland.

- 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. Launched successfully in Spain the product is now on the market in Portugal, Ireland, the Czech Republic, Slovakia and was recently launched in Greece and Romania. Sales generated in 2017 are € 2.5 million.

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 only around 300 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 its dedicated subsidiaries Orphan Europe and Recordati 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 operates directly in Europe, the Middle East and Africa through Orphan Europe, a pharmaceutical group dedicated to the research, development and marketing of treatments for rare diseases. 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. Recordati has progressively and successfully intensified its commitment to treatments for rare diseases also in the U.S.A. where Recordati Rare Diseases Inc. offers a portfolio of products for the treatment of a number of rare diseases the most important of which is Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria. As from April 2017, the Group's presence in North America was reinforced with the establishment in Canada of Recordati Rare Diseases Canada, based in Toronto.

In 2017 Recordati has consolidated its presence in Latin American countries in some of which such as in Mexico, Brazil and Colombia, it operates through its own subsidiaries. In Russia Recordati's organization guarantees access to treatments to patients living in the more remote areas of the country. In June 2017 a representative office was opened in Malaysia with the intention of extending operations to the Asia-Pacific regions.

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-acetylglutamate 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); Pedea®/Neoprofen® (i.v. ibuprofen) used in the treatment of a serious congenital cardiac malformation, the persistence of *patent ductus arteriosus* (PDA); Cystadane® (betaine anhydrous) for the treatment of homocystinuria, Cystagon® (cysteamine bitartrate) for the treatment of proven nephropathic cystinosis and Cystadrops® (cysteamine chlorhydrate), eye-drop solution approved by the European Union Commission for the treatment of corneal cystine crystal deposits in adults and children from 2 years of age with cystinosis.

Sales of these products in 2017 total € 211.2 million, an increase of 13.1% due to the good performance of the business in all markets.

Pharmaceutical sales by geographical area

The pharmaceutical sales by geography of the Recordati subsidiaries are broken down as follows:

€ (thousands)	2017	2016	Change 2017/2016	%
Italy	251,040	229,920	21,120	9.2
France	124,704	115,052	9,652	8.4
Germany	122,426	101,097	21,329	21.1
U.S.A.	109,567	101,117	8,450	8.4
Russia, other C.I.S. countries and Ukraine	107,028	79,512	27,516	34.6
Turkey	86,022	86,321	(299)	(0.3)
Spain	82,247	76,441	5,806	7.6
Portugal	40,421	40,279	142	0.4
Other Western European countries	52,859	40,064	12,795	31.9
Other C.E.E. countries	46,979	32,531	14,448	44.4
North Africa	38,883	42,343	(3,460)	(8.2)
Other international sales	185,008	169,101	15,907	9.4
Total pharmaceutical sales	1,247,184	1,113,778	133,406	12.0

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)	2017	2016	Change 2017/2016	%
Russia (RUB)	5,916,581	4,928,638	987,943	20.0
Turkey (TRY)	333,979	267,560	66,419	24.8
United States of America (USD)	127,598	114,983	12,615	11.0

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., Orphan Europe Italy S.r.l. and as from 2016 Italchimici S.p.A.. 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 21,000 sq. m. and produces 58 million packages per year. The plant is specialized in the manufacture and packaging of solid oral forms, liquids, injectables and products for topical use.

The performance of the main products in Italy is the following:

€ (thousands)	2017	2016	Change 2017/2016	%
Prescription pharmaceuticals [a]	185,880	174,739	11,141	6.4
Self-medication pharmaceuticals [b]	65,160	55,181	9,979	18.1
Pharmaceuticals, Italy	251,040	229,920	21,120	9.2

(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	2017	2016	Change 2017/2016	%
Cardicor®	heart failure	25,005	23,411	1,594	6.8
Urorec®	benign prostatic hyperplasia	24,890	22,489	2,401	10.7
Peptazol®	gastric ulcers	20,831	22,563	(1,732)	(7.7)
Zanedip®/Lercadip®	hypertension	18,224	18,762	(538)	(2.9)
Zanipril®/Lercaprel®	hypertension	14,927	16,218	(1,291)	(8.0)
Rextat®/Lovinacor®	hypercholesterolemia	13,719	13,098	621	4,7
Tora-Dol®	pain	12,259	12,514	(255)	(2.0)

Sales of pharmaceuticals in Italy are up by 9.2%, as compared to the preceding year due to the good performance of the main products as well sales generated by Italchimici S.p.A., consolidated as from 1 June 2016. Urorec®, Cardicor® (bisoprolol) and the statins Rextat® and Lovinacor® (lovastatin)® show sustained growth as well as the treatments for rare diseases which are up by 20.7%. 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 € 65.2 million, significantly up compared to the preceding year, and have benefited from the consolidation of Italchimici's self-medication products, in particular of Reuflor®, a lactobacillus based food supplement. Alovex™, indicated for the treatment of oral cavity aphthae, is our best-selling self-medication product with sales of € 7.5 million and remains market leader with a share of 31.7%. Proctolyn® (treatment of haemorrhoids) with sales of € 7.1 million, up by 3.7%, also remains market leader. TransAct® LAT (a transdermal patch containing 40 mg of flurbiprofen indicated for the symptomatic relief of localized pain involving the musculoskeletal system) generated sales of € 6.2 million. Dentosan®, a line of oral care products, generated sales of € 4.8 million. Sales of Eumill® (eye drops) at € 5.6 million are up by 12.7%. Sales of Imidazyl® (eye drops) are down by 6.7%, mainly due to the performance of the overall market together with a bland allergy season which negatively affected the antihistamine formulation.

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. Orphan Europe S.A.R.L., the largest company in the Orphan Europe group dedicated exclusively to treatments for rare diseases, is based 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 35 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 2017 revenue realized by our subsidiaries in France is € 124.7 million, up by 8.4% compared to the preceding year. Below is the performance of the main products:

€ (thousands)	Indication	2017	2016	Change 2017/2016	%
Methadone	drug addiction	31,825	29,903	1,922	6.4
Urorec®	benign prostatic hyperplasia	15,719	13,774	1,945	14.1
Zanextra®	hypertension	11,066	10,452	614	5.9
Lercan®/Zanidip®/ lercanidipine	hypertension	9,187	5,480	3,707	n.s.
Hexa line	antibacterial	7,880	8,822	(942)	(10.7)
Seloken®/Seloken® ZOK/ Logimax®	Hypertension, cardiac disorders	4,583	-	4,583	n.s.
Neocodion®	cough	3,521	6,468	(2,947)	(45.6)

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.

In addition to methadone, sales of Urorec® and Zanextra® are also growing significantly. During the year the brand Lercan® (lercanidipine) is now sold directly by our subsidiary following the termination of the license agreement with Pierre Fabre. Furthermore, sales also include those of the metoprolol

based products acquired from AstraZeneca and consolidated as from 1 July. Regarding the OTC portfolio, sales of the Hexa line of products are down due to weak seasonality and sales of Neocodion®, a codeine based cough treatment, have decreased following the introduction of mandatory prescription for this type of drug. Sales of products for the treatment of rare diseases, up by 21.5%, are growing significantly.

GERMANY

In additional 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 first class product 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 Orphan Europe Germany GmbH.

Sales generated by our subsidiaries in Germany are € 122.4 million, an increase of 21.1% compared to the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2017	2016	Change 2017/2016	%
Ortoton®	muscle relaxant	34,286	31,075	3,211	10.3
Zanipress®	hypertension	13,200	9,110	4,090	44.9
Claversal®	ulcerative colitis	11,653	12,487	(834)	(6.7)
Seloken®/Seloken® ZOK/ Logimax®	Hypertension, cardiac disorders	10,392	-	10,392	n.s.
Corifeo®/lercanidipine	hypertension	8,826	7,247	1,579	21.8
Recosyn®	musculo-skeletal	6,601	6,148	453	7.4
Mirfulan®	healing ointment	6,569	6,202	367	5.9

The sales increase is to be attributed mainly to the strong growth of Zanipress® thanks to the award of tenders for the supply of this product to the German regional health care schemes. Worth is the significant growth of Ortoton® (methocarbamol) and the success of our own generic version of lercanidipine. The overall sales of self-medication products in Germany are € 17.9 million, up by 3.9% compared to the preceding year. Sales of the treatments for rare diseases in this country are up by 16.4%.

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 and Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers. As from 2017, Cystadane® (betaine anhydrous oral solution), used in the treatment of homocystinuria to reduce the high level of homocysteine in the blood, which was previously sold through a license agreement, is now part of the product portfolio sold by Recordati Rare Diseases. Sales in 2017 are € 109.6 million, up by 8.4%, thanks to the good performance of the main products.

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

Rusfic LLC, FIC Médical S.A.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 € 107.0 million, up by 34.6% compared to the preceding year and include an estimated positive currency exchange effect of € 9.8 million. Sales in Russia, in local currency, are RUB 5,916.6 million, up by 20.0% over the preceding year thanks to the growth of the main products in the portfolio.

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

RUB (thousands)	Indication	2017	2016	Change 2017/2016	%
Polydexa®	ear infections	1,438,476	1,109,687	328,789	29.6
Tergynan®	gynaecological infections	1,260,209	1,197,550	62,659	5.2
Isofra®	nasal infections	1,044,854	790,440	254,414	32.2
Alfavit®	food supplement	615,257	632,324	(17,067)	(2.7)

Sales in Russia, in local currency, grew significantly more than the market. The main product in the Russian portfolio is Polydexa® with continued increase of its market share. Sales of Tergynan®, leader in its class, and Isofra®, with an increasing market share, are also growing. Sales of Alfavit®, the main brand of the five lines of self-medication products, are slightly down. Sales in Russia of the corporate products Procto-Glyvenol®, Urorec®, Zanidip® and Lomexin® record strong growth. In 2017 the growth of the treatments for rare diseases is significant.

Sales generated in the other C.I.S. (Commonwealth of Independent States), mainly Kazakhstan and Belarus, and in Ukraine are € 15.4 million, up by 23.5%.

TURKEY

Recordati Ilaç, the group's Turkish subsidiary, is one of the 30 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 Ilaç has undertaken an important investment program for the construction of a new production plant in Çerkezköy, built on 45,000 sq. m. of land, it occupies a surface area of approximately 19,000 sq. m. and has a total production capacity of 80 million packs annually. It currently produces more than 56 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 € 86.0 million, down by 0.3%, and were impacted by the devaluation of the Turkish Lira which generated a negative currency exchange effect estimated at € 17.7 million. In local currency, sales in Turkey increase by 24.8%.

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

TRY (thousands)	Indication	2017	2016	Change 2017/2016	%
Lercadip®	hypertension	56,876	45,163	11,713	25.9
Mictonorm®	urinary incontinence	56,282	48,247	8,035	16.7
Cabral®	muscle relaxant	54,242	45,308	8,934	19.7
Urorec®	benign prostatic hyperplasia	38,815	29,623	9,192	31.0
Kreval®	cough	30,652	25,522	5,130	20.1
Zanipress®	hypertension	26,687	22,016	4,671	21.2
Ciprasid®	anti-infective	24,543	21,058	3,485	16.5
Procto-Glyvenol®	hemorrhoids	22,009	14,926	7,083	47.5

Worth mentioning is the good performance of the corporate products, mainly Lercadip®, Urorec®, Zanipress® and Procto-Glyvenol®.

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, Orphan Europe 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 8,800 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 12 million packs a year.

Revenues in Spain are € 82.2 million, up by 7.6% compared to the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2017	2016	Change 2017/2016	%
CitraFleet®	bowel cleansing	13,368	13,509	(141)	(1.0)
Livazo®	hypercholesterolemia	12,658	11,582	1,076	9.3
Urorec®	benign prostatic hyperplasia	8,834	8,083	751	9.3
Enema Casen	bowel cleansing	7,930	7,895	35	0.4
Bi-OralSuero	rehydrating solution	5,782	5,328	454	8.5
Cidine®	gastroprokinetic	5,414	5,429	(15)	(0.3)
Casenlax®	laxative	4,229	3,475	754	21.7
Zanipress®	hypertension	2,875	3,057	(182)	(6.0)

Sales of the main product in the portfolio, CitraFleet®, a preparation for colonoscopy are slightly down. Livazo® and Urorec® are performing well and the treatments for rare diseases record a 33.6% growth. Sales of Cidine® (cinitapride) are not growing due to the presence of generic competition in the market. Sales of Zanipress® are also down due to generic competition. The rehydrating solution Bi-OralSuero and the laxative Casenlax® record significant growth. Sales of Virirec®, the new product for erectile dysfunction, have more than doubled since reimbursement status was granted by the public healthcare system.

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. In addition, the treatments for rare diseases are available through Orphan Europe Portugal LDA.

Revenue generated by our subsidiaries in Portugal is € 40.4 million, up by 0.4%. The performance of the main products is listed below.

€ (thousands)	Indication	2017	2016	Change 2017/2016	%
Livazo®	hypercholesterolemia	7,073	7,400	(327)	(4.4)
TransAct® LAT	anti-inflammatory	4,071	4,131	(60)	(1.5)
Zanipress®	hypertension	3,360	3,834	(474)	(12.4)
Microlax®	laxative	2,946	2,939	7	0.2
Urorec®	benign prostatic hyperplasia	2,710	2,735	(25)	(0.9)
Egostar®	vitamin D3	2,212	1,818	394	21.7

The decrease in the sales of Livazo® is to be attributed to the introduction of new prescription indications which limit the use of the product. The weak Zanipress® sales are a result of the competition from generic versions of the product. Sales of the portfolio of self-medication products are € 3,4 million, growing by 13.9%. Furthermore, sales of the treatments for rare diseases are up by 7.4%.

OTHER WESTERN EUROPEAN COUNTRIES

The Recordati group is also present with its own subsidiaries in the United Kingdom with Recordati Pharmaceuticals Ltd and Orphan Europe United Kingdom Ltd, in Ireland through its subsidiary Recordati Ireland Ltd, in Greece with Recordati Hellas Pharmaceuticals S.A. and in Switzerland through Recordati AG (resulting from the merger of Recordati S.A. and the recently acquired Pro-Farma AG), present also in Austria, and with Orphan Europe Switzerland GmbH. Furthermore, Orphan Europe Nordic AB and Orphan Europe Benelux BVBA are present in the segment dedicated to treatments for rare diseases in Scandinavia and in the Netherlands.

Sales in the United Kingdom are € 8.2 million and relate mainly to products for the treatment of rare diseases which account for 65.3% of our revenues in this country. The other sales are generated mainly by lercanidipine based products.

Sales in Ireland are € 1.5 million, mainly generated by Urorec®, Kentera® and Zanidip®. Sales in Greece are € 13.0 million, up by 14.8% thanks to the good performance of Livazo®, Urorec® and Lopresor® as well as to the consolidation as from 1 July of the metoprolol based products acquired from AstraZeneca and the addition of sales of Zaneril® (lercanidipine+enalapril) previously in the hands of a licensee. Sales in Switzerland are € 19.0 million and refer mainly to Zanidip®, Livazo®, Lacdigest® (tilattase) and Tretinac® (tretinoin) as well as the metoprolol based products acquired from AstraZeneca during the year. Sales in other Western European countries also comprise sales of products for the treatment of rare diseases in a number of countries for a total of € 11.3 million.

OTHER CENTRAL AND EASTERN EUROPEAN COUNTRIES

The acquisition of the metoprolol based products from AstraZeneca, 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.

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, as well as in gynecology. The company's main product is Procto-Glyvenol® for the treatment of hemorrhoids. In addition, it promotes many other established local brands in the self-medication segment. Sales in Poland in 2017 are € 17.7 million, up by 35.1% thanks mainly to the consolidation as from 1 July of the metoprolol based products acquired from AstraZeneca. Worth mentioning is the good performance of Lercan® (lercanidipine) and the launch of Lercaprel® (lercanidipine+enalapril). Regarding the self-mediation portfolio, the Polish subsidiary's main product Procto-Glyvenol® generated sales of € 4.1 million, up by 3.2%.

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 analgesic, anti-inflammatory and dermatological medicines, mainly belonging to the self-medication segment. The subsidiary operates a small pharmaceutical production plant, situated in Pardubice, which produces creams, gels and ointments for a total of 2.5 million packages per year. Sales generated by Herbacos Recordati are € 18.0 million, up by 40.1% compared the preceding year, mainly thanks to the consolidation as from 1 July of the metoprolol based products acquired from AstraZeneca. Worth mentioning is the good performance of Procto-Glyvenol® and of Urorec®.

Recordati Romania S.R.L. promotes both prescription and self-mediation products successfully. Sales in Romania are € 8.6 million, up by 97.0%, also in this case thanks mainly to the consolidation as from 1 July of the metoprolol based products acquired from AstraZeneca. Worth mentioning is the good performance of the product for hemorrhoids Procto-Glyvenol®.

Sales in the Central and Eastern European markets of the specialty products indicated for the treatment of rare and orphan diseases amount to € 2.7 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 7,500 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 17 million packs a year.

Overall, sales in North Africa are € 38.9 million, down by 8.2%, mainly due to the reduction by 18.4% of exports from France, principally towards Algeria, which is to be attributed to the limitations introduced to the importation of products for which local production exists. Sale in Tunisia in 2017, in local currency, grow by 14.7%.

OTHER INTERNATIONAL SALES

Other international sales 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 Orphan Europe's sales in all other countries.

€ (thousands)	2017	2016	Change 2017/2016	%
Sales to international licensees	125,398	117,506	7,892	6.7
Laboratoires Bouchara Recordati exports (excluding North Africa)	16,063	15,090	973	6.4
Casen Recordati exports	4,074	5,603	(1,529)	(27.3)
Orphan Europe sales to licensees and exports	29,927	23,541	6,386	27.1
Other income	9,546	7,361	2,185	29.7
Total	185,008	169,101	15,907	9.4

Sales to international licensees grow by 6.7% due to the consolidation as from 1 July of the sales of the metoprolol based products acquired from AstraZeneca, Seloken®, Seloken® ZOK and Logimax®, in those countries where they are sold through distribution agreements.

Sales outside France by our French subsidiary Laboratoires Bouchara Recordati are up by 6.4% while sales outside Spain by our Spanish subsidiary Casen Recordati are down by 27.3% as exported brands, mainly Phosphosoda® and Fleet Enema, are being progressively sold directly by Recordati's subsidiaries.

Revenue generated by our treatments for rare diseases in other countries, mainly in the Middle East, either directly or through licensees, are € 29.9 million, up by 27.1%, and include other income of € 2.2 million deriving mainly from the Cystadrops® license in Japan.

Other income refers to royalties and up-front payments related to license agreements.

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, phenytoin, papaverine and dimenhydrinate. Other pharmaceutical chemicals are produced on behalf of important pharmaceutical companies. In order to guarantee adequate and continuous supplies of the active ingredient lercanidipine, an important original Recordati drug, 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, increase by 1.9% as compared to 2016. In particular, the products tribenoside, manidipine, ketorolac, diphenhydramine and mebeverine performed well.

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

€ (thousands)	2017	%	2016	%	Change 2017/2016	%
Italy	2,997	7.3	3,027	7.5	(30)	(1.0)
Europe (Italy excluded)	15,407	37.6	15,017	37.4	390	2.6
United States of America	7,919	19.3	9,708	24.2	(1,789)	(18.4)
America (U.S. excluded)	3,821	9.3	2,461	6.1	1,360	55.3
Australasia	9,501	23.2	8,799	21.9	702	8.0
Africa	1,294	3.2	1,152	2.9	142	12.3
Total	40,939	100.0	40,164	100.0	775	1.9

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.

The Milan plant obtained holds the Single Environmental Authorization (Autorizzazione Unica Ambientale) for atmospheric emission permits, discharge to underground permit for water used in the heating/cooling system and waste water permit for industrial water and rainwater (authorization expiry 2031) and during 2017 the Fire Department granted the concession for periodical renewal of the Fire Prevention Certificate extending its validity to 12 April 2022.

The Turkish site of Cerkezkoy has officially obtained all necessary environmental permits for the start of production (atmospheric emissions, waste water, waste management) and in 2016 the plant was successfully audited by the Technical Committee of the IFC (International Finance Corporation) on "Health, Safety and Environment". In 2017 the plant became fully operational.

FINANCIAL REVIEW

INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2016:

€ (thousands)	2017	% revenue	2016	% revenue	Change 2017/2016	%
Revenue	1,288,123	100.0	1,153,942	100.0	134,181	11.6
Cost of sales	(382,754)	(29.7)	(360,959)	(31.3)	(21,795)	6.0
Gross profit	905,369	70.3	792,983	68.7	112,386	14.2
Selling expenses	(330,793)	(25.7)	(304,435)	(26.4)	(26,358)	8.7
R&D expenses	(100,256)	(7.8)	(83,710)	(7.3)	(16,546)	19.8
G&A expenses	(65,582)	(5.1)	(64,784)	(5.6)	(798)	1.2
Other income (expense), net	(2,246)	(0.2)	(12,631)	(1.1)	10,385	(82.2)
Operating income	406,492	31.6	327,423	28.4	79,069	24.1
Financial income (expense), net	(17,377)	(1.3)	(10,141)	(0.9)	(7,236)	71.4
Pre-tax income	389,115	30.2	317,282	27.5	71,833	22.6
Provision for income taxes	(100,316)	(7.8)	(79,851)	(6.9)	(20,465)	25.6
Net income	288,799	22.4	237,431	20.6	51,368	21.6
Attributable to:						
Equity holders of the parent	288,762	22.4	237,406	20.6	51,356	21.6
Minority interests	37	0.0	25	0.0	12	48.0

In 2017 international revenues went from € 916.3 million to € 1,029.6 million, an increase of 12.4%, and represent 79.9% of total revenue. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2017	%	2016	%
Europe (Italy excluded)	774,255	75.2	674,066	73.6
United States of America	118,817	11.5	111,897	12.2
America (United States excluded)	24,116	2.3	21,641	2.4
Australasia	61,538	6.0	55,770	6.1
Africa	50,846	4.9	52,953	5.8
Total	1,029,572	100.0	916,327	100.0

Gross profit is € 905.4 million with a margin of 70.3% on sales, an increase over that of the preceding year due to the further growth of products with higher margins and to the positive effect of the metoprolol based products acquired from AstraZeneca.

Selling expenses increase less than sales and are therefore down as a percent of revenue compared to the preceding year thanks to the increased efficiency of the group's commercial organizations.

R&D expenses are € 100.3 million, up by 19.8% compared to those recorded in 2016 due to the initiation of new development programs, the amortization of the acquired rights to the metoprolol based products and the agreement with MimeTech for the development and subsequent marketing on a global basis of a new compound for the treatment of neurotrophic keratitis, for which an amount of € 7.0 million was due up-front at the signing of the contract.

G&A expenses are up by 1.2% but decrease as percent of sales to 5.1%.

Overall, labor cost in 2017 is € 267.4 million, an increase of 1.9% over 2016, with the cost per employee down by 1.2%.

Personnel and other human resources data at 31 December 2017 and 2016 are shown in the following table:

	2017	2016
Employees at year-end	4,176	4,116
Average age	43	42
Average service (years)	7.9	7.3
Labor productivity:		
Labor cost on net sales	20.8%	22.7%
Sales per employee (€ thousands) [(a)]	317.2	293.3
Value added per employee (€ thousands) [(a)]	177.8	159.5

Labor cost includes wages, related charges and additional costs.
(a) Data per employee for both years are computed on the average number of personnel, 4,061 in 2017 and 3,935 in 2016.

The strengthening of our corporate organization continued in order to ensure the integration, monitoring and coordination of the foreign subsidiaries in accordance with our internationalization strategy. Personnel training and development represented a substantial portion of the group's efforts also in 2017. During the year the project aimed at identifying and evaluating personnel competencies within the Group, with the objective of improving staff development and career planning, was consolidated.

Other expenses, net of other income, are € 2.2 million, significantly reduced as compared to that of the preceding year due to the extraordinary costs incurred in 2016 following the acquisition of the companies Italchimici S.p.A. and Pro Farma AG. Other expenses include an accrual of € 2.0 million relative to a donation to the pediatric hospital in Milan "V. Buzzi" for the future

construction of a new pediatric ward, which will be dedicated to Giovanni Recordati, and the contemporaneous relocation and construction of the new neurology ward.

Net financial charges are € 17.4 million, an increase of € 7.2 million compared to the preceding year due mainly to the interest charges related to medium/long-term loans and to net foreign exchange losses.

The effective tax rate during the period is 25.8%, slightly higher than that of the preceding year. Taxes include deferred tax assets consequent to the fiscal revaluation of assets connected with the acquisition of Italchimici S.p.A. and Pro Farma AG in 2016. Furthermore, a provision for tax liabilities was booked in connection with a tax assessment involving the group companies which reside in Ireland and Luxembourg.

Net income at 22.4% of sales is € 288.8 million, an increase of 21.6% over the preceding year.

FINANCIAL POSITION

The net financial position at 31 December 2017 records net debt of € 381.8 million compared to net debt of € 198.8 million at 31 December 2016.

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016	%
Cash and short-term financial investments	302,077	138,493	163,584	118.1
Bank overdrafts and short-term loans	(16,577)	(15,689)	(888)	5.7
Loans – due within one year	(51,710)	(40,428)	(11,282)	27.9
Net liquid assets	**233,790**	**82,376**	**151,414**	**183.8**
Loans – due after one year[1]	(615,570)	(281,147)	(334,423)	118.9
Net financial position	**(381,780)**	**(198,771)**	**(183,009)**	**92.1**

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

During the year dividends were distributed for an overall amount of € 159.6 million, of which € 72.1 million for the balance of the financial year 2016 dividend and € 87.5 for the interim financial year 2017 dividend. Furthermore, an amount of $ 300.0 million (€ 266.9 million) was paid for the acquisition from AstraZeneca of the European marketing rights to the products Seloken®/Seloken® ZOK (metoprolol succinate) and associated Logimax® fixed dose combination (metoprolol succinate and felodipine). An agreement was signed with MimeTech for the development and subsequent commercialization of a new treatment for neurotrophic keratitis which determined an up-front payment of € 7.0 million. Finally, in December an amount of € 30.0 million were paid for the acquisition of three Bayer Consumer Health products, Transipeg®, TransipegLib® and Colopeg®, for the French market.

On May 31, 2017, Recordati S.p.A. issued and privately placed a bond for a total of € 125.0 million with Pricoa Capital Group. The main terms and conditions provide for a 2.07% fixed interest rate and a duration of 15 years with repayment in annual instalments starting on 31 May 2025. The transaction, the object of which is to provide the necessary liquidity to support the growth of the group, was able to take advantage of the favourable market conditions.

During the second half the Parent stipulated five new loan agreements for an overall amount of € 265.0 million with banks of high standing: a € 75.0 million loan granted by Mediobanca until July 2024, a € 50.0 million loan granted by UBI Banca until September 2022, a € 50.0 million loan granted by UniCredit until September 2021, a € 75.0 million loan granted by Intesa Sanpaolo until October 2025 and a € 15.0 million loan granted by Banca Passadore until November 2022.

An amount of € 15.0 million was invested in property, plant and equipment, mainly involving the Parent company's Milan headquarters and production sites (€ 9.0 million).

Net working capital for operations at 31 December 2017 is € 170.1 million and is thus comprised:

€ (thousands)	31.12.2017	% revenue	31.12.2016	% revenue	Change 2017/2016	%
Trade receivables, net	244,117	19.0	205,988	17.9	38,129	18.5
Inventories	179,100	13.9	158,800	13.8	20,300	12.8
Other current assets	44,566	3.5	36,455	3.2	8,111	22.2
Current assets	**467,783**	**36.3**	**401,243**	**34.8**	**66,540**	**16.6**
Trade payables	141,740	11.0	124,644	10.8	17,096	13.7
Tax payable	24,373	1.9	20,432	1.8	3,941	19.3
Other current liabilities	131,587	10.2	106,496	9.2	25,091	23.6
Current liabilities	**297,700**	**23.1**	**251,572**	**21.8**	**46,128**	**18.3**
Net working capital for operations	**170,083**	**13.2**	**149,671**	**13.0**	**20,412**	**13.6**
Days of sales outstanding	62		61			
Inventories as % of cost of sales	46.8%		43.7%			

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

RELATED PARTY TRANSACTIONS

Tax liabilities include an amount of € 2.5 million, computed by Recordati S.p.A. based on estimated taxable income, payable to the controlling company Fimei S.p.A. consequent to the participation in a tax consolidation grouping under tax laws in Italy.

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.

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 2017 the provisions of art. 15 (ex 36) of the Financial Markets Regulation apply to the subsidiaries Recordati Ilaç, Recordati Rare Diseases Inc. and Rusfic LLC and that the conditions indicated in the abovementioned art. 15 (ex 36) are fulfilled.

SIGNIFICANT OPERATIONS, PUBLICATION REQUIREMENTS DEROGATION

The 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.

FOURTH QUARTER 2017

€ (thousands)	IV quarter 2017	%	IV quarter 2016	%	Change 2017/2016	%
Revenue	**324,296**	**100.0**	**291,572**	**100.0**	**32,724**	**11.2**
Cost of sales	(95,158)	(29.3)	(93,658)	(32.1)	(1,500)	1.6
Gross profit	**229,138**	**70.7**	**197,914**	**67.9**	**31,224**	**15.8**
Selling expenses	(84,249)	(26.0)	(78,032)	(26.8)	(6,217)	8.0
R&D expenses	(28,111)	(8.7)	(23,512)	(8.1)	(4,599)	19.6
G&A expenses	(16,912)	(5.2)	(17,687)	(6.1)	775	(4.4)
Other income (expense), net	(876)	(0.3)	(3,666)	(1.3)	2,790	(76.1)
Operating income	**98,990**	**30.5**	**75,017**	**25.7**	**23,973**	**32.0**
Financial income (expense), net	(5,624)	(1.7)	(1,515)	(0.5)	(4,109)	271.2
Pretax income	**93,366**	**28.8**	**73,502**	**25.2**	**19,864**	**27.0**
Provision for income taxes	(24,373)	(7.5)	(18,388)	(6.3)	(5,985)	32.5
Net income	**68,993**	**21.3**	**55,114**	**18.9**	**13,879**	**25.2**
Attributable to:						
Equity holders of the parent	68,984	21.3	55,108	18.9	13,876	25.2
Minority interests	9	0.0	6	0.0	3	50.0

Revenues during the fourth quarter 2017 are € 324.3 million, an increase of 11.2% compared to the same period of the preceding year. Pharmaceutical sales are € 314.4 million, up by 11.8% compared to the fourth quarter 2016. Pharmaceutical chemicals revenue, at € 9.9 million, down by 3.6% compared to the same period of the preceding year.

Operating income, at 30.5% of sales, is € 99.0 million up by 32.0%. Other expenses net of other income are significantly reduced as compared to that of the same period of the preceding year due to the extraordinary costs incurred for the write-down of some intangible assets in the fourth quarter 2016.

Financial charges increase significantly compared to the same period of the preceding year due to currency exchange losses and the interest on new medium/long term loans.

Net income increases by 25.2% and is significantly impacted by the increase of financial charges.

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, the objective of the Group is to classify the potential risks to which it is exposed, which could be both of an exogenous (e.g. evolution of the rules and regulations framework, competitive pressure, etc.) and of an endogenous kind connected with the management of the various company processes (pharmacovigilance, production process, patent expiry, launch of new products, etc.). Among the risks considered, are non financial risks referred to in 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 medial information rules). These subjects and risks were analysed by the Group and classified as involving low to medium risk.

Results

The principal risk factors to which the Group is exposed are described below with an indication of the management strategies and policies pursued. They have been classified as follows:

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

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 affects activities at all levels. Group sales consist mainly 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 exposed to 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. Evaluations of new business opportunities undergo analysis and monitoring by top management. From an operational point of view, the recently constituted International Primary and Specialty Care Business Unit (IPSC) is in charge of monitoring together with the further garrison by 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 and long periods involved in 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 serious 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. 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, 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.

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.

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. Finally, 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.

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 has assets and transactions denominated in foreign currency other than euro. It is therefore exposed to risks of foreign currency fluctuations which can affect is 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 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 30 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 careful 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

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 is implementing 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 and the relative provisions made to meet future liabilities is given in notes 28 and 36 to the financial statements.

BUSINESS OUTLOOK

On 8 February 2018 the company announced its financial targets for 2018. The objective is to to achieve sales ranging from € 1,350 million to € 1,370 million, EBITDA of between € 490 and € 500 million, EBIT of between € 430 and 440 million and net income of between € 310 and 315 million.

Group consolidated sales during the first two months of 2018 are in line with our expectations.

Milan, 15 March 2018

Andrea Recordati
Vice Chairman and Chief Executive Officer

Consolidated financial statements

RECORDATI S.P.A AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

The consolidated financial statements are presented in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Interpretation Reporting Committee (IFRIC) previously named Standing Interpretations Committee (SIC). The financial statements comply with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting standards were used in the preparation of the financial statements at 31 December 2016.

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

INCOME STATEMENT

€ (thousands)	Note	2017	2016
Revenue	3	1,288,123	1,153,942
Cost of sales	4	(382,754)	(360,959)
Gross profit		905,369	792,983
Selling expenses	4	(330,793)	(304,435)
R&D expenses	4	(100,256)	(83,710)
G&A expenses	4	(65,582)	(64,784)
Other income (expense), net	4	(2,246)	(12,631)
Operating income		406,492	327,423
Financial income (expense), net	5	(17,377)	(10,141)
Pretax income		389,115	317,282
Provision for income taxes	6	(100,316)	(79,851)
Net income		288,799	237,431
Attributable to:			
Equity holders of the parent		288,762	237,406
Minority interests		37	25
Earnings per share			
Basic		€ 1.395	€ 1.152
Diluted		€ 1.381	€ 1.135

Earnings per share (EPS) are based on average shares outstanding during each year, 207,030,319 in 2017 and 206,117,418 in 2016, net of average treasury stock which amounted to 2,094,837 shares in 2017 and 3,007,738 shares in 2016.
Diluted earnings per share is calculated taking into account stock options granted to company personnel.

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2017

ASSETS

€ (thousands)	Note	31 December 2017	31 December 2016
Non-current assets			
Property, plant and equipment	7	103,009	110,202
Intangible assets	8	540,565	279,884
Goodwill	9	539,871	556,566
Other investments	10	24,171	19,199
Other non-current assets	11	5,944	5,428
Deferred tax assets	12	69,162	37,231
Total non-current assets		1,282,722	1,008,510
Current assets			
Inventories	13	179,100	158,800
Trade receivables	14	244,117	205,988
Other receivables	15	39,730	30,974
Other current assets	16	4,836	5,481
Fair value of hedging derivatives *(cash flow hedge)*	17	3.825	12,497
Short-term financial investments, cash and cash equivalents	18	302,077	138,493
Total current assets		773,685	552,233
Total assets		2,056,407	1,560,743

EQUITY AND LIABILITIES

€ (thousands)	Note	31 December 2017	31 December 2016
Shareholders' equity			
Share capital		26,141	26,141
Additional paid-in capital		83,719	83,719
Treasury stock		(17,029)	(76,761)
Hedging reserve *(cash flow hedge)*		(5,867)	(7,420)
Translation reserve		(124,004)	(78,309)
Other reserves		40,684	35,295
Retained earnings		822,154	756,004
Net income for the year		288,762	237,406
Interim dividend		(87,470)	(72,245)
Group shareholders' equity	19	1,027,090	903,830
Minority interest		147	110
Shareholders' equity	20	1,027,237	903,940
Non-current liabilities			
Loans – due after one year	21	612,462	293,644
Staff leaving indemnities	22	21,093	21,675
Deferred tax liabilities	23	17,554	27,659
Other non-current liabilities	24	2,515	2,515
Total non-current liabilities		653,624	345,493
Current liabilities			
Trade payables	25	141,740	124,644
Other payables	26	82,779	77,957
Tax liabilities	27	24,373	20,432
Other current liabilities		486	562
Provisions	28	48,322	27,977
Fair value of hedging derivatives *(cash flow hedge)*	29	9,559	3,621
Loans – due within one year	21	51,710	40,428
Bank overdrafts and short-term loans	30	16,577	15,689
Total current liabilities		375,546	311,310
Total equity and liabilities		2,056,407	1,560,743

RECORDATI S.p.A. AND SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

€ (thousands)	2017	2016
Net income for the year	288,799	237,431
Gains/(losses) on cash flow hedges	1,553	(4,130)
Gains/(losses) on translation of foreign financial statements	(45,695)	(11,391)
Other gains/(losses)	4,109	(9,259)
Income and expense for the year recognized directly in equity	(40,033)	(24,780)
Comprehensive income for the year	248,766	212,651
Attributable to:		
Equity holders of the parent	248,729	212,626
Minority interests	37	25

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

€ (thousands)	Share capital	Add. paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Interim dividend	Minority interest	Total
Balance at 31.12.2015	26,141	83,719	(35,061)	(3,290)	(66,918)	42,543	685,587	198,792	(61,606)	85	869,992
Allocation of 2015 net income:											
- Dividends							2,425	(125,516)	61,606		(61,485)
- Retained earnings							73,276	(73,276)			
Change in the reserve for share based payments						2,011	1,973				3,984
Purchase of own shares			(71,605)								(71,605)
Sale of own shares			29,905				(7,186)				22,719
Interim dividend									(72,245)		(72,245)
Other changes							(71)				(71)
Comprehensive income for the year				(4,130)	(11,391)	(9,259)		237,406		25	212,651
Balance at 31.12.2016	26,141	83,719	(76,761)	(7,420)	(78,309)	35,295	756,004	237,406	(72,245)	110	903,940
Allocation of 2016 net income:											
- Dividends							(34,280)	(110,102)	72,245		(72,137)
- Retained earnings							127,304	(127,304)			
Change in the reserve for share based payments						1,280	2,682				3,962
Purchase of own shares											
Sale of own shares			59,732				(29,465)				30,267
Interim dividend									(87,470)		(87,470)
Other changes							(91)				(91)
Comprehensive income for the year				1,553	(45,695)	4,109		288,762		37	248,766
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

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

€ (thousands)	2017	2016
Operating activities		
Cash flow		
Net Income	288,799	237,431
Depreciation of property, plant and equipment	14,186	12,466
Amortization of intangible assets	33,967	25,466
Write-down of assets	16	5,862
Total cash flow	**336,968**	**281,225**
(Increase)/decrease in deferred tax assets	(32,422)	(5,637)
Increase/(decrease) in staff leaving indemnities	(582)	1,273
Increase/(decrease) in other non-current liabilities	(10,841)	(216)
	293,123	**276,645**
Changes in working capital		
Trade receivables	(38,129)	(20,509)
Inventories	(20,300)	(9,982)
Other receivables and other current assets	(8,111)	547
Trade payables	17,096	7,005
Tax liabilities	3,941	5,191
Other payables and other current liabilities	4,746	194
Provisions	20,345	(3,655)
Changes in working capital	**(20,412)**	**(21,209)**
Net cash from operating activities	**272,711**	**255,436**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(14,588)	(19,669)
Net (investments)/disposals in intangible assets	(306,112)	(17,272)
Acquisition of equity	0	(120,790)[1]
Net (increase)/decrease in equity investments	28	121
Net (increase)/decrease in other non-current receivables	(516)	(879)
Net cash used in investing activities	**(321,188)**	**(158,489)**
Financing activities		
Short-term financial position of companies acquired or disposed of	0	(21,675)
Medium/long term loans	389,903	50,128
Re-payment of loans	(39,623)	(33,977)
Purchase of Treasury stock	0	(71,605)
Sale of Treasury stock	30,267	22,719
Effect of application of IAS/IFRS	3,807	3,765
Other changes in equity	(91)	(71)
Dividends paid	(159,607)	(133,730)
Change in translation reserve	(13,483)	(5,373)
Net cash from/(used in) financing activities	**211,173**	**(189,819)**
Changes in short-term financial position	**162,696**	**(92,872)**
Short-term financial position at beginning of year *	122,804	215,676
Short-term financial position at end of period *	285,500	122,804

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

(1) *Acquisition of **Italchimici S.p.A. (106,294)**: Working capital 2,859, Short-term financial position* 21,769, Fixed assets (36,448), Goodwill (105,303), Personnel leaving indemnity 1,507, Deferred tax liabilities 9,322.*
*Acquisition of **Pro Farma AG (14,496)**: Working capital (745), Short-term financial position* (94), Fixed assets (5.447), Goodwill (8,485), Deferred tax liabilities 275.*

RECORDATI S.P.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL

The consolidated financial statements at 31 December 2017 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. 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 attachment 1.

During the year the consolidation perimeter changed following two organizational operations. The Luxembourg company Recordati S.A. Chemical and Pharmaceutical Company was incorporated by the Parent, with retroactive accounting and fiscal effect to 1 January, and the non-operational company Recordati Portuguesa Ltda was liquidated. Furthermore, Recordati Rare Diseases Canada Inc., which operates in the rare disease segment, was established. The recognition in the accounts of the Italian company Italchimici S.p.A. and the Swiss company Pro Farma AG with its Austrian subsidiary Pro Farma GmbH, acquired respectively in May and July of 2016, is now definite, and the assets and liabilities recognized on a temporary basis in the 2016 financial statements are confirmed.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and in compliance with 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 2016 were used in the preparation of the financial statements at 31 December 2017.

No changes in accounting policies were applied in the preparation of the consolidated financial statements.

Two new accounting principles enter into effect as from 1 January 2018 with early application permitted. IFRS 9, "Financial instruments", introduces new requisites for the classification, measurement and impairment of financial assets and liabilities and new rules governing hedge accounting. IFRS 15, "Revenue from contracts with customers", sets out five requirements for the recognition of revenue that apply to contracts with customers, except for those to which other IAS/IFRS principles apply. The Group did not exercise the faculty of early application of the new policies and during 2017 it completed the analysis for the identification of the areas of application and the determination of the relative effects, without finding any significant impact on the consolidated profit or net equity.

Furthermore, IFRS 16, "Leases", will apply as from 1 January 2019. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance. 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. The impact resulting from the application of the new standard is under evaluation.

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 Accounting Standards and International Financial Reporting Standards (IAS/IFRS). The criteria applied is consistent with that of the consolidated financial statements at 31 December 2016.

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 IAS 39 and defined benefit plans for which the actuarial valuation was carried out as prescribed by IAS 19.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

The principal accounting policies adopted are set out below.

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:

a. 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.
b. Intercompany payables and receivables and transactions, as well as intra-group profits and losses not yet realized, are eliminated.
c. Any excess of the cost of acquisition over the value of equity at the date of acquisition is recognized as goodwill.
d. Minority interests in the equity of consolidated subsidiaries are shown separately under equity, while minority 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.

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 - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments, and depreciated over their estimated useful life. The corresponding liability to the lessor is included in the balance sheet as a financial liability. Lease payments are apportioned between finance charges and reduction of the financial liability. Finance charges are charged directly in the income statement.

All other leases are classified as operating leases and the rentals payable are charged to income as per the terms of the relevant 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.

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, 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.

Other investments - Other investments are those described by IAS 39 as available-for-sale financial assets. They comprise equity instruments and are measured at fair value. If their market value is not available and their fair value cannot be reasonably determined, these investments are valued at cost and adjusted for loss of value (impairment) if required. The impairment cost is recognized in the income statement.

Receivables (included in non-current assets) - Receivables are stated at their nominal value and reduced by estimated irrecoverable amounts if and when necessary.

Inventories - Inventories are stated at the lower of cost or market, 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.

Trade receivables - Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents - Cash in banks on demand and highly liquid investments.

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.

Loans - Interest-bearing loans are recorded at the proceeds received, net of direct issue costs. Subsequently, loans are measured using the amortised cost method as prescribed by IAS 39. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

If the loans are covered using derivative instruments qualifying as fair value hedges, in accordance with IAS 39 these loans are measured at fair value as are their related derivative instruments.

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 unrecognized past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method.

Trade payables - Include payables arising from supply agreements and are stated at their nominal value.

Other payables - Include payables arising in the normal course of business (towards employees and third parties) and are stated at their nominal value.

Bank overdrafts and loans - Bank overdrafts and loans are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments - The Group uses derivative financial instruments to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivatives are measured at fair value at the end of each reporting period.

Hedging relationships are of two types, "fair value hedge" or "cash flow hedge". A "fair value hedge" is a hedge of the exposure to changes in the fair value of an asset or liability that is already recognized in the balance sheet. A "cash flow hedge" is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability or to a forecasted transaction.

The gain or loss from the change in fair value of a hedging instrument qualifying as a "fair value hedge" is recognized immediately in net profit or loss. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which also is recognized immediately in net profit or loss.

The gain or loss from the change in fair value of a hedging instrument qualifying as a "cash flow hedge" is recognized in the consolidated statement of comprehensive income.

The gain or loss from the change in fair value of a derivative financial instrument which does not qualify as a hedging instrument is recognized immediately in net profit or loss.

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 - Revenues are recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and that the amount of revenue can be measured reliably. Revenue arising from the sale of goods is recognized when the enterprise has transferred the significant risks and rewards of ownership. These are stated net of discounts, rebates and returns. Revenues include income from royalties due on licensed out products and up-front payments received under licensing agreements.

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. Promotional expenses for the launch of new products are recognized in the income statement in proportion to the revenues obtained during the launch period.

Research and development expenses - All research costs are expensed in the income statement in the year in which they are incurred in accordance with IAS 38. IAS 38 prescribes that development costs must be capitalized when technical and commercial feasibility is achieved. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines under IAS 38 are not met so that development costs are expensed as incurred. 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.

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 profit 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

Net revenue for the years 2017 and 2016 is € 1,288.1 million and € 1,153.9 million respectively and can be broken down as follows:

€ (thousands)	2017	2016	Change 2017/2016
Net sales	1,272,973	1,139,444	133,529
Royalties	4,106	5,995	(1,889)
Up-front payments	5,604	4,158	1,446
Other revenue	5,440	4,345	1,095
Total revenue	1,288,123	1,153,942	134,181

Please refer to the Review of Operations for the analysis of net sales.

Revenue from up-front payments refers to the licensing out of corporate products and in 2017 are mainly relative to agreements for the licensing of Cystadrops® (cysteamine hydrochloride) (€ 2.0 million), the lercanidipine-enalapril combination (€ 1.6 million), pitavastatin (€ 1.0 million), lercanidipine (€ 0.8 million) and fenticonazole (€ 0.2 million).

Other revenue includes commissions of € 0.5 million received by FIC Médical for promotion services rendered to third parties in the countries belonging to the Commonwealth of Independent States (C.I.S.).

4. OPERATING EXPENSES

Total operating expenses for the years 2017 and 2016 are € 881.6 million and € 826.5 million respectively and are analyzed by function as follows:

€ (thousands)	2017	2016	Change 2017/2016
Cost of sales	382,754	360,959	21,795
Selling expenses	330,793	304,435	26,358
Research and development expenses	100,256	83,710	16,546
General and administrative expenses	65,582	64,784	798
Other (income) expense, net	2,246	12,631	(10,385)
Total operating expenses	881,631	826,519	55,112

Labor cost in 2017 is € 267.4 million, up by 1.9% compared to 2016, and includes charges of € 4.0 million related to stock option plans determined in accordance with IFRS 2.

Depreciation and amortization charges are € 48.2 million. Depreciation of property, plant and equipment is € 14.2 million, up by € 1.7 million as compared to the preceding year. Amortization of intangibles is € 34.0 million, an increase of € 8.5 million compared to 2016.

The following table summarizes the most significant components of other income (expense) which comprises mainly non-recurring events, operations and matters which are not often repeated in the ordinary course of business.

€ (thousands)	2017	2016	Change 2017/2016
Accrual for donations	(2,000)	0	(2,000)
Ancillary costs related to acquisitions	(769)	(2,272)	1,503
Write-down of intangible assets	(16)	(5,862)	5,846
Organizational restructuring charges	0	(4,678)	4,678
Others	539	181	358
Total other income (expense), net	**(2,246)**	**(12,631)**	**10,385**

The accrual of € 2.0 million relates to a donation to the pediatric hospital in Milan "V. Buzzi" for the future construction of a new pediatric ward, which will be dedicated to Giovanni Recordati, and the contemporaneous relocation and construction of the new neurology ward.

Ancillary costs related to acquisitions refer to the agreement with AstraZeneca for the acquisition of the European rights to the products Seloken®/Seloken® ZOK (metoprolol succinate) and the fixed combination Logimax® (metoprolol+felodipine).

5. FINANCIAL INCOME AND EXPENSE

In 2017 and 2016 financial items recorded a net expense of € 17.4 million and € 10.1 million respectively which are comprised as follows:

€ (thousands)	2017	2016	Change 2017/2016
Exchange gains (losses)	(3,623)	1,708	(5,331)
Interest expense on loans	(10,495)	(8,086)	(2,409)
Net interest income (expense) on s/t financial position	(3,030)	(3,488)	458
Interest cost in respect of defined benefit plans	(229)	(275)	46
Total financial income (expense), net	**(17,377)**	**(10,141)**	**(7,236)**

The net exchange losses in 2017 as opposed to the gains in 2016 are mainly determined by the devaluation of some currencies, mainly the U.S. dollar, the Turkish Lira, the Russian Ruble and the Tunisian Dinar.

The increase in interest expense on loans is to be attributed mainly to new loans raised (see Note 21).

6. PROVISION FOR INCOME TAXES

The provision for income taxes amounts to € 100.3 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 current standard corporate income tax rate in Italy can be reconciled with the tax rate effectively incurred on consolidated pre-tax income, as follows:

	2017 %	2016 %
Standard income tax rate on pre-tax income of the parent company	24.0	27.5
Dividends from foreign subsidiaries	0.5	0.2
Consolidation effect	(0.5)	(4.3)
Franking of the difference between book values and recognized fiscal values	(4.5)	-
Provisions for risks deriving from ongoing tax audits	5.7	-
Other differences, net	(0.7)	0.7
Effective tax rate on income	**24.5**	**24.1**
IRAP	1.3	1.1
Effective tax rate, including IRAP	**25.8**	**25.2**

The Parent and the subsidiary Italchimici 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. The exercise of the franking option entailed, overall, the payment of substitute tax in the amount of € 23.0 million, the booking of deferred tax assets for an amount of € 30.8 million related to future tax benefits and the reversal of deferred tax liabilities previously booked for an amount of € 9.7 million.

Provisions for risks deriving from ongoing tax audits amount to € 22.1 million and refer to the risk deriving from tax assessments involving two group companies, starting in 2015 and still ongoing (see note 36).

IRAP is levied only on the Italian companies and is computed applying a 4.10% rate to a broader taxable base calculated before the deduction of interest.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, amounts to € 103.0 million and € 110.2 million at 31 December 2017 and 2016 respectively. The composition and variation of property, plant and equipment are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
Cost					
Balance at 31.12.16	79,409	223,397	64,871	7,007	374,684
Additions	1,219	3,279	2,207	8,292	14,997
Disposals	(90)	(686)	(1,378)	(123)	(2,277)
Other changes	(4,025)	(218)	405	(6,867)	(10,705)
Balance at 31.12.17	**76,513**	**225,772**	**66,105**	**8,309**	**376,699**
Accumulated depreciation					
Balance at 31.12.16	39,286	175,238	49,958	0	264,482
Depreciation for the year	2,510	7,780	3,896	0	14,186
Disposals	(68)	(619)	(1,301)	0	(1,988)
Other changes	(728)	(1,682)	(580)	0	(2,990)
Balance at 31.12.17	**41,000**	**180,717**	**51,973**	**0**	**273,690**
Carrying amount at					
31 December 2017	35,513	45,055	14,132	8,309	103,009
31 December 2016	40,123	48,159	14,913	7,007	110,202

Additions during the year of € 15.0 million refer mainly to investments made by the Parent in the Milan production plant and headquarters for an amount of € 9.0 million.

The conversion into Euros of property, plant and equipment booked in different currencies resulted in a net decrease of € 7.6 million compared to their value at 31 December 2016, of which € 6.3 million is due to the devaluation of the Turkish Lira and € 1.2 million is due to the devaluation of the Tunisian Dinar.

At 31 December 2017 property, plant and equipment held under financial leases amount to € 0.4 million and are held by the company in Tunisia Opalia Pharma.

8. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 31 December 2017 and 2016 amount to € 540.6 million and € 279.9 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31.12.16	331,194	190,565	18,221	16,732	556,712
Additions	269,013	5,819	191	31,449	306,472
Write-downs	0	0	0	(16)	(16)
Disposals	(77)	(300)	0	(163)	(540)
Other changes	(16,025)	1,337	(58)	(1,322)	(16,068)
Balance at 31.12.17	**584,105**	**197,421**	**18,354**	**46,680**	**846,560**
Accumulated amortization					
Balance at 31.12.16	141,883	118,577	16,368	0	276,828
Amortization for the year	22,619	10,883	465	0	33,967
Disposals	(60)	0	0	0	(60)
Other changes	**(4,273)**	**(191)**	**(276)**	**0**	**(4,740)**
Balance at 31.12.17	**160,169**	**129,269**	**16,557**	**0**	**305,995**
Carrying amount at					
31 December 2017	423,936	68,152	1,797	46,680	540,565
31 December 2016	189,311	71,988	1,853	16,732	279,884

All intangible assets have a finite useful life and are amortized over a period not exceeding 20 years.

The additions during the period include:

- € 266.9 million for the acquisition of the European rights to the products Seloken®/Seloken® ZOK (metoprolol succinate) and the fixed combination Logimax® (metoprolol+felodipine). Metoprolol succinate is 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.

- € 30.0 million for the acquisition of three Bayer Consumer Health brands for the French market, Transipeg®, TransipegLib® and Colopeg®. Transipeg® and TransipegLib® are macrogol based laxatives for the treatment of symptomatic constipation in adults and Colopeg® is a large volume bowel cleanser indicated in preparation for endoscopic exploration.

The conversion into Euros of intangible assets booked in different currencies resulted in a net decrease of € 11.4 million compared to their value at 31 December 2016, of which € 7.9 million is attributable to the devaluation of the U.S. Dollar, € 1.8 million to the devaluation of the Russian Ruble, and € 1.6 million to the devaluation of the Turkish Lira.

9. GOODWILL

Goodwill at 31 December 2017 and 2016 amounted to € 539.9 million and € 556.6 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31.12.16	594,230
Exchange rate adjustments	(16,695)
Balance at 31.12.17	**577,535**
Accumulated amortization	
Balance at 31.12.16	37,664
Changes during the year	0
Balance at 31.12.17	**37,664**
Carrying amount at	
31 December 2017	539,871
31 December 2016	556,566

The recognition in the accounts of the goodwill associated with the companies acquired in 2016, the Italian company Italchimici S.p.A. and the Swiss company Pro Farma AG with its Austrian subsidiary Pro Farma GmbH, are now definite, as prescribed by IFRS 3.

Regarding the Italian company, the measurement of the fair value of the company's assets and liabilities at the date of acquisition which was recognized provisionally in the 2016 financial statements is confirmed. The process did not result in the identification of any item to which allocate the amount paid the company and the entire difference between the amount paid and the book value of the assets and liabilities acquired was allocated to goodwill as it is believed that the value of the acquisition resides in its strategic nature and in the possibility of generating operating synergies.

Also with respect to the Swiss company Pro Farma AG and its Austrian subsidiary Pro Farma GmbH, the measurement of the fair value of the company's assets and liabilities at the date of acquisition which was recognized provisionally in the 2016 financial statements is confirmed. The process resulted in the identification of an increased value of the intangible assets acquired, and in particular of Urocit®, the fair value of which is higher than its book value. Therefore, an amount of € 2.3 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to this intangible asset to bring its book value in line with its fair value. An amount of € 0.3 million was allocated to the relative deferred tax liabilities and the remaining € 8.5 million were allocated to goodwill.

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 decrease of € 16.7 million as compared to 31 December 2016 resulted. In particular, the goodwill associated with the acquisitions in Turkey, Tunisia, Russia and Switzerland decreased respectively by € 12.4 million, € 3.9 million, € 1.3 million and € 0.7 million, while the goodwill associated with the acquisitions in Poland and Czech Republic increased by € 0.8 million each.

Net goodwill at 31 December 2017, amounting to € 539.9 million, relates to the following operational areas, which represent the same number of cash generating units:

- France: € 45.8 million;
- Russia: € 27.8 million;
- Germany: € 48.8 million;
- Portugal: € 32.8 million;
- Treatments for rare diseases business: € 110.6 million;
- Turkey: € 54.7 million;
- Czech Republic: € 13.9 million;
- Romania: € 0.2 million;
- Poland: € 15.7 million;
- Spain: € 58.1 million;
- Tunisia: € 18.3 million;
- Italy: € 105.3 million;
- Switzerland: € 7.9 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 hypotheses 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 (2018-2020) are derived from the 2018 budget approved by the Board of Directors of the Parent and from reasonable hypotheses in line with the budget itself and the 2017-2019 Business Plan approved by the Board of Directors of the Parent on 9 February 2017.

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	4.93%
Russia	12.15%
Germany	5.24%
Portugal	7.00%
Business dedicated to treatments for rare diseases	4.93%
Turkey	13.69%
Czech Republic	6.51%
Poland	7.76%
Spain	5.91%
Tunisia	14.39%
Italy	7.13%
Switzerland	4.54%

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 2017 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:

	Balance sheet value		Percentage of equity owned	
€ (thousands)	31.12.17	31.12.16	31.12.17	31.12.16
PureTech Health p.l.c., United Kingdom	16,153	13,216	4.0%	4.0%
Erytech Pharma S.A., France	7,974	5,922	2.4%	4.9%
Codexis Inc., U.S.A.	36	22	n.s.	n.s.
Fluidigm Corp., U.S.A.	5	7	n.s.	n.s.
Others	3	4	n.s.	n.s.
Tecnofarmaci S.p.A., Italy	-	27	-	4.2%
Consorzio C4T, Italy	-	1	-	n.s.
Total equity investments	24,171	19,199		

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 2017 the overall fair value of the 9.554.140 shares held is of € 16.1 million. The € 2.9 million increase in value compared to that at 31 December 2016 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.

Erytech Pharma S.A. is a French biopharmaceutical 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 incrased by € 2.0 million as compared to that at 31 December 2016 to take into account its fair value. The after-tax difference was booked to equity and recognized in the statement of comprehensive income.

During the year the company Tecnofarmaci S.p.A. was liquidated, resulting in receipt of funds substantially in line with its book value, and it was decided to exit from the shareholding of Consorzio C4T.

11. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 31 December 2017 are € 5.9 million and refer mainly to guarantee deposits on rental and service contracts.

12. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2017 and 2016 amount to € 69.2 million and € 37.2 million respectively. The main deferred tax assets and their change are analyzed below.

€ (thousands)	2017	2016
Balance at 1 January	37,231	30,500
Additions	38,777	11,941
Utilizations	(6,846)	(5,210)
Balance at 31 December	69,162	37,231

€ (thousands)	Previous years' losses	Profit and loss temporary differences	Franking	Other	Total
Balance at 31.12.2016	5,818	7,481	0	23,932	37,231
Additions	0	5,482	30,816	2,479	38,777
Utilization	(1,513)	(4,067)	0	(1,266)	(6,846)
Balance at 31.12.2017	4,305	8,896	30,816	25,145	69,162

During 2017 the Parent and the subsidiary Italchimici 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 Italchimici 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 Italchimici 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.

"Other" deferred tax assets refers mainly to temporary differences arising from the elimination of unrealized gains on intercompany transactions.

13. INVENTORIES

Inventories at 31 December 2017 and 2016 amount to € 179.1 million and € 158.8 million respectively, net of their respective obsolescence provisions for slow moving or expiring pharmaceutical products of € 4.8 million and € 4.4 million. Composition of inventories is as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Raw materials and supplies	50,828	43,185	7,643
Intermediates and work-in-process	27,405	26,606	799
Finished goods	100,867	89,009	11,858
Total inventories	179,100	158,800	20,300

14. TRADE RECEIVABLES

Trade accounts receivable at 31 December 2017 and 2016 amount to € 244.1 million and € 206.0 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2017 is € 15.4 million (€ 14.8 million at 31 December 2016) 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 62, compared to 61 at 31 December 2016.

15. OTHER RECEIVABLES

Other receivables amount to € 39.7 million, an increase of € 8.8 million compared to those at 31 December 2016, and their breakdown is as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Tax receivable	29,464	18,756	10,708
Balances due from employees and agents	1,369	8,062	(6,693)
Other	8,897	4,156	4,741
Total other receivables	39,730	30,974	8,756

Tax receivable comprises value added tax (VAT) receivable (€ 12.9 million) and advance payments of income tax. 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 2017 other current assets amount to € 4.8 million (€ 5.5 million at 31 December 2016) and relate mainly to prepaid expenses.

17. FAIR VALUE OF HEDGING DERIVATIVES

At 31 December 2017 the value of hedging derivatives included under this account is of € 3.8 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, measured at fair value at 31 December 2017 give rise to a € 3.7 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 € 2.6 million, and that covering the $ 25 million tranche of the loan, provided by UniCredit, yielded a € 1.1 million positive value change.

At 31 December 2017 the fair value of the interest rate swap covering the medium/long term loans obtained by the Parent in 2017 from Intesa Sanpaolo and UBI Banca resulted in the recognition of an asset of € 0.1 million which was booked to Fair value of hedging derivatives (cash flow hedge), and represents the opportunity of paying in the future, and for the duration of the loans, the interest rates agreed instead of the variable rates currently expected.

18. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

A break down is shown in the following table.

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Short term time deposits	28,734	21,323	7,411
Deposits in bank current accounts	273,309	117,130	156,179
Cash on hand	34	40	(6)
Total short term financial investments, cash and cash equivalents	302,077	138,493	163,584

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

At 31 December 2017 cash and cash equivalents are mainly denominated in Euros (209.8 million), in Pounds Sterling (17.6 million, mainly in the U.K. subsidiaries) and in U.S. Dollars (70.3 million, mainly in the U.S. subsidiary Recordati Rare Diseases).

19. SHAREHOLDERS' EQUITY

Share capital - At 31 December 2017 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.

As at 31 December 2017 the Company has two 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 and the 2014-2018 plan under which options were granted on 29 July 2014 and on 13 April 2016. 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 2017 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2017	Options granted during 2017	Options exercised during 2017	Options cancelled or expired	Options outstanding at 31.12.2017
Date of grant						
9 February 2011	6.7505	597,500	-	(426,000)	-	171,500
8 May 2012	5.3070	1,425,000	-	(858,500)	-	566,500
17 April 2013	7.1600	120,000	-	(72,500)	(10,000)	37,500
30 October 2013	8.9300	155,000	-	(90,000)	-	65,000
29 July 2014	12.2900	4,530,000	-	(1,365,000)	(174,000)	2,991,000
13 April 2016	21.9300	3,973,000	-	(216,000)	(234,000)	3,523,000
Total		10,800,500	-	(3,028,000)	(418,000)	7,354,500

Additional paid-in capital - At 31 December 2017 additional paid-in capital is € 83.7 million, unchanged compared to the preceding year.

Treasury stock – At 31 December 2017, 863,262 shares are held as treasury stock, a reduction of 3,028,000 shares compared to those held at 31 December 2016. The change is due to the sale of 3,028,000 shares, for an amount of € 30.3 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 € 17.0 million and the average purchase price per share is € 19.73.

Hedging reserve – In accordance with IAS 39, 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 2017 this fair value measurement gives rise to a net liability, after-tax, of € 5.9 million.

Other reserves – These amount to € 40.7 million at 31 December 2017, an increase of € 5.4 million compared to those at 31 December 2016. 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 € 9.2 million and € 0.3 million respectively. The recognition of the after-tax gains associated with the investments in Puretech Health and in Erytech Pharma determined an overall positive effect of € 10.5 million (of which € 8.6 million attributable to Puretech Health and € 1.9 million to Erytech Pharma).

Retained earnings and net income for the year – These amount to € 822.2 million at 31 December 2017 and increase by € 66.24 million as compared to 31 December 2016. Net income for the year is € 288.8 million, an increase of 21.6% compared to the € 237.4 million 2016 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 2017 of € 0.42 per share, for a total amount of € 87.5 million.

20. MINORITY INTEREST

All consolidated companies are 100% owned except for the Italian subsidiary of Orphan Europe 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% (€ 2.5 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 minority shareholders during the period until all capital shares are transferred.

21. LOANS

At 31 December 2017 medium and long-term loans total € 664.2 million. The net increase of € 330.1 million compared to 31 December 2016 was determined by the granting of new loans for an amount of € 389.9 million, reimbursements during the year of € 39.6 million and the effect of the conversion of loans in foreign currency which generated a reduction of € 20.2 million.

The composition of medium and long-term loans at 31 December 2017 and 2016 is shown in the following table:

€ (thousands)	31.12.2017	31.12.2016
Loans granted to Recordati S.p.A.:		
Guaranteed senior notes issued by Recordati S.p.A. privately placed with international institutional investors in 2014: $ 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%.	*62,272	70,860
Loan granted by Centrobanca, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2012 through 2022	*33,982	40,778
Loan granted by UniCredit, at variable interest rate partly covered by an interest rate swap, repayable in semi-annual installments starting 2015 through 2020	*24,781	34,669
Loan granted by Banca Nazionale del Lavoro, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2015 through 2018	*12,406	24,781
Loan granted by ING Bank, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2016 through 2020	*18,690	26,160
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	*24,963	24,950
Loan granted by Intesa Sanpaolo, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2019 through 2021	*24,940	24,925
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	*124,880	-
Loan granted by Mediobanca, at variable interest rate covered by an interest rate swap, repayable in annual installments starting 2018 through 2024	75,000	-
Loan granted by UbiBanca, at variable interest rate covered by an interest rate swap, repayable in 2022	*49,952	-
Loan granted by UniCredit, at variable interest rate covered by an interest rate swap, repayable in 2021	*49,930	-
Loan granted by Intesa Sanpaolo, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2019 through 2025	*74,780	-
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	*14,993	-
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)	*57,971	65,896
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	*12,223	18,215
Loan granted by ING Bank to Recordati Ilaç for an amount of TRY 5.9 million, at a fixed interest rate of 13.25%, repayable in a single installment in 2018	1,293	1,586
Various loans granted to Opalia Pharma S.A. due within 2019	602	890
Various interest-free loans granted to Casen Recordati due within 2021	496	335
Loan granted to Opalia Recordati due within 2021	18	27
Total amortized cost of loans	664,172	334,072
Portion due within one year	51,710	40,428
Portion due after one year	612,462	293,644

* *Net of direct issue costs for a total of € 2.0 million, amortized using the effective interest method, mainly relative to the private placements by Recordati S.p.A. in 2004 and 2017 (€ 0.4 million) and by Recordati Rare Diseases Ltd (€ 0.4 million), and to the loans granted by UniCredit (€ 0.3 million), Intesa Sanpaolo (€ 0.3 million), IFC-World Bank (€ 0.3 million), Banca Nazionale del Lavoro (€ 0.1 million) and Centrobanca (€ 0.1 million).*

At 31 December 2017, the repayment schedule of long-term debt due after 31 December 2018 is as follows:

€ (thousands)	
2019	69,192
2020	65,076
2021	94,033
2022	92,077
2023 and subsequent years	292,084
Total	612,462

The average effective interest rate at 31 December 2017, applying the rates resulting from the hedging instruments, is 1.94%.

On 10 November 2017 the Parent undersigned a loan agreement with Banca Passadore 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 capital 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 amply fulfilled during the period.

On 18 October 2017 the Parent undersigned a loan agreement with Intesa Sanpaolo 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 capital from June 2019 through October 2025. 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 1.355%. The measurement at fair value at 31 December 2017 of the swap generated an asset of € 0.05 million which is recognized directly as an increase in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current assets (see Note 17). 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 amply fulfilled during the period.

On 29 September 2017 the Parent undersigned a loan agreement with UniCredit for an amount of € 50.0 million, disbursed net of up-front commissions of 0.15%. 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 capital 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%. loan. The measurement at fair value at 31 December 2017 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 29). 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 amply fulfilled during the period.

On 7 September 2017 the Parent undersigned a loan agreement with UBI Banca for an amount of € 50.0 million, disbursed net of up-front commissions of 0.10%. 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 capital 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%. loan. The measurement at fair value at 31 December 2017 of the swap generated an asset of € 0.05 million which is recognized directly as an increase in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current assets (see Note 17). 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 amply fulfilled during the period.

On 28 July 2017 the Parent undersigned a loan agreement with Mediobanca 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 capital from July 2018 through July 2024. 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 2017 of the swap generated a liability of € 0.4 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 29). 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 amply fulfilled during the period.

In May 2017 the Parent privately placed guaranteed senior notes 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 amply fulfilled during the period.

The other main long-term loans outstanding are:

a) A loan agreement with Banca Nazionale del Lavoro undersigned by the Parent company in December 2016 for an amount of € 25.0 million, disbursed net of expenses and commissions of € 0.1 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 capital from March 2019 through September 2020. 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 2017 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 29). 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 amply fulfilled.

b) A loan agreement with Intesa Sanpaolo undersigned by the Parent company in December 2016 for an amount of € 25.0 million, disbursed net of expenses and commissions of € 0.1 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 capital from June 2019 through December 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 0.68%. The measurement at fair value at 31 December 2017 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 29). 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 amply fulfilled.

c) A loan granted to the subsidiary Recordati Ilaç on 30 November 2015 by ING Bank for an amount of 5.9 million Turkish lira to be repaid on 22 March 2018. Main terms are: fixed interest rate of 13.25%, quarterly payment of interest accrued and reimbursement of the entire principal at expiry date. The conversion of the debt at 31 December 2017 gave rise to a reduction of € 0.3 million compared to 31 December 2016 due to the devaluation of the Turkish Lira and the overall equivalent value of the debt is € 1.3 million.

d) 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 six months Euribor plus a spread of 80 basis points and a duration of 5 years with semi-annual repayments of capital from November 2015 through May 2020. The debt outstanding at 31 December 2017 is of € 24.8 million. The loan is partly covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges on a portion of the debt from variable to a fixed rate of 1.734%. The measurement at fair value at 31 December 2017 of the swap covering € 16.7 million generated a liability of € 0.2 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 29). 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 amply fulfilled.

e) 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 six 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 2017 is of € 18.7 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 2017 generated a liability of € 0.4 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 29). 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 amply fulfilled.

f) 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 three 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 2017 is of € 12.2 million, resulting in a reduction of the liability by € 6.0 million as compared to that at 31 December 2016, of which € 3.1 million was due to the devaluation of the Turkish lira. 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 amply fulfilled.

g) 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 2017 resulted in a reduction of the liability by € 8.6 million as compared to that at 31 December 2016 due to the devaluation of the U.S. dollar. The loan was simultaneously covered with two currency rate swaps transforming the overall debt to € 56.0 million, of which € 37.3 million at a 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 2017 the measurement at fair value of the hedging instruments generated an overall positive amount of € 3.7 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 amply fulfilled during the period.

h) A loan agreement with Banca Nazionale del Lavoro undersigned by the Parent Company on 30 September 2013 for an amount of € 50 million, cashed-in net of expenses and commissions of € 0.6 million. Main terms are: variable interest rate equivalent to the six months' Euribor plus a spread (which following re-negotiation of the agreement was reduced from 200 to 70 basis points as from 1 April 2015 and to 50 basis points as from 29 March 2017) and 5-year duration with reimbursement of principal in 8 installments due at the end of every six months starting March 2015 through September 2018. The residual amount of the loan amounts to € 12.4 million at 31 December 2017. 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 which now stands at 1.4925% following re-negotiation. The measurement at fair value of the swap at 31 December 2017 generated a liability of € 0.1 million recognized directly in equity and under current liabilities as 'Fair value of hedging derivatives (cash flow hedge)' (see Note 29). The 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 amply fulfilled.

i) Senior guaranteed notes issued by Recordati Rare Diseases Inc. privately placed with U.S. investors on 13 June 2013 to fund the acquisition of a portfolio of products for the treatment of rare and other diseases sold mainly in the United States of America. The loan comprises two series of notes for a total of $ 70 million, of which $ 40 million ten-year bullet and 4.55% coupon and $ 30 million twelve-year bullet and 4.70% coupon. The conversion of the loan into euros at 31 December2017 resulted in a decrease of the liability by € 7.9 million as compared to that at 31 December 2016 due to the devaluation of the U.S. dollar. The note purchase agreement covering the senior guaranteed notes issued by Recordati Rare Diseases Inc. 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 amply fulfilled during the period.

j) 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, net of the € 0.3 million expenses. The main terms and conditions provide for a variable interest rate and a duration of 12 years with semi-annual repayments of capital from June 2012 through December 2022. The residual amount of the loan amounts to € 34.0 million at 31 December 2017. 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 2017 generated a liability of € 1.3 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 29). 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 amply fulfilled during the period.

22. STAFF LEAVING INDEMNITIES

This provision at 31 December 2017 and 2016 is € 21.1 million and € 21.7 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)	2017	2016
Balance at 1 January	21,675	18,895
Additions	965	1,660
Utilization	(1,698)	(688)
Change in reporting entities	0	1,507
Change in fair value	151	301
Balance at 31 December	21,093	21,675

The main part of this liability is to be 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 € 13.5 million. The remaining part of this provision comprises employee benefit plans in the French subsidiary Laboratoires Bouchara Recordati (€ 4.0 million), in the U.S. subsidiary Recordati Rare Diseases (€ 1.6 million) and in the Orphan Europe group companies (€ 0.9 million). The fair value calculation made using actuarial parameters updated at 31 December 2017 determined an increase of € 0.2 million compared to the value of the funds at 31 December 2016 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 2017 are € 17.6 million, a net reduction of € 10.1 million over the balance at 31 December 2016. The roll forward of this account is as follows:

€ (thousands)	2017	2016
Balance at 1 January	27,659	22,360
Additions	1,222	1,094
Utilization	(11,327)	(5,392)
Changes in reporting entities	0	9,597
Balance at 31 December	17,554	27,659

During the year, Italchimici S.p.A. exercised the faculty, allowed by fiscal rules, of franking the difference between the higher book value of the intangible asset Reuflor® and the corresponding fiscally recognized value, with the consequent benefit of future deductibility of its amortization and the entire utilization of the residual deferred tax liabilities of € 9.7 million accrued when the book value of the intangible asset was revalued.

At 31 December 2017 no deferred tax liabilities were calculated on subsidiaries' undistributed earnings because no significant additional tax would have to be paid by the group in the event of these dividend distributions as they are essentially exempt from dual income taxation.

24. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2017 are € 2.5 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 2019.

25. TRADE PAYABLES

Trade accounts payable, which are entirely of a commercial nature and include allocations for invoices to be received, at 31 December 2017 and 2016 amount to € 141.7 million and € 124.6 million respectively.

26. OTHER PAYABLES

Other accounts payable at 31 December 2017 and 2016 amount to € 82.8 million and € 78.0 million respectively. Their composition is as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Personnel	28,924	28,554	370
Social security	14,756	14,253	503
Agents	746	963	(217)
Other	38,353	34,187	4,166
Total other payables	82,779	77,957	4,822

The line "Other" includes:

- € 6.9 million due by Recordati Rare Diseases Inc. to the U.S. healthcare insurance schemes;
- € 7.8 million to be paid to the "Krankenkassen" (German healthcare schemes) by Recordati Pharma GmbH;
- € 2.0 million which results from a mandatory discount of 1.83% on the retail selling price of reimbursed medicines and the contribution in substitution of a 5% price reduction on selected products to be paid by the Italian companies to the Italian regional healthcare systems.

27. TAX LIABILITIES

Tax liabilities at 31 December 2017 and 2016 amount to € 24.4 million and € 20.4 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.

28. PROVISIONS

Provisions in place at 31 December 2017 amount to € 48.3 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)	31.12.2017	31.12.2016	Change 2017/2016
Tax	26,559	4,852	21,707
Other	21,763	23,125	(1,362)
Total provisions	48,322	27,977	20,345

€ (thousands)	2017	2016
Balance at 1 January	27,977	29,400
Additions	24,988	3,281
Change in reporting entities	0	2,232
Utilization	(4,643)	(6,936)
Balance at 31 December	48,322	27,977

The additions during the year relate mainly to the accrual of € 22.1 million for the risk arising from the tax assessment involving two group subsidiaries, initiated in 2015 and still ongoing (see Note 36).

Total provisions at year end are mainly comprised by those booked by the Parent and the other Italian companies (€ 38.1 million), by the companies in France (€ 3.2 million) and in the U.S.A. (€ 1.6 million).

29. 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 2017 give rise to a € 2.7 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 Centrobanca (€ 1.3 million), ING Bank (€ 0.4 million), Mediobanca (€ 0.4 million), UniCredit (€ 0.3 million), Banca Nazionale del Lavoro (€ 0.2 million) and by the Intesa Sanpaolo loan granted in 2016 (€ 0.1 million).

In November 2016, following two loan agreements undersigned by the U.S. company Recordati Rare Diseases and the Parent for a nominal total of $ 70 million (corresponding to the two tranches of the notes issued by Recordati Rare Diseases in 2013), two cross currency swaps were provided by Unicredit which effectively convert the loan into a total of € 62.9 million, of which € 35.9 million at a fixed interest rate of 1.56% per year corresponding to the tranche expiring in 2023 and € 27.0 million at a fixed interest rate of 1.76% per year for the tranche expiring in 2025. At 31 December 2017 the fair value of the hedging instruments resulted in a liability of € 6.9 million, recognized directly in equity.

30. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans at 31 December 2017 are € 16.6 million and comprise mainly, temporary use of lines of credit, overdrafts by foreign subsidiaries and by interest due on existing loans. At 31 December 2017, a total of 20 million Turkish Lira, for an equivalent amount of € 4.4 million, were drawn down on the revolving line of credit renewed in July 2017 by Recordati Ilaç, the subsidiary in Turkey, for a maximum amount of 40 million Turkish Lira. This short-term financing instrument, which has 24 months' maximum duration, provides flexibility by combining the fact that it's non-revocable with the variability of the draw-downs based on specific financial needs. The agreement contains financial covenants in line with those already in place for other loans.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IFRS 7 hereunder are stated the balance sheet values and fair values at 31 December 2017 of financial assets and liabilities:

€ (thousands)	Book value	Fair value
Financial assets		
Short-term financial investments, cash and cash equivalents	302,077	302,077
Trade receivables	244,117	244,117
Equity investments	24,171	24,171
Other receivables	39,730	39,730
Fair value of hedging derivatives *(cash flow hedge)*	3,825	3,825
Financial liabilities		
Borrowings		
- loans at variable interest rates	12,222	12,222
- loans at variable interest rates covered with interest rate swaps	404,418	404,418
- loans at fixed interest rates	127,288	123,055
- loans at fixed interest rates covered with cross currency swaps	120,244	118,866
Trade payables	141,740	141,740
Other payables	107,152	107,152
Fair value of hedging derivatives *(cash flow hedge)*	9,559	9,559
Bank overdrafts and short-term loans	16,577	16,577

32. DISCLOSURE OF FINANCIAL RISKS

The Group constantly monitors the financial risks to which it is exposed in order to take immediate mitigating action when necessary. The objective of group financial policy is to achieve a balanced and prudent financial structure in order to fund growth, both organic and through business expansion.

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 2017 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 2017, total trade receivables of € 259.5 million include € 24.0 million of receivables overdue by more than 90 days. Of these, € 0.9 million are receivables from Italian public hospitals which, despite their very long payment times, do not represent a significant risk situation. An allowance for doubtful accounts of € 15.4 million, which is considered to be sufficient to cover potential losses on collection, 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 2017 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 2,920.4 million Russian Rubles;
- net receivables of 10.3 million U.S. Dollars;
- net receivables of 14.0 million Romanian Ron;
- net receivables of 4.8 million Tunisian Dinars;
- net receivables of 26.9 million Czech Crowns;
- net receivables of 0.6 million Canadian Dollars;
- net receivables of 1.6 million Polish Zloty;
- net payables of 0.6 million Pounds Sterling.

Among the companies in countries outside the European Monetary Union, at 31 December 2017 the main net exposure in currencies different from their own, and not covered by hedging instruments, is in Euros and is referred to the companies in the Czech Republic (net receivables of 1.2 million), Sweden (net receivables of 1.6 million), the United States of America (net debt of 5.9 million), Canada (net debt of 0.8 million), Turkey (net debt of 3.2 million), Ukraine (net debt of 1.4 million) and Romania (net debt of 1.1 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 2017 the net equity values of these companies are denominated mainly in U.S. Dollars (142.7 million), in Pounds Sterling (18.4 million), in Swiss Francs (11.4 million), in Turkish Lira (206.6 million), in Czech Crowns (356.5 million), in Romanian Ron (10.9 million), in Russian Rubles (2,329.3 million), in Polish Zloty (2.7 million) and in Tunisian Dinars (33.3 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 2017, is negative by € 124.0 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 2017 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 30 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.

33. 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 pharmaceutical segment and the segment dedicated to treatments for rare diseases. The following table shows financial information for these two business segments as at 31 December 2017 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Rare diseases segment	Non-allocated	Consolidated accounts
2017				
Revenues	1,076,882	211,241	-	1,288,123
Expenses	(768,256)	(113,375)	-	(881,631)
Operating income	308,626	97,866	-	406,492
2016				
Revenues	967,136	186,806	-	1,153,942
Expenses	(723,075)	(103,444)	-	(826,519)
Operating income	244,061	83,362	-	327,423

** Includes the pharmaceutical chemicals operations*

€ (thousands)	Pharmaceutical segment*	Rare diseases segment	Non-allocated**	Consolidated accounts
31 December 2017				
Non-current assets	1,075,356	183,195	24,171	1,282,722
Inventories	161,561	17,539	-	179,100
Trade receivables	210,114	34,003	-	244,117
Other current assets	32,343	12,223	3,825	48,391
Short-term investments, cash and cash equivalents	-	-	302,077	302,077
Total assets	1,479,374	246,960	330,073	2,056,407
Non-current liabilities	37,591	2,546	613,487	653,624
Current liabilities	262,572	35,128	77,846	375,546
Total liabilities	300,163	37,674	691,333	1,029,170
Net capital employed	1,179,211	209,286		
31 December 2016				
Non-current assets	788,083	201,228	19,199	1,008,510
Inventories	140,939	17,861	-	158,800
Trade receivables	174,540	31,448	-	205,988
Other current assets	32,782	3,673	12,497	48,952
Short-term investments, cash and cash equivalents	-	-	138,493	138,493
Total assets	1,136,344	254,210	170,189	1,560,743
Non-current liabilities	48,602	2,926	293,965	345,493
Current liabilities	213,723	37,848	59,739	311,310
Total liabilities	262,325	40,774	353,704	656,803
Net capital employed	874,019	213,436		

* *Includes the pharmaceutical chemicals operations.*
** *Non-allocated amounts include: other equity investments, short-term investments, cash and cash equivalents, loans, hedging instruments, bank overdrafts and short-term loans.*

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

The following table presents net revenues by geographic area:

€ (thousands)	2017	2016	Change 2017/2016
Europe	1,032,806	911,681	121,125
of which Italy	*258,551*	*237,615*	*20,936*
Australasia	61,538	55,770	5,768
America	142,933	133,538	9,395
Africa	50,846	52,953	(2,107)
Total revenue	1,288,123	1,153,942	134,181

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.

34. NET FINANCIAL POSITION

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

€ (thousands)	2017	2016	Change 2017/2016
Deposits in bank current accounts and cash on hand	273,343	117,170	156,173
Short-term time deposits	28,734	21,323	7,411
Liquid assets	**302,077**	**138,493**	**163,584**
Bank overdrafts and short-term loans	(16,577)	(15,689)	(888)
Loans - due within one year	(51,710)	(40,428)	(11,282)
Short term borrowings	**(68,287)**	**(56,117)**	**(12,170)**
Net current financial position	**233,790**	**82,376**	**151,414**
Loans - due after one year	(367,340)	(156,887)	(210,453)
Loan notes issued [1]	(248,230)	(124,260)	(123,970)
Non-current loans	**(615,570)**	**(281,147)**	**(334,423)**
Net financial position	**(381,780)**	**(198,771)**	**(183,009)**

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

35. 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:

	Shareholders' equity		Net income for the year	
€ (thousands)	31.12.2017	31.12.2016	2017	2016
Recordati S.p.A.	444,499	316,717	212,506	110,102
Consolidation adjustments:				
Margin in inventories	(36,426)	(29,090)	(7,336)	(3,428)
Related deferred tax	9,871	7,857	2,014	(285)
Other adjustments	(6,993)	(5,005)	(1,946)	(1,821)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already booked by Recordati S.p.A.	496,569	495,022	-	-
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	243,574	196,638	243,574	196,638
Dividends received from consolidated subsidiaries	-	-	(160,050)	(53,021)
Revaluation of holdings in controlled companies	-	-	-	(10,779)
Translation adjustments	(124,004)	(78,309)	-	-
Consolidated financial statements	1,027,090	903,830	288,762	237,406

36. LITIGATION AND CONTINGENT LIABILITIES

On 29 September 2006 the Parent received a notice of tax assessment from the Internal Revenue Service stating certain additional taxes for the fiscal year 2003 in the amount of: corporate tax of € 2.3 million, IRAP of € 0.2 million and VAT of € 0.1 million and additional tax liabilities of € 2.6 million. The Company believed no amount was due as it considered the assessment flawed both from a legitimacy as well as a substantive point of view, and was supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first degree judgement before the Provincial Tax Commission was concluded partially in the Company's favour with decision n. 539/33/07 dated 11 October 2007, filed on 16 October 2007. An appeal was filed against that judgment with the Regional Tax Commission of Milan firstly by the Milan office of the Tax Authorities with notice served on 8 November 2008 and secondly by the Company with notice served on 7 January 2009. With a decision dated June 10, 2009 n. 139/32/09, filed on November 27, 2009 the Regional Tax Commission of Milan rejected the interlocutory appeal presented by the Company and accepted the principal appeal of the Agenzia delle Entrate di Milano (Inland Revenue of Milan). On the basis of that decision, the claims included in the above mentioned tax assessment for the year 2003 have been essentially fully confirmed and the Company has paid all amounts due. On 26 May 2010 the Company appealed that decision before the Corte Suprema di Cassazione (Supreme Court of Cassation). On 20 April 2017 the hearing took place and as a result with the decision n. 20805/17, handed down on 6 September 2017, the Court came to the decision to almost reject all the Company's arguments.

On 24 September 2014 the Italian Tax Police (Guardia di Finanza) visited Recordati S.p.A. as part of the general tax inspection regarding IRES (corporate income tax) and IRAP (regional value added tax) for the years 2010 through 2012. The 2010 inspection was concluded with a formal notice of assessment issued on 23 September 2015 in which the tax inspectors considered a cost item for services rendered for an amount of € 50,000 not to be sufficiently documented and therefore not deductible for income tax purposes. On 19 October 2015 the Company applied for a voluntary assessment procedure, which ended with the payment of the taxes and penalties owed by the Company.

On 26 July 2016, on the basis of the same tax audit of the Parent above mentioned, the Italian Tax Police issued a Tax Audit Report for the 2011 tax year, and subsequent notice of assessment issued by the Internal Revenue Service, which, based on the issues raised in the Tax Audit Report, disallowed costs for services rendered for an amount of € 50,000 - an issue with regard to which a notice of assessment was already issued for 2010 - being not sufficiently documented. On 15 December 2016 the Company settled the dispute by accepting the remark in the notice of assessment without any challenging.

On 25 September 2017, again within the same tax audit of the Parent above mentioned, the Italian Tax Police issued a Tax Audit Report for the 2012 tax year, which was followed up by a notice of assessment by the Internal Revenue Service, disallowing costs for services rendered for an amount of € 50,000 - an issue with regard to which notices of assessment were already issued for the previous tax periods - being not sufficiently documented and therefore not deductible for income tax purposes. On 23 January 2018, the Company filed an application for full settlement of the findings by consent for VAT purposes whilst, on 29 January 2018, the Company decided to comply with the tax assessment for IRES and IRAP purposes.

In December 2015 the same Italian Tax Police (Guardia di Finanza) notified the Parent of their intention to commence a general income tax inspection covering the years 2009 through 2014 involving the group companies which reside in Ireland and in Luxembourg, Recordati Ireland Ltd and Recordati S.A. Chemical and Pharmaceutical Company respectively. The declared intention of the inspection is to evaluate the operational context of the foreign companies in order to verify whether said companies are in reality only formally localized abroad but are substantially managed/administered from Italy. On 28 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 6 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. Similarly, the Italian Tax Police finally revealed to Recordati S.A. Chemical and Pharmaceutical Company, on 6 September 2017, their reasons for considering the Luxembourg 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 € 7.2 million. Recordati Ireland Ltd. and Recordati S.p.A. (as acquiring company by way of merger of Recordati S.A. Chemical & Pharmaceutical Company) filed their comments and observations on the findings reported in the above mentioned Tax Audits Reports within the legal deadlines. At the date of approval of the financial statements the tax reports and the said observations are still under review by the Tax Authorities (Agenzia delle Entrate). Although, as previously stated, the Group considers its fiscal conduct in this matter to be correct, it was deemed necessary to record, based on the evaluation of the risk involved in the ongoing assessments, an estimated provision of € 22.1 million, penalties included.

RECORDATI S.p.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2017

ATTACHMENT 1.

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	Euro	Line-by-line
INNOVA PHARMA S.P.A. Marketing and sales of pharmaceuticals	Italy	1,920,000.00	Euro	Line-by-line
CASEN RECORDATI S.L. Development, production, marketing and sales of pharmaceuticals	Spain	238,966,000.00	Euro	Line-by-line
BOUCHARA RECORDATI S.A.S. Development, production, marketing and sales of pharmaceuticals	France	4,600,000.00	Euro	Line-by-line
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA Dormant, 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	Euro	Line-by-line
RECORDATI S.A. Marketing and sales of pharmaceuticals	Switzerland	2,000,000.00	CHF	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. Development, production, marketing and sales of pharmaceuticals	France	14,000,000.00	Euro	Line-by-line
RECORDATI PHARMA GmbH Marketing and sales of pharmaceuticals	Germany	600,000.00	Euro	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	Euro	Line-by-line
JABA RECORDATI S.A. Marketing and sales of pharmaceuticals	Portugal	2,000,000.00	Euro	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. Marketing of pharmaceuticals	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. Marketing of pharmaceuticals	Portugal	50,000.00	Euro	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S. Holding company	France	57,000,000.00	Euro	Line-by-line
ORPHAN EUROPE SWITZERLAND GmbH Marketing and sales of pharmaceuticals	Switzerland	20,000.00	CHF	Line-by-line
ORPHAN EUROPE MIDDLE EAST FZ LLC Marketing and sales of pharmaceuticals	United Arab Emirates	100,000.00	AED	Line-by-line
ORPHAN EUROPE NORDIC A.B. Marketing and sales of pharmaceuticals	Sweden	100,000.00	SEK	Line-by-line
ORPHAN EUROPE PORTUGAL LDA Marketing and sales of pharmaceuticals	Portugal	5,000.00	Euro	Line-by-line
ORPHAN EUROPE S.A.R.L. Development, production, marketing and sales of pharmaceuticals	France	320,000.00	Euro	Line-by-line
ORPHAN EUROPE UNITED KINGDOM LTD Marketing and sales of pharmaceuticals	United Kingdom	50,000.00	GBP	Line-by-line
ORPHAN EUROPE GERMANY GmbH Marketing and sales of pharmaceuticals	Germany	25,600.00	Euro	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
ORPHAN EUROPE SPAIN S.L. Marketing and sales of pharmaceuticals	Spain	1,775,065.49	Euro	Line-by-line
ORPHAN EUROPE ITALY S.R.L. Marketing and sales of pharmaceuticals	Italy	40,000.00	Euro	Line-by-line
ORPHAN EUROPE BENELUX BVBA Marketing and sales of pharmaceuticals	Belgium	18,600.00	Euro	Line-by-line
FIC MEDICAL S.A.R.L. Marketing of pharmaceuticals	France	173,700.00	Euro	Line-by-line
HERBACOS RECORDATI s.r.o. Development, production, marketing and sales of pharmaceuticals	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o. Marketing of pharmaceuticals	Slovakia	33,193.92	Euro	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	120,875,367.00	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 and sales 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	Euro	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.A.R.L. Marketing of pharmaceuticals	Tunisia	20,000.00	TND	Line-by-line
RECORDATI RARE DISEASES S.A. DE C.V. MMarketing and sales of pharmaceuticals	Mexico	16,250,000.00	MXN	Line-by-line
RECORDATI RARE DISEASES COLOMBIA S.A.S. (1) Marketing and sales of pharmaceuticals	Colombia	150,000,000.00	COP	Line-by-line
ITALCHIMICI S.p.A. (1) Marketing and sales of pharmaceuticals	Italy	7,646,000.00	EUR	Line-by-line
RECORDATI AG (previously PRO FARMA AG) (1) Marketing and sales of pharmaceuticals	Switzerland	3,000,000.00	CHF	Line-by-line
PRO FARMA GmbH (1) Marketing and sales of pharmaceuticals	Austria	35,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES CANADA Inc. (2) Marketing and sales of pharmaceuticals	Canada	350,000.00	CAD	Line-by-line

(1) Acquired in 2016
(2) Established in 2017

Consolidated companies	PERCENTAGE OF OWNERSHIP										
	Recordati S.p.A. *(Parent)*	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Casen Recordati S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Pro Farma AG	Total
INNOVA PHARMA S.P.A.	100.00										100.00
CASEN RECORDATI S.L.	100.00										100.00
BOUCHARA RECORDATI S.A.S.	100.00										100.00
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA	99.398					0.602					100.00
RECORDATI RARE DISEASES INC.	100.00										100.00
RECORDATI IRELAND LTD	100.00										100.00
RECORDATI S.A.	100.00										100.00
LABORATOIRES BOUCHARA RECORDATI S.A.S.			100.00								100.00
RECORDATI PHARMA GmbH	55.00			45.00							100.00
RECORDATI PHARMACEUTICALS LTD	100.00										100.00
RECORDATI HELLAS PHARMACEUTICALS S.A.	100.00										100.00
JABA RECORDATI S.A.				100.00							100.00
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.				100.00							100.00
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.				100.00							100.00
RECORDATI ORPHAN DRUGS S.A.S.	90.00	10.00									100.00
ORPHAN EUROPE SWITZERLAND GmbH					100.00						100.00
ORPHAN EUROPE MIDDLE EAST FZ LLC					100.00						100.00
ORPHAN EUROPE NORDIC AB					100.00						100.00
ORPHAN EUROPE PORTUGAL LDA					100.00						100.00
ORPHAN EUROPE S.A.R.L.					100.00						100.00
ORPHAN EUROPE UNITED KINGDOM LTD						100.00					100.00
ORPHAN EUROPE GERMANY GmbH						100.00					100.00
ORPHAN EUROPE SPAIN S.L.						100.00					100.00

Consolidated companies	PERCENTAGE OF OWNERSHIP										
	Recordati S.p.A. *(Parent)*	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Casen Recordati S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Pro Farma AG	Total
ORPHAN EUROPE ITALY S.R.L.						99.00					99.00
ORPHAN EUROPE BENELUX BVBA					99.46	0.54					100.00
FIC MEDICAL S.A.R.L.			100.00								100.00
HERBACOS RECORDATI s.r.o.	100.00										100.00
RECORDATI SK s.r.o.							100.00				100.00
RUSFIC LLC			100.00								100.00
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş.								100.00			100.00
RECORDATI ROMÂNIA S.R.L.	100.00										100.00
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş.				100.00							100.00
RECORDATI POLSKA Sp. z o.o	100.00										100.00
ACCENT LLC	100.00										100.00
RECORDATI UKRAINE LLC	0.01		99.99								100.00
CASEN RECORDATI PORTUGAL Unipessoal Lda				100.00							100.00
OPALIA PHARMA S.A.	90.00										90.00
OPALIA RECORDATI S.A.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. (1)	100.00										100.00
RECORDATI AG (previously PRO FARMA AG) (1)	100.00										100.00
PRO FARMA GmbH (1)										100.00	100.00
RECORDATI RARE DISEASES CANADA Inc.(2)	100.00										100.00

(1) Acquired in 2016
(2) Established in 2017

RECORDATI S.p.A. AND SUBSIDIARIES
DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

ATTACHMENT 2.

Type of service	Provider of the service	Recipient	Fees Amounts in €
Accounting audit	Auditor of Parent Company	Parent Company	128,800
Accounting audit	Auditor of Parent Company	Subsidiaries	37,800
Accounting audit	Network of auditor of Parent Company	Subsidiaries	556,852
Due diligence	Auditor of Parent Company	Parent Company	51,000
Tax compliance	Network of auditor of Parent Company	Subsidiaries	34,599
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	37,560
Other services	Network of auditor of Parent Company	Subsidiaries	958

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 Vice Chairman 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 or 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 2017.

2. The undersigned moreover attest that:

2.1 the consolidated financial statements at 31 December 2017:

- 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 Counsel, 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, 15 March 2018

Signed by
Andrea Recordati
Vice Chairman and Chief Executive Officer

Signed by
Fritz Squindo
Manager responsible for preparing
the company's financial reports

Auditors' report

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
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 2017, 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 2017 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 "Company") 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.

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
The consolidated financial statements at 31 December 2017 include goodwill of €539.9 million. 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. 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. The directors have forecast the operating cash flows for the explicit projection period (2018-20) used for impairment testing on the basis of the 2018 budget approved by the board of directors, and of the reasonable assumptions use to update the 2017-19 business plan, which was approved by the board of directors on 9 February 2017. 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. Accordingly, the recoverability of goodwill was a key audit matter.	Our audit procedures, which also involved our own valuation specialists, included: — understanding the process adopted for impairment testing approved by the Company's board of directors; — understanding the process adopted to prepare the 2018-20 business plan from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the assumptions used by the directors to determine the recoverable amount of goodwill, including the operating cash flows of the 2018-20 plan used by the Company. 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 Company to calculate the recoverable amount of goodwill; — assessing the appropriateness of the disclosures provided in the notes.

Measurement of provisions for taxes

Notes to the consolidated financial statements: paragraphs 2 "Summary of significant accounting policies", 28 "Provisions" and 36 "Litigation and contingent liabilities"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2017 include provisions for taxes of €26.6 million.	Our audit procedures, which also involved our own tax specialists, included:

When the risk of losing a dispute relating to an obligation arising from a past event is probable and the amount of the liability can be reliably estimated, the Group makes a provision. The Company and its subsidiaries are involved in tax disputes. Specifically, the tax police carried out a general direct tax audit. The audit, started in December 2015, originally related to the tax years from 2009 to 2014 and was subsequently extended to 2015. It covered the Recordati group companies based in Ireland and Luxembourg and aimed at checking their operating environment, to assess whether they are only formally based abroad but are actually managed/administrated from Italy. The Group provided for €22.1 million in relation to this dispute. Due to the complexity and subjectivity of the risks inherent in the above dispute, we believe that the measurement of provisions for taxes is a key audit matter.	— analysing the internal procedures and processes and checking the operating effectiveness of the controls over the measurement of provisions for taxes; — analysing documents and discussing the method used to calculate the provisions for taxes with the relevant internal departments, including in the light of the progress of the existing dispute compared to the previous year; — sending written requests for confirmation to the external advisors assisting the directors with the existing dispute and the remeasurement of the provisions for taxes ; — assessing the appropriateness of the disclosures provided in the notes.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Recordati Industria Chimica e Farmaceutica S.p.A. 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 Company 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 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 shareholders of Recordati Industria Chimica e Farmaceutica S.p.A. 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 Company 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.

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 directors of Recordati Industria Chimica e Farmaceutica S.p.A. are responsible for the preparation of the Group's directors' report and report on corporate governance and ownership structure at 31 December 2017 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 2017 and their compliance with the applicable law and to express a statement on any 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 consolidated financial statements of the Recordati Group at 31 December 2017 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, 27 March 2018

KPMG S.p.A.

(signed on the original)

Claudio Mariani
Director of Audit

Disclosure of consolidated non financial information 2017

PREPARED PURSUANT TO ARTICLE 4 OF ITALIAN LEGISLATIVE DECREE 254/2016

Note on methodology

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 which 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 2017 the Group's commitment to sustainability was formalised for the first time by the preparation of the Consolidated Non-Financial Statement (also the "Non-Financial Statement" or "Statement") in 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 2017 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.

The identification, assessment and management of corporate risks is based on an Enterprise Risk Management (ERM) approach and includes the principle non-financial risks related to the topics expressly specified by Italian Legislative Decree no. 254/2016, in particular:

- risks connected to environmental management and safety in the workplace (e.g. damage caused by meteorological events and incidents, risks covered by the Health and Safety Executive (HSE), industrial incidents);
- risks connected to the rights of employees and collaborators along the supply chain (e.g. change in dimension of the organisational structure, loss of key resources, inappropriate selection of suppliers and commercial partners, interruption of supply by critical partners);
- risks relating to corruption (e.g. compliance with international quality standards, compliance with legislation pertaining to the scientific information of the pharmaceutical).

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.

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 should be noted that more details concerning certain non-financial information can be found in the Annual Report and the Corporate Governance and Share Ownership Report. The principle references to other company documents are given in the table below.

ITALIAN LEGISLATIVE DECREE NO. 254/16, ART. 3	PRINCIPLE INFORMATION CONTAINED IN THE NON-FINANCIAL STATEMENT WITH REFERENCE TO THE PROVISIONS OF LEGISLATIVE DECREE NO. 254/16	FINANCIAL STATEMENT 2017 AND OTHER CORPORATE DOCUMENTS
Management models and adopted practices	Principle policies adopted by the Group, management models and the main activities carried out as regards environmental, social, staff, human rights and anti-corruption aspects	Group Code of Ethics. Consolidated Non-Financial Statement, *"Focus on the Environment"*, *"Product quality and safety"*, *"The Recordati group's Employees"* sections. Annual Report 2017, "*Health, Safety and the Environment"* section. Corporate Governance and Share Ownership Report, *"Internal Control and Risk Management System"* section.
Identified risks	Principle risks identified by the Group relating to environmental, social, staff, human rights and anti-corruption aspects	Annual Report 2017, *"Principle Risks and Uncertainties"* section. Corporate Governance and Share Ownership Report, *"Internal Control and Risk Management System"* section.
Environmental themes	• energy usage and energy efficiency initiatives • greenhouse gases and other air pollutants • use of water resources • waste management	Consolidated Non-Financial Statement, *"Focus on the Environment"* section; Annual Report, *"Health, Safety and the Environment"* section.
Social themes	• donations and contributions • social initiatives and activities • consumer health and safety • supply chain management	Consolidated Non-Financial Statement, *"Direct and indirect economic benefits"* paragraph and "Product quality and safety" section;
Staff-related themes	• diversity and equal opportunities • employee welfare • training and development of human resources • corporate relations • health and safety in the workplace	Consolidated Non-Financial Statement, *"Recordati group's Employees"* section; Annual Report 2017, *"Health, Safety and the Environment"* section.
Themes relating to human rights	• suppliers' acceptance of the Group Code of Ethics • compliance with the provisions of the Group Code of Ethics in relation to the human rights of all employees	Consolidated Non-Financial Statement, "*Supply chain"* and "*Diversity and equal opportunities"* sections.
Themes relating to the fight against active and passive corruption	• principles, values and the Code of Ethics • Model pursuant to Italian Legislative Decree no. 231/01 and the adoption of other control models and ethics codes • compliance with legislation and regulations • fight against active and passive corruption and the Anti-Bribery Model	Corporate Governance and Share Ownership Report, *"Internal Control and Risk Management System"* section and *"Organisational Model pursuant to Italian Legislative Decree no. 231/01"*.

This document represents the first Consolidated Non-Financial Document, 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 2017 (reporting period: 1 January to 31 December 2017).

The Non-Financial Statement 2017 has been prepared in compliance with the "Core" option of the *Sustainability Reporting Guidelines* (version G4) published in May 2013 by the Global Reporting Initiative (GRI). 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; this report, which identified the key materiality aspects for the Group and its stakeholders and considered the topics referred to in Italian Legislative Decree no. 254/2016, is included in the Non-Financial Statement.

The importance 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.

The scope of the financial data referred to in this document corresponds to the data considered in the Consolidated Financial Statement 2017 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 2017, consolidated with the comprehensive approach in the Group's Consolidated Financial Statement. However, while ensuring the correct understanding of the company's activity, it should be noted that:

- 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 offices at the same site are also considered). However, an environmental reporting system is currently being developed for the rest of the Group's sites;

- The information regarding health and safety and the principle accident indicators refers exclusively to employees of the Group's production plants (with the exception of the Milan plant, where the information extends to employees of the offices also present on site) where the most significant risks have been identified and assessed. However, a health and safety reporting system is currently being developed for the rest of the workforce.

In compliance with the reporting standards used, 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.

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 Consolidated Financial Statement of the Recordati Group as of 31 December 2017 (pages 51 and 66).

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 12 March 2018 and was approved by the Board of Directors of Recordati S.p.A. on 15 March 2018.

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, in the context of ensuring continuous improvement, it is also noted that the Group's approach to sustainability envisages the progressive formalisation of sustainable commitments and operating practices in line with the principles of the Code of Ethics and Italian Legislative Decree no. 254/16. In particular, in the coming years the Group's Code of Ethics will be progressively developed, with reference to the principles, commitments and management models to be implemented by the Group with regard to sustainability and with particular focus on the matters expressly specified by Italian Legislative Decree no. 254/16.

Contacts

For all information regarding the Non-Financial Statement of the Recordati group, please refer to the following contacts:

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tel.: +39 02 48787.1 - Fax: +39 02 40074767

1.
The Recordati group's approach to sustainability

1.1.
SUSTAINABILITY IN FIGURES

MORE THAN € 1 BILLION
of economic value generated and distributed by the Group in 2017

125 AUDITS
carried out on suppliers to ensure product quality and security

45%
of the Group's workforce represented by women

60
more employees than in 2016

+ 3%
increase in permanent contracts compared to 2016

97,000 HOURS
of training provided to employees

- 6%
reduction in water consumption at production facilities compared to 2016

OVER 31 GWH
self-generated electricity produced at the Campoverde di Aprilia plant

14%
of the water used in the Group's production facilities in 2017 was recycled and reused

1.2.
THE GROUP BUSINESS MODEL

Recordati is an international pharmaceutical group listed on the Italian Stock Exchange since 1984. The Group now has numerous branches in and outside Europe which operate in the pharmaceutical sector (through various corporate products and license agreements with leading pharmaceutical companies) and in the chemical pharmaceutical sector (producing numerous active substances and chemical intermediates for the pharmaceutical industry). As well as countries in western Europe, Recordati also has a direct presence in the Czech Republic, Slovakia, Romania, Poland, Russia and other countries in the Commonwealth of Independent States (CIS), Ukraine, Turkey, Tunisia, the United States of America, Canada, Mexico and other countries in South America. Recordati sells its products on 135 markets, including through license agreements. In conjunction with its geographical expansion, 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 commercialises pharmaceuticals for the treatment of rare diseases through Orphan Europe and Recordati Rare Diseases, two companies dedicated predominantly to rare genetic metabolic diseases.

As part of its constant commitment to the discovery, development and sale of innovative products with high added-value (with particular focus on the treatment of rare diseases) and with the objective of improving health and quality of life, the mission of the Recordati group is characterised by research, innovation, quality and the creation of value for its stakeholders, all of which are distinctive elements of the Group's corporate social responsibility. For more information on the main business activities of the Group, its products and its markets, please refer to the "Recordati, an International Group" and "Business Activities" sections of the Annual Report.

The Group's business model for the management of the main sustainability themes is described in the Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001, adopted by all Italian Companies of the Recordati group. For Companies in other countries, if required by local legislation, policies have been or are in the process of being implemented which serve similar functions to those of the Organisational Model pursuant to Legislative Decree no. 231/2001.

The Models adopted by Group Companies comply with the guidelines issued by Confindustria and are dynamic and effective tools thanks to a constant control and review process carried out by the Supervisory Bodies. The Organisational Models pursuant to Italian Legislative Decree no. 231/2001 envisage dedicated channels for the reporting of anomalies or breaches by employees and regular staff training on the contents of Decree no. 231/2001 and the Organisational Model pursuant to Legislative Decree no. 231/2001 itself. The Supervisory Bodies appointed in the Group's Italian companies are represented by boards comprising the Internal Audit Department Manager and external professionals. Each Supervisory Body is internally regulated and operates according to a specific programme. The Supervisory Bodies periodically refer to the Board of Directors and the Board of Statutory Auditors, where present. The Organisational Models are constantly monitored and updated, with particular attention on crime prevention and the risk assessment following the introduction of new legislation. Further information regarding the Organisational Model pursuant to Legislative Decree no. 231/2001, 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 Model pursuant to Legislative Decree 231/2001 is reinforced though additional models dedicated to specific company departments, such as in the context of health and safety in the workplace, environmental management and privacy.

The Code of Ethics is an integral part of the Organisational Model pursuant to Legislative Decree no. 231/2001 and has been or is in the process of being adopted by all Group Companies. The Code of Ethics provides a concrete and clear representation of the Groups values, including: protection of employees, fairness and equality, ethical and legal behaviour, loyalty, privacy of information, respect of the interests of all parties, professionalism, health and environmental protection.

The Code of Ethics also provides the rules of conduct for all recipients of the Code on the subject of the prevention of active and passive corruption (e.g. the prohibition of engaging in corrupt practices). 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. These 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 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. These tools and additional information regarding the fight against corruption are described in more detail in the "Internal Control and Risk Management System" section of the Corporate Governance and Share Ownership Report.

1.3. THE RECORDATI GROUP'S COMMITMENT TO SUSTAINABILITY

Recordati is a multinational pharmaceutical Group operating in the fields of research, development and sale of innovative and value-added products with the aim of improving health and quality of life. The mission of the Recordati group is to develop our commitment to research, innovation and quality while creating value for our stakeholders, all of which are hallmarks of the company's commitment to corporate responsibility.

As noted by the Chairman and Vice-Chairman in the Letter to Shareholders, the Recordati group recently increased its focus on sustainability in line with the Group's 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 current 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, we have launched an internal engagement initiative which aims 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 it stakeholders;
- share the values, mission and processes involved in order to develop sustainability reporting procedures.

1.4. 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.

THE RECORDATI GROUP'S STAKEHOLDERS

INVESTORS AND THE FINANCIAL COMMUNITY

EMPLOYEES

GOVERNMENT AGENCIES, REGULATORS, PA

SUPPLIERS AND STRATEGIC PARTNERS

PHARMACIES AND DISTRIBUTORS

LOCAL COMMUNITIES

PATIENTS AND ASSOCIATION

HEALTHCARE OPERATORS

SCIENTIFIC ORGANISATIONS AND UNIVERSITIES

CLIENTS AND CONSUMERS

In order to increase the engagement of all of our stakeholders in their activities, optimising their roles and potential and monitoring 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 creation of a department focused on managing of Investor Relations. This department, within the company's organisation, manages relations with financial analysts and institutional investors and organises periodic meetings focused on providing economic and financial information;
- 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, given the strictly regulated nature of the pharmaceutical sector, industrial associations operating in the pharmaceutical sector 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 2017, the Recordati group collaborated with 58 industry organisations located throughout its global business network, ensuring a constant and continuous flow of information.

THE RECORDATI GROUP'S INDUSTRIAL ASSOCIATIONS, 2017

ITALY
- Farmindustria
- EPFIA
- ASSONIME
- CONSOB

FRANCE
- LEEM – Les Entreprises du Médicament
- AFIPA - Association Française de l'Industriè Pharmaceutique pour l'Automédication)

BELGIUM
- Pharma.be

GERMANY
- BAH – Bundesverband der Arzneimittel-Hersteller e.V.
- AGV Chemie – Arbeitgeberverband der Chemischen Industrie
- IHK Ulm – Industrie und Handelskammer Ulm
- AKG e.V. – Arzneimittel und Kooperation im Gesundheitswesen e.V.
- Camera di Commercio Italo-Tedesca
- Pharma-Lizenz Club
- BPI – Bundesverband der Pharmazeutischen Industrie e.V.

AUSTRIA
- PHARMIG – Verband der pharmazeutischen Industrie Österreichs

SPAIN
- Farmaindustria
- Anefp

IRELAND
- Pharmachemical Ireland
- IPHA – Irish Pharmaceutical and Healthcare Association
- National Irish Safety Association
- 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

PORTUGAL
- APIFARMA – Portuguese Pharmaceutical Association
- GROQUIFAR

POLAND
- Izba Gospodarcza Chamber of Commerce "FARMACJA POLSKA"

CZECH REPUBLIC
- SARAP – Slovenská asociácia spoločností v oblasti liekovej regulácie
- CASP – Ceská Asociace pro Speciální Potraviny

RUSSIA
- GIM - Unimpresa

UKRAINE
- EBA – European Business Association

TURKEY
- Pharmaceutical Manufacturers Association of Turkey
- ICI – The Istanbul Chamber of Industry
- ICC – The Istanbul Chamber of Commerce
- Camera di Commercio Italo-Turca
- Çerkezköy Organized Industrial Zone
- Çerkezköy Chamber of Commerce and Industry
- Istanbul Chemicals and Chemical Products Exporters' Association
- The Union of Chambers and Commodity Exchanges of Turkey

GREECE
- Camera di Commercio Italo-Ellenica

TUNISIA
- CNIP – The National Chamber of Pharmaceutical Industry
- The Council of the Pharmacists Association

USA
- American Association of Pharmaceutical Scientists
- American Chemical Society
- BIO – Biotechnology Innovation Organization
- DIA – The Drug Information Association
- Global Genes
- Healthcare Distribution Management Association
- International Society of Pharmaceutical Engineers
- Parenteral Drug Association
- Regulatory Affairs Professional Society

SWITZERLAND
- Swiss Association of the Pharmaceutical Industry
- Business Association Chemistry, Pharma, Biotech
- Swiss Healthcare Licensing Group
- Swiss Health Quality Association

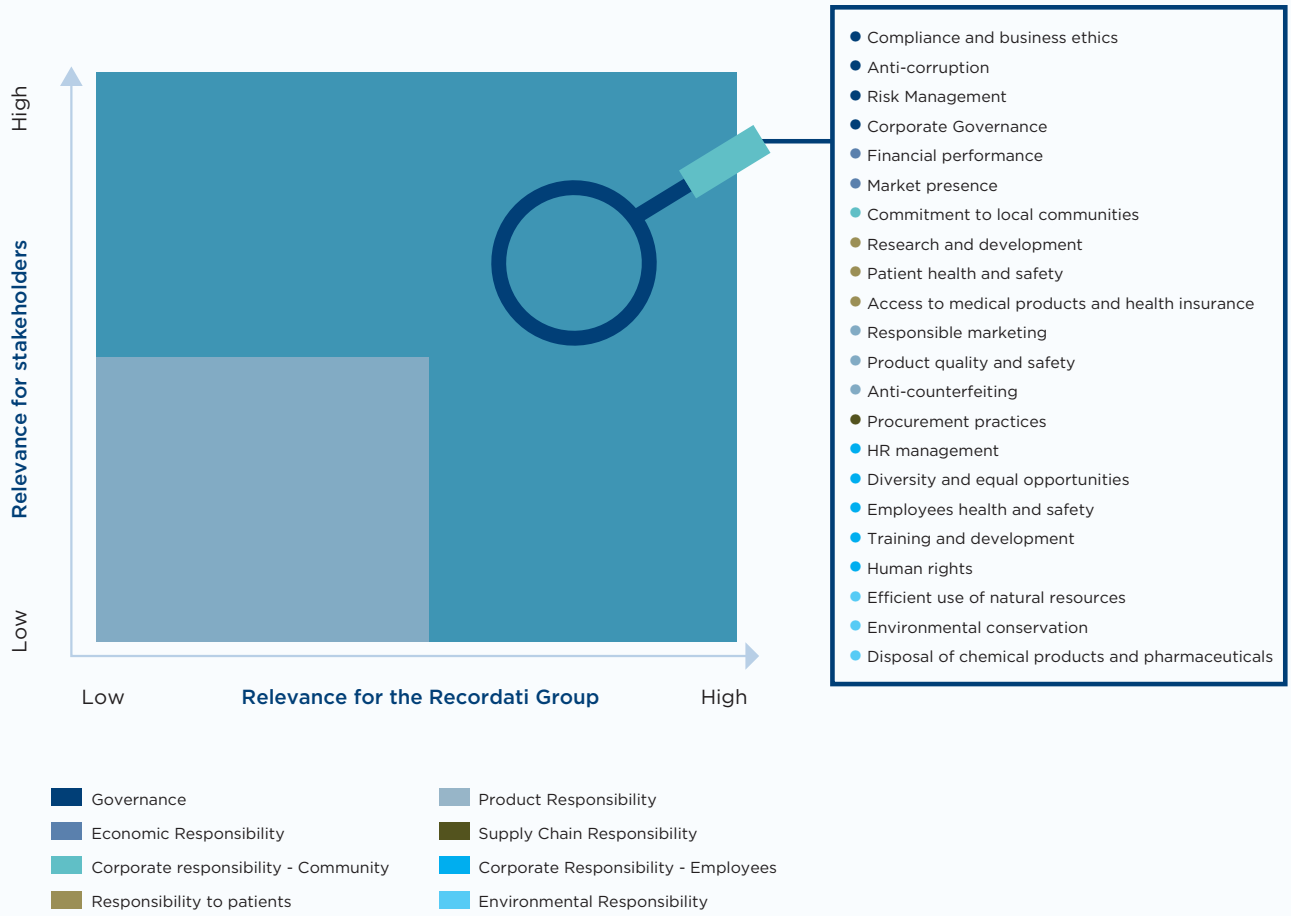
1.5.
MATERIALITY ANALYSIS

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.

The results of the analysis are evidenced by the materiality index, which represents the 22 issues selected according to their economic, social and environmental relevance both for the Recordati group and for the relevant stakeholders.

The overview provided by the materiality analysis represents an important tool for the Group in order to identify its priorities on the subject of sustainability and define areas of development in this regard.

THE RECORDATI GROUP'S MATERIALITY INDEX



1.6. DIRECT AND INDIRECT ECONOMIC BENEFITS

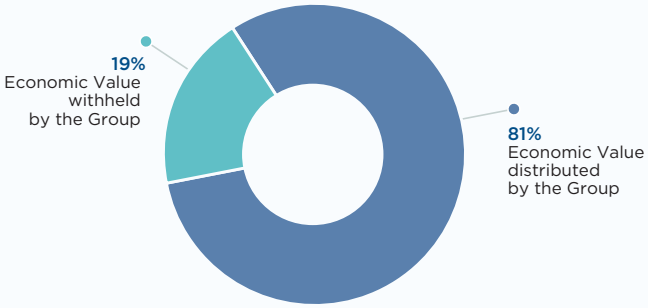
During 2017, the activities of the Recordati group in the field of research and sale of medicines represented an important profitability factor for the Group and generated various economic advantages, including direct benefits for stakeholders through the distributed economic value as well as indirect benefits for the various associations or third-party organisations which receive donations and contributions from the Group.

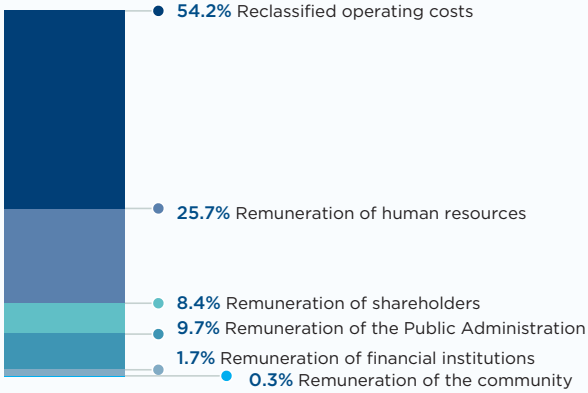
Economic value generated and distributed by the Group

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).
In 2017, of the € 1,289 million of Economic Value generated by the Recordati group, approximately 81% (equal to € 1,039 million) was distributed as follows:

- reclassified operating costs of € 563 million, represented predominantly by the costs of raw materials, consumables and services;
- remuneration of human resources for a total of € 268 million, represented predominantly by the salaries and wages of Group personnel;
- remuneration of shareholders for a total of € 87 million, attributable to the distribution of dividends to shareholders[1];
- remuneration of the Public Administration, in the form of taxes, for € 100 million;
- remuneration of financial institutions for € 18 million, primarily formed of borrowing costs;
- Community donations, sponsorships and contributions, for approximately € 3 million, of which € 2 million is allocated for distribution in 2018.

DISTRIBUTION OF THE ECONOMIC VALUE GENERATED AND DISTRIBUTED BY THE GROUP IN 2017[2]





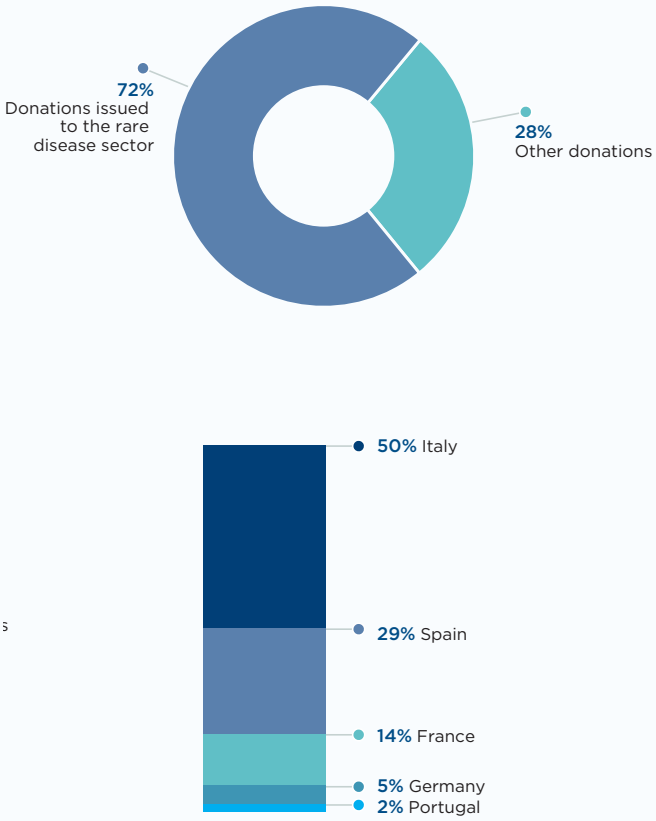
Donations and contributions

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 2017, the Recordati group issued donations and contributions to foundations, associations, non-profit organisations and medical institutes for a total of € 1 million, 72% of which was focused the treatment of rare diseases. The remaining 28% refers to contributions and donations awarded to social and cultural organisations and institutions in various countries: Italy (50%), Spain (29%), France (14%), Germany (5%) and Portugal (2%).

1 *The value of dividends distributed to shareholders refers exclusively to the account approved in November 2017 and does not include the figure to be approved in April 2018.*

2 *The distribution of the Economic Value generated and distributed to various categories of stakeholders represents a quantifiable indicator for the calculation of the economic value, processed according to the guidelines issued by the "GRI - Global Reporting Initiative" and the "GBS - Study Group for establishing the Social Reporting Standards".*

SUBDIVISION OF DONATIONS AND CONTRIBUTIONS ALLOCATED BY THE RECORDATIGROUP IN 2017[3]



In addition to the donations issued during the year, following a series of meetings with the University of Milan and ASST Fatebenefratelli Sacco, in 2017 the Recordati group expressed the desire to make a donation to the "V.Buzzi" Children's Hospital in Milan in order to redevelop the paediatric ward and the neurological outpatient area. The Group promptly allocated a donation of € 2 million to facilitate the future redevelopment of the new Paediatric Ward and the transfer of the Neurology department to a new area, representing the first important step in implementing the project at Milan's children's healthcare centre. This contribution shows the Recordati group's desire to continue its key investment role in a project that will enable the community of Milan to achieve important targets and provide an increasingly high level of care in the paediatric sector.

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. This contribution, offered in various forms, is intertwined with the people it is aimed at and the specific characteristics of the supported organisation. In particular, the following initiatives are worthy of note:

- Donations of material assets (e.g. IT facilities) to the "Terre Rouge" associations in France which provide educational and healthcare facilities to people in Africa, and primary school institutions in Tunisia;
- assignment of corporate services for organisations for the disabled, such as the fleet management service provided to *Donau-Iller-Werkstätten* and the laundry service offered to *Grüner Zweig*, both in Germany;

direct support for Recordati employees in the organisation and management of social initiatives, such as the *Diakonie Neu-Ulm* project in Germany which organises events for homeless or disadvantaged people or the commitment to environmental conservation and clean-up operations in Ireland.

LA COURSE DES HÈROS

"La Course des Héros", one of the most important charitable events in France, is an annual appointment organised by the Group Company Orphan Europe. Over the last four years the Orphan Europe team has collaborated with the L'Envol Association to raise funds for "Recreational Therapies" organised for seriously ill children accommodated in the association's dedicated facilities. At the event in Paris on 18 June, a total of 19 Orphan Europe team members raised € 3,310 to be donated to L'Envol. The race, which raised a total of € 2 million, is an opportunity to demonstrate our engagement in providing care for patients and their families. Thanks to its team of experienced professionals and volunteers, in the last twenty years L'Envol has accommodated 7,500 children aged between 7 and 17 in its dedicated facilities.

3 This subdivision takes into account donations and contributions issued in 2017, for a total of approximately € 1 million.

2.
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, Recordati is currently implementing 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 and Compliance Officer. Activities aimed at ensuring compliance with legislation and regulations are undertaking in compliance with international best practices and are constantly examined through inspections conducted by commercial partners, authorities or certification bodies. In this regard, Recordati 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 its plant in Cork, which is valid until 11/01/2020.

As regards cases of non-compliance, in 2017 the Group recorded a limited number of episodes: in fact, only a small number of Group branches recorded breaches and/or disputes reported by local authorities or consumers, and any monetary sanctions applied were all below the Group's materiality threshold:

- the subsidiary Italchimici S.p.A. recorded the voluntary recall of a batch of medical devices, distributed by Italchimici S.p.A. but produced by a third-party manufacturer, following a quality defect report issued by the manufacturer. The identified defect, regarding product inconsistency, did not represent any health risks but rather resulted in the inefficacy of the medicine. Therefore, Italchimici S.p.A. chose to recall the product from the market, while the manufacturer sent the relative safety notification to the Ministry of Health;

- following an inspection carried out at the Portuguese branch Jaba-Recordati S.A., the local authorities requested that a single management system be implemented for information regarding pharmacovigilance activities as opposed to a shared management system between the Portuguese branch and the Parent Group. Although no sanction was imposed, the Parent Group nonetheless implemented an action plan aimed at implementing the requirements requested by the Portuguese authorities;

- the Turkish branch Recordati Ilac Recordati Rare Diseases Inc recalled a batch of products distributed by the Turkish branch following a financial sanction imposed upon the manufacturer. In the same year, the same branch recalled another batch of medicines due to a colouration anomaly in the product itself and the loss of the cap of the packaging;

- following a report submitted by a patient, the Parent Group reported an error in the text included on the back of the packaging of a drug sold on the Italian market. The Group issued a voluntary recall of two batches of the product and issued a notification containing the corrected text;

- the Ukraine branch paid a negligible financial sanction regarding the alleged non-compliance with Ukrainian law of a television advertisement for a drug;

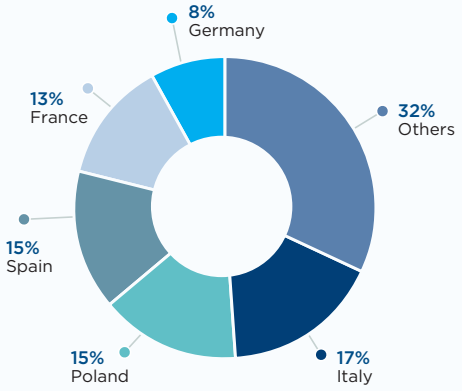
- Recordati Ireland Ltd issued recalls for two batches of medicines from the Polish and Czech/Slovakian markets respectively, regarding a reduction in the active ingredient content; this did not pose any health risks to patients but may have reduced the efficacy of the product.

2.1.
SUPPLY CHAIN

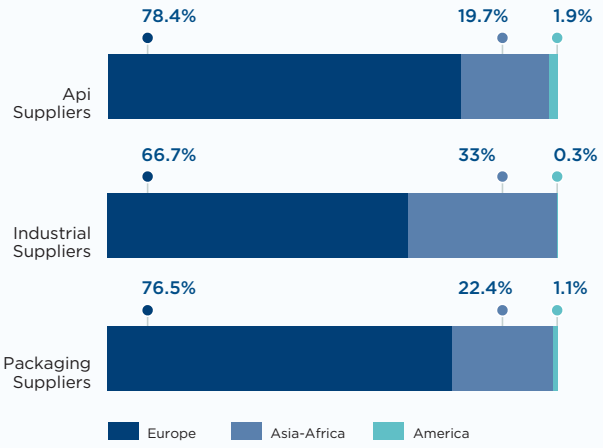
The supply chain of the Recordati group takes place within a highly regulated market and is characterised by the search for efficiency both in terms of financial viability and the maintenance of the supply chain. The Recordati group is served by approximately 14,000 suppliers, predominantly located in 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 ingredients, 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 2017 the Recordati group interacted with around 400 certified API suppliers principally located in Europe and India. However, 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 Group factories). As such, the Group benefits from a pronounced autonomy in the selection of its suppliers, with a clear preference for local suppliers of packaging, secondary materials and tertiary services. However, suppliers of industrial materials and services for use in the Group's plants number approximately 1,300, 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 rather than American manufacturers.

PERCENTAGE SUBDIVISION OF SUPPLIERS OF THE RECORDATI GROUP BY LOCATION, 2017



PERCENTAGE SUBDIVISION OF THE THREE SUPPLIER CATEGORIES OF THE RECORDATI GROUP BY LOCATION, 2017



In order to operate within 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 documentational 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 environmental sustainability and relative legislation in order to prevent the prioritisation of financial savings or advantages which may negatively impact the environment or are otherwise counter to the Group's values (as stated in the Group's Code of Ethics). This parameter is assessed through the explicit requirement of possession of specific environmental certifications on behalf of the supplier;

- 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;

- compliance with European Regulation ICH Q3D (into force from June 2016) regarding the content limits of heavy metals in APIs, excipients, intermediate chemicals and raw materials.

This management procedure was successfully implemented in Italy in 2016 and Recordati set itself the target of extending the initiative to all Group Companies by the end of 2019, in order to create a unique and shared supplier database.

2.2. AUDITS AND INSPECTIONS

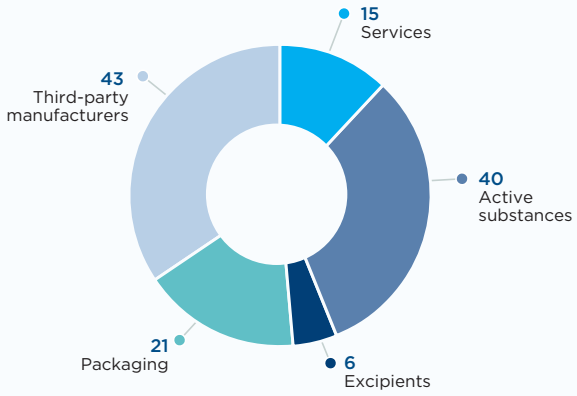
In order to ensure the safety of its products and verify the compliance of its suppliers with quality, environmental, health and safety legislation and regulations, the policies implemented by the Recordati group include periodic audits of the supply chain, as well as continuous inspections and self-inspections 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 accordance 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 2017 the Pharmaceutical Division of the Recordati group conducted 125 supplier audits, of which 34 related to third-party manufacturers, 32 to suppliers of active substances, 17 to suppliers of packaging, 12 to service suppliers and 5 to suppliers of excipients.

SUBDIVISION OF SUPPLIER AUDITS CONDUCTED BY THE PHARMACEUTICAL DIVISION BY PRODUCT CATEGORY, 2017



Regarding supplier inspections carried out by the Chemical and Pharmaceutical Division, it should be noted that in the course of 2017 the Campoverde di Aprilia plant conducted four audits of suppliers of raw materials and two audits of service providers.

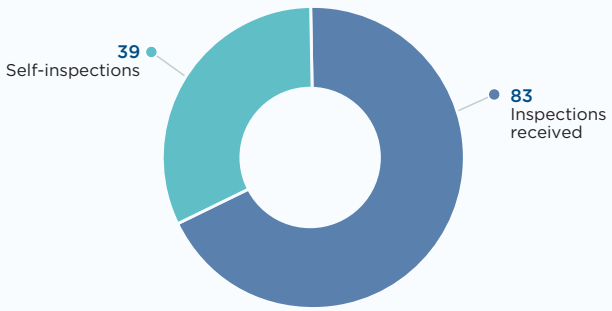
Production plant inspections

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 2017, a total of 122 inspections and audits were carried out at the Group's pharmaceutical plants in order to assess product quality and safety. Of these, 83 (68%) were self-inspections carried out by the Group at its own plants while the remaining 39 were carried out by competent authorities (Health Ministries, Agencies, Certification Bodies, FDA and AIFA) and third-party companies. In particular, during 2017 the Laboratoires Bouchara Recordati S.a.s, Recordati Ilac Recordati Rare Diseases Inc and Herbacos Recordati s.r.o. pharmaceutical plants were subject to periodic inspections by the respective regulatory agencies. The first two sites received GMP inspections while the third received a GDP inspection.

SUBDIVISION OF QUALITY AND SAFETY INSPECTIONS/AUDITS CARRIED OUT AT GROUP PHARMACEUTICAL PLANTS IN 2017



With regard to the inspections carried out at the two chemical pharmaceutical plants, it should be noted that no external inspections of the Quality Management System were carried out at the Campoverde di Aprilia plant in 2017. However, the internal Quality Assurance department conducted 14 internal audits at the plant in the production, quality control and maintenance departments. With regard to the plant in Cork, the following inspections were carried out:

- an inspection was carried out by the Health Products Regulatory Authority (HPRA) of the Irish Health Ministry in January 2017, as part of the three-year renewal of the plant's Certificate of Compliance with Good Manufacturing Practices for the production of active substances. The inspection, which approved the renewal of the GMP certificate for a further three years, identified a number of recommendations. In response to these, the branch implemented a series of control measures approved by the Authority which will enable the Group to reinforce its Quality Control Systems and Validation Plan at the site in Cork. GMP compliance at the Cork plant was also inspected and approved by a client who buys active substances;
- in March 2017 an internal audit was carried out to assess compliance with all GMPs, with a positive outcome;
- in November 2017 a second internal audit was carried out to assess maintenance activities; this audit was passed, and a number of possible improvements were identified.

2.3. PRODUCT SERIALIZATION

Since 2006, the European Federation of Pharmaceutical Industries and Associations (EFPIA) has been developing a standardised medicinal products traceability system as part of the fight against counterfeiting. Working in collaboration with three other European organisations, EFPIA has been involved in the creation of an ambitious coding and serialisation system known as the European Stakeholder Model (ESM). In conjunction with this project, ESM members worked to implement the European Medicines Verification System (EMVS) which aims to regulate the dispensation of medicines to ensure product authenticity.
In this context, in February 2016 the European Parliament issued a regulation dictating the technical requirements for all prescription medicines in order to combat medicines being counterfeited. This regulation will come 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. After this date, medicinal products that do not comply with the safety requirements established by this regulation may no longer be commercialised.
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 is proceeding in line with the prescribed deadlines for the implementation of the regulation, and various equipment and devices have been installed in the four pharmaceutical sites involved in the project in 2017; the project will be extended to the remaining plants in 2018. 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. In particular, in Turkey, China, the USA and Korea, the medicinal products commercialised by the Recordati group already comply with these safety requirements, while the Group's sites in Russia will conform to the same by December 2018, in line with the entry into force of similar local regulations.

3.
The Recordati group's employees

3.1.
THE IMPORTANCE OF OUR EMPLOYEES

The Recordati group operates in highly specialised sectors including traditional pharmaceuticals, 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.

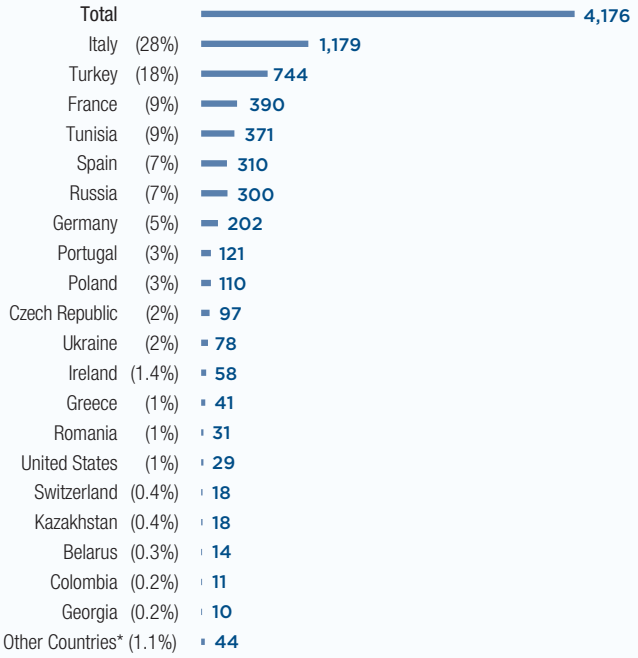
For this reason, the Group policy for the development and optimisation of human resources aims to incentivise professional growth and career development. This policy has been developed through our belief that the Group's results are closely linked to the ability of our employees to engage their own commitment and talent to reach targets. Furthermore, 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 and market cost criteria.

As of 31 December 2017, the Group's workforce was formed of 4,176 employees, with a gender division of 55% and 45% of men and women respectively. This is substantially in line with the workforce at the end of 2016 (4,116), with the increase of 60 employees due predominantly to the extension of certain commercial departments in Poland, the Czech Republic and Greece as well as the development of the corporate divisions and branches of the Orphan Drugs Business Unit. At present, the Group's workforce is also supplemented by a further 200 people who collaborate with the Group at various levels; approximately half of these collaborators are represented by women.

SUBDIVISION OF EMPLOYEES AND COLLABORATORS BY GENDER, AS OF 31 DECEMBER

	2017			2016		
Number of employees	Men	Women	Total	Men	Women	Total
Employees	2,297	1,879	4,176	2,283	1,833	4,116
Collaborators	103	97	200	52	96	148
Total	2,400	1,976	4,376	2,335	1,929	4,264

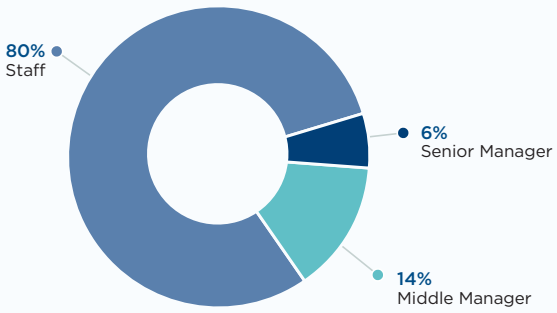
SUBDIVISION OF EMPLOYEES BY COUNTRY, AS OF 31 DECEMBER 2017 (NUMBER OF PEOPLE)



(*) The item "Other Countries" includes employees who work in Armenia, Belgium, Brazil, Colombia, United Arab Emirates, Georgia, Mexico, United Kingdom, Sweden, Hungary, Canada and Malaysia.

As regards the breakdown of the Recordati group's workforce by professional category, 237 employees are Senior Managers (6% of the total), 598 are Middle Managers (14%) while the remaining 3,341 people are ordinary employees (80%).

PERCENTAGE BREAKDOWN OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL, AS OF 31 DECEMBER 2017



Approximately 65% of the workforce is comprised of employees aged between 30 and 50; 24% are over 50 and 11% are under 30.

SUBDIVISION OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND AGE, AS OF 31 DECEMBER

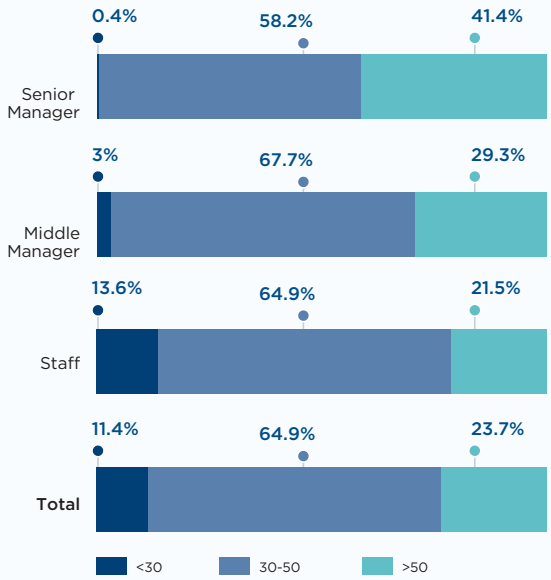
2017

Number of employees	<30	30-50	>50	Total
Senior Manager	1	138	98	237
Middle Managers	18	405	175	598
Staff	455	2,167	719	3,341
Total	474	2,710	992	4,176

2016

Senior Manager	0	118	81	199
Middle Managers	33	434	143	610
Staff	614	2,107	586	3,307
Total	647	2,659	810	4,116

PERCENTAGE BREAKDOWN OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND AGE, AS OF 31 DECEMBER 2017



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 priorities 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 development programme within the Group through placements and apprenticeships, 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.

One of the various recruitment initiatives developed in 2017 included the implementation of a "Recruiting Grid" 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 which 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 various positive and negative indicators to indicate whether a candidate possesses a certain skill.

In 2017, 631 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 2017) of 15.1%, while the number of employees who left the company was 571 (with an outbound turnover rate - the ratio of number of people leaving the Group to total Group workforce as of 31 December 2017 - of 13.7%).

SUBDIVISION OF TOTAL EMPLOYEES ENTERING AND LEAVING THE COMPANY BY GENDER AND AGE, AS OF 31 DECEMBER

	2017					2016				
Number of employees	<30	30-50	>50	Total	Turnover %	<30	30-50	>50	Total	Turnover %
New employees entering the Group										
Men	92	183	26	301	13%	111	248	32	391	17%
Women	97	212	21	330	18%	114	184	21	319	17%
Total	189	395	47	631	15%	225	432	53	710	17%
Turnover %	40%	15%	5%	15%		35%	16%	7%	17%	
Employees leaving the Group										
Men	55	207	25	287	12%	42	170	28	240	11%
Women	76	173	35	284	15%	78	175	30	283	15%
Total	131	380	60	571	14%	120	345	58	523	13%
Turnover %	28%	14%	6%	14%		19%	13%	7%	13%	

SUBDIVISION OF EMPLOYEES ENTERING AND LEAVING THE COMPANY BY GENDER, AGE AND LOCATION, AS OF 31 DECEMBER 2017

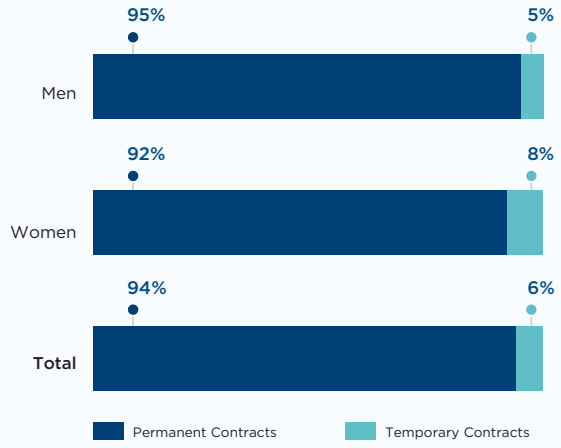
	2017									
Number of employees	<30	30-50	>50	Total	Turnover %	<30	30-50	>50	Total	Turnover %
	New employees - Italy					New employees - Abroad				
Men	24	27	6	57	6.7%	68	156	20	244	16.9%
Women	4	16	4	24	7.3%	93	196	17	306	19.7%
Total	28	43	10	81	6.9%	161	352	37	550	18.4%
	Employees leaving the Group - Italy					Employees leaving the Group - Abroad				
Men	7	30	8	45	5.3%	48	177	17	242	16.7%
Women	3	17	4	24	7.3%	73	156	31	260	16.8%
Total	10	47	12	69	5.9%	121	333	48	502	16.8%

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 staff (3,922 employees) are recruited on a permanent basis while 6% (254 employees) are employed on temporary contracts. It should also be noted that compared to 2016, the number of employees with permanent contracts rose by 3% in 2017.

SUBDIVISION OF EMPLOYEES BY CONTRACT TYPE (PERMANENT OR TEMPORARY) AND GENDER, AS OF 31 DECEMBER

	2017			2016		
Number of employees	Men	Women	Total	Men	Women	Total
Permanent Contracts	2,189	1,733	3,922	2,180	1,641	3,821
Temporary Contracts	108	146	254	103	192	295
Total	2,297	1,879	4,176	2,283	1,833	4,116

PERCENTAGE BREAKDOWN OF EMPLOYEES BY CONTRACT TYPE (PERMANENT OR TEMPORARY) AND GENDER, AS OF 31 DECEMBER 2017



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, wage) of all Group employees and implementing initiatives aimed at promoting maximum intra-group cooperation.

3.2. DIVERSITY AND EQUAL OPPORTUNITIES

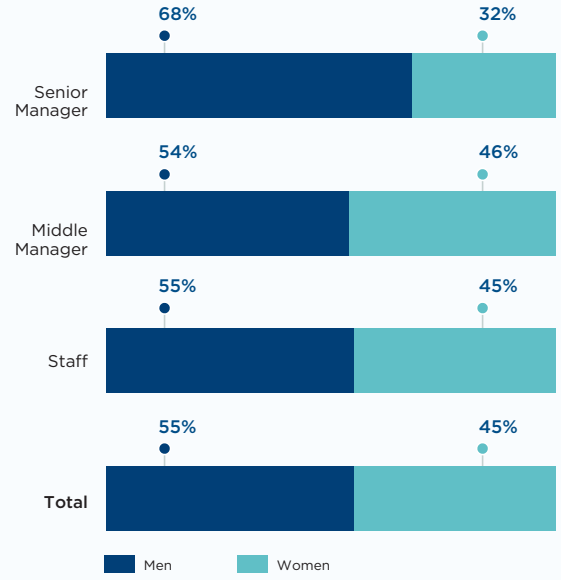
As stated by the Code of Ethics, the Recordati group is committed to offering equal working opportunities without any discrimination based on ethnic background, age, sexual orientation, physical or mental disability, nationality, religious beliefs or membership of political parties or unions, and guarantees 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 the previous year. In particular, compared to 2016 the number of male senior managers has increased by 17% while the number of female senior managers has increased by 24%.

SUBDIVISION OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND GENDER, AS OF 31 DECEMBER

	2017			2016		
Number of employees	Men	Women	Total	Men	Women	Total
Senior Managers	160	77	237	137	62	199
Middle Managers	320	278	598	354	256	610
Staff	1,817	1,524	3,341	1,792	1,515	3,307
Totale	2,297	1,879	4,176	2,283	1,833	4,116

PERCENTAGE BREAKDOWN OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND GENDER, AS OF 31 DECEMBER 2017



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 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 protects the right of employees to join and form unions, supports alternative methods of union representation and collective labour agreements and ensures that union representatives are not discriminated against at their place of work and are free to communicate with their members. The industrial relations model implemented by the Companies of the Recordati group is based on continuous dialogue and debate, characterised by proper and transparent relations and is aimed at increasing the firm's competitiveness and promoting responsible employment. Approximately 60% of the Group workforce, predominantly located in western Europe, is covered by a collective labour agreement.

3.3. 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. The promotion of corporate welfare 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.
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 is launching 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. 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.
At a contractual level, of the 3,922 employees on permanent contracts, 69 people, 64 of which are women, are employed on a part-time basis. Compared to 2016, it is noted that the number of women on part-time contracts has increased by 28%.

SUBDIVISION OF EMPLOYEES WITH PERMANENT CONTRACTS BY PROFESSIONAL TYPE (FULL OR PART TIME) AND GENDER, AS OF 31 DECEMBER

	2017			2016		
Number of employees	Men	Women	Total	Men	Women	Total
Part-time	5	64	69	5	50	55
Full-time	2,184	1,669	3,853	2,175	1,591	3,766
Total	2,189	1,733	3,922	2,180	1,641	3,821

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.

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 70% at Senior Management level, 94% at Middle Management level and 98% for all other employee categories. The ratio in terms of total remuneration is 71% for Senior Managers, 87% for Middle Managers and 90% for all other employee categories.

RATIO BETWEEN BASIC SALARY AND TOTAL REMUNERATION[4] FOR MEN AND WOMEN BY PROFESSIONAL LEVEL, FOR ITALIAN AND FOREIGN COMPANIES OF THE RECORDATI GROUP, AS AT 31 DECEMBER

	2017		2016	
Ratio between women and men	Basic Salary	Total Remuneratio	Basic Salary	Total Remuneration
Senior managers	70%	71%	78%	n/a
Middle managers	94%	87%	103%	n/a
Staff	98%	90%	95%	n/a

Principal 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 "evaluator" and the "evaluated" (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 of their achievements (individual targets assigned by the Group) and the way in which these achievements are reached (conduct which displays the use of managerial skills).
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 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.

3.4. TRAINING AND DEVELOPMENT OF HUMAN CAPITAL

The Group considers the development of human capital as an important professional and personal process that enables employees to understand the key skills required by their role and develop their personal growth though individual training, on-the-job training, coaching, mentoring and one-to-one counselling.

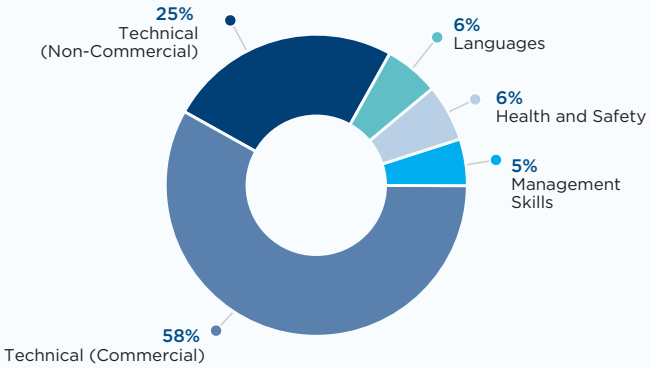
In this respect, the initiatives promoted by the Group throughout the year have aimed to define and develop the technical, managerial and linguistic skills of managers, as well as offer training programmes to develop specialised and professional skills. In 2017 the Recordati group provided over 97,000 hours of training to its employees, equating to 23.2 hours of training pro capita. In particular, 80% of all training hours was provided to staff, 15% 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. In particular, in 2017 pro capita staff training times rose by approximately 20%.

SUBDIVISION OF PRO CAPITA TRAINING TIMES PROVIDED TO EMPLOYEES BY PROFESSIONAL LEVEL AND GENDER

	2017			2016		
Average number of hours	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
Senior Managers	16.7	26.6	19.9	24.0	30.6	26.1
Middle Managers	23.9	25.7	24.8	22.6	29.5	25.5
Staff	23.0	23.5	23.2	22.0	16.3	19.4
Total	22.7	23.9	23.2	22.3	18.6	20.6

4 The variable component of the 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.

PERCENTAGE BREAKDOWN OF TRAINING HOURS PROVIDED TO EMPLOYEES BY TRAINING TYPE, 2017



The 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 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 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 promote professional development.

In 2017, various training initiatives were implemented within the Group. The Parent Group decided to continue the development of a technical initiative for the Group's recently restructured and reinforced IT department. Working in collaboration with Deloitte Consulting, a training project was developed based on the ITIL (Information Technology Infrastructure Library) and Prince (Projects in Controlled Environments) approaches. As part of the course, all participants sat two English exams, taken externally, with a pass rate of 80%. A second employee-focused initiative implemented by the Parent Group concerned the development of Project Management skills and the use of personalised planning, management and project sharing tools within the Internal Audit department. The first step was to develop the conceptual framework and adapt it to meet the requirements. Next, theoretical and practical training was offered in order to put the tools into practice and develop a working instrument. The third initiative focused on contractors with agency agreements who represent the sales team for self-medication products (or over-the-counter medicines), who are coordinated by four area managers employed by the Group. An ad hoc project was implemented with the aim of sharing and standardising the best practices developed over the years. In addition to this, the trainers provided a number of suggestions and operational tools. These indications were not intended as "top-down" directives but rather were explained and developed by the area managers at the end of the training course in order to provide an overview of the future market scenario and the opportunities it may represent.
Various initiatives were directed towards the largest sectors of the company workforce. In particular, the "lean" approach, a training project based on the techniques of "lean organisation" and a culture of efficiency and reduced waste, was of particular note and is set to continue in 2018. Online training courses have become increasingly numerous in recent years; in particular, the IT security training programme provided to all employees at the Milan offices was particularly significant, aiming to help employees to understand and recognise the computer security risks that may affect the Group. The course met with a high approval rating and is due to be rolled out to all Group branches. Outside Italy, as well as branch-led training courses adapted to the individual needs of each area such as the leadership and communications training offered to the Management Team in Germany or the Sales Academy project in Russia, various other coaching initiatives were implemented in the Group's international branches. One of these was the specific training course for General Managers, an ad hoc training programme which aimed to strengthen leadership, motivational and people management skills.

"RECORDATI GROUP MANAGERIAL COMPETENCIES APPRAISAL" PROJECT

On 18 May 2016, the Recordati group received recognition from the HR Innovation Practices Observatory of Milan Polytechnic University for its "Recordati group Managerial Competencies Appraisal" project. The HR Innovation Award for the *"Identification and development of skills"* category is awarded to the companies which develop the best digital innovation projects in the field of HR. The recognition was awarded in the "Identification and development of skills" category for the *"implementation of a project to develop and evaluate managerial skills which, through the development of a new skills assessment model supported by an online platform, improved objectivity and proposed improvements or corrective actions to the growth and development plans"*.

3.5. HEALTH AND SAFETY IN THE WORKPLACE[5]

The Recordati group recognises that the protection of the health and safety of its workers is an important 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"*.
The Group adopts the preventive measures prescribed by local legislation at its production plants in order to reduce work-related risks for its employees. The health and safety management system features standard risk prevention measures including risk assessments, training and information programmes, appropriate maintenance, suitable emergency procedures and health inspection protocols.
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: in fact, the management system of the Tunisian pharmaceutical production plant has been awarded the OHSAS 18001 certification.

Activities at each production site are controlled and monitored through inspections and audits. In 2017, the Irish plant in Cork was inspected by the Irish Health and Safety Authority (HSA) in order to assess the plant's compliance with local regulations. The inspection did not highlight any particular criticisms. In fact, the Irish branch was praised for its ever-increasing commitment to the management of workplace health and safety issues. The inspection represented an opportunity to update various procedures, including authorisation procedures for "hot work" and work in confined spaces, Lock-out/Tag-out maintenance procedures and production line safety procedures.

In particular, in order to prevent the occurrence of accidents, at the Campoverde di Aprilia plant 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 were installed such as fire-fighting vehicles and portable fire extinguishers. Standardised procedures regulate the unloading of tank vehicles, the preparation of warehouse stock, the transportation of components, pre-loading controls and all cleaning, sampling, analysis and shipping operations. In addition, an internal Emergency Plan which described the procedures and measures to be adopted in the case of an incident was approved for the same production plant. An internal Emergency Team of 75 members ensures a constant presence during each shift to offer the highest possible levels of safety for internal and external personnel.

In the two chemical pharmaceutical plants, various health and safety risk assessment activities were carried out in 2017:

- 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. In 2017 a dynamic analysis was carried out to determine any structural deformations or strains in the tanks containing the most hazardous or critical substances. Furthermore, the same study is set to be rolled out across all departments at the plant in 2018;

- at the production plant in Cork, a study of the entire thionyl chloride handling cycle was conducted in order to identify possible improvements to site procedures and infrastructures to further increase the protection against chemical risks for employees and the public. This study was launched in November 2017 and changes or amendments may be made during the first six months of 2018.

During the year, the Group also implemented initiatives involving various pharmaceutical 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 2017 specialist software was acquired for chemical

5 *The information regarding health and safety and the principle accident indicators refers exclusively to employees of the Group's production plants (with the exception of the Milan plant, where the information extends to employees of the offices also present on site) where the most significant risks have been identified and assessed. However, a health and safety reporting system is currently being developed for the rest of the workforce.*

risk assessments (SEIRICH); this software enables the insertion of all substance safety data sheets in order to assess their chemical risk. The assessment highlighted a lower risk level at the chemical laboratory than the Occupational Exposure Limit Value ("OELV");

- at the Italian sites in Milan and Campoverde di Aprilia, specialist software (SIMPLEDO) was installed to manage workplace health and safety aspects in accordance with the provisions of Italian Legislative Decree no. 81/08 and Italian Legislative Decree no. 106/2009. The software enables the management of all company data, the supply and expiry date of PPE (Personal Protective Equipment), staff training courses and their expiry dates, risk assessments, health inspections, management of cases of non-compliance and the implementation of corrective actions, the management of audits and control checklists, contract management and the Consolidated Inference Risk Assessment Document. In particular, a project aimed at reducing the handling of manual loads is currently being implemented at the Galenico manufacturing department at the Milan plant. In this regard, in 2017 a "zero gravity" handler was installed to handle heavy bags/crates/boxes without any effort by the operator, while in 2018 systems are due to be installed in the preparation areas of the plant which will enable the processors to be loaded without any effort by the operator. Furthermore, the Milan plant has obtained a renewal of the Fire Prevention Certificate issued by the Italian Fire Brigade which extends its validity until 12/04/2022. To this end, various initiatives were carried out such as the installation of three fire suffocation extinguishing systems in the solvent warehouse, the oil warehouse and the alcohol distillation department. Other work has been carried out at the Milan plant to ensure an increasingly high level of workplace safety, including the installation of five oxygen sensors in five production areas which use nitrogen (wash room and preparation areas for vials, ointments and drops), a gas which is otherwise difficult to detect.

The Recordati group believes that training and educating its employees is essential to ensuring 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 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 2017. At the Campoverde di Aprilia factory, a total of 1,350 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. At the Cork plant, no changes were made to the internal training programme: the Production and Maintenance teams attended external training sessions on the subjects of fire prevention, first aid and chemical hazards. In particular, in the Campoverde di Aprilia plant in 2017, 352 people attended internal training courses, an increase on the 336 employees who attended in 2016. In line with 2016, the number of people taking part in external training courses remained stable at approximately 250.

Furthermore, in 2017 various pharmaceutical plants implemented numerous health and safety training programmes:

- at the Nanterre site in France, specific training courses were provided for all employees on the subject of "Handling hazardous materials and the disposal of hazardous waste", while distribution operators attended a course on "Regulations for the transportation of hazardous materials";

- at the Utebo site in Spain, specific training was provided on the risks of improper handling of loads, as well as specific training for electric fork lift operators;

- at the Tunisian Opalia Pharma site, training sessions were held on a range of subjects including chemical hazards and procedures to be adopted in the case of chemical spillages, the fire warning and prevention system, the use of safety showers in laboratories and the management of chemical incidents, the use of PPE (Personal Protective Equipment) and correct manual handling practices, proper waste management and first aid;

- at the Pardubice site in the Czech Republic, training was provided on correct handling procedures of hazardous substances and chemicals, water quality maintenance activities, workplace health and safety, fire prevention and the risks of inflammable liquids;

- at the Milan plant in Italy, training was provided to the fire prevention team, evacuation plan coordinators, production department safety officers, newly recruited employees and members of the Corporate Prevention and Protection Service, while refresher courses were provided to Health and Safety Representatives.

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.

NUMBER OF ACCIDENTS AND INDICATORS OF EMPLOYEE HEALTH AND SAFETY IN GROUP PLANTS BY GENDER

Italy (Campoverde di Aprilia) – Chemical pharmaceutical production plant

	2017			2016		
Injuries and Injury Index[6]	Men	Women	Total	Men	Women	Total
Injuries (No.)	8	0	8	6	0	6
work-related (No.)	*6*	*0*	*6*	*5*	*0*	*5*
non-work-related (No.)	*2*	*0*	*2*	*1*	*0*	*1*
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	82.4	0	75.5	53.6	0	48.8
Frequency Index/Injury Rate (IR)	3.2	0	2.9	2.4	0	2.2
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	4.6%	1.9%	4.4%	4.3%	1.5%	4%

Ireland (Cork) - chemical pharmaceutical plant

	2017			2016		
Injuries and Injury Index	Men	Women	Total	Men	Women	Total
Injuries (No.)	0	0	0	0	0	0
work-related (No.)	*0*	*0*	*0*	*0*	*0*	*0*
non-work-related (No.)	*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	0	0	0	0	0
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	0.8%	3%	1.8%	0.7%	1.6%	1.1%

Italy (Milan) Pharmaceutical production plant[7]

	2017			2016		
Injuries and Injury Index	Men	Women	Total	Men	Women	Total
Injuries (No.)	3	5	8	N/A	N/A	N/A
work-related (No.)	*2*	*5*	*7*	*N/A*	*N/A*	*N/A*
non-work-related (No.)	*1*	*0*	*1*	*N/A*	*N/A*	*N/A*
Cases of work-related diseases (No.)	0	0	0	N/A	N/A	N/A
Severity Index (Lost Day Rate LDR)	16.5	76.1	37	N/A	N/A	N/A
Frequency Index/Injury Rate (IR)	1.1	3.6	2	N/A	N/A	N/A
Occupational Disease Rate (ODR)	0	0	0	N/A	N/A	N/A
Absentee Rate (AR) (%)	2.6%	2.6%	2.6%	N/A	N/A	N/A

6 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 G4, 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 G4, 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 G4, 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 G4, Global Reporting Initiative).

7 The key injury indicators in 2016 for the Milan plant are not comparable with those of 2017 due to a change in the IT platform used to process the data. Furthermore, unlike other plants the data recorded for the Milan plant also includes the office staff present on the same site.

Czech Republic - Pharmaceutical production plant

	2017			2016		
Injuries and Injury Index	Men	Women	Total	Men	Women	Total
Injuries (No.)	0	0	0	0	1	1
work-related (No.)	*0*	*0*	*0*	*0*	*1*	*1*
non-work-related (No.)	*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	40.9	30.1
Frequency Index/Injury Rate (IR)	0	0	0	0	2.2	1.6
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	0%	0%	0%	0%	0%	0%

Spain - Pharmaceutical production plant

	2017			2016		
Injuries and Injury Index	Men	Women	Total	Men	Women	Total
Injuries (No.)	3	1	4	0	2	2
work-related (No.)	*3*	*0*	*3*	*0*	*1*	*1*
non-work-related (No.)	*0*	*1*	*1*	*0*	*1*	*1*
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	9.5	193.4	119.8	0	43.2	26.2
Frequency Index/Injury Rate (IR)	14.9	3.4	8.1	0	6.4	3.9
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	4.3%	5.5%	5%	2.4%	4%	3.4%

Tunisia - Pharmaceutical production plant

	2017			2016		
Injuries and Injury Index	Men	Women	Total	Men	Women	Total
Injuries (No.)	4	3	7	13	9	22
work-related (No.)	*4*	*3*	*7*	*13*	*9*	*22*
non-work-related (No.)	*0*	*0*	*0*	*0*	*0*	*0*
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	23.6	6.1	18.8	56.8	34.6	44.5
Frequency Index/Injury Rate (IR)	2.4	1.7	2	10.3	6.3	8.2
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	2.4%	3.9%	3.2%	0.8%	2.6%	1.8%

Turkey - Pharmaceutical production plant

	2017			2016		
Injuries and Injury Index	Men	Women	Total	Men	Women	Total
Injuries (No.)	4	0	4	16	2	18
work-related (No.)	*4*	*0*	*4*	*16*	*2*	*18*
non-work-related (No.)	*0*	*0*	*0*	*0*	*0*	*0*
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	12.2	0	8.7	119.2	117.1	118.6
Frequency Index/Injury Rate (IR)	2.4	0	1.7	10.4	3.3	8.4
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	0.4%	0.4%	0.4%	2.5%	2.3%	2.4%

France - Pharmaceutical production plant

	2017			2016		
Injuries and Injury Index	Men	Women	Total	Men	Women	Total
Injuries (No.)	4	1	5	3	0	3
work-related (No.)	*4*	*1*	*5*	*3*	*0*	*3*
non-work-related (No.)	*0*	*0*	*0*	*0*	*0*	*0*
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	573.9	8.3	309.1	354.4	305.4	330.9
Frequency Index/Injury Rate (IR)	9.9	2.8	6.5	7.9	0	4.1
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	6.4%	3.2%	4.9%	5.1%	3.8%	4.5%

France - Distribution Centre (Orphan Europe)[8]

	2017			2016		
Injuries and Injury Index	Men	Women	Total	Men	Women	Total
Injuries (No.)	0	1	1	N/A	N/A	N/A
work-related (No.)	*0*	*0*	*0*	*N/A*	*N/A*	*N/A*
non-work-related (No.)	*0*	*1*	*1*	*N/A*	*N/A*	*N/A*
Cases of work-related diseases (No.)	0	0	0	N/A	N/A	N/A
Severity Index (Lost Day Rate LDR)	0	0	0	N/A	N/A	N/A
Frequency Index/Injury Rate (IR)	0	20.5	11.1	N/A	N/A	N/A
Occupational Disease Rate (ODR)	0	0	0	N/A	N/A	N/A
Absentee Rate (AR) (%)	4%	4.4%	4.2%	N/A	N/A	N/A

8 The key injury indicators in 2016 for the Orphan Europe distribution centre are not comparable with those of 2017 due to a change in the IT platform used to process the data.

4.
Focus on the environment[9]

4.1.
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 environmentally sustainable principles 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.

In this regard, in 2017 the Campoverde di Aprilia plant received an environmental audit by a consultancy firm and carried out four audits of intermediaries and waste disposal plants. Furthermore, the inspection of the Environmental Management System at the Campoverde di Aprilia plant in April 2017 by the accredited company DNV is of particular note. As envisaged by the audit plan for the maintenance of the ISO 14001 certification, the compliance with all legal and documentation requirements of the standard UNI EN ISO 14001/04 was assessed. The result was considered highly satisfactory and confirmed the implementation by all Recordati personnel of the management system, which conforms to the required standards and is able to provide a high level of environmental protection and safety. In the inspection's final report, no cases of non-compliance were noted and only four formal observations were made. At an environmental level, the Cork factory did not receive any inspections by the Environmental Protection Agency (EPA) in 2017, which nonetheless carried out two unannounced sampling and analysis campaigns to test outgoing site effluent and the gaseous emissions released into the atmosphere: all chemical samples analysed were found to be within current emission limits.

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;
- in January 2016, the pharmaceutical plant in Milan obtained the AUA (Autorizzazione Unica Ambientale) environmental authorisation from the Metropolitan City of Milan for atmospheric emissions, discharges into the water grid of water from the geothermal heat pump system and discharges into the sewers of industrial waste water and rainwater used to clean areas of the site. Waste water sampling and analysis activities are carried out regularly to confirm compliance with the limits provided by Italian Legislative Decree no. 152/06. Furthermore, in summer 2017, daytime and night-time phonometric surveys were carried out at the production plant in Milan to assess the impact on the local population of extending production to include a third shift. Following this assessment and in the context of continuous improvement, in 2018 sound barriers will be installed around the exterior of the thermal plant;
- in 2017, specialist training courses were provided at the Çerkezköy plant in Turkey to promote a better understanding of environmental issues among employees, with an approximate total of 330 training hours provided for a total of 384 employees;
- as well as the Campoverde di Aprilia plant, it is noted that the production plant in Tunisia is also certified according to standard ISO 14 001.

9 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 offices at the same site are also considered). However, an environmental system is currently being developed for the rest of the Group's sites.

4.2.
ENERGY USE AND EMISSIONS

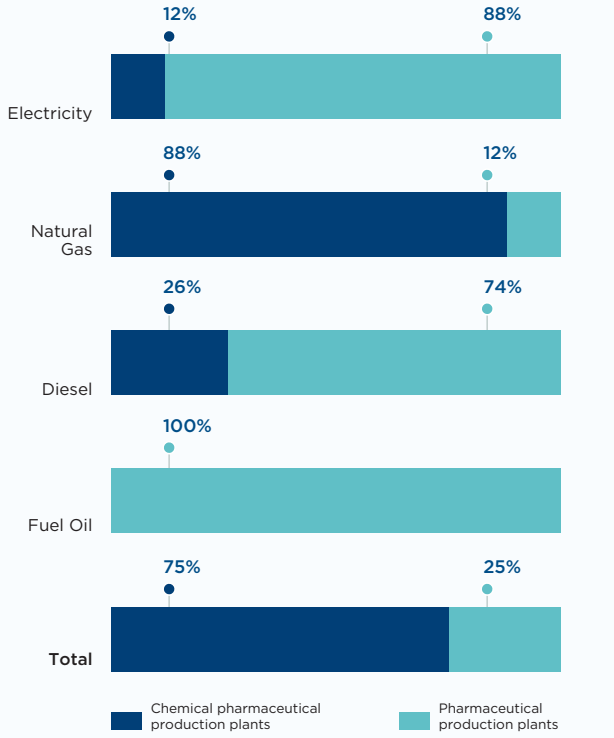
Energy use

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 2017, the Group's plants consumed approximately 606 TJ, a slight increase of 1% compared to the previous year due to the overall increase in production volume. In fact, 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. Furthermore, it is noted that the significant percentage increase in electricity obtained from renewable energy sources is predominantly due to a change in electricity supplier at the Milan and Cork plants, while the use of fuel oil is attributable to the distribution plant of Orphan Europe in France.

ENERGY USE AT THE PRODUCTION PLANTS OF THE RECORDATI GROUP BY SOURCE[10]

Type of fuel	Unit of measurement	2017	2016	Variation %
Purchased electricity	kWh	29,124,233	28,396,752	
	GJ	104,847	102,228	3%
originating from renewable sources[11]	*kWh*	*1,545,565*	*426,392*	
	GJ	*5,564*	*1,535*	
Natural Gas	m^3	14,227,325	14,081,421	
	GJ	499,863	494,737	1%
Diesel	Litres	48,942	40,728	
	GJ	1,752	1,458	20%
Fuel oil	Litres	389	-	
	GJ	16	-	N/A
Total	GJ	606,478	598,423	1%

PERCENTAGE SUBDIVISION OF ELECTRICITY USE BY PRODUCTION PLANTS, SUBDIVIDED BY USAGE AND TYPE OF PLANT, 2017



Energy use in pharmaceutical production plants was recorded at approximately 154 TJ (25% of the total), marking a 4% increase on the previous year. In particular, compared to chemical pharmaceutical plants, pharmaceutical plants used higher quantities of diesel to produce electricity and more electricity was bought from the national grid. However, in 2017 energy use by the Group's chemical pharmaceutical production plants was 452 TJ (75% of the total), in line with the previous year.

10 Lower Calorific Value (LCV) of natural gas: 0.035 GJ/m3; average density of diesel: 0.835 kg/ltr; LCV of diesel: 42.87 GJ/ltr; average density of fuel oil: 0.98 kg/ltr; LCV of fuel oil: 41.02 GJ/ltr (Source: Italian Ministry of the Environment and the Protection of Land and Sea, Table of National Standard Limits, 2017).

11 The proportion of electricity obtained from renewable sources originates from a combination of national energy providers and the Guarantee of Origin is not certified. As such, this quota is included in the calculation of Scope 2 Emissions.

ENERGY USE AT PHARMACEUTICAL PRODUCTION PLANTS BY FUEL SOURCE

Type of fuel	Unit of measurement	2017	2016	Variation %
Purchased electricity	kWh	25,500,470	24,787,850	
	GJ	91,802	89,236	3%
originating from renewable sources	*kWh*	*1,111,565*	*16,392*	
	GJ	*4,002*	*59*	
Natural Gas	m^3	1,730,744	1,625,838	
	GJ	60,808	57,122	6%
Diesel	Litres	36,142	27,528	
	GJ	1,294	985	31%
Fuel oil	Litres	389	-	
	GJ	16	-	N/A
Total	GJ	153,919	147,343	4%

ENERGY USE AT CHEMICAL PHARMACEUTICAL PRODUCTION PLANTS BY FUEL SOURCE

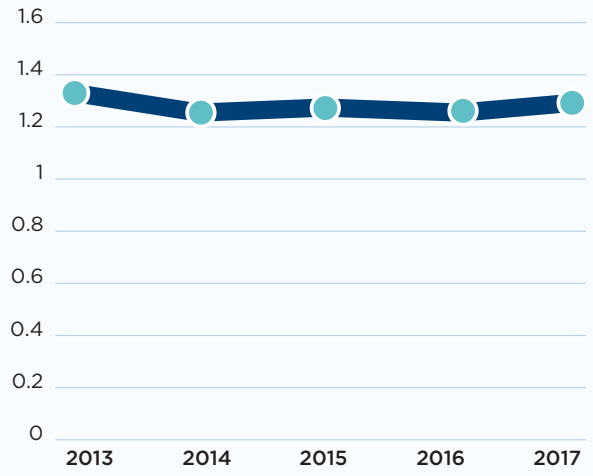
Type of fuel	Unit of measurement	2017	2016	Variation %
Purchased electricity	kWh	3,623,763	3,608,902	
	GJ	13,045	12,992	0.4%
originating from renewable sources	*kWh*	*434,000*	*410,000*	
	GJ	*1,562*	*1,476*	
Natural Gas	m^3	12,496,581	12,455,583	
	GJ	439,055	437,615	0.3%
Diesel	Litres	12,800	13,200	
	GJ	458	473	-3%
Total	GJ	452,558	451,080	0.3%

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 2017, the proportion of self-generated electricity used internally increased by 4% compared to 2016, while the amount of electricity sold back to the grid decreased by approximately 18%. The increased usage was caused by an increase in the hours of use of existing machinery, the implementation of new machines and the increase in energy usage by industrial production services. It should also be noted that while the usage of methane per kilogram of material (chemical intermediates, solvents and finished products) at the plant remained consistent, the use of methane per turnover unit (in thousands of Euro) fell in 2017, demonstrating a consistent trend of the co-generation system's energy efficiency.

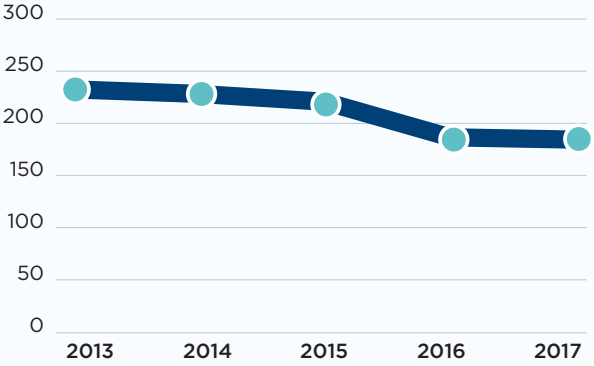
ELECTRICITY AND THERMAL ENERGY GENERATED AND SOLD BY THE CAMPOVERDE DI APRILIA CO-GENERATION PLANT

Type of fuel	Unit of measurement	2017	2016	Variation %
Self-generated electricity	kWh	31,242,481	31,447,561	-1%
Consumed internally	*kWh*	*26,207,618*	*25,292,809*	*4%*
Sold externally	kWh	5,034,863	6,154,752	-18%
Self-generated and consumed thermal energy	Kg of steam	66,794,000	72,139,020	-7%

RATIO OF CUBIC METRES OF METHANE ACQUIRED AGAINST KILOGRAMS OF PRODUCTS PROCESSED BY THE CAMPOVERDE DI APRILIA PLANT, 2017



RATIO OF CUBIC METRES OF METHANE ACQUIRED AGAINST TURNOVER (IN THOUSANDS OF EURO) GENERATED BY THE CAMPOVERDE DI APRILIA PLANT, 2017



THE CO-GENERATION SYSTEM AT THE CAMPOVERDE DI APRILIA PLANT

In September 1996, in response to the increase in demand for electricity and thermal energy caused by a constantly growing production capacity, a co-generational system was installed at the chemical pharmaceutical plant at Campoverde di Aprilia, which is still operational today. Co-generation refers to the combined generation of electricity and heat from a single fuel source, 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.

The co-generation system at the 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 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, which is then converted into electricity by an alternator. The fumes produced by the expanded gases in the turbine are emitted at very high temperatures (450-500°C) and consequently specialist heat exchangers are used (the Campoverde di Aprilia plant uses a steam recovery boiler, Figure 1) to produce hot water or steam. The steam recovery boiler, which recovers the gases expanded in the turbine and enables the production of 15-bar saturated steam up to a capacity of 16 tonnes/hour, avoids the need to use methane gas to produce any of the steam required by the plant for use in chemical processes or as a heating fluid.

Without this system to produce steam using the gas turbine fumes in the steam recovery boiler, an estimated four million cubic metres of gas would have been required in 2017 alone.

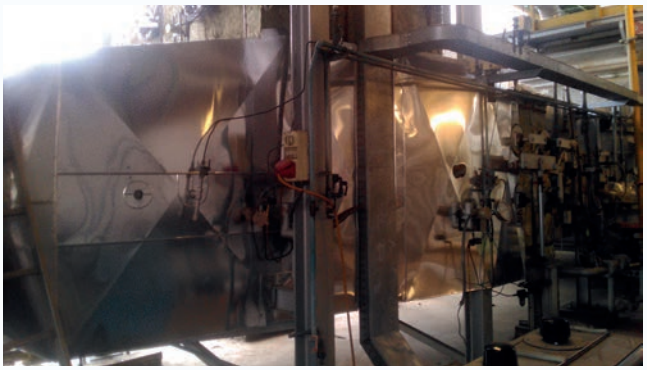


Figure 1
Channelling of emitted fumes into the steam recovery boiler of the co-generation system

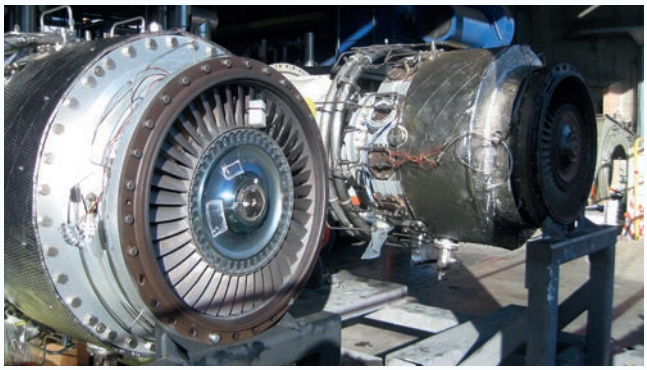


Figure 2
Installation of the gas turbine into the system, August 2016

When fully operational, the gas turbine operates 24 hours a day year-round, with the exception of scheduled closures throughout the year. The turbine is subject to regular standard maintenance procedures, including two annual manufacturer's services. This enables the Campoverde di Aprilia plant to ensure a consistent and safe supply of electricity for its production plants. In addition, the manufacturer recommends a full service every 32,000 hours of operation, which in the case of the plant is equivalent to every four years. This service requires the gas turbine to be completely dismantled, replacing the machine with an equivalent newly serviced system with an operating time reset to zero. Since 1996 the survey has been carried out five times (2000, 2004, 2008, 2012 and 2016) and has proven effective in ensuring that the system is never out of service due to mechanical failure. Furthermore, in 2016 investments were made to replace the gas turbine and modernise the system's control system in order to optimise system management and monitor emissions more accurately.

Principal initiatives to reduce energy consumption implemented by the Recordati group

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 CO_2 equivalent gases. Continued focus on the environment has been confirmed as one of the primary themes for 2018. This year, the Group aims to optimise investments and acquisitions at a general level in order to ensure maximum respect for the environment and optimise the regions in which its operates without damaging the efficacy of its operational tools.

In 2017 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 CO_2 emissions of vehicles used by the Group. This enabled the Group to optimise investments and evaluate corrective actions, where necessary. In 2017, a total of 1,772 company cars were in use by employees of the Recordati Group, while the average CO_2 emissions emitted by the vehicles was 91 g/km, representing a decrease of 8 g/km compared to the average values recorded in 2016. The current objective is to progressively and consistently reduce this statistic over the coming years[12] . In particular, 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 at the sites in Milan (Italy), Utebo (Spain), Saint Victor (France) and Tunisi (Tunisia).

In particular, the following initiatives have been implemented at the Milan plant:

- in 2016 a heating and air-conditioning system was installed with a geothermal heat pump that uses groundwater as a thermal carrier and reduces the plant's natural gas usage by 13%;
- following the energy analysis conducted in 2015, the consumption of the most energy-intensive equipment (refrigerators, pressurised air compressors, air treatment units) was measured as part of a project to install energy-efficient smart devices. To measure the predicted improvements, in 2018 a continuous monitoring system will be installed to facilitate prompt intervention in the case of any anomalies or faults;
- in 2017, a report was prepared on the redevelopment and optimisation of the production and distribution network of domestic hot water to production departments and laboratories. This report envisages the installation of a new system in 2018;
- following the installation of a new surveillance system for the air treatment units in the production departments, plant downtime has been pre-scheduled during the weekends while still ensuring that specific temperature requirements of each department are met;
- in the case of faults or new installations, neon lights are being replaced with LED bulbs and motion sensors have been installed to automatically activate the lighting in certain areas of the Galenico when people are present;
- in 2017, a new electricity supplier was selected, which guarantees that 14% of all electricity is produced from renewable sources.

In recent years the Irish plant in Cork has been committed to optimising and streamlining its production chain through the use of a programming process 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. Other energy efficiency initiatives that have taken place at the Cork plant over the year include:

- the installation of a new air compressor, facilitating a substantial reduction in the amount of electricity used to produce compressed air;
- further improvements to the production programme, increasing the efficiency of the existing system and reducing the combined used of electricity and natural gas by approximately 26% in relation to the volume of Lercanidipine produced. Similarly, the amount of solvents disposed of externally has been reduced by approximately 10%;
- an electricity supplier that generates 20% of its electricity using renewable energy sources (predominantly wind power) was selected.

Other energy efficiency initiatives were carried out:

- at the Saint Victor plant in France: the replacement of external lighting with LED bulbs, the installation of motion-activated lighting in warehouses, the review of the temperature thresholds in working environments and the replacement of the old heating boiler with a new and more efficient system;
- at the Opalia Pharma Tunisian plant, where an energy saving project was launched in 2017 which included the modernisation of the lighting with LED bulbs, the installation of an electricity smart meter in order to monitor the energy usage of certain devices in real time and facilitate prompt intervention in the case of anomalies, the installation of an automatic capacitor battery to reduce losses and the replacement of refrigeration units with more energy-efficient models;
- at the Cerkezkoy plant in Turkey, where various modernisation operations were carried out on the plant's air conditioning units and heating systems in order to reduce energy usage;
- at the Utebo plant in Spain, which continued to replace all bulbs with new LED equivalents in the case of faults.

12 Average emissions of the vehicle fleet were calculated on the basis of estimated annual CO2 emissions and annual mileage of company vehicles.

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 Campoverde di Aprilia plant, where a study was conducted into the optimisation of air pollutant treatment and disposal systems, which identified as a key solution the replacement of the current air scrubbers which use a continuous flow of water with larger wet scrubbers;
- 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 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. A study is currently being carried out to assess the possibility of installing an automatic air sampling and analysis system.
- 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 Cerkezkoy plant in Turkey, where emission points are constantly monitored, and certain emission chimneys were modified in 2017;
- at the plant in Milan, where in 2017 a gas detection device was installed in the refrigerator unit in order to immediately intercept any emissions of gases that are harmful to the ozone layer. Furthermore, the Milan plant monitors all emission points as required by the Autorizzazione Unica Ambientale (AUA) certification awarded in 2016;
- at the Campoverde di Aprilia plant, with the completion in 2017 of the first two phases of the project launched in cooperation with the company Amec Foster Wheeler; this project will continue in 2018 with the installation of four new scrubber units to treat the gas emissions released by the Processing and Manufacturing department. The first two units have been ordered and will be installed in the first half of 2018.

In 2017 total greenhouse gas emissions in the Group's production plants were largely unchanged compared to previous year. In particular, Scope 1 direct emissions relating to the use of energy for industrial production (natural gas, diesel and fuel oil) increased by 1%; furthermore, in 2017 the proportion of Scope 1 direct emissions caused by the Group's fleet of vehicles fell by approximately 18%.
However, Scope 2 indirect emissions linked to the purchase of electricity from the National Grid increased by 2%.

GREENHOUSE GAS EMISSIONS (TONNES OF CO_2) AT RECORDATI GROUP PRODUCTION PLANTS[13]

	2017	2016	Variation %
Direct emissions (Scope 1)	34,458	27,785	N/A
Relating to energy consumption	*28,073*	*27,785*	*1%*
Relating to the company vehicle fleet[14]	*6,385*	*N/A*	*N/A*
Indirect emissions (Scope 2)	10,567	10,302	3%

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 2017.
The significant percentage increase in other atmospheric emissions from 2016 to 2017 (in particular NOx) predominantly relates to the production plant in Campoverde di Aprilia. While the limits established by the Autorizzazione Integrata Ambientale continue to be respected at the plant, this increase is attributable to the activation of the after-burner of the co-generation system during the final inspection phase in 2017 to meet an increase in demand of steam for production purposes. It should be noted that the annual value of NOx emissions has been calculated by multiplying the result of a single emissions analysis (taken over one hour) by the annual operating hours.

OTHER EMISSIONS (KG/YEAR) OF RECORDATI GROUP PRODUCTION PLANTS

	2017	2016
Nitric oxide (NO_x)	20,038	2,376
Sulphur oxide (SO_x)	82	82
Persistent Organic Pollutants (POP)	0	0
Volatile Organic Pollutants (VOC)	13,304	4,957
Hazardous Air Pollutants (HAP)	2,948	972
Particulate Matter (PM)	3,546	2,373
Methane (CH_4)	1	0
Others	1,923	463

13 Source of emission coefficient data for various countries: TERNA, Confronti Internazionali, 2015. 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, 2017.

14 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 (91 g/km).

4.3. 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 or air conditioning systems before being returned in its original condition to the groundwater reserves via two return channels. The quantity of water used and recycled by the heat pump is 110,330 m^3/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;

- at the Campoverde di Aprilia plant, a project to extend the water treatment plant for the disposal of waste water was implemented in 2016 through the maintenance and use of disused tanks. This project enabled the development of a pre-treatment system for water used in various processes considered critical to the plant's operation, ensuring higher levels of compliance with the limits established by the Autorizzazione Integrata Ambientale (AIA). At the same plant, in 2017 an important project was carried out to revamp and reline the sewage pipes (surface water drains and sewage pipes) and outflow pipes for clarified water treated at the plant. In fact, approximately 125 metres of sewage pipes, 120 metres of surface water drains and 210 metres of clarified water channels were consolidated;

- 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 aims to verify the plant's compliance with the more stringent regulations due to enter into force in the coming years, will be completed in the first quarter of 2018. It is also noted that new apparatus was installed at this plant in 2017 to enable the automatic analysis of the total organic carbon (TOC) and total nitrogen (TN) content of water discharged into the sewage system. This device provides detailed analysis in real time and facilitates the control and management of the waste water treatment plant, promptly revealing any anomalies and enabling preventive measures to be implemented before the water is discharged;

- 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 m^3 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 2017, the overall water intake at the Group's production plants fell by 6% compared to 2016. In particular, total water intake in 2017 was three million cubic metres, of which 49% was surface water, 44% was groundwater and the remaining 7% was taken from aqueducts. It should also be noted that in 2017, 14% 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	2017	2016	Variation %
Surface water	m^3	1,415,480	1,327,900	7%
Groundwater	m^3	1,280,560	1,553,027	-18%
Aqueduct	m^3	220,095	215,902	2%
Total	m^3	2,916,135	3,056,869	-6%

PERCENTAGE OF RECYCLED WATER AT RECORDATI GROUP PRODUCTION PLANTS

	2017		2016	
Unit of measurement m^3	Total	% of total water intake	Total	% of total water intake
Quantity of water recycled and reused	419,997	14%	411,265	13%

4.4. 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.
In particular, at the Milan plant waste management is regulated by a specific internal procedure which assigns each waste product a specific 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 a EWC code which defines the relative management procedure for that type of waste. In accordance with Italian law (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 by the Group in 2017 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;
- at the Cork plant in Ireland, solid hazardous waste is segregated on site by production operators as soon as it is produced and is then sent off site for incineration by specialised contractors. Liquid hazardous waste is managed internally using closed systems: part of this waste is sent via a specialised contractor for disposal, while the majority is treated at the waste treatment plant of the Recordati Ireland branch. Biological sludge extracted by the waste treatment plant is sent for incineration by the specialist contractor. Furthermore, a specialist study is current being conducted at the plant in Cork to evaluate and provide a detailed emergency plan to manage leaks of thionyl chloride, the most reactive and hazardous chemical substance used in plant processes. The study should be completed in the first quarter of 2018;
- at the Cerkezkoy 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;
- at the Pardubice factory in the Czech Republic, various partnerships were launched in 2017 with companies specialising in the recycling and reuse of packaging materials;
- 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 5,966 tonnes of waste was produced in 2017, of which 57% was hazardous waste (substances defined as hazardous in the country of origin) and 43% was non-hazardous waste (all other forms of liquid and solid waste). In line with 2016, the majority of the hazardous waste produced by the production plants in 2017 (equal to 2,862 tonnes) was exported for disposal, while the remaining 519 tonnes was processed internally.

Total waste produced by Recordati group plants, subdivided by type and disposal method

		2017			2016		
Disposal method	Unit of measurement	Hazardous waste	Non-hazardous waste	Total	Hazardous waste	Non-hazardous waste	Total
Reuse	tonnes	-	1	1	-	1	1
Recycling	tonnes	42	504	546	21	310	331
Compost	tonnes	-	14	14	-	14	14
Recovery	tonnes	1,627	897	2,524	1,158	814	1,972
Incineration	tonnes	276	29	305	193	2	195
Landfill	tonnes	50	162	212	53	166	219
Storage on site	tonnes	3	-	3	15	-	15
Other[15]	tonnes	1,384	977	2,361	1,837	846	2,683
Total	tonnes	3,382	2,584	5,966	3,277	2,153	5,430

Total hazardous waste produced by Recordati group plants, subdivided by destination

		2017		2016	
Hazardous waste	Unit of measurement	Total	% of Total	Total	% of Total
Exported	tonnes	2,862	85%	2,861	87%
Processed	tonnes	520	15%	416	13%
Total	tonnes	3,382	100%	3,277	100%

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 patient information 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).

15 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 tables present the aspects defined by the GRI-G4 Guidelines relating to the material aspects identified for the Recordati group by the Materiality Analysis and its relative scope, with reference to the potential impacts of each aspect both internally and externally.

MATERIAL ASPECTS GRI-G4	Scope of the material aspects	
Categories	Internal	External
Category: Financial		
Financial performance	Recordati group	-
Indirect financial impacts	Recordati group	Local communities
Category: Environmental		
Energy	Production plants	-
Water	Production plants	-
Emissions	Production plants	
Waste and discharges	Production plants	-
Compliance	Recordati group	-
Category: Social		
Subcategories: appropriate working practices and working conditions		
Occupation	Recordati group	-
Health and safety in the workplace	Production plants	
Training and education	Recordati group	-
Diversity and equal opportunities	Recordati group	
Equal pay for men and women	Recordati group	-
Subcategory: Human Rights		
Assessment of suppliers' respect for human rights	Recordati group	Suppliers and strategic partners
Subcategory: Corporate		
Anti-corruption	Recordati group	-
Anti-competitive behaviour	Recordati group	-
Compliance	Recordati group	-
Subcategory: Product Responsibility		
Health and safety of the consumer	Recordati group	Clients and consumers; Patients and associations
Labelling of products and services	Recordati group	Clients and consumers; Patients and associations
Marketing	Recordati group	Clients and consumers; Patients and associations

In accordance with the *"Core"* option of the *"G4 Sustainability Reporting Guidelines"*, performance indicators are presented in the table below. Each indicator includes a reference to the section of the Financial Statement or Consolidated Non-Financial Statement where the indicator can be found or other relevant reference sources in the public domain.

Indicator General standard disclosure		Pages and other information
Strategy and analysis		
G4 - 1	Statement of the Chairman and Chief Executive Officer	Letter to Shareholders, pag. 7-9
G4 – 2	Principle impacts, risks and opportunities	pag. 104-106; Annual Report, pag. 60-63; Corporate Governance and Share Ownership Report, pag. 163-166
Organisation Profile		
G4 - 3	Name of Organisation	pag. 107;
G4 - 4	Main trademarks, products and services	Annual Report, pag. 5, 47-55
G4 - 5	Registered offices	Annual Report, pag. 5
G4 - 6	Countries of operation	Annual Report, pag. 5, 47-55
G4 - 7	Share ownership and legal composition	Corporate Governance and Share Ownership Report, pag. 148-150
G4 - 8	Markets served	Annual Report, pag. 47-55
G4 - 9	Size of the organisation	Annual Report, pag. 45; Consolidated Financial Statement pag. 65-78; Corporate Governance and Share Ownership Report, pag. 148; pag. 107
G4 - 10	Employees by contract type, gender, location, professional level	pag. 118-121
G4 - 11	Percentage of employees protected by collective labour agreements	pag. 122
G4 - 12	Description of the organisation's supply chain	pag. 115,116
G4 - 13	Significant changes to the size, structure, share ownership or supply chain of the organisation	Consolidated Financial Statement of the Recordati group, pag. 69
G4 - 14	Application of the prudential approach to risk management	Corporate Governance and Share Ownership Report, pag. 163-166
G4 - 15	Adoption of external codes and principles regarding financial, social and environmental issues	pag. 107-108; Corporate Governance and Share Ownership Report, pag. 167, 168
G4 - 16	Membership of industry associations or organisations	pag. 109, 110
Materiality and scope of the report		
G4 - 17	List of entities included in the Consolidated Financial Statement and those not included in the Consolidated Non-Financial Statement	pag. 104-106
G4 - 18	Description of the process for the preparation of the Consolidated Non-Financial Statement	pag. 108, 111
G4 - 19	Identified material aspects	pag. 111
G4 - 20	Materiality aspects internal to the organisation	pag. 111, 139
G4 - 21	Materiality aspects external to the organisation	pag. 111, 139
G4 - 22	Amendments to information with respect to the previous Consolidated Non-Financial Statement	*This document is the first Non-Financial Statement of the Recordati group.*
G4 - 23	Significant changes in terms of objectives or scope compared to the previous Consolidated Non-Financial Statement	*This document is the first Non-Financial Statement of the Recordati group.*

Indicator General standard disclosure		Pages and other information
Stakeholder engagement		
G4 - 24	Categories and groups of *stakeholders* involved in the organisation	pag. 108, 109
G4 - 25	*Stakeholder* identification process	pag. 108, 109
G4 - 26	Approach to *stakeholder* engagement, including frequency and type of activity	pag. 108, 109
G4 - 27	Key aspects revealed by stakeholder engagement initiatives	pag. 111
Report profile		
G4 - 28	Reporting period of the Consolidated Non-Financial Statement	pag. 104-106
G4 - 29	Publication date of the previous Consolidated Non-Financial Statement	*This document is the first Non-Financial Statement of the Recordati group.*
G4 - 30	Reporting cycle	pag. 104-106
G4 - 31	Contacts for more information regarding the Consolidated Non-Financial Statement	pag. 104-106
G4 - 32	GRI Index and "in accordance" option	pag. 139-144
G4 - 33	External quality assurance policies and practices	pag. 145-147
Governance		
G4 - 34	Governance structure	Corporate Governance and Share Ownership Report, pag. 148-160
Ethics		
G4 - 56	Values, principles, standards and code of conduct of the organisation	The Group Business Model; Corporate Governance and Share Ownership Report, pag. 148-160

Indicator Specific Standard Disclosure Financial Category		Pages and other information	Omission
Material aspect: Financial performance			
G4-DMA	General information on the management model	pag. 112, 113	
G4 - EC1	Directly generated and distributed economic value	pag. 112	
Material aspect: Indirect financial impacts			
G4-DMA	General information on the management model	pag. 112, 113	
G4 - EC7	Development and impact of investments in infrastructure and services	pag. 112, 113	
Environmental Category			
Material aspect: Energy			
G4-DMA	General information on the management model	pag. 130, 131	
G4 - EN3	Direct energy usage	pag. 131, 132 *This indicator considers production plants only*	
G4 - EN6	Reduction in energy usage	pag. 131-134 *This indicator considers production plants only*	
Material aspect: Water			
G4-DMA	General information on the management model	pag. 136	
G4 - EN8	Water intake by source	pag. 136 *This indicator considers production plants only*	
G4 - EN9	Sources significantly affected by water abstraction	pag. 136 *This indicator considers production plants only*	
G4 - EN10	Percentage and total volume of recycled and reused water	pag. 136 *This indicator considers production plants only*	
Material aspect: Emissions			
G4-DMA	General information on the management model	pag. 130-135	
G4 - EN15	Total direct greenhouse gas emissions (scope 1)	pag. 135 *This indicator considers production plants only*	
G4 - EN16	Total indirect greenhouse gas emissions (scope 2)	pag. 135 *This indicator considers production plants only*	
G4 – EN21	Emissions of other air pollutants (NOx, SOx, etc.)	pag. 135 *This indicator considers production plants only*	
Material aspect: Waste and discharges			
G4-DMA	General information on the management model	pag. 137	
G4 - EN23	Waste produced by type and disposal method	pag. 137 *This indicator considers production plants only*	
G4 - EN25	Production of hazardous waste	pag. 137 *This indicator considers production plants only*	
Material aspect: Compliance			
G4-DMA	General information on the management model	pag. 130	
G4 - EN29	Monetary value of significant fines and number of non-monetary sanctions for non-compliance with environmental regulations and legislation	*No significant fines for non-compliance with environmental regulations and legislation were reported during the year*	

Indicator Specific Standard Disclosure Social Category		Pages and other information	Omission
Subcategory: Appropriate working practices and working conditions			
Material aspect: Occupation			
G4-DMA	General information on the management model	pag. 118, 121, 122	
G4 - LA1	Total number of new recruits and staff turnover by age, gender and location	pag. 120	
G4 - LA2	Benefits offered to full-time workers but not to part-time or temporary workers	pag. 122, 123 *The described benefits do not vary based on contract type or professional level*	
Material aspect: Health and safety in the workplace			
G4-DMA	General information on the management model	pag. 125, 126	
G4 - LA6	Occupational injury, disease, lost work day and absenteeism rates and total number of deaths, subdivided by location and gender	pag. 127-129 *This indicator refers exclusively to employees of production plants*	
Material aspect: Training and education			
G4-DMA	General information on the management model	pag. 123-124	
G4 - LA9	Average hours of annual training per employee, subdivided by gender and professional level	pag. 124	
G4 - LA10	Skills development and career advancement programmes and support in managing final career phases	pag. 124, 125	
Material aspect: Diversity and equal opportunities			
G4-DMA	General information on the management model	pag. 121, 122	
G4 - LA12	Composition of the Group's governance bodies and division of employees by gender, age and other diversity indicators	pag. 118; pag. 121, 122; Corporate Governance and Share Ownership Report, pag. 151-155	
Material aspect: Equal pay for men and women			
G4-DMA	General information on the management model	pag. 122, 123	
G4 - LA13	Ratio between basic salary and total remuneration for men and women by category, subdivided by significant operational sites	pag. 123	
Subcategory: Human Rights			
Material aspect: Assessment of suppliers' respect for human rights			
G4-DMA	General information on the management model	pag. 115, 116	
G4-HR10	Percentage of suppliers assessed for respect of human rights	pag. 115, 116 *As per the new procurement process, suppliers for Italian Companies are selected based on the acceptance by the supplier of the Code of Ethics. This process will be extended to all Group Companies by the end of 2019.*	

Indicator Specific Standard Disclosure Social Category		Pages and other information	Omission
Subcategory: Corporate			
Material aspect: Anti-corruption			
G4-DMA	General information on the management model	Corporate Governance and Share Ownership Reports, *"Organisational Model pursuant to Italian Legislative Decree no. 231/01"*	
G4 – SO3	Operations assessed on the basis of corruption risks	Corporate Governance and Share Ownership Reports, *"Organisational Model pursuant to Italian Legislative Decree no. 231/01"*	
G4 – SO5	Cases of corruption and the measures adopted	*No cases of corruption were reported during the year*	
Material aspect: Anti-competitive behaviour			
G4-DMA	General information on the management model	pag. 107, 108; Corporate Governance and Share Ownership Report, pag. 167, 168	
G4 - SO7	Legal action relating to anti-competitive behaviour, anti-trust cases and monopoly practices and their respective outcomes	*No legal action for anti-competitive behaviour, anti-trust cases or monopoly practices were reported during the year*	
Material aspect: Compliance			
G4-DMA	General information on the management model	pag. 114; Corporate Governance and Share Ownership Report, pag. 163-167	
G4 - SO8	Monetary value of significant sanctions and total number of non-monetary sanctions for non-compliance with laws or regulations	*No significant sanctions for non-compliance with laws or regulations were reported during the year*	
Subcategory: Product Responsibility			
Material aspect: Health and safety of the consumer			
G4 – DMA	General information on the management model	pag. 114, 116, 117	
G4 – PR2	Total number (subdivided by type) of cases of non-compliance with voluntary regulations and codes regarding the health and safety impact of products and services during their life cycle	pag. 114, 115	
Material aspect: Labelling of products and services			
G4 – DMA	General information on the management model	pag. 114, 117	
G4 – PR4	Cases of non-compliance with information and labelling regulations for product and services	pag. 114, 117	
Material aspect: Marketing			
G4-DMA	General information on the management model	pag. 114, 117	
G4-PR7	Cases of non-compliance to product communication, marketing and advertising regulations	pag. 114, 117	

Milan, 15 March 2018

Andrea Recordati
Vice Chairman and Chief Executive Officer

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 Consob Regulation no. 20267

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 Consob (the Italian Commission for listed companies and the stock exchange) Regulation no. 20267, we have been engaged to perform a limited assurance engagement on the 2017 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 15 March 2018 (the "NFS").

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Recordati Industria Chimica e Farmaceutica S.p.A. (the "Company") for the NFS

The directors are responsible for the preparation of a NFS in accordance with articles 3 and 4 of the decree and the "G4 Sustainability Reporting Guidelines" issued in 2013 by GRI - Global Reporting Initiative (the "GRI G4 Guidelines").

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 a 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.

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 for 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. KPMG S.p.A. 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 G4 Guidelines. 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 Company'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.
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 5.a).

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 Company's management personnel and personnel of the subsidiary Recordati ilaç Sanayi ve Ticaret A.Ş.. 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 Company 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 selected procedures to check the correct aggregation of data in the quantitative information;
   - we visited Recordati Industria Chimica e Farmaceutica S.p.A. e Recordati ilaç Sanayi ve Ticaret A.Ş., which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.

Conclusions

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2017 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 G4 Guidelines.

Other matters

The 2016 comparative figures presented in the NFS have not been reviewed.

Milan, 27 March 2018

KPMG S.p.A.

(signed on the original)

Claudio Mariani
Director of Audit

Corporate governance report and ownership structure

FINANCIAL YEAR 2017

pursuant to article 123 *bis* of the Consolidated Finance Law, article 89 *bis* of Consob Issuers' Regulations

Approved by the Board of Directors on 15th March 2018

Website: www.recordati.it

GLOSSARY

Board: the Board of Directors of Recordati S.p.A..

CC: the Italian Civil Code.

Code: the Corporate Governance Code for listed companies approved in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana Spa, 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).

Consob Issuers' Regulations: the regulations issued by the Consob (Italian securities market authority) with Resolution No. 11971 of 1999 (as subsequently amended) for issuers.

Consob Markets Regulations: the regulations issued by the Consob (Italian securities market authority) with Resolution No. 20249 in 2017 for markets.

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.

Issuer: Recordati S.p.A..

Year: the financial year to which this report relates (2017).

Report: the corporate governance report and the ownership structure that issuers are required to prepare pursuant to article 123-bis of the Consolidated Finance Law.

TUF: Legislative Decree No. 58 dated 24th February 1998 *(Testo Unico della Finanza)* the TUF.

1. PROFILE OF THE ISSUER AND GENERAL INFORMATION

Recordati (Reuters RECI.MI, Bloomberg REC IM) was founded in 1926 and is listed as a joint-stock share company in the FTSE MIB index of Borsa Italiana Spa (ISIN IT 0003828271).

The Company and the Group that it leads has approximately 4,000 employees. They perform research and development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals. They perform their activities in the principal countries of the European Union, in Russia and in other Central and Eastern European countries, in Turkey, in North Africa and in the United States of America.

As at 31st December 2017 the Group was composed of 45 subsidiaries (of which three Italian), in addition to the Parent Company, Recordati S.p.A..

The primary objective of Recordati's corporate governance system is the creation of value for shareholders by means of a responsible and sustainable coach, without, however, losing sight of the social importance of the activity performed and of all the stakeholders involved. Recordati's values are described in the Code of Ethics, which was updated most recently on 4th May 2017 by the Board of Directors and may be consulted on the Recordati website[1]).

The corporate governance structure of the Company is based on a conventional organisational model and therefore consists of the following corporate bodies: (i) the Shareholders' Meeting, (ii) the Board of Directors, (iii) the Board of Statutory Auditors. Accounting control is delegated, in compliance with the relative legislation in force, to a firm of auditors registered in the special roll maintained by the Consob (Italian securities market authority). A "231" (administrative liability) Supervisory Committee 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, the Audit, Risk and (since April 2017) sustainability Committee, both consisting exclusively of independent directors.

Recordati adheres to and complies with the Corporate Governance Code for listed companies (the July 2015 edition) with the additions and necessary amendments resulting from the characteristics of the Group as mentioned in this report (may be consulted on the website of Borsa Italiana: http://www.borsaitaliana.it).

Unless otherwise indicated, the information contained in this report relates to the financial year ended 31 December 2017 and, in relation to specific subjects, to the date of its approval by the Board of Directors (15 March 2018).

In some cases the Report makes reference to documents and information which may be consulted on the corporate website (www.recordati.it).

1 *http://www.recordati.it/en/corporate_governance/compliance_programmes_/recordati-code-of-ethics-amended-on-4th-may-2017.pdf*

2. INFORMATION ON THE OWNERSHIP STRUCTURE (pursuant to Art. 123 *bis*, paragraph 1 of the Consolidated Finance Law)

a) Structure of the share capital and rights attaching to shares (pursuant to Art. 123 *bis*, paragraph 1, letter a) of the Consolidated Finance Law)

The subscribed and paid in share capital amounts to € 26,140,644 and is represented by 208,507,656 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 Corporate By-Laws. More specifically, each share entitles the holder to a proportional part of the profits allocated for distribution; Art. 28 of the Corporate 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/it/corporate_governance/remunerazioni/piani_di_stock_options. 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/).

STRUCTURE OF THE SHARE CAPITAL

	Number of shares	% of share capital	Listed/ unlisted
Ordinary shares	209,125,156	100	Listed
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 shares of the Company are freely transferable.

c) Significant investments in share capital (pursuant to Art. 123-*bis*, paragraph 1, letter c) of the TUF)

On the basis of information received, in accordance with article 120 of Legislative Decree No. 58/1998, as at 14th March 2018 the following parties held shares, either directly or indirectly, amounting to more than 3% of the share capital ("significant holdings").

SIGNIFICANT INVESTMENTS IN THE SHARE CAPITAL

Declarer	Direct shareholder	Percentage (%) of ordinary share capital	Percentage (%) of voting share capital*
FIMEI S.p.A.	FIMEI S.p.A.	51.791%	51.791%

* *As is known treasury stock consists of shares on which voting rights are only temporarily suspended in accordance with the law.*

As at 14 March 2018, Recordati S.p.A. has n. 4,873,604.00 own shares in Treasury stock which amount to 2.33% of the current share 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 control 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)

The Company has no knowledge of the existence of shareholders' agreements pursuant to TUF Art. 122.

h) Change of control clauses (pursuant to Art. 123 *bis*, paragraph 1, letter h) of the TUF) and by-law 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 have been issued by the American subsidiary Recordati Rare Diseases Inc (in 2013 and guaranteed by the Company) and by the Company itself (in 2014 and in 2017) – for totals of US$145 million euro and €125 million - both privately placed with international investors and major loan agreements have also been signed by the Company – for a total of €405 million. As is normal in financial operations of this type, they include 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 Finance Law nor do they allow the application of neutralisation rules pursuant to Art. 104-bis, paragraphs 1 of the Consolidated Finance Act.

i) Powers to increase the share capital and authorisations to purchase treasury shares (pursuant to Art. 123 *bis*, paragraph 1, letter m) of the Consolidated Finance Law)

The Board of Directors was authorised to increase share capital, pursuant to CC Art. 2443 by a Shareholders' Meeting of 11th April 2017.
The increase in the share capital may be performed in one or more tranches, free of charge or by payment, for a total maximum nominal amount of € 50,000,000 within a period of no more than five years from the date of the resolution, by issuing ordinary shares and/or warrants for the subscription to such shares, to assign or to offer as an option to shareholders, with the right pursuant to the joint provisions of 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 this 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 this date, the Board has not yet acted on this mandate, not even partially.

The By-Laws do not authorise the Board to issue financial instruments of participation.

In ordinary session on 11th April 2017 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 31st December 2017, scheduled for 18th April 2018. 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 10,000,000, which corresponds to a total potential payment of not more than € 300,000,000, 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%. These shares must be purchased on regulated markets, in accordance with and by the methods stated in Article 144-bis, first paragraph, point (b) of the Consob Issuers' Regulations and EU Regulation 596/2014 of 16th April 2014 and related implementation legislation, where applicable, as well as in accordance with market practices admitted by the Consob pursuant to Article 180 of the TUF.

At year-end, the Company held 863,262 treasury shares in portfolio, which represent 0.413% of the share capital.

On the basis of that shareholders' resolution, on 11th July 2017, a programme was commenced to purchase treasury stock to be used at the service of stock option plans already adopted by the Company and for those which may be adopted in the future, designed for employees of the companies in the Recordati Group. As part of the implementation of that programme, from 11th July 2017 until the date of this report, the Company purchased n. 4,096,842 ordinary shares for a total payout of € 121,764,618.00.

In consideration of the expiry of the current authorisation which will occur when the Shareholders' Meeting is held to approve the 2017 Annual Report, the Board resolved to submit a proposal to the Shareholders' Meeting convened to approve the 2017, annual report 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 activities (pursuant to Art. 2497 *et seq* of the CC)

Although controlled by Fimei S.p.A, the Company is not subject to management and co-ordination by the same, pursuant to CC articles 2497 *et seq.*.
Fimei S.p.A. is a mere financial holding company with no operations of any kind; no procedures exist to furnish authorisations or instructions to the Company in its relations with the Parent Company and therefore the Company sets its own strategic and operating policies in full autonomy.
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 CG Code, which may be consulted on the website of Borsa Italiana at the address http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2015.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.

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 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 regarding diversity policies applied to the management and supervision bodies and their committees with respect to age, gender numbers and educational and professional background, as required under Article 123-*bis*, paragraph d-bis of the TUF, are illustrated in the section of the Report on the Board of Directors (Sect. 4.2.2).

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND SUBSTITUTION OF THE BOARD OF DIRECTORS (pursuant to Art. 123-*bis*, paragraph 1, letter l) of the TUF)

Appointments and substitutions of Directors are regulated by Articles 15, 16 and 18 of the By-Laws, which in the latest version as amended on 11th April 2017 at the Shareholders' Meeting (following the renewal of mandates to increase the share capital) read in their entirety as follows:

Art. 15) The Board of Directors shall be appointed from slates of candidates presented by shareholders, in compliance with the existing regulations in force on gender balance, according to the procedures as indicated below, in which the candidates are identified by progressive numbers.
Slates submitted by shareholders must be signed by the submitter, kept on file in the Company's head offices and made available to all those who so request a minimum of twenty-five days prior to the date for which the first call of the meeting is scheduled. The slates shall be subject to other forms of disclosure as provided by the legislation in effect at the time.
No shareholder, including shareholders who have signed a shareholders' agreement identified by Art. 122 of Legislative Decree No. 58/1998, the parent company, subsidiaries, and companies under common control pursuant to Art. 93 of Legislative Decree No. 58/1998, may not submit nor participate in the submission, not even through a third party or trust company, of more than one slate and each candidate may be present on one slate only under penalty of ineligibility. Endorsements of slates and votes cast in violation of this prohibition shall 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 slate is 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 pro visions as above will be considered as not presented.
The Board of Directors will be elected as follows:
a) all directors to be elected, except for one, shall be drawn from the slate that obtains the greatest number of votes according to the progressive order in which the candidates are placed on said 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 through the above methods do not result in the appointment of a number of directors who meet the independence requirements established for statutory auditors by article 148, paragraph three, of Italian Legislative Decree No. 58 of 28th February 1998 equal to the minimum number established by the law in relation to the total number of directors, the non-independent candidate elected with the lowest progressive number on the slate that obtains the largest number of votes as indicated in letter a) of the foregoing paragraph shall be replaced by the first independent candidate in terms of progressive numbering that was not elected on the basis of the slate, or, failing the above by the first independent candidate in terms of progressive numbering not elected by 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 pursuant the Art. 148, paragraph three of Legislative Decree No. 58/1998, 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 diverse 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 Chairman and may appoint a Vice-Chairman from among its members. The Board shall also appoint one or more Managing Directors from among its members. The Chairman 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-Chairman, 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. 20273 of 24th January 2018 with regard to the capitalisation of the Company in the last quarter of 2017, 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 listed 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 to 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 and the Board of Directors verifies possession of the requirements of independence in accordance with the CG 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.

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 and also in accordance with the specific indications in Section 4.6.

With regard to the regulations on gender balance in corporate bodies (Law No. 120/2011, new articles 147-*ter* and 148 of the Consolidated Finance Act, new Art. 144-undecies of the Issuers Regulations), which apply to the renewal of corporate bodies subsequent to 18th August 2012, the Company made the necessary amendments to the By-Laws on 8th May 2012 in order to comply with the new regulations.

In particular, the Board of Directors shall be appointed in compliance with the existing regulations in force on gender balance (and in any case on the basis of slates of candidates presented by shareholders). It should be noted that the reappointment of the Board of Directors resolved by the shareholders on 11th April 2017 was for a second term as per Law No. 120/2011, which states that in a second term, at least one-third of the members, rounded up to the nearest whole number, must be of the less represented gender.

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 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.

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.

The Board of Directors in office at the date of this report was appointed by a Shareholders' Meeting held on 11th April 2017, for three years, with the term of office expiring at the time of the Shareholders' meeting held to approve the 2019 Annual Report. The Shareholders' Meeting held on 11th April 2017 appointed a board composed of nine directors, of which six independent, including three women, in compliance with the criteria laid down by the applicable provisions on the matters of gender balance (at least one third of the members must be of the least represented gender) and the minimum number of independent directors (at least one third of the Board for issuers belonging to the FTSE-MIB[2] index). When the Board currently in office was appointed at the 11th April 2018 Ordinary Meeting, only one slate of candidates for Board positions was submitted by the majority shareholder FIMEI S.p.A.[3] This slate received votes from shareholders representing 67.467% of the shares with voting rights. The voting capital amounted to 78.595% of the Issuer's share capital and the Board of Directors was elected with 75.3% of the share capital voting in favour.

The outgoing Board of Directors, whose term ended on 11th April 2017 along with the Shareholders Meeting held to approve the 2016 Annual Report, provided the shareholders with guidance regarding the appointment of a new Board of Directors in the Directors' Report, on the second point on the meeting's agenda. More specifically, the outgoing Board, "Considering the corporate governance rules according to which the number of Board members must be appropriate to the size and complexity of the Company's organisational structure, and considering the positive dynamics experienced in the functioning of the management body over the past three years" expressed the opinion that "in formulating proposals for the meeting, the shareholders should work to keep the number of directors to elect for the 2017-2019 term at nine, also ensuring that the new composition – as already recommended under the Code and in continuity with the past – suitably represents, as regards the Company's business, the various components (executive, non-executive and independent) as well as the skills and the professional and managerial experience needed to run the Company well"[4].

Alberto Recordati	Chairman	Executive	-	*BoD meeting of 19.03.1986
Andrea Recordati	Vice Chairman and CEO	Executive	-	*Shareholders' meeting of 29.04.1998
Rosalba Casiraghi	Director	Non-executive	Independent	*Shareholders' meeting of 17.04.2014
Micaela Castelli	Director	Non-executive	Independent	*Shareholders' meeting of 17.04.2014
Elisa Corghi	Director	Non-executive	Independent	*Shareholders' meeting of 17.04.2017
Paolo Fresia	Director	Non-executive	Independent	*Shareholders' meeting of 17.04.2014
Mario Garraffo	Director	Non-executive	Independent	*Shareholders' meeting of 29.04.1999
Fritz Squindo	Director	Executive	-	*BoD meeting of 14.03.2013
Marco Vitale	Director	Non-executive	Independent	*Shareholders' meeting of 13.04.1997

**Date first appointed to the BoD*

A summary of the composition of the Board of Directors at 31st December 2017 and details of the type of Director on that date is given as follows:
The personal and professional qualities of each director – whose areas of expertise span from law to corporate governance, economics, finance and business management – are reported in Appendix 1 of the present Report, where any positions held by the directors in other listed companies are also indicated.

For an assessment of the independence of the Directors in office, the table at the end of this section and the information specifically given in Section 4.6 may be consulted for further details.

2 *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.*

3 *The slate presented by FIMEI S.p.A., together with the relative additional documentation filed in accordance with the law and the applicable regulations may be consulted on the website www.recordati.it, (in the section Investors/Shareholders' Meetings/2017). The slate contained the following candidates: Dr. Alberto Recordati, Dr. Andrea Recordati, Dr. Fritz Squindo, Dr.ssa Rosalba Casiraghi, Avv. Michaela Castelli, Dr.ssa Elisa Corghi, Prof. Marco Vitale, Dr. Mario Garraffo, Dr.Paolo Fresia.*

4 *The Directors' Report on item two on the agenda of the 11th April 2017 Shareholders' Meeting can be consulted at www.recordati.it (section: Investors/Assemblee degli Azionisti/2017)*

TABLES COMPOSITION AND STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

	Board of Directors in office as at 31.12.2017											Audit, Risk and Sustainability Committee		Remuneration Committee	
Position	Members	Year of birth	In office since	In office until	Slate (M/m) *	Exec.	Non-Exec.	Indep. according to CG Code	Indep. according to TUF	% ***	Number of other positions in listed companies ****	*****	% ***	*****	% ***
Chairman	ALBERTO RECORDATI	1953	11.4.2017	Approval of 2019 Annual Report	M	X				11/11	0				
Vice Chairman and CEO ◊	ANDREA RECORDATI	1971	11.4.2017	Approval of 2019 Annual Report	M	X				11/11	0				
Director	ROSALBA CASIRAGHI	1950	11.4.2017	Approval of 2019 Annual Report	M		X	X	X	11/11	1				5/5
Director	MICHAELA CASTELLI	1970	11.4.2017	Approval of 2019 Annual Report	M		X	X	X	10/11	4	M	6/7	M	5/5
Director	ELISA CORGHI	1972	11.4.2017	Approval of 2019 Annual Report	M		X	X	X	8/8	2		5/5	M	
Director	PAOLO FRESIA	1988	11.4.2017	Approval of 2019 Annual Report	M		X	X	X	8/11	0				
Director	MARIO GARRAFFO	1937	11.4.2017	Approval of 2019 Annual Report	M		X	X (**)	X	10/11	1	M	2/2[5]		5/5
Director•	FRITZ SQUINDO	1956	11.4.2017	Approval of 2019 Annual Report	M	X				11/11	0			P	
Director o	MARCO VITALE	1935	11.4.2017	Approval of 2019 Annual Report	M		X	X (**)	X (**)	8/11	1	P	7/7		

• *This symbol indicates that the director is responsible for the internal control and risk management system.*

◊ *This symbol indicates the principal manager of the issuer (chief executive officer or CEO).*

o *This symbol indicates the lead independent director (LID).*

(*) M/m are given in this column where "M" indicates a member elected from the majority slate and "m" from a minority slate.

*(** The Board has qualified Prof. Marco Vitale and Dr. Mario Garraffo as independent, even though they have been directors of the Company for more than nine years during the past twelve, and in the case of Prof. Vitale even though he has been appointed as a professional consultant to the Company with an annual fee of € 50.000.00 (a non-significant amount), considering that by their specific expertise and professional commitment to constant control and stimulation of the Board, they have demonstrated that they have maintained their characteristics of independence and freedom of judgement in evaluating the operations carried out by management.*

(***) This column contains the percentage attendance of directors at the relative board and committee meetings (number of presences/number of meetings held during the actual period office of the person concerned).

*(**** This column gives the number of appointments as a director or statutory auditor held by the person concerned in other companies listed on regulated markets, including foreign markets. For a complete list of other appointments including those in financial, banking or insurance companies or in large companies, please see the list contained in Attachment 1 of this document.*

(*****) This column indicates the position of the director within the committee: "C" Chair and "M" member.

Information concerning the date of the first appointment of directors to the board is given on page 153.

5 Member until 11.4.2017

INDICATE THE QUORUM REQUIRED FOR THE PRESENTATION OF SLATES WHEN DIRECTORS WERE LAST APPOINTED: 1%

Number of meetings held during 2017	Board meetings	Audit, Risk and Sustainability Committee:	Remuneration committee
	11	5	7

4.2.1. Succession Planning

In compliance with Principle 5.C.2. of the CG Code, the Board of Directors considered the situation when making amendments to that Code in December 2011 and decided that it was not necessary to adopt an official succession plan for executive directors.

4.2.2 Diversity Policies (as per Article 123-*bis*, par. 2, letter d-*bis* of the TUF)

Italian Legislative Decree No. 254/2016 regarding non-financial information, enacted to implement European Directive 2014/95/EU and in effect as from 25th January 2017, introduces an obligation for listed companies to disclose, in corporate governance reports on financial years beginning 1st January 2017 and thereafter, detailed information about diversity policies "applied with regard to the composition of management and supervision bodies with respect to age, gender breakdown and educational and professional background, as well as a description of related objectives, implementation methods and the results of those policies." In cases where no such policy is applied, the Company is required to provide clear and detailed reasoning for this decision.

In the Board of Directors self-assessment process for the 2017 financial year, the Company conducted a specific survey on this matter, encouraging the directors to provide comments about diversity issues vis-à-vis Board members, in order to determine whether to adopt specific policies to promote diversity.

The results of this survey were examined by the Board, as part of its overall analysis of survey responses, in its meeting on 8th February 2018. No particular comments were made that would point the Board towards specific policies on the diversity of its members in terms of age, gender or educational and professional background.

After a thorough discussion on the issue, the Board therefore determined that it was not necessary to formulate an official policy to promote diversity in these aspects, considering that the Board, even without such a policy, can already, especially during its annual self-assessment, effectively monitor and identify over time the optimal qualitative and quantitative composition. The Board determined that – within a process of taking greater responsibility that involves both the Board of Directors itself and the shareholders – if specific needs were to arise for the Board to function properly, including critical issues related to the diversity of its members, then it could formulate recommendations (as it did in 2017) to the shareholders prior to the appointment of a new Board of Directors and a new Board of Statutory Auditors, or request an addition to the Board through the appointment of one or more new directors during a given term, if such needs could not be delayed until the next term.

This decision was based on the acknowledgement of legislation in force on gender diversity, which ensures that the Board composition must meet a gender diversity criterion. It was also based on the fact that the results of the self-assessment process showed no evidence of any specific concerns regarding the diversity of the members of the Board, even in terms of other aspects such as age[6], experience and educational background.

4.2.3. Maximum number of offices held in other companies

The Board of Directors has opted not to set general criteria for the maximum number of managerial and supervisory roles in other companies that may be considered compatible with a role as Director of the Company. It has done this because it feels that it is best to allow individual directors to assess this compatibility themselves.

The Board self-assessment process carried out in 2017 confirmed the positive general assessment made of the functioning of the Board and its committees also with particular reference to this aspect.

4.2.4. Induction Programme

Following the appointment of the Board of Directors and of the new Board of Statutory Auditors on 11th April 2017, the Chairman and Chief Executive Officer decided that it was not necessary to arrange a specific induction session, given that with the exception of new members Dr.ssa Corghi and Dr. Santi, the other directors and auditors had all been part of the outgoing management and control bodies.

Generally speaking, however, 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, in addition to the annual analysis of the Recordati Risk Catalogue.

For 2018, the Chairman and the Chief Executive announced that, as specific induction sessions, they would arrange for the independent Board members and Auditors to visit the production site in Milan and to participate in an annual meeting where the Group's managerial staff illustrate the results of the previous year and comment on the Group's business operations and developments.

4.3 ROLE OF THE BOARD OF DIRECTORS (pursuant to Art. 123-*bis*, paragraph 2, letter d) of the TUF)

During the financial year, the Board of Directors met eleven times, with the meetings lasting for one hour and forty minutes on average, on the following dates: 9th February, 1st March, 5th April, 11th April, 4th and 5th May, 15th June, 27th July, 26th September, 26th October, 8th November and 19th December 2017. Average attendance by the members was about 95.5%. As regards the current year, seven meetings are scheduled and the Board has already met on 8th February 2018. 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.

6 The average age of the current Board members is about 58, with five of the directors over 60 and four under 50, including one under 30; this average is broadly in line with Italian listed companies overall according to the latest reports on corporate governance issued by Assonime and by the Consob.

The promptness and completeness with which information is provided before board meetings is ensured by the Chairman 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 for reasons of confidentiality and urgency. On these occasions, the arguments were in any case investigated by internal committees, the within the scope of their remits, and the Chairman 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 notice of three days to be appropriate and that time limit has normally been complied with in the meetings that followed (during the year periodic accounting documents were in fact delivered approximately five days before meetings on average). The Board self-assessment process for 2017 essentially confirmed the appropriateness of this notice.

During the course of the year and in the meetings already held in 2018 various persons attended board meetings in order to provide additional information on the items on the agenda. These included the Chief of Administration, the Chief of Group Operational Control and Reporting, the Chief of Corporate Development and the Chief of the Legal Service and Corporate Affairs (who also acted as the Secretary to the Board).

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 authorized to decided 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 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 previsions;
- 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 24th November 2010 (and last revised in 2017); establish guidelines to identify significant operations;
- 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 Audit, Risk and sustainability 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 and with a view to sustainability in the medium to long-term;
- 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 establishment of an Audit, Risk and Sustainability Committee, given the task of supporting, through appropriate investigative actions, the assessments assigned to the Board of Directors regarding the internal control and risk management system, in terms of sustainability (intended here as the processes, initiatives and activities carried out to oversee the Company's commitment to sustainable development along the value chain), as well as its assignments related to the approval of periodic financial reports;
- subject to the opinion of the Audit, Risk and Sustainability Committee, the approval of the declaration on non-financial information; the responsibility of ensuring that the latter is written and published in compliance with Legislative Decree No. 254/2016 lies with the Directors, who must act in accordance with the criteria of professionalism and diligence;
- subject to the opinion of the Audit, Risk and Sustainability 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 Audit, Risk and Sustainability 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 Audit Risk, and Sustainability 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 Audit Risk, and Sustainability 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 Supervisory Committee 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 decided to take advantage, with effect from 20th December 2012, of the right not to comply with obligations to publish the reports required when significant operations are performed consisting of mergers, demergers, share capital increases through contributions in kind, acquisitions and disposals, in accordance with Art. 70, paragraph 8 of the Issuers' Regulations.

On the date of the approval of this Report, the Board took the following actions in relation to the above:

- at the beginning of 2017 it approved the 2017-2019 Three-Year Business Plan;
- it monitored, the implementation of the 2017-2019 Three-Year Business Plan, by comparing, amongst other things, actual with budgeted results taken from the approved 2017 budget, carried out as generally established practice when quarterly accounting reports are approved;
- it examined the "Catalogue of Risks" for the 2017 financial year, updating the examination on the 2016 financial year, in preparation for approval of the 2018 budget: the Group developed, with support from consulting firm Deloitte S.p.A., its own model for mapping, managing and monitoring the risks to which the Company and the Group are exposed; this model is updated constantly in order to better identify risks associated with achievement of the strategic goals of the current three-year plan, with a view to sustainability over the medium to long term and, more broadly, in order to identify and manage the Group's main internal and external risks as efficiently as possible; this model is inspired by the international principles of Enterprise Risk Management (ERM);
- as part of the update of the Catalogue of Risks relating to 2017, it assessed whether the degree and nature of the risks as identified in the Group Catalogue of Risks presented to the Board (including in its assessments also risks which might be of significance with a view to the medium to long-term sustainability of the Company's activities) are compatible with the Group's strategic objectives contained in the 2017-20197 Three-Year Business Plan;
- having analysed the results of the self-assessment process conducted in early 2017, during which the outgoing Board members were encouraged to provide guidance on managerial and professional individuals whose presence on the new Board may be deemed desirable, the Board formulated, in its Report for the Shareholders' Meeting on 11th April 2017, the opinion that the number of directors should be kept at nine, adding that care should be taken to ensure that the new composition – as already recommended under the Code and in continuity with the past – suitably represents, as regards the Company's business, the various components (executive, non-executive and independent) as well as the skills and the professional and managerial experience needed to run the Company well;
- following the reappointment of the Board of Directors by the shareholders on 11th April 2017, it confirmed the roles of the Chairman (Dr. Alberto Recordati) and of the Chief Executive Officer (Dr. Andrea Recordati), at the same time confirming their previous operating powers and duties. Furthermore, on the same date, it reappointed the Remuneration Committee and established the Audit, Risk and Sustainability Committee. The Board also upheld the assessment previously made by the outgoing Board not to establish an appointments committee. Again on 11th April 2017, after having viewed proposals by the appropriate committee and listened to the Board of Statutory Auditors, the Board set the remuneration for the Chairman and for the Chief Executive, as well as the subdivision of the overall compensation in favour of the members of the Board;
- with the opinion in favour of the Audit Risk, and Sustainability Committee, it updated the guidelines for the Recordati group internal control and risk management system in order to implement its responsibilities regarding sustainability;
- after consultation with the Board of Statutory Auditors and the Director with Responsibility for the Internal Control and Risk Management System, it approved the work plan drawn up by the Chief of the Internal Audit Function for 2018;
- it approved the most important company directives;
- it confirmed the following as the subsidiaries with strategic importance, based principally on criteria of size (revenues) or in consideration of the particular market on which the subsidiary operates (such as the orphan drugs 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;
- it examined and pre-approved the operations conducted by the Company and its subsidiaries, wherever such operations take on significant importance for the strategy, income, capital or financial situation of the Company (namely, in this case, for the cross-border merger of the Luxembourg-based subsidiary Recordati S.A. Chemical and Pharmaceutical Company, for a private placement in the USA amounting to €125 million, for acquisitions of specialty medicines, and for financing contracts).
- at the beginning of 2017 it issued a positive evaluation of the adequacy of organisational, administrative and general accounting structures of the Company and its strategic subsidiaries put in place by the CEO, with the support of the Director with responsibility for the internal control system and risk management, with particular reference to the internal control system and management of conflicts of interest, on the basis of the information provided to the Board in specific reports and other documentation (such as organisation charts) presented by the Chief of Group Audit, the Internal Audit and Risk Committee, the Supervisory Committee pursuant to Legislative Decree No. 231/2001, by the Director with responsibility for the internal control system and risk management and by the CEO himself;
- during 2017, the Chief Executive submitted updated corporate governance guidelines for the Recordati group's subsidiaries to the Board of Directors; the aim of this update is to redefine the system and rules of corporate governance in the subsidiaries, aligning them with the evolving organisational framework with respect to the top management in the wake of Ing. Giovanni Recordati's passing in August 2016; in particular, these guidelines regulate the governance arrangements of the subsidiaries, setting the size, composition and working principles of the respective governing bodies;

- it assessed the general performance of operations, firstly by approving accounting reports each quarter. Furthermore, in each meeting of the Board of Directors 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 they do not require prior approval by the Board of Directors;
- at the beginning of 2017, the Board carried out a periodic review of the Related-Party Transactions Regulations, three years having passed since the last review and, having taken note of the opinion given by the Audit and Risk Committee, it considered that those regulations were still adequate, not requiring substantial modifications. Section 12 of this report may be consulted for further information on regulations governing transactions with related parties;
- at the end of 2017 it examined and approved the 2018 Group budget;
- it set performance objectives relating to the variable component of the remuneration of the Chairman of the Vice Chairman, Chief Executive Officer and General Manager.

4.3.1. Self-assessment of the Board and its Committees

This evaluation was conducted by asking each non-executive and independent Director to compile a questionnaire prepared by the Group Legal Service and Corporate Affairs Department of the Company (updated in order to take account of amendments made to the CG Code and some recommendations received during the previous self-assessment from independent directors) and to return it in anonymous form.

In particular, as discussed in section 4.2.2, within the Board of Directors' self-assessment process for 2017, the Company conducted a specific survey on aspects of the diversity of its members such as age, gender breakdown and educational and professional background, encouraging the members to provide comments on the issues of diversity within the Board, in order to determine whether to adopt specific policies aiming to promote diversity.

The evaluation was conducted by asking each Director to compile a questionnaire prepared by the Group Legal and Corporate Affairs Department of the Company. More specifically, the Independent Directors returned those questionnaires to an independent director who subsequently took steps to submit them to the Company in anonymous form. The results of the completed surveys were discussed at the Board meeting on 8th February 2018, especially as regards determining whether to adopt specific policies aiming to promote diversity within the Board (see section 4.2.2 for further information about the Board's conclusions on this matter).

Overall, the results of the self-assessment process were positive, as has been the case in previous years, with a few recommendations given, mainly with a view to strengthening members' experience in the pharmaceutical sector, which the Board has duly noted.

4.4 EXECUTIVE OFFICERS AND BODIES

Chairman, Vice Chairman and Chief Executive Officer

In accordance with article 23 of the By-Laws, representation of the Company shall be attributed to the Chairman of the Board of Directors or, in the event of his absence or inability to attend for any reason, to the Vice-Chairman, with sole signing authority for implementation of all resolutions of the Board unless otherwise resolved. The Chairman or, in the event of his absence or impediment for any reason, the Vice Chairman, 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 cassation 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 Chairman, but also to the Vice-Chairman 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.

On 17th April 2014 the Board of Directors had appointed Ing. Giovanni Recordati not only to the position of Chairman of the Board of Directors, but also to that of Chief Executive Officer with the purpose, even if not in line with the provisions of the Corporate Governance Code[7], of improving the efficiency of the management of the Company. In fact, it had been considered, that by combining his role with that of a manager in the organisation, the Chairman was able to fulfil the role assigned to him by law extremely effectively, being fully up-to-date on operating events. Nevertheless, following the demise of *Ing.* Giovanni Recordati (15th August 2016), the Board considered that in compliance, amongst other things, with the recommendations of the CG Code, it was best not to concentrate too many roles in the same person. Furthermore, again in line with the recommendations of the CG Code, it was decided not to assign specific individual management powers to the Chairman. Following the appointment of a new Board of Directors by the shareholders on 11th April 2017, the Board confirmed the governance framework described above. Moreover, it was confirmed that the Chairman contributes to the formulation of strategic Company policies to be submitted to the Board of Directors in the context of the Chairman's Committee, which he chairs and on which the other executive directors Dr. Andrea Recordati and Dr. Fritz Squindo sit as members with the duty of examining the main operational events relating to Recordati and its subsidiaries.

Since 16th August 2016, following also his confirmation in the role after the renewal of the Board of Directors resolved on 11th April 2017, Dr. Andrea Recordati, in his capacity as Chief Executive Officer, has been granted, within the limits permitted by Law, all the broadest powers for the ordinary and extraordinary management of the Company, also in relation to performing activities of management and co-ordination by the Company of the companies of the Group, expressly including the power to appoint directors and special officers, persons with specific duties, experts and agents of the Company in general for specific actions or types of action, and also with the power to take legal action and initiate judicial and administrative proceedings before courts at all levels, including with respect to revocation (clawback) and cassation proceedings, and to appoint lawyers 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 operations 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;

7 *Principle 2.P.4: it is best to avoid appointing a single person to more than one corporate position.*

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.

On 11th April 2017, Dr. Andrea Recordati was also confirmed as Vice Chairman of the Board of Directors, responsible for the functions provided for by the By-Laws in the case of the absence or impediment of the Chairman of the Board of Directors.

The Chairman also: (i) convenes the Board meetings and ensures that the members of the Board and the Board of Statutory Auditors are provided, with advance notice of three days before the Board Meeting, 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, (ii) co-ordinates the activities of the Board and conducts the proceedings of Board meetings; (iii) continuously provides 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.

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 fact as already mentioned, 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

The Chairman, Dr. Alberto Recordati, as well as Chief Executive Officer Dr. Andrea Recordati and Director Dr. Fritz Squindo, are also categorised as Executive Directors.

Dr. Squindo, General Manager for co-ordination of operations and Chief Financial Officer (as well as financial reporting officer and Director with responsibility for the internal control and risk management system), holds responsibilities for Administration, Finance and Control, Human Resources and Investors Relations & Corporate Communications. Dr. Squindo is also a director of other Group companies.

4.6 INDEPENDENT DIRECTORS

The Board of Directors of the Company has a number of independent directors in office which constitute the absolute majority of the members (six directors out of nine), which is a more rigorous approach than that required by the TUF and the CG Code itself, even for issuers included in the FTSE-Mib index

The procedure followed by the Board for verifying independence involves satisfaction of the requirement being declared by directors when they submit their candidatures 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.

Subsequently, and 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 CG Code. The Board of Directors and the Board of Statutory Auditors then proceed to verify the contents and to verify the correct application of requirements and of the procedure to ascertain them respectively.

With reference to the Board in office, following the appointment by a Shareholders' Meeting on 17th April 2017, for six Directors, Dr.ssa Rosalba Casiraghi, Dr.ssa Elisa Corghi, Avv. Michaela Castelli, Dr. Paolo Fresia, Dr. Mario Garraffo and Prof. Marco Vitale, having taken account of the declarations issued by these directors, the Board of Directors confirmed their possession of the requirements of independence pursuant to Art. 148, paragraph 3 of the TUF and the requirements of independence set forth in the CG Code, except for that which has been already reported in the notes to the table on page 17 and for that which is specified below.

Subsequently, this verification was carried out on 8th February 2017.

On that occasion the Board confirmed its previous assessment concerning the relationship between the Company and Prof. Vitale, attributable to a professional engagement worth €50,000.00 annually, considering the relationship cited as not significant for the purposes of independence in consideration of the small quantitative nature of the engagement. Furthermore, the Board of Directors decided not to include the requirement relating to a Director holding office for more than nine of the last twelve years among those pursuant to the CG on the basis of which the assessment of the independence of Directors is performed. This is because, with precise reference to Prof. Vitale, Dr. Garraffo and Avv. Pedersoli, the Board considered that because of their specific expertise and professionalism and for their constant work in supervising and stimulating the Board they have demonstrated that they have maintained their characteristics of independence and freedom of judgement in assessing the work of management intact. Furthermore, the Board of Directors noted that the continuation of a Director in office for more than nine years should not in itself be considered a negative requirement for qualification as independent if the other requirements of the CG are satisfied. This is because great experience of the specific affairs of the issuer, the stature and professionalism of the persons considered, the absence of interests and significant relations with the Company constitute a value to be considered positively and such as to consider their capacity to judge freely and without bias to be untarnished. The Board therefore considered that the requirements of independence were met by the said directors in accordance with the CG Code, confirming its opinion that consideration must be given to substance and not form in an assessment of independence requirements, with account taken also of a widespread orientation among listed companies.

The Board of Statutory Auditors verified that the criteria and procedures of evaluation adopted by the Board to evaluate the independence of its members were implemented correctly.

The independent directors, at and before the beginning of meetings of the Board of Directors, verified each time the absence of any specific matters that might be significant in relation to their roles as independent Directors.

The independent directors met once in 2017, in February, without the other directors on the initiative of the Lead Independent Director.

4.7 LEAD INDEPENDENT DIRECTOR

The Board has designated independent Director Prof. Vitale to be the lead independent director, to guide the independent Directors, with particular reference to the independent Directors, in order to improve the activities and functioning of the Board.
The lead independent director collaborates with the Chairman in order to ensure that the Directors receive complete and timely information, and is also authorised to convene special meetings of the independent Directors only, at his own discretion or at the request of other Directors. As already stated, the Lead Independent Director convened a special meeting of independent directors only in 2017.

5. CONFIDENTIALITY OF CORPORATE INFORMATION

On 3rd July 2016 Regulation (EU) No. 596/2014 containing regulations governing market abuse ("Market Abuse Regulation" or "MAR") and Directive 2014/57/EU, which regards penalties in cases of market abuse ("Directive MAD2) came into force. These rules brought about rather significant changes compared with the market abuse rules previously in force.

Subject to the prior opinion in favour of the Supervisory Committee and the Audit and Risk Committee (because market abuse procedures fall under "Model 231" administrative liability rules) in a meeting held on 30th June 2016, on the basis of a proposal from the Chairman and the Chief Executive Officer, the Board of Directors approved an update of the corporate procedures in force for compliance with the new regulatory framework and more specifically it approved the "Procedure for internal management and public disclosure of inside information". That Procedure therefore updated the previous "Internal Regulation for Processing Inside Information", which had been in force since 2006 and which had in turn replaced the previous internal regulation adopted in 2001.
That Procedure regulates the internal management and public disclosure of inside information relating to Recordati S.p.A. and its subsidiaries.

The rules of conduct set by the Procedure are designed to put the necessary organisational controls in place for the following: proper management of reporting; the processing of Inside Information (inclusive of identifying those persons responsible for the assessment of that information); the proper triggering of a delay procedure; taking account of persons who have access to inside information; disclosure to third parties (under determined conditions); and disclosure to the market of said information.

The Board also approved an update to the "Procedure for keeping and managing the list of persons who have access to Inside Information", which is designed to ensure compliance with the obligations laid down by the legislation and regulations in force, by regulating procedures for keeping and regularly updating the list, in application of the "Inside Information Procedure".

More specifically, in compliance with the EU rules, the Procedure requires the list also to have a section in which to register persons who are permanently in possession of knowledge of all Inside Information.

The rules contained in the procedures mentioned have been adopted in compliance with the provisions of current laws and regulations in force:

- to protect investors and the integrity of the market, because they are designed to prevent transactions harmful to their interests through the exploitation of information asymmetries, which is to say altering market variables by spreading untruthful or misleading information;
- to protect the Company from possible responsibilities that may attach to it for unlawful conduct committed by parties related to it.

The Procedure, as already specified, is in fact a fundamental component of the Company's and the Group's internal control and risk management system and it is also an integral part of the overall system for the prevention of unlawful behaviour pursuant to Legislative Decree No. 231/2001 (administrative liability).

The Directors and the Statutory Auditors have also acquainted themselves with changes to the legislation on insider dealing and the relative disclosure obligations, to be carried out through the Company. The Board of Directors has also approved an update to its "Procedure on insider dealing" to comply with the new rules on market abuse. On the basis of the organisational structure of the Issuer, no new persons significant for the application of the regulations have been identified.

In October 2016, these procedures were updated to adopt organisational changes in the Company's top management following the passing of Ing. Giovanni Recordati. In addition, given amendments made in the meantime to the Issuers' Regulations, as well as the Consob's publication in October 2017 of an Operating Manual on the treatment of inside information, further activities are in progress to update these procedures, which the Board will then examine over the course of 2018.

Finally, in compliance with the EU market abuse rules, the Board of Directors has introduced, effective from 3rd July 2016, an obligation to abstain, during specific periods of the year, from transactions involving financial instruments issued by the company and listed on regulated markets. In compliance with the provisions of the MAR, those periods have been identified as running from the thirtieth day prior to the date of the meeting of the Board of Directors convened to approve interim or end-of-year financial reports which the Company is required to publish according to the rules of the trading venue in which the shares are admitted for trading or according to national law until the publication of the relative reports (i.e. the "blackout period").

6. INTERNAL COMMITTEES OF THE BOARD

The Board of Directors has formed a Remuneration Committee and an Audit, Risk and Sustainability Committee among its members, both with consultative and proposal-making functions composed exclusively of independent directors.

The Code recommends assigning the specific functions regarding sustainability and relations with stakeholders either to a committee set up for this specific purpose or by rearranging or redistributing existing committees. This recommendation was put in place by assigning these functions to the Audit and Risk Committee, which has hence been renamed the Audit, Risk and Sustainability Committee (for more information, see section 10, which is devoted to the Audit, Risk and Sustainability Committee).

7. APPOINTMENTS COMMITTEE

Finally, following the appointment of the new Board of Directors on 11th April 2017, the Board did not consider it necessary to form an Appointments Committee[8], 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 Company (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 – it will be recalled that the Board is currently composed of six independent members out of a total of nine.

In this respect, at the beginning of 2017, in consideration of the coming renewal of the management body, on the agenda of the shareholders' meeting held on 11th April 2017, on the conclusion of an analysis of the results of the process to self assess the board and its internal committees, the Board of Directors expressed its desire to provide recommendations to shareholders before appointing the new management body. An orientation emerged which considered a Board composed of nine members to be adequate, taking care to see that the new composition adequately represents, in relation to the activities carried out by the Company, the different types of member (executive, non-executive, independent) and the expertise and professional and managerial experience needed for the proper management of the company.
Therefore, at the meeting on 11th April 2017, the Shareholders, consistent with the Board of Directors' recommendations, appointed a new Board of Directors composed of nine members (for more information, see section 4.2 of the present Report).

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.

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. AUDIT, RISK AND SUSTAINABILITY COMMITTEE

In a meeting of 11th April 2017, following its appointment by a Shareholders' Meeting, the Board formed an Audit Risk, and Sustainability Committee comprising the following non-executive and independent (within the meaning described above) Directors: Prof. Marco Vitale, Chairman, Dr.ssa Elisa Corghi and Avv. Michaela Castelli.

This committee was confirmed in its role of analysing the issues and informing the major practices for auditing corporate activities, performing consultation functions and providing proposals to the Board of Directors regarding evaluations and decisions about the internal control and risk management system, as well as regarding the approval of periodic financial reports. At the same time, the committee was assigned, as envisaged under the Code, to perform consultation functions and provide proposals on sustainability issues (intended here as the processes, initiatives and activities carried out to oversee the Company's commitment to sustainable development along the value chain). This committee therefore changed its name to the Audit, Risk and Sustainability Committee.

The Committee met seven times during the year (sessions lasted around 1 hour and 20 minutes). The Committee met twice 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.
Two of the three members of the Committee have experience in accounting and financial matters.

The entire Board of Statutory Auditors has been constantly invited to participate in the Committee's work.

8 Even if from the December 2011 edition onwards, the Corporate Governance Code recommends the creation of such a committee (Principle 5.P.1).

Invited 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 with responsibility for the internal control and risk management system), the Chief of Group Audit, the Chief of Group Human Resources, the Supervisory Committee pursuant to Legislative Decree 231/01, representatives of the Audit Firm, the "Official Employers", the heads of the prevention and protection services for production sites in Italy, on matters concerning safety at the workplace and consultants who provided support to the Company on specific projects examined by the Committee.

The Chief of the Legal Service and Corporate Affairs attended to take minutes of meetings.

Duties assigned to the Audit, Risk and Sustainability Committee

The Audit, Risk and Sustainability 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 Audit, Risk and Sustainability 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 Supervisory Committee 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 12th 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.

At the meetings mentioned above, the Committee mainly carried out the following activities:

- it examined the periodic reports by the Supervisory Committee 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 2017;
- it acknowledged the Supervisory Committee's action plan for 2017;
- in its capacity as the Committee for Related-Party Transactions, it carried out the three-year periodic review of the Related-Party Transactions Regulations, and found no necessity to propose any substantial modifications to the Board;
- 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 2016 financial year concerning the internal control and risk management system;
- it examined the updated Organisational Model pursuant to Legislative Decree No. 231/2001 for compliance with anti-money laundering laws;
- 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 as from 2017, as well as the configuration that the Company intends to submit to the Board of Directors on this matter, giving a favourable opinion;
- on the subject of safety in the workplace, it examined the reports of the "Official Employers" and of the heads of the Prevention and Protection Service at the production plants in Milan and at Campoverde as well as reports on the Group's plants abroad;
- it examined the results of inspections for conformity with the protocols which form part of the Organisational Model pursuant to Legislative Decree No. 231/2001 on the subject of the environment and safety at the workplace;
- it examined the update of the risk catalogue and developments concerning the principal risks associated with business activities in 2017 and it expressed a favourable opinion on the risk limits set for 2018;
- in its capacity as the Committee for Related-Party Transactions, it examined a proposal to opt for consolidated tax treatment as per Article 117 of Presidential Decree No. 917/1986 (i.e., for the consolidation for fiscal purposes of Italchimici S.p.A. and Fimei S.p.A. from 2018 to 2020);
- 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 2016 Annual Report and the 2017; half yearly interim financial report;
  - the programme of work prepared by Chief of Group Audit for 2018;
  - the update of the 231 Model;
- it reported to the Board twice on its activities, at the time of approval of the 2016 Annual Report and the 2017 half yearly interim financial report.

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 committee did not incur any expenses in the performance of its duties during the year.

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. The principles underlying the Company's risk management processes are based on the Borsa Italiana Corporate Governance Code.

A catalogue of company risks within the Internal Control and Risk Management System makes it possible to measure and control the exposure of all companies of the Group to the various risk factors, as well as to manage overall exposure and implement controls and procedures that are able to reveal anomalous situations. The main risk factors to which the Group is exposed may be related to the external context, strategic and operational risks (including in relation to research and development, environment risks, health and safety risks, and pharmacovigilance risks), financial risks, and legal and compliance risks.[9]

The Group periodically reassesses the Catalogue of Risks throughout the 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.

As already mentioned in point 4.3, the Board of Directors has examined the update of the "Catalogue of Risks" for 2017, drawn up with assistance from the consulting company Deloitte S.p.A., in order to obtain an up-to-date and formal picture of the main internal and external risks of the Recordati group and of the various tools and processes in place to manage those risks. In this respect a procedure is in place to ensure periodic updating of the Catalogue of Risks already identified.

On the basis, amongst other things, of that examination, the Board has assessed whether the degree and nature of the risks, as identified in the Group Catalogue of Risks presented to the Board in a meeting of 15th December 2017 are compatible with the Group's strategic objectives contained in the 2018 annual budget and also the 2017-2019 Three-Year Business Plan.

Furthermore, in a meeting held on 1st March 2017, with the opinion in favour of the Audit Risk, and Sustainability Committee, the Board considered that the 2017 guidelines for the internal control and risk management system of the Company and the Recordati group, approved the previous year (except for some changes made for compliance with the new version of Art. 19 of Legislative Decree No. 39/2010, as amended by Legislative Decree No. 135/2016 concerning the duties assigned to the committee for internal control and accounting audit) 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 internal control and risk management system consists of a structured and organic set of procedures and organisational units designed to prevent or limit the consequences of unexpected results, to enable corporate objectives to be achieved and to ensure both compliance with the law and regulations and proper and transparent reporting internally and to markets. The system also makes it possible to identify, measure, manage, and monitor the main risks in order to improve the efficiency and efficacy of company processes, to protect the value of company assets, to ensure the reliability and integrity of accounting and operational information, and to ensure that operations comply with all applicable laws and regulations.

9 *For more information, see the section "Main Risks and Uncertainties" of the 2017 Consolidated Financial Statements of the Recordati group.*

The internal control and risk management system permeates the whole Company, involving a variety of staff with specific roles and responsibilities. The Company has had special whistle blowing channels of reporting in place for some time as part of its organisational models pursuant to Legislative Decree No. 231/2001 (administrative liability) and the Group's anti-bribery system[10].

In that regard, it should be noted that Italian law No. 179/2017 concerning the protection of individuals reporting crimes or irregularities within the scope of working relationship in the public or private sector (the "Whistleblowing Law") went into effect on 29th December 2017.

The Board 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 Audit Committee and by the Supervisory Committee pursuant to Legislative Decree 231/01

The heads of each department are responsible for designing and managing the internal control system and for monitoring its effective functioning on the basis of the guidelines approved by the Board of Directors.

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, the Issuer has had an organisational model in place pursuant to Legislative Decree No. 231/2001 since April 2003 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 Audit, Risk and Sustainability Committee; the Board of Statutory Auditors; the executive director responsible for overseeing the internal control system; and the Supervisory Body) and involve all personnel of the Recordati group. The Group's Auditing 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 Audit, Risk and Sustainability 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.

The financial reporting process of the Issuer was subjected in 2017 to a series of procedural and organisational initiatives with action taken to update the existing internal controls system for administrative and accounting activities designed to guarantee the reliability, accuracy, completeness and promptness of financial reporting and to regularly produce management, operating and financial reports to the board and to the statutory and external auditors. During the current year, a Group policy was issued concerning compliance with Law 262/2005, and the local accounting procedures (the Financial Statement Protocol) of the Group's branches were updated.

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 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 attaching 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 one to the other and subject to continuous update and periodic assessment.

More specifically administrative and accounting risk assessment is a continuous process of identifying and assessing risks attaching 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 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 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, it is the responsibility of the function responsible for the process, to provide adequate support documentation, with the support of the Financial Reporting Officer and, if necessary, the Internal Audit Function, to enable the existing controls in the area subjected to analysis to be assessed.

10 Corporate Governance Code, comment on Art. 7: "The Committee considers that at least in companies belonging to the FTSE – Mib index, an adequate internal control and risk management system must possess an internal system for employees to report any irregularities or violations of the applicable legislation and regulations and internal procedures ("whistle blowing"), in line with existing best practices nationally and internationally, which guarantee the existence of a dedicated and reserved channel for reporting these as well as the anonymity of the reporter".

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 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 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 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. 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, 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 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, the Audit, Risk and Sustainability Committee and the Financial Reporting Officer (as well as the Director with responsibility for the internal control and risk management system).
The Financial Reporting Officer in conjunction with the CEO is responsible for putting adequate administrative and accounting procedures in place for the preparation of the separate Parent Company and consolidated financial statements.

Finally, we report that Legislative Decree No. 135/2016 has been in force since 5th August 2016, even if it contains a series of transition measures to ensure gradual introduction of the new rules. This decree implements Directive 2014/56/EU in Italian law which in turn had amended the previous Directive 2006/43/EU which had been implemented by Legislative Decree No. 39/2010, commonly known as the "Consolidated statutory audit law".

Legislative Decree No. 39/2010 that came into force on 7th April 2010 had introduced the assignment of functions to the Board of Statutory Auditors to act as a "Committee for internal control and accounting audit" (CICAA) indicating in particular that this should oversee the financial reporting process and the efficacy of the internal control, internal audit and, if applicable, the risk management systems.
In this respect, within the meaning of the general spirit of this legislation (i.e. an update of account auditing regulations to strengthen instruments designed to prevent financial crises and to consolidate and improve controls put in place by regulations to support the reliability and accuracy of company financial reports), Legislative Decree No. 135/2016 defines more accurately the duties assigned to Boards of Statutory Auditors in their capacity as the CICAA in entities of public interest.
The current version of Art. 19 introduced new elements to the old version, no longer assigning a general oversight function, but defining a series of specific duties, although they nevertheless relate to the four areas indicated above.
More specifically, the CICAA is required to monitor the efficacy of systems for the internal control of a company's quality and risk management and, if applicable, internal audit, as far as the financial reporting of the entity subject to audit is concerned, without violating its independence.

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

Following his appointment by a Shareholders' Meeting, on the 11th April 2017, the Board of Directors, confirmed the appointment as Executive Director with responsibility for the internal control system of Dr. Fritz Squindo, the General Manager for the co-ordination of operations and CFO.

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, the principal business risks, taking account of the characteristics of the activities undertaken by the Company and by its subsidiaries and has reported on this to the Board. In detail, he has completed the update of the Recordati Catalogue of Risks for 2017 (again with the assistance of the outside company Deloitte S.p.A.) and he has reported on this in detail to the Audit, Risk and Sustainability Committee and the Board;
- has implemented the guidelines defined by the Board and, with the assistance of the Chief of Group Audit 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 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 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 Chairman of the Audit, Risk and Sustainability Committee and to the Chairman of the Board of Statutory Auditors;
-shall report promptly to the Audit Risk, and Sustainability 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 Function and also on the remuneration for him, consistent with Company policy.

11.2 CHIEF OF THE GROUP AUDIT FUNCTION

When implementing amendments made to the CG Code in December 2011, on 20th December 2012, with specific reference to the Chief of the Group Audit Function, the Board of Directors acknowledged that it was 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.

It is underlined that the Group Audit Department, headed by Dr. Giovanni Minora, has no connection with any operational area whatsoever and reports hierarchically from 20th December 2012 to the Board of Directors. The Board also delegated responsibility to the Chairman and Chief Executive Officer for the ordinary management of the employment relationship with the Chief of the Group Audit Function. Following the demise of Ing. Recordati and the consequent modifications to the Company's organisational structure, the ordinary management of employment relationships has been assigned to the Chairman. Additionally, the Board confirmed the Chief of the Group Audit 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 Audit and Risk Committee, assessed the appropriateness of the remuneration paid to the Chief of Group Audit as an employee of the Company with respect to the Company's policies.

The duties of the Chief of Group Audit 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;
- he promptly prepares reports on events of particular importance;
- to submit periodic reports to the Board of Statutory Auditors, the Audit, Risk and Sustainability 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, he oversees the reliability of IT systems, including those responsible for bookkeeping.

For the purposes of the above the Chief of Auditing has direct access to all information useful for performing his/her duties;

Furthermore, the Chief of Group Audit:
- explains the proposed annual work programme to the Audit, Risk and Sustainability Committee in order to implement any recommendations that 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 in 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 on the request of the Board of Directors, the Audit, Risk and Sustainability, 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 year and in meetings of the Board of Directors already held in 2018, the Chief of Group Audit:
- explained the annual work programme and the organisational structure of his function to the Audit, Risk and Sustainability and Risk 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 Audit, Risk and Sustainability Committee and to the Board of Statutory Auditors of the Company.

The Chief of Group Audit 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 Audit, Risk and Sustainability Committee of the organisational structure of the Group Audit 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 2017.

11.3 ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001.

The Italian companies of the Recordati group (Recordati S.p.A., Innova Pharma S.p.A. and Orphan Europe Italia S.r.l.) have 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, Innova Pharma in 2007, and Orphan Europe in 2010. Italchimici S.p.A., acquired by Recordati in June 2016, will be adopting an analogous organisational model in 2018.

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 Supervisory Bodies, which have been appointed within the Group's Italian companies, are boards comprising the chief of the Internal Audit unit and outside experts. Each Supervisory 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 (where applicable).

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.

More specifically, the Spanish branch Casen Recordati is about to adopt a model of organisation, management and control in accordance with *Ley Organica* 2015/1 of 30th March 2015, which introduced a number of relevant changes into the Spanish penal code concerning criminal liability for legal persons.

In 2012, the Board of Directors, assisted by the then Audit and Risk Committee, had also assessed whether to assign the functions of the Supervisory Committee (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 model is constantly updated and monitored with particular attention paid to preventing crimes and to risk assessment, following the new regulatory changes.

The Model consists 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 Supervisory Board. 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 the commission of offences 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

Approved by Recordati S.p.A. in 2002 and constantly updated and supplemented, the Code of Ethics 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.

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, which has been or is being adopted by all companies of the Group, 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. Recordati also provides ongoing training for all employees. In 2017, classroom and distance training concerning the Code of Ethics and the organisational model required by Legislative Decree 231/2001 was provided. Classroom training was provided to 160 people, while distance training reached some 300 pharmaceutical sales representatives of the Italian companies of the Group.

The Recordati group's Anti-Bribery Model

Because of our international reach, the Recordati group is present in a diverse range of social, cultural, economic and political contexts and is responsible for acting in accordance with applicable laws based on an awareness that any act of corruption would compromise the integrity of our business, would jeopardise the organisation, and would expose the company to legal and financial risks and risks to our 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 our 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 the 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, 13 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.

The 13 areas most exposed to the potential for 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; promotional material; donations; financial transactions; Human Resources; and relations with politicians and political organisations.

In 2016 and 2017, this manual was distributed to the Recordati branches in Spain, France, Russia, Turkey and Portugal, and it will be gradually distributed to the Group's other branches as well.

With regard to communication and training on the issues of corruption and the principles defined in the Recordati group's Code of Ethics, all members of the Recordati S.p.A. Board of Directors were informed of the policies and procedures adopted in 2017. During the period 2016-2017, anti-bribery training was also provided to a total of 2,480 employees, of which 800 in Italy and 1,680 in the Group's branches outside Italy.

In 2017, the Company requested an audit of our anti-bribery management mechanisms based on the ISO 37001 standard, which is the benchmark standard for this issue. Although we have not adopted an actual ISO anti-bribery management system, the results of the assessment conducted showed that the Company's system of internal controls is essentially in line with the ISO standard.

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 is 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.
In the area of data protection and management, the Recordati group implemented a group-wide project in 2017 to implement all measures defined under the General Data Protection Regulation (GDPR no. 2016/679). In December 2017, this project completed the process of mapping personal-data handling as currently conducted within the Group's companies in Europe and planned the corrective actions to be implemented in 2018 in order to comply with the recommendations of the aforementioned regulation.

The Recordati group also adheres to the codes of self-regulation issued by industry associations that oversee activities related to detailing activities. A large part of the Group's branches have 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.

11.5 AUDIT FIRM

KPMG S.p.A. is the firm of external auditors appointed to audit the Company. The appointment was formally made by a Shareholders' Meeting on 13th April 2011 for the years 2011-2019, as proposed by the Board of Statutory Auditors.

11.6 THE FINANCIAL REPORTING OFFICER

On 3rd May 2007, the Board of Directors, having noted the favourable opinion of the Board of Statutory Auditors and of the Internal Audit Committee, appointed Fritz Squindo, General Manager for the co-ordination of operations, as the Financial Reporting Officer.

During that meeting, 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 manager appointed to prepare the corporate accounting documents is given duties and powers to perform that assignment which include the provisions of the operational guidelines for that manager approved by the Board of Directors on 3 May 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 Audit, Risk and Sustainability Committee and also the Director Responsible for the internal control and risk management system, the Chief of Group Audit, 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. 16 (former Art. 36) and Art. 18 (former Art. 39) of the Markets Regulations (as amended by Consob Resolution No. 20249 of 28th December 2017) concerning the conditions for the listing of the parent companies of companies formed and regulated under the laws of countries that do not belong to the EU and which are of significant importance for the purposes of consolidated financial statements, since 31st December 2017 the regulatory provisions of Art. 16 of the Markets Regulations have applied to the Turkish subsidiary Recordati Ilaç Sanayi Ve Ticaret Anonim irketi, to the American subsidiary Recordati Rare Diseases Inc and to the Russian subsidiary Rusfic Llc.

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 opinion in favour of the Audit and Risk Committee identified as the Committee Responsible pursuant to Art. 4 paragraph 3 of Consob Regulation No. 17221 of 12th March 2010, in a meeting held on 24th November 2010, the Board adopted "Regulations for related-party transactions" in accordance with 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 1st January 2011, defines the guidelines and the criteria for the identification of related-party transactions and it 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 Audit and Risk 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 those Regulations:

- the Audit and Risk Committee (now the Audit, Risk and Sustainability 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 SpA 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) an 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 those 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.
- 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 amount i.e. transactions for an individual amount of less than €150,000.

The Regulations do not apply to:

- Transactions of Negligible Amount unless they are more than one Transaction of Negligible Amount performed as part of a single plan, the total value of which exceeds 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 are counterparties to the transaction. 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 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 purposes 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 2017.

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 candidate 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 with voting rights 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 twentyfive 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 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 are 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 elector, 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 the Issuers' Regulations adopted by Consob Resolution No 20273 of 24th January 2018, with regard to the capitalisation of the Company in the last quarter of 2017, 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 legislation on gender balance in corporate bodies (articles 147-*ter* and 148 of the TUF, Art. 144-undecies of the Issuers Regulations, as amended by Law No. 120/2011), which apply to the renewal of corporate bodies subsequent to 18th August 2012, the Company made the necessary amendments to the By-Laws on 8th May 2012 in order to comply with the new regulations. Reference may be made in this respect to the text of article 26 reported above in full.

In particular, the Board of Statutory Auditors 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).

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 11th April 2017 and its term of office will expire at the Shareholders' Meeting called to approve the financial statements for the year ended 31st December 2019.

At the Ordinary Shareholders' Meeting of 11th 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
Dr. Marco Nava
Dr. Marco Rigotti
Dr. Livia Amidani Aliberti
Alternate Auditors
Dr. Patrizia Paleologo Oriundi
Dr. 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
Dr. Antonio Santi
Alternate Auditors
Dr. Andrea Balelli

As a result, and in accordance with the mechanism established to ensure female representation on the board, the following individuals were elected:

Dr. Antonio Santi	Statutory Auditor and Chairman
Dr. Marco Nava	Statutory Auditor
Dr. Livia Amidani Aliberti	Statutory Auditor
Dr. Patrizia Paleologo Oriundi	Alternate Auditor
Dr. 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.

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

Office	Members	Year first appointed	Year of birth	In office since	In office until	Slate (M/m) *	Indep. according to CG Code	Indep. according to TUF	(%) **	Number of other offices ***
Chairman	ANTONIO SANTI	2017	1977	11.4.2017	Approval of 2019 financial statements	m	X	X	6/6	1
Statutory Auditor	LIVIA AMIDANI ALIBERTI	2014	1961	11.4.2017	Approval of 2019 financial statements	M	X	X	7/7	2
Statutory Auditor	MARCO NAVA	2008	1960	11.4.2017	Approval of 2019 financial statements	M	X	X	7/7	0
Alternate Auditor	PATRIZIA PALEOLOGO ORIUNDI	2014	1957	11.4.2017	Approval of 2019 financial statements	M	X	X	N/A	1
Alternate Auditor	ANDREA BALELLI	2017	1975	11.4.2017	Approval of 2019 financial statements	m	X	X	N/A	1

OUTGOING MEMBERS OF THE BOARD OF STATUTORY AUDITORS ON 11.4.2017

Statutory Auditor	MARCO RIGOTTI	2008	1967	17.4.2014	Approval of 2016 financial statements	M	X	X	1/1	1
Alternate Auditor	MARCO ANTONIO VIGANÒ	2008	1960	17.4.2014	Approval of 2016 financial statements	M	X	X	N/A	0

* *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's 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.*

INDICATE THE QUORUM REQUIRED FOR THE PRESENTATION OF SLATES WHEN DIRECTORS WERE LAST APPOINTED: 1%

Number of meetings held during 2017: 7

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 11th 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 2017 are nevertheless given in detail in the Remuneration Report.
During the year the Board of Statutory Auditors met eight times, with meetings lasting approximately 2 hours and 20 minutes on average.

As regards the current year, seven meetings are scheduled and the Board of Statutory Auditors has already met twice in 2018. The percentage attendance of Auditors in these meetings in 2017 is shown in the table above.

In application of Art. 144-novies of the Issuers' Regulations and the Corporate Governance Code (as amended in July 2015), 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 of 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 14th February 2018. The Board of Statutory Auditors noted, in particular, that the requirement of

independence of the statutory auditor Dr. 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 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 31st December 2017 and the draft separate financial statements of Recordati S.p.A. at 31st December 2017.

The Board of Statutory Auditors, in the performance of its activities, liaised with the Chief of Group Audit and with the Risk Committee through the constant presence in Committee meetings, in which the Chief of Group Audit also usually participates. It also worked with the Supervisory Committee 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. Finally, it participated in the work of the Remuneration Committee.

As part of its oversight of procedures for the concrete implementation of corporate governance rules, the Board of Statutory Auditors 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 7th April 2010. As already stated in Section 11, Legislative Decree No. 39/2010 was amended by Legislative Decree No. 135/2016 (with which Directive 2014/56/EU was implemented in Italian law), which came into effect on 5th August 2016 (although it contained a series of transition measures to ensure gradual introduction of the new rules).
The current version in force of article 19 of Legislative Decree 39/2010 defines the duties of the Board of Statutory Auditors in its capacity as the CICAA more precisely, no longer assigning a general oversight function to it, but defining a series of specific duties, although they nevertheless relate to the four areas which the previous article 19 required the Board of Statutory Auditors to oversee (the financial reporting process; the efficacy of the internal control, internal audit (if applicable) and risk management systems; the statutory audit of the separate company and consolidated financial reports; the independence of the statutory auditor or the firm of statutory auditors, especially with regard to the provision of non-auditing services to the entities subject to statutory audit of its accounts).

More specifically, the CICAA is required to monitor the efficacy of systems for the internal control of a company's quality and risk management and, if applicable, internal audit, as far as the financial reporting of the entity subject to audit is concerned, without violating its independence.
Furthermore, from the specific viewpoint of the statutory audit, on the basis of the current article 19 of Legislative Decree No. 39/2010, the duties of the CICAA are as follows:

- to monitor the statutory audit of the annual separate company and consolidated financial reports;
- to report to the management body and the results of the statutory audit and to submit to it the additional report required by article 11 of Regulation No. 537/2014, accompanied by any remarks that there may be;
- to verify and monitor the independence of the statutory auditors or the firm of statutory auditors, especially with regard to the adequacy of non-auditing services provided;
- these activities also include responsibility for the procedure for the selection of the auditing firm as well as the indication of the firm to be appointed in the recommendation (in accordance with the provisions of article 16 of Regulation No. 537/2014).

Also for the auditing purposes indicated above concerning the efficacy of the systems for the internal control of the Company's quality and risk management, the Board of Statutory Auditors examined the model to map, manage and monitor risks in the Company and the Group (named the "Catalogue of risks") updated to 2017 and developed by the Group with assistance from the consulting company Deloitte S.p.A. The Board of Statutory Auditors also systematically meets with the head of the main company functions, who provide any additional information requested by the Board.

During the year, given the experience of the members of the Board of Statutory Auditors in the specific industry segments in which the Company is involved and the information provided them during the individual meetings of the Board and in the meetings mentioned above, the Chairman did not deem it necessary to organise specific induction sessions.
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 in the regulator and legislative framework.

As mentioned previously, for 2018, the Chairman and Chief Executive Officer have reported that, as specific induction sessions, they will be organising an inspection of the production facilities in Milan for the independent directors and the statutory auditors and will be inviting the directors to attend the meeting that the Company organises each year with middle and senior management of the Group concerning both the presentation of Group performance for the previous year and additional information regarding the Group's operations and development efforts.

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 28th May 2012 and until 14th 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 15th 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 30th 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 9th April 2014.

As part of the Company's organisational structure, 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 1st January 2013.

Following amendments made by the Shareholders' Meeting of 13th 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 may not be greater than three days prior to the date of the Shareholders' Meeting (in first or single call) or five days prior to the Shareholders' Meeting with, however, the obligation of the Company to furnish a reply at least two days prior to the Shareholders' Meeting, which may be by publication on the Company website. 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.

When implementing amendments made to the CG Code made in December 2011, the Board felt it would be advisable to draw up regulations for proceedings in Shareholders' Meetings, even though no particular difficulties had been encountered in past meetings. The objective is to further ensure that the proceedings in Shareholders' Meetings are well-organised and practical and to ensure that each shareholder is able to speak on the items on the agenda.

The Shareholders' Meeting held on 17th April 2013 approved the text of the Shareholders' Regulations proposed by the Board of Directors, which is available on the Company website at www.recordati.it, in the corporate governance section.
In 2017, the Shareholders met once, on 11th April 2017 on first call with 78.595% of the share capital with voting rights in attendance. At this Ordinary Shareholders' Meeting, the Shareholders approved the financial statements for the year ended 31st December 2016, appointed the Board of Directors and the Board of Statutory Auditors, and authorised the purchase and use of treasury shares. The Shareholders' Meeting also cast a non-binding vote on the first section of the Remuneration Report.
For the extraordinary portion of the meeting, the Shareholders revoked the mandate granted on 19th April 2012 and granted the Board of Directors the powers in accordance with Articles 2420-*ter* and 2443 of the Italian civil code for a maximum total of €80,000,000 and €50,000,000. The Shareholders then consequently approved an amendment to Art. 6 of the By-Laws.
During this Shareholders' Meeting (at which, in addition to the Chairman, the following members of the Board of Directors were in attendance: Rosalba Casiraghi; Michaela Castelli; Mario Garraffo, chairman of the Remuneration Committee; Andrea Recordati, Vice Chairman and Chief Executive Officer; Fritz Squindo, chairman of the Committee for Internal Control; Marco Vitale, the Lead Independent Director; and the statutory auditors Marco Nava, chairman, and Livia Amidani Aliberti), the Chairman of the Board of Directors 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, 2017.
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)

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

No changes in the structure of the corporate governance of the company have occurred since the end of the Year.

19. OBSERVATIONS ON THE LETTER OF THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE OF 13TH DECEMBER 2017

The recommendations in the letter of the chairman of the Corporate Governance Committee dated 13th December 2017 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 soon as it was brought to the Company's attention in early February 2018. The letter was then distributed to all directors and statutory auditors on 28th February 2018.

The process of self-assessment of the Board of Directors and of its internal committees in relation to the 2017 financial year was held in January 2018, and the outcome was discussed at the board meeting of 8th February 2018. Therefore, although it was not possible to expressly include the recommendations contained in the aforementioned letter in the self-assessment process, we can report that the questionnaire used to conduct this process verified the adequacy of the various issues underlying the recommendations in said letter (including: information provided prior to board meetings, the creation of an nominations committee, and the contribution of the board in defining strategy plans and monitoring trends in operations).

For more information on the self-assessment process and on the outcome of same, see section 4.3.1 above.

Milan, 15th March 2018

for the Board of Directors
The Vice Chairman and Chief Executive Officer
Dr. Andrea Recordati

ATTACHMENT 1

PROFESSIONAL OVERVIEW OF THE DIRECTORS AND STATUTORY AUDITORS

DIRECTORS

ALBERTO RECORDATI

Alberto Recordati graduated from University of London King's College in 1977 with a degree in biochemistry and in 1984 successfully completed a research PhD within the Biochemistry Department of Charing Cross Hospital Medical School part of that same university.
He joined Recordati in 1984 as a researcher in the biochemistry laboratories. In 1987 he was appointed Head of the Planning and Product Development Office. From 1990 to 1992, he worked for the US subsidiary Pharmetrix Corp as research project coordinator. In 1992 he was appointed Industrial Manager for Biochemicals with responsibility for biochemical/microbiological research and for the Cascina dè Pecchi biochemical/fermentation production site. In 1995, he became Head of the Chemical Research and Technologies Division. In 1999, he was appointed director in charge of the fine chemicals sector and in 2004 Deputy Chairman of Recordati S.p.A.. He has held responsibility for co-ordinating the "Drug Discovery" and "Drug Development" activities of the Company since 2008 and also for licensing-in activities since 2011. On 16 august 2016, he was appointed Chairman of the Board of Directors of Recordati S.p.A.. He is also Chairman of the Board of Directors and Managing Director of FIMEI S.p.A..

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. On 16 august 2016, he was appointed as Vice Chairman and CEO of Recordati S.p.A.. He is also Vice Chairman of FIMEI S.p.A..

ROSALBA CASIRAGHI

Degree: Business Administration, Faculty of Economics a L. Bocconi University.
Official Registered Auditor. She started her career as cost accountant in a subsidiary of a U.S. corporation and then she has been Chief Financial Officer. After these work experiences, she has undertaken business and professional activities. Director and auditor in companies operating in industrial and financial sectors, listed and unlisted.
Board member in companies and other institutions:

- Member of Board of Recordati (listed company);
- Member of Board of Luisa Spagnoli;
- Member of Board of FSI SGR;
- Chairman of Statutory Auditors Board ENI (listed company);
- Member of statutory Auditors SEA Società Esercizi Aereoportuali;
- Member of statutory Auditors Whirpoolo Emea;
- Auditor of TIM Foundation.

Previous directorships:

- 2008 - 2018 Chairman of Statutory Auditors Board of NTV (Italo)
- 2016 - 2017 Chairman of Statutory Auditors Board of Banca Popolare di Vicenza (Fondo Atlante)
- 2014 - 2017 Chairman of Statutory Auditors Board of Persidera
- 2004 - 2017 Member of statutory Auditors F.I.L.A. (listed company);
- 2007 - 2016 Member of Supervisory Board of Banca IntesaSanpaolo (listed company);
- 2012 - 2016 Member of Board of Università degli Studi di Milano;
- 2012 - 2015 Chairman of Statutory Auditors Board Npl, Non Performing Loans;
- 2013 - 2015 Chairman of Statutory Auditors Board of Telecom Media (listed company);
- 2009 - 2014 Member of Board of NH Hotel S.A., hotels group (listed in Madrid Stock Exchange);
- 2008 - 2013 Chairman of Nedcommunity, the Italian Association of independent directors;
- 2008 - 2013 Chairman of Statutory Auditors Board of Banca CR Firenze;
- 2009 - 2012 Member of Board of Alto Partners Sgr, management firm of private equity funds;
- 2009 - 2012 Member of Board of Biancamano, waste management company (listed company);
- 2008 - 2012 Member of Statutory Auditors of Industrie De Nora;
- 2005 - 2006 Member of Statutory Auditors Board of BancaIntesa (listed company);
- 2003 - 2006 Member of Statutory Auditors Board of Telecom Italia (listed company);
- 2001 - 2003 Member of Board of Banca Primavera;
- 1999 - 2003 Member of Statutory Auditors Board of Pirelli (listed company);
- 1986 - 2000 Member of Board of Gpf&Associati, institute of market research;
- 1994 - 2001 Member of Italian Commission on Privatization at the Italian Ministry of Economy and Finance.

MICHAELA CASTELLI

She worked in leading Italian law firms dealing with corporate law and financial markets. She consolidated her professional experience in Borsa Italiana S.p.A., where she assisted listed companies with respect to extraordinary transactions, price sensitive information, compliance and corporate governance. She held the position of secretary of the scientific committee that was responsible for updating the listed companies' Code of Conduct and she was responsible for listing legal department in charge of the admission to listing of shares and other financial instruments, with delegations on sensitive procedures.

She participated in consultation procedures on regulations and on the preparation of company operating procedures for the market management's company, CONSOB supervised entity.

Expert in the organization, corporate compliance, internal controls, and legislation 231.

Consultant and member of Boards of Directors of listed companies, auditor in boards of statutory auditors and member of numerous supervisory bodies. Author of professional publications and lecturer in several continuous education courses on corporate law and financial markets; participation in numerous conferences as a speaker.

She currently holds the following positions:

Board of Directors

- Member of the Board of Directors, Chairman of the Internal Control Committee, member of the Related Parties Committee and of the Ethical and Sustainability Committee of Acea S.p.A..
- Member of the Board of Directors, Chairman of the Internal Control Committee of Sea Aeroporti di Milano S.p.A..
- Member of the Board of Directors, Chairman of the Internal Control Committee, Chairman of the Related Parties Transaction Committee and Member of the Remuneration Committee of Istituto Centrale delle Banche Popolari Italiane S.p.A. (Nexi Group).
- Member of the Board of Directors and of the Compensation Committee and Internal Control and Sustainability Committee of Recordati S.p.A..
- Member of the Board of Directors, Member of the Remuneration Committee and Internal Control Committee of La Doria S.p.A..
- Member of the Board of Directors, Member of the Remuneration Committee and Related Parties Committee of Stefanel S.p.A..
- Member of the Board of Directors of My Best S.p.A..

Board of Statutory Auditors

- Member of the Board of Statutory Auditors of Nuova Sidap S.r.l. (Autogrill S.p.A. Group)
- Member of the Board of Statutory Auditors of Eurtel S.r.l. (Eur S.p.A. Group)
- Member of the Board of Statutory Auditors of Autogrill Italia S.p.A.
- Member of the Board of Statutory Auditors of Autogrill Europe S.p.A.

Supervisory Board

- Chairman of the Supervisory Board of Teva s.r.l. (Teva Pharmaceutical Industries Ltd Group, listed in the NYSE).
- Member of the Supervisory Board of Sea S.p.A.
- Chairman of the Supervisory Board of La Doria S.p.A.

ELISA CORGHI

After graduating cum laude in 1996 in Business Administration at the Bocconi University in Milan, Ms. Corghi gained experience as a brand manager in the marketing departments of Barilla Alimentare and Kraft Foods, developing and managing the marketing plan of best selling products in both companies.

Subsequently, as senior sell-side analyst in Intermonte SIM, a leading independent broker and investment bank on the Italian market of which she was partner, she focused for fifteen years on the financial analysis of listed companies in the consumer sector (Parmalat, Autogrill, Campari, Diasorin, Recordati, Amplifon, Indesit Company, De'Longhi, Saeco) with primary responsibility, and in the luxury sector (Luxottica, Tod's, Brunello Cucinelli, Ferragamo, Bulgari) with secondary responsibility. In this role she was responsible for the in-depth analysis of corporate business plans and accounts; the development of estimates and valuation models to assess stocks' fair value; the definition of investment cases; the discussion of investment recommendations with sales and institutional investors and the organization of roadshows in Europe and the US with companies' top management and investors. She cooperated with a digital start-up in the fashion industry, and she initiated and participated in the due diligence process for an M&A transaction in the luxury sector. She's member of BoD of Pitti Immagine and Corneliani, and of listed companies Tecnoinvestimenti (also Member of Internal Control Committee) and Basicnet (also Member of Internal Control Committee and of Compensation Committee).

PAOLO FRESIA

Native from Turin, Italy, Paolo holds a First Class Joint Honours B.A. degree in Philosophy and Economics from UCL, University College London. Starting from 2008, he worked with Goldman Sachs as an intern and then full time as fixed income sales trader.

He left the City in 2010 to pursue an M.Phil. in Development Studies at Trinity Hall, University of Cambridge. From late 2011 to early 2013, Paolo worked with the humanitarian NGO Médecins Sans Frontières – Doctors Without Borders. He was posted to Haiti for a year as the mission's Financial Coordinator.

In spring 2013, he moved to Asia to study Mandarin Chinese and – since September 2013 – has been a sustainability and corporate social responsibility consultant at BSR, Business for Social Responsibility, in their Hong Kong office.

MARIO GARRAFFO

Mario Garraffo graduated in Economics from the "Bocconi" University in Milano in 1960.

From 1960 to 1970, he was Controller and Development Director at La Centrale Finanziaria Generale, a holding company mainly invested in public utilities (communication and energy). From 1970 to 1980, he was Investment Director at the IFI group; from 1980 to 1985 he was Chief Executive Officer of IFIL- Finanziaria di Partecipazioni and from 1985 to 1993 President of IFINT (now EXOR). In 1993, he was appointed Chief Executive Officer of Lazard Italia until the acquisition of Vitale, Borghesi & Co. in 1998. Thereafter, he was appointed Chief Executive Officer of UNIM – Unione Immobiliare, a post which he held until the year 2000, when he was appointed as Chairman of General Electric Italia until 2004. He was then a Senior Advisor for General Electric Europe from 2004 until 2007.

He is an Independent Director, a Member of the Audit and Risk Committee and Chairman of the Compensation Committee at Recordati S.p.A..

He has been a Trustee of the Johns Hopkins University of Baltimore and a Trustee of the Johns Hopkins School for Advanced International Studies (SAIS) in Bologna.

From 1995 to 2006 he was President of the Bocconi University Alumni Association and is a lifetime member of the Donna Javotte Bocconi Foundation's (Bocconi University's founding Entity) Board of Directors.

Dr. Garraffo holds the following additional positions:

-Independent Director, Member of the Audit and Risk Committee and of the Compensation Committee of ANSALDO STS SpA.

-Independent Director of Quadrivio Capital Sgr SpA.

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 in 2008 also became Managing Director. 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.

MARCO VITALE

Marco Vitale, business economist. He has been teaching for several years business economy at Pavia University (where he also studied at the famous Ghislieri College); Bocconi University, Milan; Libero Istituto Universitario Carlo Cattaneo (for which he was vice-president, President of the Scientific Committee, and responsible for management area and which he contributed to create). He has been chairman of Istud (Foundation for the business culture and management), which he also contributed to re-launch, and has been co-ordinator for management area of ISTAO, post-degree management school founded by the economist Prof. Giorgio Fuà.

Former partner of Arthur Andersen & Co., he is founding partner and president of Vitale–Novello & Co. S.r.l., then Vitale-Zane & Co. Srl, top management consulting firm. In this context, he is consultant and member of the board of directors for many important companies.

He has been president from 1984 to 2003 of A.I.F.I. (Italian Venture Capital and Private Equity Association) and promoter and first president of Arca Group, the mutual fund company of popular banks.

He has been Vice-president, member of the board and of the Executive Committee of Banca Popolare of Milan from 2001 till 2009 and was Chairman of Bipiemme Gestioni S.G.R., the Asset Management Company of the BPM Group.

Member of the Board of Olivetti Foundation; member of the Board of FAI Foundation, and member of the Board of Pavia University. He is a member of UCID Brescia.

He has been President from March 2010 to June 2013 of Fondo Italiano di Investimenti SGR SpA, constituted by the Treasure Ministry, Confindustria, ABI, Banca Intesa, Unicredit, Monte Paschi, Crediop and some popular banks, with a capital of 1.2 billion Euro, with the aim of sustaining development projects and internationalization of little medium companies.

He has been appointed to several important public tasks.

He contributes to important leading newspapers and business magazines.

He published several books including: Società, bilanci e borse valori in un mercato mobiliare evoluto (Etas-Kompass); La riforma delle società per azioni (Giuffré); La lunga marcia verso il capitalismo democratico (Ed. Il Sole-24 Ore); Liberare l'economia: le privatizzazioni come terapia alla crisi italiana (Ed. Marsilio); Le Encicliche sociali, il rapporto fra la Chiesa e l'economia (Ed. Il Sole-24 ore); Sviluppo e Spirito d'Impresa (Ed. Il Veltro); America. Punto e a capo (Scheiwiller); Il Mito Alfa (Egea editore, Bocconi); Lezioni di Impresa, da tempi e luoghi diversi – I proverbi di Calatafimi (Piccola Biblioteca Inaz, 2008); Gli angeli nella città (ESD Edizioni); Passaggio al Futuro, Oltre la Crisi attraverso la Crisi (Ed. Egea, Bocconi); Corruzione (ESD Bologna 2010); Responsabilità nell'impresa (Piccola Biblioteca d'Impresa Inaz, 2010); Spiritualità nell'impresa (Piccola Biblioteca d'Impresa Inaz, 2011); Viaggio nello sport italiano (ESD Edizioni, 2011).

He was editor in Italy and USA of the bilingual version of the essay of Carlo Cattaneo: "Intelligence as a principle of public economy".

Good mountain-climber, he has covered great part of Italy by bicycle, a good way to observe the Italian economy as it really is and not as people say to be.

Prof. Vitale holds the following additional positions:

- Director ERMENEGILDO ZEGNA HOLDITALIA SpA.
- Director LUVE SpA (listed company).
- Director SMEG SpA.
- Director Banca Passadore SpA.

MEMBERS OF THE BOARD OF STATUTORY AUDITORS

STATUTORY AUDITORS

ANTONIO SANTI

Graduated in Business Administration - University of Rome "La Sapienza" in 2002, PhD in Business Administration - University of Rome "Roma 3"- School of Law and Economics "Tullio Ascarelli" in 2009.
Registered with the Register of Italian Corporate and Tax Affairs Experts *(Albo dei Dottori Commercialisti)* in december 2006.
Registered with the Register of Certified Auditors *(Registro dei Revisori Contabili)* in april 2007.
He carries out advisory activities with regards to management of merger and acquisition processes, economic and financial feasibility studies, appraisal of the value of companies, company branches and intangible assets, fairness opinions on m&a acquisition prices and aspects related to individual and consolidated balance sheets.
He is CONI's Accounting Auditor and holds positions in the following companies:

1. Member of the Board of Directors of Enav S.p.A. – listed company;
2. Member of the Board of Directors of Studio Laghi S.r.l.;
3. Chairman of the Board of Statutory Auditors of Acea Produzione S.p.A. – Acea Group;
4. Chairman of the Board of Statutory Auditors of F.A.I. Service S. COOP.;
5. Chairman of the Board of Statutory Auditors of C-Zone S.p.A. in liquidation;
6. Chairman of the Board of Statutory Auditors of CQS Holding S.r.l. in liquidation;
7. Chairman of the Board of Statutory Auditors of Ktesios Holding S.p.A. in liquidation;
8. Chairman of the Board of Statutory Auditors of LKTS S.p.A. in liquidation;
9. Statutory auditor of Acea Liquidation and Litigation S.r.l. – Acea Group;
10. Statutory auditor of Asscom Insurance Brokers S.r.l..

LIVIA AMIDANI ALIBERTI

Livia Amidani Aliberti graduated in Economics and Commerce at LUISS (Rome, Italy) and holds a Master level Diploma from FT-Pearson (UK). She has recently completed the INSEAD Certificate of Corporate Governance. She holds FCA status (CF1, 10, 11, 30); registered with the *Albo dei Dottori Commercialisti* (Association of Chartered Accountants) of Rome and a member of the Scientific Committee of NedCommunity. Executive director in charge of compliance and controls 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 and consulting. She is the author of several publications on gender diversity and directors.
Livia Amidani Aliberti occupies the following positions as corporate director:

- LVenture Group S.p.A. (listed company: Italy, MTA): independent director, chair of the Control and Risk Committee and Chair of the Related Party Transactions Committee.
- Neodecortech S.p.A. (AIM Italy): independent director, chair of the Control, Risk, Remuneration, Nomination and OPC Committee.
- Amnesty International Charitable Trust UK (Company Limited by Guarantee): non- executive director, member of the Finance Audit and Risk Committee.
- Bayes Investments Ltd, UK: executive director.
- Quantyx UK Ltd: executive director.

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. Director Sifact Ricerca e Servizi srl.
4. Chairman of the Board of Statutory Auditors of Cavenaghi SpA.
5. Chairman of the Board of Statutory Auditors of Dott. G. Cavenaghi SpA.
6. Chairman of the Board of Statutory Auditors of Euclidea SIM SpA.
7. Chairman of the Board of Statutory Auditors of Fratelli Re SpA.
8. Chairman of the Board of Statutory Auditors of Italchimici srl.
9. Chairman of the Board of Statutory Auditors of LCS SpA.
10. Chairman of the Board of Statutory Auditors of Max Moda SpA.
11. Chairman of the Board of Statutory Auditors of Prodotti Naturali SpA.
12. Chairman of the Board of Statutory Auditors of RBR Valvole SpA.
13. Chairman of the Board of Statutory Auditors of Synlab Italia srl.
14. Chairman of the Board of Statutory Auditors of ICCS Spa.
15. Chairman of the Board of Statutory Auditors of Data Medica Padova Spa.
16. External Auditor Associazione Italiana Medicina Nucleare (AIMN).
17. External Auditor Società Italiana di Biochimica Clinica (SIBIOC).
18. External Auditor Musixmatch SpA.
19. External Auditor Tensive srl.
20. Statutory Auditor Beaumanoir Italy srl.
21. Statutory Auditor Campo SpA.
22. Statutory Auditor Fimei SpA.
23. Statutory Auditor Giuseppe & Fratelli Bonaiti SpA.
24. Statutory Auditor Innova Pharma SpA.
25. Statutory Auditor J Colors SpA.
26. Statutory Auditor Junionfin SpA.
27. Statutory Auditor National Instruments Italy srl.
28. Statutory Auditor S.I.S.A. Società Italiana Spalmature ed Affini SpA.
29. Statutory Auditor Twister Communications SpA.
30. Statutory Auditor Yazaki Europe Limited Italia srl.
31. Statutory Auditor Synlab Holding Italy Srl.
32. Statutory Auditor Avio San Michele srl.
33. Statutory Auditors of Recordati SpA.
34. Sole Member of Compliance Committee Giuliani SpA.
35. Sole Member of Compliance Committee CM Engineering 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, insurance and energy 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";
- Chairman of the Board of Statutory Auditors of Chiara Assicurazioni spa;
- Chairman of the Board of Statutory Auditors of Close up spa;
- Chairman of Auditors' of Consorzio Universitario per l'Ingegneria nelle Assicurazioni;
- Statutory Auditor of Esprinet spa;
- Statutory Auditor of Ge.si.ass scarl;
- External Auditor of Fondazione Antonio e Giannina Grillo Onlus;
- Chairman of the Board of Statutory Auditors of Helvetia Vita spa;
- Statutory Auditor of ICIM spa;
- Chairman of the Board of Statutory Auditors of Helvetia Italia spa;
- Shareholder Director of Quisi snc di Patrizia Paleologo & C;
- Sole Auditor of Simoro srl;
- Statutory Auditor of Virgin Active spa;
- Statutory Auditor of Banca Farmafactoring spa.

ANDREA BALELLI

Graduated cum laude in Economics at La Sapienza University of Rome in 2000. Business Advisor, Certified Public Accountant and Auditor.
He started his professional experience at PricewaterHouseCoopers. He subsequently worked at the Government Printing Office and Mint and Capitalia Service Jv in Rome.
He then moved to Milan working for Archon Group (Goldman Sachs Group) as Vice President of the Corporate Accounting Team.
He is now top management advisor for both public and private companies on strategic, organizational and financial aspects such as M&A advisory (including mergers, acquisitions, spin-offs, liquidations, fairness opinions); corporate valuations; strategic plans; business and debt restructuring; performance measurement and control systems; organizational models pursuant to legislative decree 231 of 2001.
He is member of the Board of Directors and the Board of Statutory Auditors for companies operating in various sectors.
He occupies management and supervisory positions in the following companies:

- Sole Director of Fedaia Spv Srl;
- Sole Director of Forward. Red 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;
- Director of Venom Holding Srl;
- Statutory Auditor Airport Cleaning Srl;
- Statutory Auditor of Leonardo Energia Scarl;
- Statutory Auditor of Pillarstone Italy SpA;
- Statutory Auditor of Pillarstone Italy Holding SpA;
- Statutory Auditor of PS Reti SpA;
- Chairman of the Board of Statutory Auditors of Salvatore Ferragamo SpA;
- Chairman of Supervisory Body ex D.Lgs 231/2001 of Salvatore Ferragamo SpA;
- Statutory Auditor of Sirti SpA.

This booklet is a summary of the 2017 Report of Board of Directors of Recordati SpA, which has been publicly filed in accordance with Italian law.

All mentions and descriptions of Recordati prescription products are intended solely to inform the reader of the general nature of the Company's activities with the sole objective of presenting the Annual Report. They are not intended to promote the use, or to indicate the advisability of using, Recordati prescription products, in compliance with existing law.

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BOARD OF DIRECTORS
(elected by the Shareholders' Meeting of April 11, 2017)

Alberto Recordati
Chairman

Andrea Recordati
Vice Chairman
and Chief Executive Officer

Rosalba Casiraghi
Independent Director
Business consultant
and external auditor

Michaela Castelli
Independent Director
Of Counsel Studio Nctm

Elisa Corghi
Independent Director
Non-executive Director

Paolo Fresia
Independent Director
Advisory Services Associate,
Business for Social Responsibility

Mario Garraffo
Independent Director
Former Senior Adviser GE Europe

Fritz Squindo
Chief Financial Officer
Managing Director

Marco Vitale
Independent Director
Economist and Business
Consultant

AUDIT, RISK AND SUSTAINABILITY COMMITTEE

Marco Vitale
Chairman

Michaela Castelli
Elisa Corghi

REMUNERATION COMMITTEE

Mario Garraffo
Chairman

Rosalba Casiraghi
Michaela Castelli

STATUTORY AUDITORS

Antonio Santi
Chairman

Livia Amidani Aliberti
Marco Nava
Auditors

Andrea Balelli
Patrizia Paleologo Oriundi
Alternate auditors

EXTERNAL AUDITORS

KPMG S.p.A.

MANAGEMENT

Alberto Recordati
Chairman

Andrea Recordati
Vice Chairman
and Chief Executive Officer

Enrico Baroncia
Pharmaceuticals, Italy

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