

## **DIRECTORS' REPORT ON THE PROPOSALS ON THE AGENDA OF THE ORDINARY GENERAL MEETING OF THE SHAREHOLDERS**

**(11<sup>th</sup> APRIL 2019 SINGLE CALL)**

### **Report on item 3 on the agenda of the Ordinary Shareholders Meeting and the relative resolution submitted**

**Amendment proposal of 2018-2022 Stock Option Plan in favour of the Chief Executive Officer of Recordati S.p.A.; relative and consequent resolutions in accordance with Article 114 *bis* of Legislative Decree No. 58 of 24<sup>th</sup> February 1998.**

To Our Shareholders,

With reference to the third item on the agenda, you have been called in ordinary session to discuss and resolve upon certain amendments to the incentive plan based on the grant to the employees of Recordati S.p.A. (hereinafter the "Company" or "Recordati"), and persons with relationships equivalent to those of an employee worker of that company and other companies either directly or indirectly controlled by it (hereinafter respectively the "Beneficiaries" and the "Subsidiaries") of options (hereinafter the "Options") to purchase ordinary shares of Recordati entitled the "2018-2022 Stock Option Plan" (hereinafter the "Plan"), approved by the Ordinary Meeting of the Shareholders of the Company on 18<sup>th</sup> April 2018, following a proposal formulated by the Board of Directors with a resolution of 15<sup>th</sup> March 2018, with account taken of the proposal of the Remuneration Committee in meetings held on 12<sup>th</sup> March 2018.

Such amendments have been approved by the Board of Directors of the Company on 28 February 2019, having heard the proposal of the Remuneration Committee dated 25 February 2019, and are submitted to your approval pursuant to Article 114-*bis* of Legislative Decree No. 58/1998 (Consolidated Law on Financial Intermediation).

The amendments submitted to your examination are intended to include within the Beneficiaries category of the Plan the Chief Executive Officer of your Company - already participating in the Plan by virtue of the employee relationship previously in existence with Recordati - which, as a result of the changes in the articulation of top management figures that occurred after Recordati's change of control, is no longer linked to the Company by an employment relationship.

Please note that the proposed amendments are in line with the 2019 Remuneration Policy submitted to a consultative vote of the Shareholders on 11 April 2019 as second item on the agenda.

For more information relating to the proposed amendments aimed at introduce the appropriate adjustments the Plan to allow the Chief Executive Director of Recordati to continue participating in the Plan, please refer to the information document attached to this report, drawn up in accordance with Art. 84-*bis*, of the Issuers' Regulations issued by the Consob with resolution No. 11971 of 14<sup>th</sup> May 1999 and subsequent amendments (hereinafter the "Issuer's Regulations") in compliance with the provisions contained in schedule No. 7 of attachment 3A of those regulations.

\*

In the light of the information we have provided, we propose that you approve the following resolutions:

“The Ordinary General Meeting of the Shareholders of RECORDATI S.p.A.,

- having viewed the illustrative report of the Board of Directors which describes the proposed amendments to the “2018-2022 Stock Option Plan”

resolves

- to approve the amendments to the Stock Option Plan entitled the “2018-2022 Stock Option Plan” approved by the Board of Directors of the Company on 28 February 2019, having heard the proposal of the Remuneration Committee dated 25 February 2019, and therefore to include within the beneficiaries of the 2018-2022 Stock Option Plan the Chief Executive Officer of Recordati S.p.A., as better described in the Information Document attached to the Directors Report;
- without prejudice to the powers already granted by the Shareholders' Meeting on 18 April 2018, to grant the Board of Directors, with the authorisation to sub-delegate, all necessary or advisable powers to reflect the approved amendments in the 2018-2022 Stock Option Plan regulation and to perform all actions, formalities and communications that may be necessary or opportune for the purposes of give complete and fully execution to this resolution.”

Milan, 28 February 2019

on behalf of the Board of Directors

The Chief Executive Officer

Mr. Andrea Recordati

## **INFORMATION DOCUMENT ON THE 2018-2022 STOCK OPTION PLAN FOR THE SUBSCRIPTION OF RECORDATI S.p.A. SHARES**

*(Drafted in accordance with Art. 84-bis of the Issuers' Regulations adopted by the Consob con Resolution No. 11971 of 14<sup>th</sup> May 1999 and subsequent amendments and additions)*

### **Definitions**

For the purposes of this information document, the terms listed below will have the following meanings attributed to them:

**"Shares"** are defined as the ordinary shares of the Company, with a nominal value of €0.125 each;

**"Shareholders' Meeting"** is defined as a general meeting of the shareholders of Recordati S.p.A.;

**"Board of Directors"** or **"Board"** refers to the Board of Directors of Recordati S.p.A.;

**"Grant date"** is defined as the date on which the Board of Directors approved the grant of the options on the basis of the Plan;

**"Beneficiary/ies"** is defined as the beneficiary/ies of the Plan identified by the Plan itself;

**"Recordati Group"** is defined as Recordati S.p.A. and its subsidiaries and associate companies;

**"Options"** is defined as the financial instruments of the Plan, which will grant the right of the Beneficiaries to purchase an equal number of Shares;

**"Plan"** is defined as the 2018-2022 incentive scheme based on stock options reserved to the Chief Executive Officer of Recordati and to the employees and persons with relationships equivalent to those of an employee of the companies belonging to the Recordati Group approved by the Shareholders Meeting on 18<sup>th</sup> April 2018 and whose amendments are submitted to the approval of the Shareholders' Meeting of 11 April 2019;

**"Issuers' Regulations"** is defined as the Regulations issued by the Consob with Resolution No. 11971 of 1999 (as subsequently amended) concerning issuers.

**"Company"** or **"Issuer"** or **"Recordati"** refers to Recordati S.p.A.

### **1. The beneficiaries**

**1.1 The names of the beneficiaries who are members of the Board of Directors or the Management Board of the issuer of the financial instruments, of the companies controlling the issuer, and of the companies controlled, directly or indirectly, by the issuer.**

**1.2 The categories of employees or collaborators of the issuer and of the companies controlling or controlled by this issuer.**

The Options may be granted by the Board of Directors to the Chief Executive Officer, Mr. Andrea Recordati, as well as to employees of the Company, and in some rare cases to persons with relationships equivalent to those of an employee, or of companies either directly or indirectly controlled who have been stably appointed to roles of key importance and contribute significantly to the achievement of Group results.

It is underlined that the Options may also be granted to the executive directors of the Company who are also employees of the Company itself, by virtue of that employee relationship.

Similarly, Options may be granted to other employees also identified as other key management personnel by the Board of Directors and/or who also hold directorships in some of the companies controlled by the Company. In this respect it is underlined that while they also may hold directorships in one or more Group companies, for the purposes of the Plan these other employees of the Company or of subsidiaries are classified as beneficiaries of the Plan and therefore they may

potentially be granted Options for the organisational position occupied in the Group itself (and not for any directorships they may hold) and that these persons do not receive any fees as directors, but are remunerated solely by the Group company with which they have an employment contract and by virtue of this. In some rare cases, persons with relationships equivalent to those of an employee who hold directorships in subsidiaries are classified as beneficiaries of the Plan and therefore they may potentially be granted Options.

It is also underlined that employees, and persons with relationships equivalent to those of an employee, of foreign subsidiaries who hold directorships in some subsidiaries of the Company do not receive any treatment that is different from those received by employees who do not hold directorships. More specifically, as also explained in sub-section 2.1, when the number of Options granted to each person is decided, the Board of Directors takes account of the importance of the position held in the organisation by each Beneficiary within the Group and also of the Company's interest in spreading the incentive over the long-term as part of its strategies and, on the other hand, not taking account of any directorships that may be held.

The Plan therefore qualifies as a plan "of particular significance" according to Art. 114-*bis*, paragraph 3 of Legislative Decree No. 58/1998 and Art. 84-*bis* paragraph 2 of the Issuers' Regulations, because the Beneficiaries of the Plan include the Chief Executive Officer of Recordati, as well as directors of the Company with executive powers and also other senior managers classified as key management personnel, being understood that such persons (different from the Chief Executive Officer of Recordati) may potentially be granted Options by virtue of their employment contract as an employee of the Company or its subsidiaries.

For information relating to the Options granted by the Board of Directors on 3 August 2018, having heard the proposal of the Remuneration Committee dated 26 July 2018, to the Beneficiaries of the Plan, including the Chief Executive Officer, Mr. Andrea Recordati (to whom the Options have been granted by virtue of the employment relationship previously existing with the Company) and the General Manager for the co-ordination of operations, Mr. Fritz Squindo, please refer to the table reported in paragraph 4.24.

### **1.3 The names of the persons who benefit from the plan belonging to the following groups:**

#### **a) general managers of the issuer of financial instruments;**

Beneficiaries to whom the Board may grant Options also include Mr. Fritz Squindo, Executive Director and General Manager for the Co-ordination of Operations.

For information relating to the Options granted by the Board of Directors on 3 August 2018, having heard the proposal of the Remuneration Committee dated 26 July 2018, to the Beneficiaries of the Plan belonging to the category referred to in this letter a), and therefore, to the Chief Executive Officer, Mr. Andrea Recordati (to whom the Options have been granted by virtue of the office of General Manager previously held in the Company) and to the General Manager for the co-ordination of operations, Mr. Fritz Squindo, please refer to the table reported in paragraph 4.24.

**b) other key management personnel of the issuer of financial instruments which is not of "small dimensions", pursuant to article 3, paragraph 1, letter f) of Regulation No. 17221 of 12<sup>th</sup> March 2010, where they have received total remuneration during the financial year (obtained by summing cash remuneration and remuneration based on financial instruments) that is higher than**

**the total highest remuneration paid to members of the Board of Directors, or to the Management Board and to the General Managers of the issuer of financial instruments;**

Not applicable.

**c) the natural persons controlling the issuer of shares, who are employees or work on contract within the issuer of shares.**

Not applicable.

#### **1.4 Description and number, by category:**

**a) of key management personnel other than those indicated in letter b) of paragraph 1.3;**

Beneficiaries of the Plan may include other members of the key management personnel of Recordati or of its subsidiaries identified by the Board of Directors. On the date of publishing this Information Document, the Board of Directors has identified five other members of Recordati key management personnel and two other members of the key management personnel of subsidiaries.

**b) for companies of “small dimensions”, pursuant to article 3, paragraph 1, letter f) of Regulation No. 17221 of 12<sup>th</sup> March 2010, information by total for all key management personnel of the issuer of financial instruments;**

Not applicable.

**c) any other categories of employees or collaborators subject to different treatment under the plan (for example, senior managers, middle managers, clerical workers etc.).**

Not applicable.

## **2. The reasons for the adoption of the plan**

### **2.1 The objectives to be achieved through the awarding of the plans.**

The Company, in line with standard international practice, considers the Plan, based on the granting of stock options and structured with the provision of tranches of Options whose vesting and therefore the exercise of which are subject to the achievement of specific performance targets, a suitable incentive instrument, playing an important role also in attracting high level personnel and making them loyal, able to relate this additional variable component of the overall remuneration of the Chief Executive Officer to objective and predetermined parameters such as the effective achievement of Company results, the creation of new value for the Group and the appreciation of the listing of the Shares on the market.

The objectives that the Company wishes to achieve with the adoption of the Stock Option Plan and its amendments are also in line with the 2018 Remuneration Policy approved by the Shareholders on 18<sup>th</sup> April 2018, with the 2019 Remuneration Policy submitted to the consultative vote of the Shareholders on 11<sup>th</sup> April 2019 and with the recommendations of the Corporate Governance Code of the Corporate Governance Committee of Borsa Italiana S.p.A. with regard to the compensation of executive directors.

The number of Options to be granted to each of the Beneficiaries shall be decided by the Board of Directors, based on the proposal of the Remuneration Committee and the Plan involves no predetermined relationship between the number of Options granted to individual Beneficiaries and the total remuneration these receive. When selecting Beneficiaries and deciding the number of Options to be granted to them, the Board of Directors takes into account, in addition to the importance of the role played by each Beneficiary in the Group, of the market benchmarks as well as of the Company's interest in spreading the incentive over the long-term as part of its strategies.

The Plan covers a four-year time horizon (running from the date of the shareholders' meeting to approve 2017 annual report until the date of the approval of the 2021 Annual Report) and has a graduated vesting period, with Options vesting in four tranches, as better illustrated in section 4. The Options that may be granted shall expire at the end of the eighth year following that in which the Board granted the Options on the basis of the Plan. It is considered that these vesting periods and the expiry dates are appropriate to achieving the Beneficiary incentivising and loyalty objectives of the Plan.

## **2.2 The key variables, also in the form of performance indicators, considered for the inclusion in schemes based on financial instruments.**

The exercise of the Options which may be granted and of each tranche of Options in particular is subject for all the Beneficiaries to achieving determined objectives based on consolidated net income set by the Board of Directors, as explained in detail in section 4. The mere grant of Options on the basis of the Plan is not tied to the achievement of determined performance objectives, since they are rather linked to the position occupied by the Beneficiary.

## **2.3 The factors underlying the determination of the extent of the remuneration based on financial instruments, or the criteria used to determine it.**

The number of Options that may be granted to Beneficiaries is related to the organisational structure of the Company and it is determined by the Board of Directors taking into account, in addition to the importance of the positions occupied in the organisation by the Beneficiary concerned, the market benchmarks as well as the Company's interest in spreading the incentive over the long-term as part of its strategies.

In order to define the importance of the positions occupied in the organisation by the managers concerned, reference is made to remuneration surveys conducted by major consulting firms and to the "gradings" formulated by them to photograph the organisational structure. The term "grading" relates to a system for classifying positions in an organisation in relation to the responsibility assigned to each role and to the size and complexity of the organisation in which it is set.

## **2.4 The reasons behind any decision to award remuneration plans based on financial instruments not issued by the issuer of financial instruments, such as financial instruments issued by subsidiaries or controlling companies or by third party companies with respect to its group; if the aforesaid instruments are not traded on regulated markets, information on the criteria used to determine the value attributable to them.**

Not applicable.

## **2.5 Assessment of the significant tax and accounting implications that influenced the formulation of the plans.**

There were no significant tax and accounting implications that influenced the formulation of the Plan.

## **2.6 Any support for the plan from the special fund for the encouragement of worker participation in firms, referred to in Article 4, paragraph 112, of the Italian Law No. 350 of 24<sup>th</sup> December 2003**

The Plan receives no support from the special fund for the encouragement of worker participation in firms, pursuant to article 4, paragraph 112, of Italian Law No. 350 of 24<sup>th</sup> December 2003.

## **3. Approval procedures and time scales for the grant of the instruments**

### **3.1 Scope of the powers and functions assigned to the shareholders' meeting and the board of directors for the implementation of the plan.**

### **3.2 Details of the persons appointed to administer the plan and their function and responsibilities**

The Plan has been approved, pursuant to Art. 114-*bis* of Legislative Decree No. 58/98, the Ordinary Shareholders' Meeting on 18<sup>th</sup> April 2018. The proposed amendments to the Plan will be submitted to the approval of the Ordinary Shareholders Meeting to be held on 11 April 2019 in a single call.

On 18 April 2018 the Shareholders Meeting delegated the implementation and management of the Plan to the Board of Directors, with the authorisation to sub-delegate, granting it all the powers indicated in this information document attached to the Illustrative Report of the Board of Directors, including, by way of example, all powers necessary or opportune for implementation of the 2018-2022 Stock Option Plan and therefore in particular, by way of example, but not limited to these, all powers to select the beneficiaries and to decide the number of the options to be granted to each of them, to then grant them to the Beneficiaries and to perform all actions, formalities and communications that may be necessary or opportune for the purposes of managing and/or implementing the Plan.

Without prejudice to the powers granted by the Shareholders' Meeting on 18 April 2018, it is proposed to the Shareholders Meeting to grant the Board of Directors, with the authorisation to sub-delegate, all necessary or advisable powers to reflect the amendments proposed to the Shareholders' Meeting in the 2018-2022 Stock Option Plan regulation and to perform all actions, formalities and communications that may be necessary or opportune for the purposes of give complete and fully execution to resolution relating to the Plan's amendments.

Furthermore, in line with the resolution adopted by the Shareholders Meeting on 18 April 2018, the adoption of the following resolution is proposed:

- to grant powers to the Board of Directors and to its Chair on its behalf to set a quantitative limit on the number of Options that may be exercised each day for a determined period of time, giving proper written notice to the Beneficiary;
- to clearly state that, without prejudice to the responsibilities of a Shareholders' Meeting at all times to amend, add to, or terminate the Plan (it being understood that any amendments, additions or the termination of the Plan, and likewise with reference to any amendment of the contents of the Options, cannot prejudice any rights already vested or enjoyed by the Participant under the Plan) and in any event in those cases laid down by law, the Board of Directors, after consultation with the Remuneration Committee, may at any time make changes considered opportune to the Plan for the



purpose of: (i) rendering the Plan compliant with existing legislation; or (ii) taking account of any changes occurring in the legislation; or (iii) improving the effectiveness of the Plan in line with its objectives, without in any event causing harm to the rights acquired by the Participant following the grant of the Options, as stated in Paragraph 3.3. below;

- to provide for the automatic change in the number of shares involved in Options granted under the Plan and the relative exercise price per Share (corresponding to its normal value) designed to reflect changes resulting from the extraordinary operations as stated in Paragraph 4.23.

The Board shall consult with the Remuneration Committee, appointed by the Board itself from among its members.

Responsibility for the operational administration of the Plan is assigned to the Group Human Resources Department with support from Group Treasury and the Group Legal and Corporate Affairs Department.

The Company may, at any time, entrust all or part of the administrative duties connected with the Plan to an outside trustee or in any event to a company that specialises in the operational management of stock option plans.

### **3.3 Any existing procedures for the revision of the plans, also with respect to changes in the key objectives.**

Any substantial changes to the Plan which should become necessary shall be submitted to a Shareholders' Meeting by the Board of Directors.

For the purposes of greater clarity, transparency and rapidity of action regarding the powers delegated to the Board of Directors in relation to amendments to the Plan a proposal is made to clearly state that, without prejudice to the responsibilities of a Shareholders' Meeting at all times to amend, add to, or terminate the Plan (it being understood that any amendments, additions or the termination of the Plan, and likewise with reference to any amendment of the contents of the Options, cannot prejudice any rights already vested or enjoyed by the Participant under the Plan) and in any event in those cases laid down by law, the Board of Directors, after consultation with the Remuneration Committee, may at any time make changes considered opportune to the Plan for the purpose of: (i) rendering the Plan compliant with existing legislation; or (ii) taking account of any changes occurring in the legislation; or (iii) improving the effectiveness of the Plan in line with its objectives, without in any event causing harm to the rights acquired by the Participant following the grant of the Options. By way of example, the Board of Directors, having heard the Remuneration Committee opinion, with reference to the Company's Chief Executive Officer or to other Beneficiaries who are also directors of the Company, or the Chair of the Remuneration Committee, may pass a resolution allowing the exercise of the Options granted to the Participant, either in full or in part, even as an exception to the conditions described in sub-section 4.8, if it considers, in its indisputable judgement, that particular circumstances exist that make it appropriate in the case in question to proceed in that sense.

The Plan states that the objective which constitutes a condition for the exercise of each tranche of the Options is decided by the Board when the Options are granted or subsequent to the grant with reference, even as a set percentage of it, to the consolidated net income forecast in the annual budget approved by the Company in relation to each of the years considered.



**3.4 Description of the methods used to determine the availability and the grant of the financial instruments that the schemes are based on (for example: the grant of shares free of charge, share issues with the exclusion of pre-emptive rights, and the sale and purchase of treasury shares).**

The Plan provides for the grant of Options for the purchase of the ordinary shares of the company, either purchased on the market and/or already held in portfolio (treasury stock). Each Option grants the right to purchase one ordinary share of the Company.

**3.5 The role performed by each director in determining the features of the above mentioned plans and the occurrence of any situations of conflicts of interest for the directors involved.**

The principal characteristics and the guidelines of the Plan have been drawn up by the Remuneration Committee which, with the assistance of Company functions (Group Human Resources Department, Finance Department, Group Corporate and Legal Affairs Department Group Treasury) examined and developed the matter in a meeting held on 12<sup>th</sup> March 2018. The committee then submitted the Plan to the Board of Directors of the Company for collegial approval, which decided to submit the proposal to adopt it to the Shareholders Meeting held on 18 April 2018 with the abstention of two executive directors present who may be Beneficiaries of the Plan.

On 28 February 2019 the Board of Directors, having heard the proposal of the Remuneration Committee dated 25 February 2019, with the abstention of the Chief Executive Officer of Recordati, approved the proposed amendments to the Plan.

**3.6 For the purposes of the requirements of article 84-bis, paragraph 1, the date of the decision made by the body responsible for proposing the approval of the schemes to the shareholders' meeting and the proposal by the remuneration committee, if present.**

The Board of Directors resolved to submit the proposal to approve the Plan to the Shareholders' Meeting held on 15<sup>th</sup> March 2018, on the basis of a proposal made by the Remuneration Committee which met on 12<sup>th</sup> March 2018. On 18 April 2018 the Shareholders Meeting approved the Plan.

On 28 February 2019 the Board of Directors, taking into account the proposal of the Remuneration Committee of 25 February 2019, resolved to submit to the Shareholders approval the proposed amendments to the Plan.

**3.7 For the purposes of the requirements of Article 84-bis, paragraph 5, letter a) the date of the decision made by the body responsible for the grant of the instruments and any proposal to the aforementioned body made by the remuneration committee, if present.**

On 3 August 2018, the Company's Board of Directors granted No. 4.818.000 Options in favour of No. 187 Beneficiaries, based on the proposal of the Remuneration Committee dated 26 July 2018, as specified in the table reported in paragraph 4.24.

Further information shall be provided in accordance with Art. 84-bis, paragraph 5, letter a) of the Issuers' Regulations, at the time when the Board makes decisions to grant further Options in implementation of the Plan.

**3.8 The market price, recorded on the aforesaid dates, for the financial instruments on which the plans are based, if traded on regulated markets.**

The market price of the Shares (official price) on 12<sup>th</sup> March 2018 and 15<sup>th</sup> March 2018 (see previous point 3.6) was € 29.818 and € 29.480 respectively.

The market price of the Shares (official price) on 3 August 2018 (date of the first granting of Option under the Plan) was equal to € 31.77, as specified in the table reported in paragraph 4.24.

**3.9 For plans based on financial instruments traded on regulated markets, what are the terms and procedures adopted by the issuer in determining the timing of the grant of the financial instruments to take account of coincidences in the timing of:**

- i) the aforementioned grant or any related decisions taken by the remuneration committee, and**
- ii) the disclosure of any significant information pursuant to Article 17 Regulation (EU) No. 596/2014; for example, when the information is:**
  - a. not already public and capable of positively influencing the market prices, or**
  - b. already published and capable of negatively influencing the market prices.**

As concerns the timing of the grant of Options, the Plan makes reference to the date of the resolution with which the Board, in addition to granting the Options to those selected as Beneficiaries, also sets the exercise price for the Options, on the basis of the arithmetic average of the prices of the ordinary shares of the Company recorded on the market in the period between the grant date of the Options and the same day of the previous calendar month. This criterion for setting the exercise price for the Options attenuates the effects of any sudden appreciations or depreciations in the quoted price of the shares of the Company.

#### **4. The characteristics of the instruments granted**

**4.1 Details of the structure of the remuneration schemes based on financial instruments. For example, specify whether the plan is based on the grant of: financial instruments (grant of restricted stock); increase in the value of these instruments (phantom stock); options to subsequently buy the financial instruments (option grants) with settlement by physical delivery (stock options) or in cash on the basis of a differential (stock appreciation rights).**

As already mentioned, the Plan is based on the grant of stock options, i.e. option rights for the subsequent purchase of the ordinary shares of the Company with settlement by physical delivery in the amount of one share per Option.

**4.2 Specification of the scheme's effective period of implementation, also with reference to the various cycles established.**

**4.3 The end date of the Plan.**

The Plan last four years and runs from the date of the Plan's approval and terminates with the approval of the 2021 Annual Report.

On the basis of the Plan, in the period just mentioned more than one Option grant may be performed at any time during the year, which vest in tranches and may be exercised before determined expiry dates are reached. More specifically, as explained in more detail in section 4.5, the vesting of the Options granted to Beneficiaries shall occur in four successive tranches, the first of which, amounting to 25% of the Options granted, shall vest – if the consolidated net income condition reported in section 4.5 is met – thirty days following the approval by shareholders of the Annual Report of the Company for the year following that in which the Board of Directors granted the Options, while the maturity of the subsequent tranche shall be subject to similar expiration terms.

The Options granted on the basis of the Plan expire at the end of the eighth year following that in which the Board granted the Options.

**4.4 The maximum number of financial instruments, including those in the form of options, granted in each tax year in relation to the persons identified by name or the categories stated.**

The Plan does not set a maximum number of options to be granted to the Beneficiaries for each year of the validity of the Plan.

The number of Options granted by the Board of Directors of the Company on 3 August 2018 is equal to No. 4.818.000 Options.

**4.5 The procedures and clauses for the implementation of the plan, specifying whether the actual grant of the instruments is subject to meeting certain conditions or the achievement of particular results, including performance related; and description of these conditions and results.**

As concerns the vesting and exercise of the options, the Plan provides for the following: 25% of the Options granted to a Beneficiary (the "First Tranche") vest and become exercisable after thirty days have passed since the approval by Shareholders' Meeting of the Annual Report of the Company for the year following that in which the Board of Directors granted the Options (the "First Vesting Date"). A further 25% of the Options granted to a Beneficiary participating in the Plan (the "Second Tranche") vest and become exercisable after thirty days have passed since the approval by Shareholders' Meeting of the Annual Report of the Company for the second year following that in which the Board of Directors granted the Options (the "Second Vesting Date").

A further 25% of the Options granted to a Beneficiary participating in the Plan (the "Third Tranche") vest and become exercisable after thirty days have passed since the approval by Shareholders' Meeting of the Annual Report of the Company for the third year following that in which the Board of Directors granted the Options (the "Third Vesting Date").

The remaining 25% of the Options granted to a Beneficiary participating in the Plan (the "Fourth Tranche") vest and become exercisable after thirty days have passed since the approval by Shareholders' Meeting of the Annual Report of the Company for the fourth year following that in which the Board of Directors granted the Options (the "Fourth Vesting Date").

Once the respective vesting date has been reached, each of the tranches just described may be exercised by the Beneficiary participating in the Plan, even together with other tranches which may have already vested and have not yet been exercised at any time during the financial year, without prejudice to the expiry dates indicated in sections 4.2, 4.3 and 4.17.

Independently of when they are exercised, Options may only be exercised, in relation to each Tranche, in a number not less than 250 or multiples of it. In the event of failure to exercise options according to the procedures just mentioned, inclusive of failure to make payment of the entire exercise price for it, the exercise shall be considered as not having taken place.

As already mentioned in the preceding sections, under the conditions of the Plan, the exercise of single tranches of Options is subject, for all Beneficiaries, to the condition that the net income resulting from the consolidated financial statements of the Group for each financial year prior to the vesting date for single tranches of the Options is not less than the amount set by the Board when Options were granted or subsequent to the grant, with reference, even as a percentage of it, to the consolidated net income targeted by the annual budget approved by the Company in relation to each of the years considered.

The shares purchased by a Beneficiary following the exercise of one or more tranches or part of them on the basis of the Plan have normal dividend entitlement.

#### **4.6 Details of any restrictions on the availability of the instruments deriving from the exercise of the options, with particular reference to the periods within which the subsequent transfer to the company or to third parties is permitted or prohibited.**

Under the conditions of the Plan, the options may not be transferred to third parties, nor may they be subject to other agreements concerning ownership. The Options may be exercised solely by the Beneficiary or by his or her legal representative, in the case of an incapacitated person, or by the heirs in cases of death. No restrictions are placed by the Plan on shares resulting from the exercise of Options which may be granted, except for restrictions which may be placed on the ownership of financial instruments by law.

For full information we state that in order to allow the Company to be able to act effectively in the interest of the Issuer and in the interest of its shareholders, the Board of Directors and on its behalf its Chair is granted the power to set a quantitative limit on the number of options that may be exercised each day for a determined period of time.

#### **4.7 Description of any termination conditions for the grants under the plans if the beneficiaries conduct hedging transactions that neutralise any restrictions on the sale of the financial instruments granted, including in the form of options, or the financial instruments resulting from the exercise of these options.**

Not applicable.

#### **4.8 Description of the effects generated by the termination of the relationship with the Company or with the controlled subsidiary.**

Under the conditions of the Plan, unless decided otherwise by the Board of Directors, having heard the Remuneration Committee opinion – with reference to the Chief Executive Officer of the Company or to other Beneficiaries who are also directors of the Company - or the Chair of the Remuneration Committee, the termination, as the case may be, (i) of the administrative relationship of the Chief Executive Officer with the Company (the “**Termination of the Administrative Relationship**”) or (ii) of an employment relationship or other relationship equivalent to an employment relationship of a Beneficiary participating in the Plan with the Company or, according to the case, with another Company in the Recordati Group (the “**Termination of an Employment Relationship or other relationship equivalent to an employment relationship**” and, together with the Termination of the Administrative Relationship, the “**Termination of the Relationship**”) for any reason, shall automatically result in the exclusion of the Beneficiary from the Plan and the final and irrevocable loss of validity of the Options already granted on that date and not yet exercised and/or not exercisable, without prejudice to what has already been provided for in relation to Options that have already vested and in the event of the death of the Beneficiary and the possible retirement of the Beneficiary or in some other particular cases. If on the date of the Termination of the Relationship a Beneficiary participating in the Plan holds options in relation to one or more tranches that have already vested, but which have not yet been exercised, that Beneficiary may exercise the Options in relation to those tranches that have already vested within 30 days of the date of the Termination of the Relationship, while those Options lose all validity if they are not exercised within that period. Nevertheless, if the termination of an employment relationship or other relationship equivalent to an employment relationship is due to the retirement of the Beneficiary, the latter may, unless decided otherwise by the Remuneration Committee or by the Board, exercise those Options already vested, but not yet exercised on the date of the termination of an employment relationship or other relationship equivalent to an employment relationship, until the Expiry Date of the Options.

Furthermore, in the case of the Termination of the Relationship due to death or permanent invalidity of a Beneficiary participating in the Plan, the Options already granted on the date of the Termination of the Relationship just mentioned shall become immediately exercisable by the heirs of the Beneficiary in the event of the death of the latter, or by the Beneficiary in person or his/her legal representative if incapacitated in the case of permanent invalidity, for a period of one year following the date of the Termination of the Relationship. After that period of one year has passed, the Options shall permanently and irrevocably lose their validity. If Termination of the Relationship occurs for other reasons, the Board, having heard the opinion of the Remuneration Committee - with reference to the Chief Executive Officer of the Company or to other Beneficiaries who are also directors of the Company - or the Chair of the Remuneration Committee, may decide, at its sole discretion, that the Options granted to the Beneficiary participating in the Plan in question may be exercised immediately, if it considers that particular circumstances exist which make it appropriate, in the case by hand, to make this decision.

In any event, the Termination of an Employment Relationship or other relationship equivalent to an employment relationship as result of the transfer of a person to another company in the Recordati Group this does not constitute the termination of an employment relationship or other relationship equivalent to an employment relationship. However, it does constitute termination in cases where a change of control occurs, in the sense of a transfer to third parties (i) of the subsidiary to which the Beneficiary belongs by the Company or (ii) of the company or the part of the company in which the Beneficiary works by the Company or one of its subsidiaries.

#### **4.9 Details of any other reasons for the cancellation of the schemes.**

No other causes for invalidating the Plan exist other than the provisions of the previous sub-section 4.8 concerning the effects on the Plan of the Termination of the Relationship.

#### **4.10 The reasons for the provision of a possible “redemption” by the company of the financial instruments involved in the plans, pursuant to Article 2357 and following of the Italian Civil Code; the beneficiaries of the redemption, specifying whether it only applies to particular categories of employees; and the effects of the termination of the employment relationship on the aforementioned redemption.**

Not applicable.

#### **4.11 Any loans or concessions due to be granted for the purchase of the shares pursuant to Article 2358, of the Italian Civil Code.**

On written application of a Beneficiary – other than the Chief Executive Officer of the Company or Beneficiaries who are also directors of the Company - the Company may grant him/her a loan for the payment of the exercise price of the Options. The terms and conditions of the loan shall be specified in a special communication which shall be sent to the beneficiary where the loan application is accepted, while it is understood that: i) the loan shall be interest bearing at a rate to be set as the occasion arises by the Company on the basis of the Euribor two-month rate quoted at the time, plus a percentage to be decided by the Company, with account taken of prevailing financial market conditions; ii) the amount of the loan shall be repaid to the Company with interest by the 120<sup>th</sup> day following the date on which the shares were made available to the Beneficiary.; (iii) the grant of loans is at the sole discretion of the Company.

It is understood that the above is not applicable to Chief Executive Officer of the Company or to the Beneficiaries who are also directors of the Company.

**4.12 Details of the valuations of the expected cost for the company as at the date of the grant, as determinable on the basis of the terms and conditions already defined, by overall amount and for each instrument of the plan.**

The overall expected cost for the Company in relation to the Plan cannot be determined at present because it is related to the number of Options that will be granted on the respective grant dates and the relative exercise prices.

The expected cost for the Company in relation to the Options granted by the Company's Board of Directors on 3 August 2018, as estimated at the Option's assignment date, is equal to Euro 16,052,757.

**4.13 Specification of any dilution effect on the capital generated by the remuneration schemes.**

The Plan shall be serviced with ordinary shares of the Company purchased on the market and/or already held in portfolio (treasury stock) and therefore it will involve no dilution effect.

**4.14 Any limits established for the exercise of the voting rights and for the assignment of property rights.**

Not applicable.

**4.15 If the shares are not traded on regulated markets, any other information needed to properly measure the value attributable to them.**

Not applicable.

**4.16 Number of financial instruments underlying each option.**

As already mentioned in the preceding sections, each Option grants the right to purchase one ordinary share of the Company.

**4.17 Expiration of the Options.**

The Options that granted on the basis of the Plan shall expire at the end of the eighth year following that in which the Board granted the Options on the basis of the Plan.

**4.18 Exercise procedures (American/European), timescales (e.g. exercise periods) and clauses (e.g. knock-in and knock-out clauses).**

See section 4.5.

**4.19 The exercise price of the option or the methods and criteria for its determination, particularly with reference to:**

a) the formula for the calculation of the exercise price in relation to a particular market price (fair market value) (for example: exercise price corresponding to 90%, 100% or 110% of the market price), and

**b) the methods for the determination of the market price used as a reference for the determination of the exercise price (for example: last price on the day before the grant, average for the day, average of the last 30 days etc.).**

The exercise price of each Option, which is the same for all the Beneficiaries of the Plan, corresponds to the fair market value and is the “normal value” of the Shares, i.e. the arithmetic average of the share prices quoted on the stock market in the period starting from the grant date of the Options and the same date of the previous calendar month pursuant to Art. 9 paragraph 4, letter a) of the Consolidated Law on Financial Intermediation. The Board of Directors has the power to adjust the exercise price as just determined, in line with possible amendments to current tax legislation.

With reference to the Options granted on 3 August 2018, the exercise price of the Options, calculated according to the criteria indicated in this paragraph 4.19, was equal to Euro 30.73, as reported in the table in paragraph 4.24.

**4.20 If the exercise price is not equal to the market price determined in the manner specified in item 4.19.b (fair market value), the reasons for this difference.**

Not applicable.

**4.21 The criteria for the establishment of different exercise prices between the various beneficiaries or the various categories of beneficiaries.**

Not applicable.

**4.22 If the financial instruments underlying the options are not traded on regulated markets, specification of the value attributable to the underlying instruments or the criteria used to determine their value.**

Not applicable.

**4.23 Criteria for the adjustments needed as a result of extraordinary transactions involving equity or other transactions entailing a change in the number of the underlying instruments (capital increases, extraordinary dividends, consolidation or splitting of the underlying shares, mergers and splits, conversions into other classes of shares, etc.).**

Under the conditions of the Plan, in the presence of extraordinary transactions which affect the formal structure of the share capital of the Company (merely by way of example: share splits, reverse share splits, increases in Company share capital either free of charge or upon payment, mergers, or spinoffs), the number of shares underlying the Options granted under the Plan and the relative exercise price per share shall be considered to be automatically modified to reflect those changes. Beneficiaries shall be informed of those modifications by written communication.

Furthermore, for the purposes of greater clarity, transparency and rapidity of action regarding the powers conferred on the Board of Directors in relation to extraordinary operations which impact on the capital structure of the Company, a proposal is made for the automatic change in the number of shares involved in Options granted under the Plan and the relative exercise price per Share (corresponding to its normal value) designed to reflect changes resulting from the extraordinary operations mentioned above that, in this respect, the Board of Directors of the Company, where it is considered necessary or opportune to maintain the essential contents of the Plan unchanged as



much as possible, within the limits allowed by the applicable legislation currently in force, may take steps to set rules for emerging rights and/or modify and/or add to the conditions for granting options when extraordinary operations occur that affect the formal structure of the share capital of the Company.

TABLE No. 1 of outline 7 of Annex 3A of Regulation No. 11971/1999

NAME OR CATEGORY	POSITION	FRAME 2							
		Stock Options							
		SECTION ONE							
		Options relating to currently valid plans, approved on the basis of previous shareholders' resolutions							
Date of the shareholders' resolution	Description of instrument	Options held as at 25 <sup>th</sup> February 2019	Options exercised since beginning of the plan until 25 <sup>th</sup> February 2019 ****	Date of grant by BoD	Exercise price €	Market price of the underlying financial instruments on the grant date (official price) €	Exercise period (from to) ***		
Andrea Recordati	Director and Chief Executive Officer *	17/04/2014	Options on Recordati S.p.A. shares with physical delivery	90,000	2010-2013 Plan: 260,000 2014-2018 Plan: 90,000 2018-2022 Plan: 0	29/07/2014	12.29	11.917	2016** - 31.12.2022 (1st tranche) 2017** - 31.12.2022 (2nd tranche) 2018** - 31.12.2022 (3rd tranche) 2019** - 31.12.2022 (4th tranche)
		17/04/2014	Options on Recordati S.p.A. shares with physical delivery	108,000		13/04/2016	21.93	22.318	2018** - 31.12.2024 (1st tranche) 2019** - 31.12.2024 (2nd tranche) 2020** - 31.12.2024 (3rd tranche) 2021** - 31.12.2024 (4th tranche)
		18/04/2018	Options on Recordati S.p.A. shares with physical delivery	200,000		03/08/2018	30.73	31.920	2020** - 31.12.2026 (1st tranche) 2021** - 31.12.2026 (2nd tranche) 2022** - 31.12.2026 (3rd tranche) 2023** - 31.12.2026 (4th tranche)
Fritz Squindo	Director *	13/04/2010	Options on Recordati S.p.A. shares with physical delivery	180,000	2010-2013 Plan: 180,000 2014-2018 Plan: 0 2018-2022 Plan: 0	08/05/2012	5.307	5.1824	2014** - 31.12.2020 (1st tranche) 2015** - 31.12.2020 (2nd tranche) 2016** - 31.12.2020 (3rd tranche) 2017** - 31.12.2020 (4th tranche)
		17/04/2014	Options on Recordati S.p.A. shares with physical delivery	180,000		29/07/2014	12.29	11.917	2016** - 31.12.2022 (1st tranche) 2017** - 31.12.2022 (2nd tranche) 2018** - 31.12.2022 (3rd tranche) 2019** - 31.12.2022 (4th tranche)
		17/04/2014	Options on Recordati S.p.A. shares with physical delivery	108,000		13/04/2016	21.93	22.328	2018** - 31.12.2024 (1st tranche) 2019** - 31.12.2024 (2nd tranche) 2020** - 31.12.2024 (3rd tranche) 2021** - 31.12.2024 (4th tranche)
		18/04/2018	Options on Recordati S.p.A. shares with physical delivery	130,000		03/08/2018	30.73	31.920	2020** - 31.12.2026 (1st tranche) 2021** - 31.12.2026 (2nd tranche) 2022** - 31.12.2026 (3rd tranche) 2023** - 31.12.2026 (4th tranche)

\* This person is a beneficiary of the reported stock option plans not as a member of the Board of Directors of Recordati S.p.A., but as an employee of the Company.

\*\* Thirty days following the shareholders meeting held to approve the annual report of the previous year.

\*\*\* Tranches of options which have already vested and which have not yet been exercised subsequent to vesting may be exercised before and not later than the end of the eighth financial year following that in which the Board of Directors granted the options. Furthermore, each tranche consists of 25% of the options granted to the participant.

\*\*\*\* Options exercised and expired are excluded.

TABLE No. 1 of outline 7 of Annex 3A of Regulation No. 11971/1999

NAME OR CATEGORY	POSITION	FRAME 2							
		OPTIONS (option grant)							
		SECTION ONE							
		Options relating to currently valid plans, approved on the basis of previous shareholders' resolutions							
		Date of the shareholders' resolution	Description of instrument	Options held as at 25 <sup>th</sup> February 2019	Options exercised since beginning of the plan until 25 <sup>th</sup> February 2019 ***	Date of grant by BoD	Exercise price €	Market price of the underlying financial instruments on the grant date (official price) €	Exercise period (from to) *
N. 7 Key Management Personnel		17/04/2014	Options on Recordati S.p.A. shares with physical delivery	191,000	2010-2013 Plan: 380,000 2014-2018 Plan: 329,000 2018-2022 Plan: 0	29/07/2014	12.29	11.917	2016** - 31.12.2022 (1st tranche) 2017** - 31.12.2022 (2nd tranche) 2018** - 31.12.2022 (3rd tranche) 2019** - 31.12.2022 (4th tranche)
		17/04/2014	Options on Recordati S.p.A. shares with physical delivery	356,000		13/04/2016	21.93	22.328	2018** - 31.12.2024 (1st tranche) 2019** - 31.12.2024 (2nd tranche) 2020** - 31.12.2024 (3rd tranche) 2021** - 31.12.2024 (4th tranche)
		18/04/2018	Options on Recordati S.p.A. shares with physical delivery	595,000		03/08/2018	30.73	31.920	2020** - 31.12.2026 (1st tranche) 2021** - 31.12.2026 (2nd tranche) 2022** - 31.12.2026 (3rd tranche) 2023** - 31.12.2026 (4th tranche)
Other Beneficiaries		13/04/2010	Options on Recordati S.p.A. shares with physical delivery	63,500	2010-2013 Plan: 6,576,500 2014-2018 Plan: 3,420,000 2018-2022 Plan: 0	09/02/2011	6.7505	6.77	2013** - 31.12.2019 (1st tranche) 2014** - 31.12.2019 (2nd tranche) 2015** - 31.12.2019 (3rd tranche) 2016** - 31.12.2019 (4th tranche)
		13/04/2010	Options on Recordati S.p.A. shares with physical delivery	237,500		08/05/2012	5.307	5.1824	2014** - 31.12.2020 (1st tranche) 2015** - 31.12.2020 (2nd tranche) 2016** - 31.12.2020 (3rd tranche) 2017** - 31.12.2020 (4th tranche)
		13/04/2010****	Options on Recordati S.p.A. shares with physical delivery	25,000		17/04/2013	7.16	7.35	2015** - 31.12.2021 (1st tranche) 2016** - 31.12.2021 (2nd tranche) 2017** - 31.12.2021 (3rd tranche) 2018** - 31.12.2021 (4th tranche)
		13/04/2010	Options on Recordati S.p.A. shares with physical delivery	15,000		30/10/2013	8.93	9.4005	2015** - 31.12.2021 (1st tranche) 2016** - 31.12.2021 (2nd tranche) 2017** - 31.12.2021 (3rd tranche) 2018** - 31.12.2021 (4th tranche)

	17/04/2014	Options on Recordati S.p.A. shares with physical delivery	1,655,500	29/07/2014	12.29	11.917	2016** - 31.12.2022 (1st tranche) 2017** - 31.12.2022 (2nd tranche) 2018** - 31.12.2022 (3rd tranche) 2019** - 31.12.2022 (4th tranche)
	17/04/2014	Options on Recordati S.p.A. shares with physical delivery	2,308,500	13/04/2016	21.93	22.328	2018** - 31.12.2024 (1st tranche) 2019** - 31.12.2024 (2nd tranche) 2020** - 31.12.2024 (3rd tranche) 2021** - 31.12.2024 (4th tranche)
	18/04/2018	Options on Recordati S.p.A. shares with physical delivery	3,893,000	03/08/2018	30.73	31.920	2020** - 31.12.2026 (1st tranche) 2021** - 31.12.2026 (2nd tranche) 2022** - 31.12.2026 (3rd tranche) 2023** - 31.12.2026 (4th tranche)

\* Tranches of options which have already vested and which have not yet been exercised subsequent to vesting may be exercised before and not later than the end of the eighth financial year following that in which the Board of Directors granted the options. Furthermore, each tranche consists of 25% of the options granted to the participant.

\*\* Thirty days following the shareholders meeting held to approve the annual report of the previous year.

\*\*\* Options exercised and expired are excluded.

\*\*\*\* Solely for employees of the American subsidiary Recordati Rare Diseases Inc.