RECORDATI

ANNUAL REPORT 2017

RECORDATI

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	[(4)]	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.

[(4)] Proposed by the Board of Directors.

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.

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).

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RECORDATI, AN INTERNATIONAL GROUP

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.

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.

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RESEARCH AND DEVELOPMENT

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®	Orphan Europe (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	Orphan Europe (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. 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 *spina 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 D_3/D_2 receptor partial agonist with preferential binding to D_3 receptors and partial agonist at serotonin 5-HT_{1A} 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 *in 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.

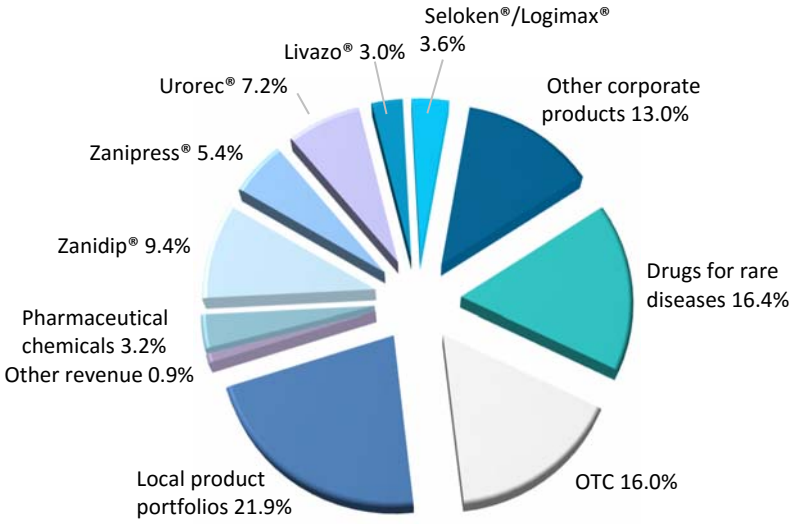
At 31 December 2017 the Recordati group holds 518 patents of which 72 were granted in 2017.

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.

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%.

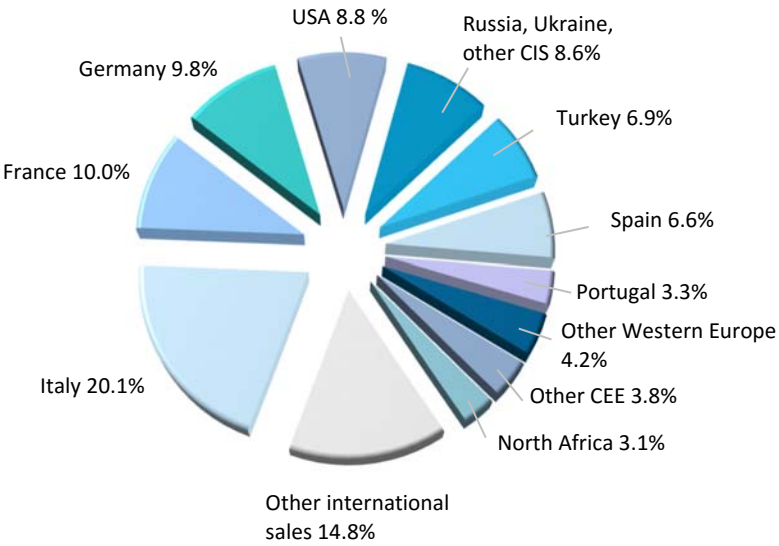
Sales by business



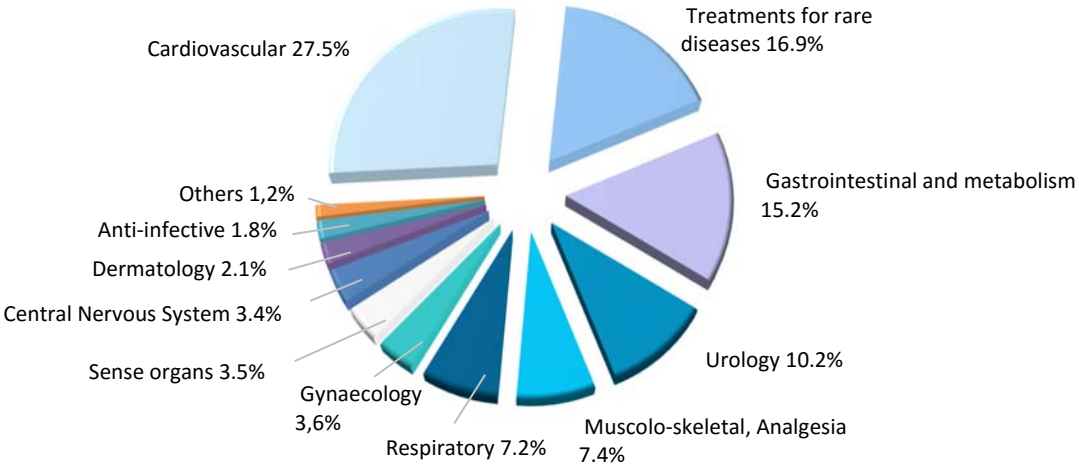
PHARMACEUTICALS

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
Peptazol®	gastric ulcers	24,890	22,489	2,401	10.7
Urorec®	benign prostatic hyperplasia	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.

RECORDATI

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	% of revenue	2016	% of 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	% of revenue	31.12.2016	% of 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 İlaç, 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.

RECORDATI

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

RECORDATI

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

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

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**

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2017

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

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	Mino-rity in-terest	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

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.

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: € 29.1 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:

€ (thousands)	Balance sheet value		Percentage of equity owned	
	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 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.,62)
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	*25,551*	*237,615*	*20,936*
Australasia	6,538	55,770	5,768
America	142,933	133,538	9,395
Africa	5,846	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)	31.12.2017	31.12.2016	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:

€ (thousands)	Shareholders' equity		Net income for the year	
	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 lreland 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

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 AB *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
ORPHAN EUROPE SPAIN S.L. *Marketing and sales of pharmaceuticals*	Spain	1,775,065.49	Euro	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
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 ILAÇ 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. *Marketing and sales of pharmaceuticals*	Mexico	16,250,000.00	MXN	Line-by-line
RECORDATI RARE DISEASES COLOMBIA S.A.S *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
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

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
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

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

RECORDATI S.p.A. AND SUBSIDIARIES

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

1. The undersigned, Andrea Recordati, in his capacity as the 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