

RECORDATI S.P.A AND SUBSIDIARIES

# DISCLOSURE OF CONSOLIDATED NON-FINANCIAL STATEMENT 2018

PREPARED PURSUANT TO ARTICLE 4  
OF ITALIAN LEGISLATIVE DECREE NO. 254/2016

<b>110</b>	Note on methodology
<b>112</b>	1 Profile of the Recordati Group
	1.1. The Recordati Group
	1.2. Organisational and Management Model
	1.3. Internal Audit and Risk Management System
<b>116</b>	2. The Recordati Group's approach to Sustainability
	2.1. Sustainability in figures
	2.2. The Recordati Group's commitment to Sustainability
	2.3. The Recordati Group's Stakeholders
	2.4. Materiality analysis
	2.5. Direct and indirect economic benefits
<b>123</b>	3. Product quality and safety
	3.1. Research & Development and Intellectual Property
	3.2. Supply chain
	3.3. Audits and inspections
	3.4. Product serialisation
<b>128</b>	4. The Recordati Group's Employees
	4.1. The importance of our employees
	4.2. Diversity and equal opportunities
	4.3. Employee welfare
	4.4. Training and development of human capital
	4.5. Health and safety in the workplace
<b>142</b>	5. Focus on the Environment
	5.1. Commitment to environmental protection
	5.2. Energy use and emissions
	5.3. Management of water resources
	5.4. Waste management
<b>153</b>	GRI Index

# NOTE ON METHODOLOGY

In recent years, the Recordati Group (hereinafter also "Recordati" or the "Group") has decided to take a structured and organic approach to sustainability, considering the economic, social and environmental aspects of sustainability in a manner that is in line with its organisational structure. In order to provide a clear understanding of the business' activities, its development, its results and its impacts on sustainability, in 2018 the Group's commitment to sustainability was reiterated with the preparation of the second Consolidated Non-Financial Statement (also the "Non-Financial Statement" or "Statement") for the purposes of compliance with the obligations provided by Articles 3 and 4 of Legislative Decree no. 254/16. As such, presented in this Statement are the principle policies adopted by the Group, its management models and the principle activities carried out by the Group in 2018 with respect to the matters expressly specified by Italian Legislative Decree no. 254/16 (environmental, social, staff, human rights and anti-corruption), as well as the principle identified risks related to these themes.

In line with the one of the two options provided by Article 5 of Italian Legislative Decree no. 254/16, this Statement is a separate report. However, it is noted that, as stated in specific notes contained in this document, further details relative to certain non-financial information, as well as the relative management models and main identified risks, are also included in the Annual Report and the Corporate Governance Report and Ownership Structure.

This document represents the second Consolidated Non-Financial Statement produced in compliance with Italian Legislative Decree no. 254 of 30 December 2016 in implementation of Directive 2014/95/EU, of the Companies belonging to Recordati S.p.A. and its subsidiaries, describing the initiatives and principle results in terms of the Group's performance on the subject of sustainability in 2018 (reporting period: 1 January to 31 December 2018).

The Non-Financial Statement 2018 has been prepared in accordance with the new GRI Sustainability Reporting Standards published in 2016 by the Global Reporting Initiative (GRI), in line with the "Core" option. The table of GRI reporting indicators is attached for reference in the annex of this document. The report was prepared based on the results of the materiality analysis conducted in 2017, also deemed valid and consistent with the characteristics of the Group's business for the Non-Financial Statement 2018, which identified the key material aspects for the Recordati Group and its stakeholders and considered the topics referred to in Italian Legislative Decree no. 254/2016.

The scope of the financial data referred to in this document corresponds to the data considered in the Consolidated Financial Statement 2018 of the Recordati Group. The scope of the social and environmental data and information extends to Companies belonging to the Recordati Group as of 31 December 2018, consolidated with the comprehensive approach in the Group's Consolidated Financial Statement<sup>1</sup>. However, while ensuring the correct understanding of the company's business, it should be noted that:

- in line with the 2017 report, the information and data regarding environmental aspects (energy use, emissions, water use and waste) refer exclusively to the Group's production plants as such aspects are not deemed significant at other sites (with the exception of the Milan plant, where the offices at said site are also considered);
- compared to the information reported in the Non-Financial Statement 2017, the scope of information relative to health and safety and the principle accident indicators includes employees of the following production plants: Italy - Campoverde di Aprilia (Recordati S.p.A.), Ireland (Recordati Ireland Ltd), Czech Republic (Herbacos Recordati S.R.O.), Turkey (Recordati İLAÇ ve Hammaddeleri Sanayi ve Ticaret A.S.) and France - Nanterre (Orphan Europe S.A.R.L); while for the following sites in Italy - Milan (Recordati S.p.A. and Innova Pharma S.p.A.), Spain (Casen Recordati S.L.), Tunisia (Opalia Pharma) and France - Bouchara (Laboratoires Bouchara Recordati S.a.s.) both office, plant and commercial staff are included. In fact, a reporting system is currently being developed to process data regarding the workforce at all of the Group's offices and commercial sites.

In compliance with the reporting standards used and the Legislative Decree no. 254/16, these exceptions and any other minor limitations are expressly indicated in the text. Furthermore, in order to provide a correct representation of performance and guarantee the reliability of the data provided, estimates have been kept to a minimum and, where unavoidable, are based on the best available methods, duly indicated.

<sup>1</sup> The scope of social and environmental data also includes the company Natural Point S.r.l., acquired in June 2018. However, in line with the scope of the financial data of the Consolidated Financial Statement, the French company Tonipharm S.A.S, acquired at the end of 2018, shall be consolidated as of the start of the 2019 reporting period.

For more information regarding significant changes to the scope and share ownership of the Group during the reporting period, reference should be made to the sections "Introduction" and "Ownership structure" in the Corporate Governance Report and Ownership Structure of the Recordati Group as of 31 December 2018.

The Non-Financial Statement is published on an annual basis. The Non-Financial Statement is also available online at Group's website [www.recordati.it](http://www.recordati.it).

This Statement was presented for evaluation and approval to the Risk, Control and Sustainability Committee on 25 February 2019 and was approved by the Board of Directors of Recordati S.p.A. on 28 February 2019.

This Statement was subject to a compliance review by an independent auditing company, which issued a separate report confirming the compliance of the information contained herein pursuant to Article 3, paragraph 10 of Italian Legislative Decree no. 254/16. The audit was carried out according to the procedures indicated in the "Report of the Independent Auditing Company".

Finally, it is noted that, in the context of continuous improvement, the Group renews its commitment to continue its sustainability path towards a progressive formalisation of the commitments and operating practices in implementation of the principles of the Code of Ethics adopted by the Group and Legislative Decree no. 254/16.

In particular, in the course of 2018 the Recordati Group has formalised a reporting procedure aimed at defining the operating process for the preparation of the Non-Financial Statement, describing the activities, time frames, roles and responsibilities of the company departments/structures involved in the reporting process.

The company Recordati S.p.A., and therefore its new Board of Directors appointed on 5 February 2019 following the change of the share ownership of the Group in 2018, will continue to pursue the development of sustainability policies, including by way of the progressive enforcement of the Group Code of Ethics with specific reference to the principles, commitments and management methods implemented by the Group in relation to the principle topics of sustainability, and with reference to the topics expressly referred to by Legislative Decree no. 254/16.

## Contacts

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

Recordati S.p.A.

Registered Office: Via Matteo Civitali, 1 - 20148 Milan

E-mail: [investorelations@recordati.it](mailto:investorelations@recordati.it)

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

# 1. PROFILE OF THE RECORDATI GROUP

## 1.1. THE RECORDATI GROUP

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

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

Recordati has six pharmaceutical manufacturing plants and one packaging and distribution plant dedicated to pharmaceuticals for rare diseases, and two chemical-pharmaceutical sites where it produces numerous active substances and intermediates. Recordati produces and promotes a wide range of innovative pharmaceuticals and its product portfolio includes general medicines as well as specialist pharmaceuticals for the treatment of rare diseases. The Group's pharmaceutical activities extend across all phases of the process and include research and development, production, packaging, storage and commercialisation. Furthermore, thanks to licensing agreements with leading pharmaceutical companies Recordati products are distributed in more than 100 countries. The chemical-pharmaceutical activities of the Recordati Group focus on the chemical production of intermediates and active substances both for Recordati's pharmaceutical products and for the international pharmaceutical industry.

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

With a view to innovation and growth, the Group has enhanced its therapeutic offering, developing its own pipeline of products and entering into the rare diseases sector. In fact, Recordati develops, produces and markets pharmaceuticals for the treatment of rare diseases through Orphan Europe and Recordati Rare Diseases. Orphan Europe is a leading European pharmaceutical company entirely devoted to the research, development and commercialisation of pharmaceuticals for the treatment of rare diseases. It is one of the leading companies in Europe in terms of number of products launched on the market developed specifically to treat a rare disease. Since 2013, the Group's US branch Recordati Rare Diseases Inc. has offered a portfolio of products dedicated to the treatment of various rare diseases, with a particular focus on genetic metabolic disorders. In recent years, the Group's activities to develop pharmaceuticals to treat rare diseases have extended to various countries in North and South America, as well as the Middle East, Japan and Australia.

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

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

## 1.2. ORGANISATIONAL AND MANAGEMENT MODEL

The Group's business model for the management of the main sustainability themes is described in the Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001 (the "Model") adopted by all Italian Companies of the Recordati Group. While the Parent Company updated its Model in 2017, in 2018 the subsidiaries Innova Pharma S.p.A. and Orphan Europe Italia S.r.l. updated their own Model, the Company Italcimici S.p.A. adopted a model and, in addition, a plan for the adoption of a Model by the Company Natural Point S.r.l. acquired by Recordati in June 2018 was drawn up, due to come into effect in the first six months of 2019.

For Companies in other countries, if required by local legislation, policies have been or are in the process of being implemented which serve similar functions to those of the Organisational Model pursuant to Legislative Decree no. 231/2001. In particular, on 14 March 2018 the Spanish branch Casen Recordati S.L. adopted an Organisational, Management and Control Model in compliance with the *Ley Organica 2015/1* of 30 March 2015, which introduced into Spanish criminal law certain new criteria of criminal liability of legal persons.

The Models adopted by Group Companies comply with the guidelines issued by Confindustria and are dynamic and effective tools thanks to a constant control and review process promoted by the Supervisory Bodies. The Organisational Models pursuant to Legislative Decree no. 231/2001 envisage dedicated channels for reports of irregularities or breaches by employees and regular staff training on the contents of Decree no. 231/2001 and the Organisational Model pursuant to Legislative Decree no. 231/2001 itself. The Supervisory Bodies appointed in the Group's Italian Companies are represented by boards comprised of the Internal Audit Department Manager and external professionals. Each Supervisory Body is internally regulated and operates according to a specific programme. The Supervisory Bodies periodically refer to the Board of Directors and the Board of Statutory Auditors, where present. The Organisational Models are constantly monitored and updated, with particular attention to crime prevention and risk assessment following the introduction of new legislation.

As envisaged by the best practices, a board-style Supervisory Body has been appointed and is in operation at the Group's Spanish branch. In 2018, the Supervisory Body of the Spanish branch adopted its own code of operations, prepared a business and audit plan, and delivered training sessions on the Model (including, in particular, sessions relating to the principles of the Recordati Group Code of Ethics and anti-corruption) to all branch staff.

Further information regarding the Organisational Models pursuant to Legislative Decree no. 231/2001, the relative procedures and the training provided on the same is available in the "Internal Control and Risk Management System" section of the Corporate Governance Report and Ownership Structure.

The systematic approach of the Organisational, Management and Control Model pursuant to Legislative Decree no. 231/2001 is reinforced through additional models dedicated to specific company departments, such as in the context of health and safety in the workplace, environmental management and privacy.

In terms of data processing and privacy, the Recordati Group has adopted the new General Data Protection Regulation (GDPR no. 2016/679). The project has enabled all Group Companies to adopt the measures envisaged by the European regulation. More specifically, compliance with the GDPR has led to the definition and implementation of a privacy management model with new regulations and company procedures both at Group and local level with Recordati's European branches. In terms of organisation, the most significant event was the appointment of a Data Protection Officer (in the person of the Group Auditing Manager) and a Key Privacy Person in each branch affected by the Regulation. As regards the operational procedures and regulations, a set of Group policies has been adopted, forming the basis for local procedures that have already been adopted by the various branches. Activities to promote the adoption of an IT tool designed to enable improved and more efficient operational activities when implementing company procedures are in progress and will continue in 2019.

### **The Recordati Group Code of Ethics**

The Code of Ethics adopted by all Group Companies provides a concrete and clear representation of the Groups values, including: protection of employees, fairness and equality, ethical and lawful behaviour, loyalty, privacy of information, respect of the interests of all parties, professionalism, health and environmental protection.

The Code of Ethics also provides the rules of conduct for all recipients of the Code, particularly with regard to the subject of the prevention of active and passive corruption (e.g. the prohibition of engaging in corrupt practices). On this issue, the Group has also adopted an Anti-Bribery Model that applies to all Group Companies and envisages the periodic assessment of the status of internal controls in compliance with the main international and national anti-bribery regulations in the countries in which the Group has an active presence. These tools represent the firm commitment of the Group to conduct its business in line with the principles of transparency, honesty and ethics in all of the countries in which it operates, and to refuse all forms of corruption, demonstrating its awareness of the potential risks relating to the various relations with the Public Administration typical in the business areas in which the Group operates.

For Italian Companies, the distribution and diffusion of the Code of Ethics is carried out directly by the Parent Company: all new employees are provided with a copy of the Code of Ethics, which is also available on the company website. In 2018, the Code of Ethics was distributed to the Group's international branches. In total, in 2018 the Code of Ethics was delivered to 1,325 employees. Furthermore, Recordati offers continuous training to all employees: in 2018 training on the Code of Ethics and the Organisational Model pursuant to Italian Legislative Decree no. 231/2001 in Italy was delivered to around 300 employees of the Group's Italian Companies in lecture theatres and through remote learning.

As well as Group employees, all providers and commercial partners of the Recordati Group are required to comply with the Code of Ethics within its relevant scope of application, through:

- the supplier approval process, which requires all new suppliers to accept the Code of Ethics during the selection phase. This process is an integral part of the ATTITUDE project concerning the implementation of a new procurement management policy, currently in force in Italy and expected to be extended to all Group Companies by 2021
- the presence of a specific clause regarding the compliance with the Code of Ethics in the contracts with the Group's commercial partners. The process of integrating the existing contracts with this clause, launched in 2015 for the major Group Companies, was extended in 2018 to all Group Companies.

The current version of the Recordati Group Code of Ethics will be subject to a general review in 2019. Without prejudice to the principles set forth in the Code, the document will be reviewed with a view to improving its legibility and usability and will be updated with additional conduct guidelines.

### The Anti-Bribery Model of the Recordati Group

The Recordati Group is deeply committed to conducting its business in line with the principles of transparency, honesty and ethics in all of the countries in which it operates, and to refuse all forms of corruption, demonstrating its awareness of the potential risks relating to the various relations with the Public Administration typical of the business areas in which the Group operates. To this end, since 2009 the Group has conducted an assessment on its internal controls in line with international and national Anti-Bribery legislation in the countries in which the Group has an active presence. Furthermore, the Group has developed an Anti-Bribery programme that involves the staff of the Parent Company and branch staff in four key stages:

1. assessment of local and national legislation;
2. assessment of local systems, procedures and models to control corruptive behaviour;
3. analysis of existing risks and controls to identify any residual risks;
4. definition and publication of the Group's Anti-Bribery Model.

From the analysis of the documentation and information collected, 13 business areas potentially exposed to the risk of corruption were identified, upon which the conduct guidelines to avoid corruptive behaviour were based. On the basis of this analysis, the Group implemented an Anti-Bribery Manual.

The 13 areas potentially exposed to corruption risk are: Research and Development, Production, Relations with the medical community and healthcare facilities, regulatory activities, transactions with public authorities, consultancy, medical samples, courses and conferences, promotional material, contributions and donations, financial transactions, human resources and relations with politicians or political parties.

The Manual has been distributed to Recordati branches in Spain, France, Russia, Turkey, Portugal and Germany and is currently being rolled out to the remaining branches.

The current version of the Anti-Bribery Manual is currently being reviewed and an updated version of the Manual is expected to be distributed to all Group Companies in 2019.

In order to improve communication, coordination and control activities between the Parent Company and the various branches, in 2018 specific data streams on the subject of anti-corruption and anti-terrorism were defined which would enable, through dedicated channels managed by the Group Audit Department, the identification and management of potential risk situations. This data stream system will be implemented in 2019.

In terms of communication and training on the subjects of anti-corruption and the principles ratified by the Recordati Group Code of Ethics, in 2017 all members of the Board of Directors of Recordati S.p.A. were informed of the policies and procedures adopted. Furthermore, in 2018 anti-corruption training was given to 933 employees, 292 of which were in Italian branches with the remaining 641 located in the Group's foreign branches.

For some time now, the Company has provided for dedicated *whistleblowing* channels in its Organisational Models pursuant to Legislative Decree no. 231/2001 for Italian Companies and the Group Anti-Bribery system<sup>2</sup>. In 2018 these whistleblowing channels were strengthened with the introduction of other communication tools: in the Group's French branches a new procedure was implemented and new reporting channels were introduced in compliance with new local legislation (*Loi Sapin 2*) while in Italian branches - which were already in compliance with Law no. 179/2017 concerning "Provisions for the protection of whistleblowers of offences or irregularities which come to their knowledge in the context of a public or private working relationship" (so-called "Whistleblowing Law") - improvements are being made to the reporting system.

In addition, it should be noted that in 2018 an employee of the Belarus representative office was investigated in a criminal proceeding in which the alleged offense was that of corruption. The investigation by the Belarusian authorities is under way. The company is conducting its own internal audits.

These tools and additional information regarding the fight against corruption are described in more detail in the "*Internal Control and Risk Management System*" section of the Corporate Governance Report and Ownership Structure.

### 1.3. INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM

The Internal Audit and Risk Management System is a structured and organic set of procedures and organisational structures aimed at preventing or limiting the consequences of unforeseen results and enabling the achievement of company objectives, compliance to legislation and regulations, and the correct and transparent disclosure of information both internally and to the market. Furthermore, this System enables the identification, measurement, management and monitoring of the main risks in order to promote the efficiency and efficacy of company processes, protect the value of the Group's activities, ensure the reliability and integrity of accounting and management information and ensure that transactions comply with all existing legislative measures.

The Internal Audit and Risk Management System is based on an Enterprise Risk Management (ERM) approach and consists of a structured risk management process, in line with the provisions of international best practices on the subject and in compliance with current legislation. The aim of this System is to facilitate activities consistent with the company goals, promoting informed decisions and ensuring the efficiency and efficacy of internal processes, as well as the reliability of financial information. By cataloguing company risks, the System enables the identification, measurement and control of the level of exposure of all Group Companies to various risk factors, as well as the management of overall exposure, and envisages the implementation of control measures and procedures able to flag any anomalies. As described in more detail in the "*Principle Risks and Uncertainties*" section of the Consolidated Financial Statement and the "*Internal Control and Risk Management System*" section of the Corporate Governance Report and Ownership Structure, the main risk factors to which the Group is exposed relate to the external context, strategic and operational risks (including risks related to Research and Development, the environment, health and safety, and pharmacovigilance risks), financial risks, legal risks and compliance risks.

The Group subjects its Risk Catalogue to a periodic interim review, implementing a bottom-up approach to critical risk assessment to coincide with significant company activities, such as the definition of the budget, the review of the organisational structure and other events that could have a potential impact on the risks to which the Company is exposed. In particular, the Board of Directors examined the update to the Risk Catalogue in relation to the 2018 financial year, created with the support of the consultancy company, in order to provide an up-to-date and formalised framework of the principle internal and external risks of the Recordati Group and the various existing tools and processes for the management of such risks.

The Board of Directors, including on the basis of this review, has evaluated whether the level and nature of the risks identified by the Group Risk Catalogue, presented to the Board at the meeting of 28 February 2019, are compatible with the Group's strategic objectives.

<sup>2</sup> Corporate Governance Code, comment to Article 7: "The Committee deems that, at least for companies belonging to the FTSE MiB index, an adequate internal control and risk management system must include an internal whistleblowing system for employees to report any irregularities or breaches to applicable legislation and internal procedures (so-called whistleblowing system) in line with national and international best practices, which guarantees a specific and confidential informational channel as well as the anonymity of the whistleblower".

### The principle non-financial risks

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

In particular, the principle non-financial risks identified by Recordati relate to:

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

The aforementioned risks were identified by the Group and classified as medium-low risk, in terms of residual risk, assessed in terms of the likelihood of an at-risk event and the impact of such an occurrence. In fact, in relation to such risks, the Group has adopted specific policies, management models and activities aimed at the mitigation of the same.

A brief description of the principle non-financial risks identified by the Group and related to the material topics of the Recordati Group, as well as the procedures in place for their management and mitigation, is given below:

- Environmental topics: the risks in this context predominantly relate to the production process. In particular, such risks concern those deriving from industrial incidents that may have serious consequences for people and the environment, with resulting impacts in terms of economics and corporate image. The management of these risk is above all required by the quality standards provided for by the sector in which the Group operates, compliance with which is represented by the environmental certificates obtained by the Group's main production sites. Specific measures are represented by a preventative risk analysis carried out by specific and qualified personnel, an audit plan and plant maintenance activities to which significant financial resources are allocated on an annual basis. These measures enable the Group to drastically reduce its exposure to risks of this nature.
- Topics linked to HR management: these risks concern the rights, health and safety of workers as well as their professional development. In relation to health and safety in the workplace, compliance with legislation is guaranteed by the respect for technical-structural standards relative to equipment, plants, work places and chemical, physical and biological substances, as well as organisational activities such as emergency management, first aid, tendering processes and periodic safety meetings, and consultations with workers' safety representatives. Finally, health checks, information sessions and training activities for works as well as an internal audit plan enable the Group to minimise risks in this context. In relation to workers' rights, the principle risk identified concerns the size of the organisational structure in terms of the adequacy of resources and skills, as well as the risk of losing key resources. To confront these risks, the Human Resources Department constantly monitors the size of the workforce within the various departments and units of the Group. Furthermore, the Company employs a specific skills mapping process (the Group Performance Appraisal System), mapping both managerial and technical skills and enabling the identification at Group level of key resources, with an initial focus on Managers and then considering lower levels within the company.

- Topics linked to the supply chain: although the Group operates in a highly regulated sector, certain risks relating to the procurement chain have been identified, including the risk of being unable to source adequate commercial partners and the lack of control of outsourcing contracts. The Group confronts these risks through contractual clauses that define the mutual responsibilities of the parties, the use of consolidated and qualified suppliers in line with applicable technical standards, document audit activities and on-site inspections carried out by qualified personnel. In order to protect the rights of workers in the supply chain, termination clauses are included in company contracts for failure to comply with the company Code of Ethics. Furthermore, the use of an IT platform for supplier approval, an advantage of which is the organic collection of relevant documentation such as certificates and declarations, further reduces the risk of partnerships with suppliers with unsuitable technical profiles, ethics and conduct.
- Topics linked to the compliance: compliance risks refer to the risk of offences against the Public Administration as well as risks related to non-compliance with international quality standards and legislation regulating the scientific information of the pharmaceutical product. To prevent non-compliance with the quality standards (Good Manufacturing Standards - GMP) that regulate chemical and pharmaceutical production activities, the Group has adopted a consolidated Management Model that provides for the implementation of Standard Operating Procedures and a dedicated quality control department. The Model is periodically subject to inspection by national and international authorities, as well as commercial partners. As regards the medical scientific information, compliance is ensured by appropriate company procedures, by control activities carried out by dedicated organisational departments and by the continuous training of personnel on compliance with ethical standards and industry legislation. In order to promote increasingly transparent relations with the medical community, the Group's branches publicly disclose Value Transfers in relation to business meetings, consultancy and donations. Finally, the Anti-Bribery Manual aims to promote correct conduct in the various activities relating to scientific information and more generally to relations with the medical community and areas exposed to corruption risk.
- Topics relating to product responsibility: these refer to Product Liability risks with the potential need for product recalls, impacts on patient health and consequent economic or reputational impacts for the company (including the risk of demands for compensation as a result of side effects caused by its products). For this reason, the Group has appointed specific quality control personnel that carry out specific product analyses in order to identify the "robustness" and reliability of the production processes. These professional figures, required by industry legislation, such as the "Qualified Person", the "Quality Assurance Officer" and the "Quality Manager" are responsible for ensuring compliance with Good Manufacturing Practices envisaged by specific internal procedures and existing legislation. Further control measures related to the topics outlined above include inspections of the Group's production units by third party bodies, as well as the constant increase in authorisations held by the Group's pharmaceutical laboratories.

This information is described in more detail in the "Focus on the Environment", "The Recordati Group's Employees" and "The Supply Chain" sections of the Non-Financial Statement and the "Health, Safety and the Environment" section of the Annual Report 2018. For a more detailed description of the management system of company risks, including the aforementioned non-financial risks, as well as the relative management methods, please refer to the "Principle Risks and Uncertainties" section of the Annual Report.

## 2. THE RECORDATI GROUP'S APPROACH TO SUSTAINABILITY

### 2.1. SUSTAINABILITY IN FIGURES

#### MORE THAN € 1 BILLION

*of economic value generated and distributed by the Group in 2018*

#### APPROXIMATELY € 2 MILLION<sup>3</sup>

*of donations and contributions disbursed in 2018*

#### 151 AUDITS

*carried out on suppliers to ensure product quality and security*

#### 45%

*of the Group's workforce represented by women*

#### 94%

*of employees hired on permanent contracts*

#### MORE THAN 85,000 HOURS

*of training provided to employees*

#### - 3%

*reduction in water consumption at production facilities compared to 2017*

#### APPROXIMATELY 30 GWH

*self-generated electricity produced at the Campoverde di Aprilia plant*

#### ALMOST 17%

*of the water used in the Group's production facilities in 2018 was recycled and reused*

### 2.2. THE RECORDATI GROUP'S COMMITMENT TO SUSTAINABILITY

As noted by the Chief Executive Officer in the Letter to Shareholders of the Annual Report, in 2018 the Recordati Group launched various initiatives regarding sustainability, in line with its strategic, organisational and operational characteristics. When defining the Group's management strategies and policies, in addition to ensuring the Group's development at an international level and focusing on the treatment of rare diseases, one of the Group's current priorities is to consider the interests of all stakeholders, taking into account the economic, social and environmental impacts of our work. Recordati's success as a pharmaceutical firm has brought, and must continue to bring, advantages both to patients and all those who collaborate with the Group: employees, clients, consumers, patients, associations, investors and the financial community, suppliers and strategic partners.

In order to transform the values and principles of sustainability into operational decisions and managerial activities, the internal engagement initiative launched in 2017 has been continued, aiming to:

- identify key stakeholders with whom to establish a positive dialogue and collaboration;
- identify and assess significant issues of economic, environmental and social sustainability relating to the Group's activities and its stakeholders;
- share the values, mission and processes involved in order to develop sustainability reporting procedures.

### 2.3. THE RECORDATI GROUP'S STAKEHOLDERS

Integrating corporate responsibility into a business approach means focusing on creating value for all relevant parties and uniting economic, social and environmental aspects.

In this context, the Recordati Group has identified its own key stakeholders by focusing on its understanding of how the Group's corporate role relates to company activities, with the aim of identifying their expectations and setting significant targets to be achieved.

<sup>3</sup> In 2018, as well as € 1.3 million disbursed in donations and contributions to foundations, associations, non-profit organisations and medical institutions, the Recordati Group also paid out € 657 thousand of the amount allocated in 2017 to the "V. Buzzi" Children's Hospital in Milan, equating to total donations of approximately € 2 million.



## THE RECORDATI GROUP'S STAKEHOLDERS



**INVESTORS  
AND THE FINANCIAL  
COMMUNITY**



**EMPLOYEES**



**GOVERNMENT  
AGENCIES,  
REGULATORS, PA**



**SUPPLIERS  
AND STRATEGIC  
PARTNERS**



**PHARMACIES  
AND DISTRIBUTORS**



**LOCAL  
COMMUNITIES**



**PATIENTS  
AND THEIR  
ASSOCIATION**



**HEALTHCARE  
OPERATORS**



**SCIENTIFIC  
ORGANISATIONS  
AND UNIVERSITIES**



**CLIENTS AND  
CONSUMERS**

In order to increase the engagement of all of our stakeholders in their activities, optimising their roles and potential and monitoring the possible direct and indirect impacts of the Group's activities on the relevant parties, the Recordati Group has launched a number of stakeholder engagement initiatives, including:

- the creation of a department focused on managing Investor Relations. This department, within the company's organisation, manages relations with financial analysts and institutional investors and organises periodic meetings focused on providing economic and financial information;
- the organisation of awareness-raising initiatives and scientific research projects through conferences and training courses on specific themes relating to the treatment of rare diseases. Aimed at health professionals, doctors

and researchers, these initiatives are designed to intensify the sharing of knowledge about the treatment of rare diseases;

- promotion of support initiatives aimed at the families of patients affected by rare diseases, with the aim of improving quality of life for both patients and their families.

Furthermore, given the strictly regulated nature of the pharmaceutical sector, industrial associations operating in this area represent one of the most important stakeholders with whom the Recordati Group interacts. These organisations coordinate, protect and promote the interests of the pharmaceutical sector and its associated companies. In 2018, the Recordati Group collaborated with 65 industry associations located throughout its global business network, ensuring a constant and continuous flow of information.

## THE RECORDATI GROUP'S INDUSTRIAL ASSOCIATIONS, 2018

### ITALY

- Pharmaceutical Industry
- EFPIA
- ASSONIME

### FRANCE

- LEEM (Les Entreprises du Médicament)
- AFIPA (Association Française de l'Industrie Pharmaceutique pour l'Automédication)
- Club Léonard de Vinci
- CRIP (Cercle de réflexion de l'industrie pharmaceutique)

### BELGIUM

- Pharma.be (General national association of the pharmaceutical industry).

### GERMANY

- BAH - Bundesverband der Arzneimittel-Hersteller e.V.
- AGV Chemie- Arbeitgeberverband der Chemischen Industrie
- IHK Ulm - Industrie- und Handelskammer Ulm
- AKG e.V. - Arzneimittel und Kooperation im Gesundheitswesen e.V.
- Camera di Commercio Italo-Tedesca (Deutsch-Italienische Handelskammer)
- Pharma-Lizenz Club
- Wirtschaftsrat der CDU
- Senat der Wirtschaft
- BPI - Bundesverband der Pharmazeutischen Industrie e.V. (The German Pharmaceutical Industry Association)

### SWITZERLAND

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

### AUSTRIA

- PHARMIG - Verband der pharmazeutischen Industrie Österreichs

### SPAIN

- Farmaindustria
- Anefp (National Association of OTC products)
- AINFA

### IRELAND

- Bio Pharmachemical Ireland (BPPCI)
- IPHA (Irish Pharmaceutical and Healthcare Association)
- National Irish Safety Organization
- IBEC (Irish Business Employers' Confederation)
- Cork Chamber of Commerce
- Institute of Environmental Management and Assessment (IEMA) – Production
- Irish Exporters Membership - Logistics
- PMI (Pharmaceutical Managers of Ireland)
- MMRI (Medical Reps Institute of Ireland)
- TOPRA (The Organization for Professionals in Regulatory Affairs)

### PORTUGAL

- APIFARMA - Portuguese Pharmaceutical
- GROQUIFAR

### POLAND

- Commercial Chamber "Farmacja Polska"

### CZECH REPUBLIC

- SARAP - Slovenská asociácia spoločností v oblasti liekovej regulácie
- CASP - česká asociace pro speciální potraviny

### RUSSIA

- GIM-Unimpresa

### UKRAINE

- EBA - European Business Association

### TURKEY

- Pharmaceutical Manufacturers Association of Turkey
- ICC - The Istanbul Chamber of Commerce
- Camera di Commercio Italo-Turca
- Çerkezköy Organized Industrial Zone
- Çerkezköy Chamber of Commerce and Industry
- Istanbul Chemicals and Chemical Products Exporters' Association
- The Union of Chambers and Commodity Exchanges of Turkey
- YASED (International Investors Association)

### GREECE

- Camera di Commercio Italo-Ellenica
- SFEE - Member of Hellenic association of Pharmaceutical Companies

### TUNISIA

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

### UNITED KINGDOM

- ABPI - Association of the British Pharmaceutical Industry

### UNITED STATES

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

### CANADA

- LSO - Life Sciences Ontario

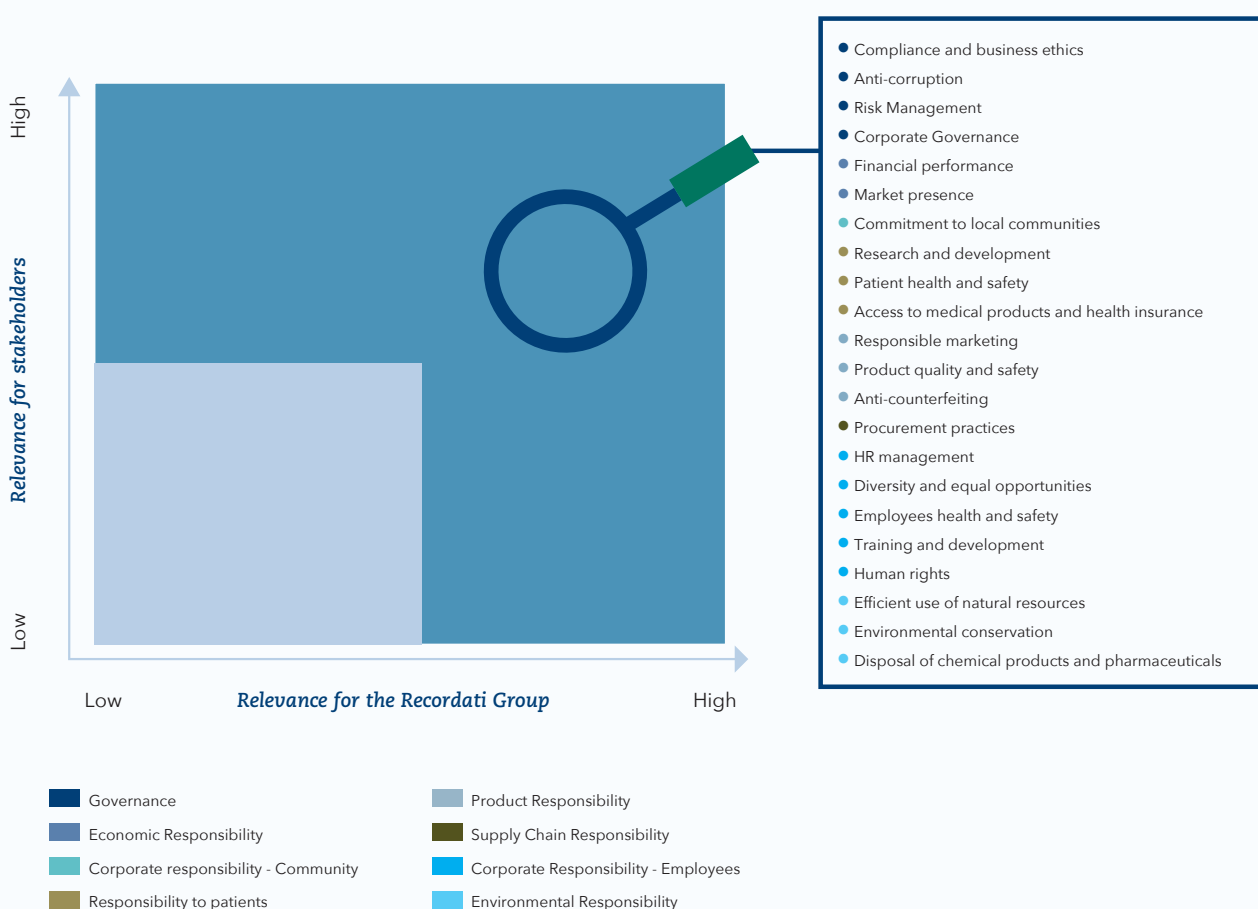
## 2.4. MATERIALITY ANALYSIS

In order to identify the main sustainability issues that relate to its business, in 2017 the Recordati Group launched an internal stakeholder engagement initiative in collaboration with senior management. The initiative promoted the discussion and debate of a range of economic, social, environmental, governance and product issues deemed significant for the industry and specifically required by Italian Legislative Decree, no. 254/2016. Given the continuity of the Group's business, the materiality analysis and the

relative results obtained were deemed valid for 2018 and consistent with the indications of the reporting standards and macro trends observed in the sector.

The materiality index represents the 22 issues selected according to their economic, social and environmental relevance both for the Recordati Group and for the relevant stakeholders.

### THE RECORDATI GROUP'S MATERIALITY INDEX



The 22 topics highlighted by the materiality analysis are covered in this Statement in line with the reporting standards and the provisions of Italian Legislative Decree no. 254/2016. It is noted that the issue of human rights, one of the significant themes highlighted by the materiality analysis, is expressed by the Group through its management of relations with employees, collaborators and supply chain operators in a manner that respects the principles and values of the Group's Code of Ethics.

In fact, the Group is committed to respecting basic human rights in accordance with the Conventions of the International Labour Organisation in all of the countries in which it operates.

For more detail on the policies adopted relative to this topic, please refer to the relevant sections (e.g. "Supply chain", "Diversity and equal opportunities", "Health and safety in the workplace") of the Non-Financial Statement.

## 2.5. DIRECT AND INDIRECT ECONOMIC BENEFITS

During 2018, the activities of the Recordati Group in the field of the research and sale of medicines represented an important profitability factor for the Group and generated various economic advantages, including direct benefits for stakeholders through the distributed economic value as well as indirect benefits for the various associations or third-party organisations which receive donations and contributions from the Group.

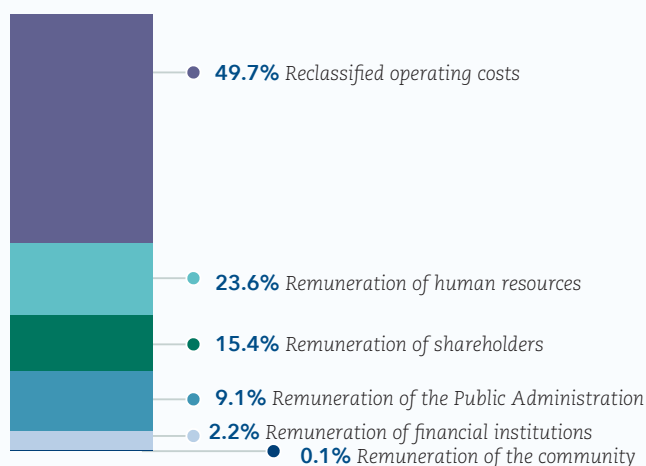
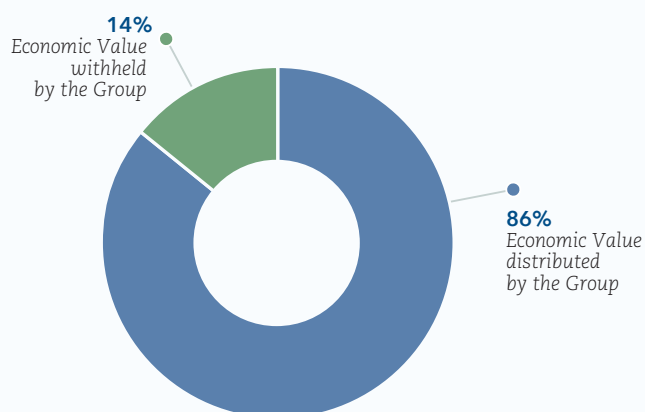
### Economic value generated and distributed by the Group

The Economic Value represents the wealth generated by the Recordati Group which is then distributed in various forms to stakeholders. Data regarding the creation and distribution of the economic value provides a basic indication of how the Group has generated wealth for its stakeholders, highlighting the economic benefits produced by the Group's entrepreneurial management which are directly shared with the main categories of stakeholders with whom the Group interacts and maintains medium to long-term relations: suppliers (reclassified operating costs), human resources (remuneration of human resources; staff costs); shareholders (remuneration of shareholders: profit distribution), financial institutions (remuneration of financial institutions: financial charges) and the Public Administration (remuneration of Public Administration: taxes and duties).

In 2018, of the € 1,353 million of Economic Value generated by the Recordati Group, approximately 86% (equal to € 1,162.9 million) was distributed as follows:

- reclassified operating costs of € 577.7 million, represented predominantly by the costs of raw materials, consumables and services;
- remuneration of human resources for a total of € 274.1 million, represented predominantly by the salaries and wages of Group personnel;
- remuneration of shareholders for a total of € 178.9 million, attributable to the distribution of dividends to shareholders<sup>4</sup>;
- remuneration of the Public Administration, in the form of taxes, for € 105.5 million;
- remuneration of financial institutions for € 25.4 million, primarily formed of borrowing costs;
- Community donations allocated and disbursed during the year, sponsorships and community contributions, for € 1.3 million.

### DISTRIBUTION OF THE ECONOMIC VALUE GENERATED AND DISTRIBUTED BY THE RECORDATI GROUP IN 2018<sup>5</sup>



<sup>4</sup> The value of the dividends distributed to shareholders refers to the balance for the 2017 financial year resolved in April 2018 for € 87.1 million, and the account for the 2018 financial year resolved in November 2018 for € 91.8 million.

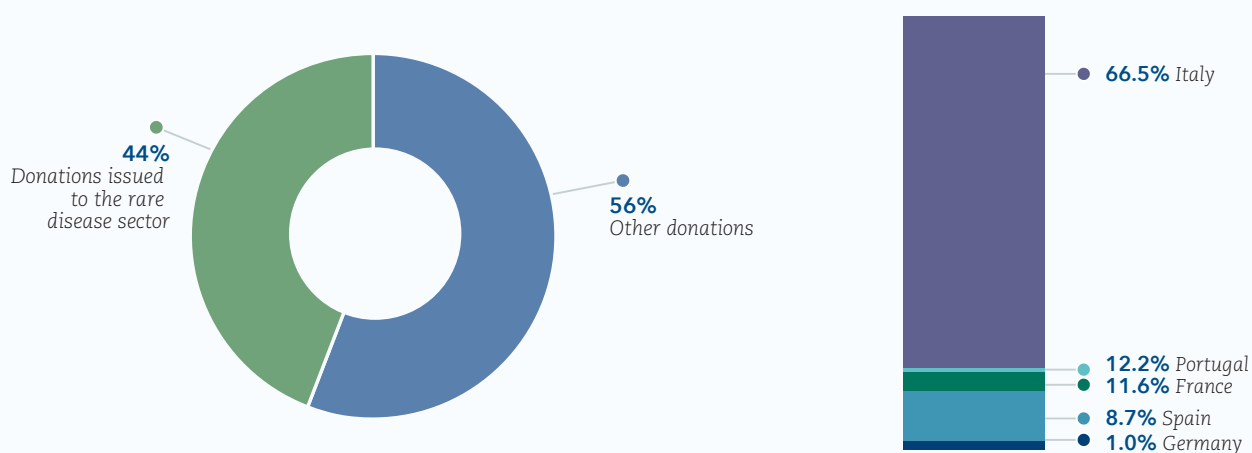
<sup>5</sup> The distribution of the Economic Value generated and distributed to various categories of stakeholders represents a quantifiable indicator for the calculation of the economic value, processed according to the GRI Sustainability Reporting Standards.

## Donations and contributions

Our commitment to providing support to patients is an intrinsic value of the Recordati Group and is evidenced in the development of social projects and initiatives to support organisations operating in the field of health and medication. These include activities implemented by the Group each year to support the numerous associations that focus on the treatment of diseases and improving the quality of life of patients and their families, and research projects and initiatives by supporting social and cultural institutions which carry out their work diligently and passionately every day. In 2018, as well

as € 1.3 million disbursed in donations and contributions to foundations, associations, non-profit organisations and medical institutions, the Recordati Group also paid out € 657 thousand of the amount allocated in 2017 to the "V. Buzzi" Children's Hospital in Milan, equating to total donations of approximately € 2 million. 44% of the total was allocated to activities aimed at the treatment of rare diseases while the remaining 56% refers to contributions and donations awarded to social and cultural organisations and institutions in various countries: Italy (66.5%), Portugal (12.2%), France (11.6%), Spain (8.7%) and Germany (1%).

### SUBDIVISION OF DONATIONS AND CONTRIBUTIONS ALLOCATED BY THE RECORDATI GROUP IN 2018



The donation of € 657 donated in 2018 to the "V.Buzzi" Children's Hospital in Milan represents approximately 33% of the funds allocated in 2017 (€ 2 million), used to further the redevelopment of the paediatric wards and the neurological outpatient unit. This initiative aimed to facilitate the redevelopment of the new Paediatric Ward and the construction of a new Neurology Department, representing the first important step in implementing the project at Milan's Children's Healthcare Centre. This contribution demonstrates the Recordati Group's desire to continue its key investment role in a project that will enable the community of Milan to achieve important targets and provide an increasingly high level of care in the paediatric sector.

## Social initiatives and activities

As well as monetary donations, the Recordati Group provides a constant and significant contribution in the countries where its Companies are located by developing and implementing social and community initiatives, events and projects aimed at vulnerable groups, foreigners, people with disabilities and, more generally, people experiencing any kind of disadvantaged or difficult situation. The type of contribution offered depends on the people to whom it is directed and the characteristics of the association in question.

In particular, the following initiatives are worthy of note:

- The donation of material assets or working hours to promote the redevelopment of primary schools in Tunisia and the preparation of medical kits for people in need in France;
- the assignment of corporate services for organisations for the disabled, such as the fleet management service provided to Donau-Iller-Werkstätten and the laundry service offered to Grüner Zweig, both in Germany;
- direct support for Recordati employees in the organisation and management of social initiatives, such as the Diakonie Neu-Ulm project in Germany which organises events for homeless or disadvantaged people or the commitment to environmental conservation and clean-up operations in Ireland.

---

## THE RECORDATI GROUP'S COMMITMENT TO IMPROVING ACCESS TO MEDICAL PRODUCTS AND HEALTH INSURANCE

Rare diseases are predominantly genetic disorders that can affect patients of any age, gender and ethnicity, and involve every category of medical specialisation. These are chronic, often fatal or severely debilitating diseases which have a great impact on patients, their families and on society. A disease is defined as rare when its prevalence, understood as the number of cases in a given population, does not exceed a predefined threshold; in Europe this is 0.05% of the population, or 5 cases per 10,000 people. In order to treat these diseases, specialist medical products known as “orphan drugs” are developed.

The Group companies operating in the rare diseases sector, Orphan Europe S.a.r.l. and Recordati Rare Diseases Inc., share the principle that every person affected by a rare disease has the right to the best treatment possible. For this reason, the activities carried out by Orphan Europe S.a.r.l. and other Group Companies include support for patient associations for people affected by rare diseases, which help patients and their families by facilitating access to orphan drugs and treatment centres. Furthermore, Recordati's orphan drug specialists (ODS) actively collaborate with the medical community to facilitate dialogue between hospitals with limited expertise of rare diseases and specialist medical centres able to diagnose and treat rare conditions in an appropriate manner.

The US Company Recordati Rare Diseases Inc. (RRD) has developed two distinctive programmes to provide assistance to patients eligible for financial support for their products: the Patient Assistance Program (PAP), valid for all products, and the Co-Pay Assistance Program (CAP) available for three drugs (Carbaglu, Cystadane and Panhematin):

- Patient Assistance Program (PAP): this programme enables Recordati Rare Diseases Inc. to supply products to medical professionals or hospitals which require free products to treat their patients, who (i) do not have adequate medical insurance to cover the cost of the drug; (ii) are able to show financial hardship that meets the criteria of Recordati Rare Diseases Inc.; and (iii) meet the eligibility requirements. To determine whether patients are eligible for the programme, including from a financial point of view, a case-by-case assessment is carried out by a third party appointed by RRD. Once the eligibility requirements have been met, the patient is registered to the PAP for a period of up to six months, at the end of which a new assessment is carried out to confirm eligibility for continued participation in the programme.
- Co-Pay Assistance (CPA): this support programme offered by RRD by a third party provides financial support to insured patients, for all or part of their financial responsibilities, for certain RRD products up to a predefined maximum limit. In order to benefit from this assistance, patients must fulfil certain requirements such as being in possession of a valid medical prescription for the product and being insured by an insurance plan that does not cover the full cost of the prescription, etc.

---

## LA COURSE DES HÉROS

The “Course des Héros”, one of the most important charitable events in France, is an annual appointment organised by the Group Company Orphan Europe. Over the last four years the Orphan Europe team has collaborated with the L'Envol Association to raise funds for “Recreational Therapies” organised for seriously ill children hospitalised in the association's dedicated facilities. At the event in Paris on 17 June, ten Orphan Europe team members raised a total of € 2,640 to be donated to L'Envol. The race, which raised a total of € 2 million, is an opportunity to demonstrate our engagement in providing care for patients and their families. In its 20 years of operation, L'Envol has welcomed 7,500 children aged between 7 and 17 in its facilities managed by medical experts and volunteers.



### 3.

# PRODUCT QUALITY AND SAFETY

In order to guarantee the highest possible levels of health and safety for patients, the Group is committed to guaranteeing product quality and safety throughout the Recordati supply chain, from the research and development phase for new products to the procurement of raw materials and the production and commercialisation of registered medicines.

During the research phase, specific clinical studies are carried out in order to ensure the efficacy and safety of the products and confirm the absence of any possible dangerous side effects. Furthermore, the results of these studies are assessed by national and European regulatory bodies before authorisation is given to commercialise the medicines on the market.

Throughout the supply chain, our suppliers are selected and regularly assessed according to audit schedules in order to verify compliance with certain criteria, from environmental factors to the quality of the ingredients.

During manufacture, all medicinal products are produced in accordance with Good Manufacturing Practices in plants authorised by the relative local regulatory bodies. Our plants are constantly subject to inspections and checks to ascertain compliance with current legislation and internal regulations.

In the product commercialisation phase, the Recordati Group has implemented a system to guarantee compliance with European Directives regarding anti-counterfeiting, respecting the requirements of the European Union with regard to product serialisation and the use of quality seals on product packaging. Furthermore, when handling all complaints made regarding its products, the Group investigates any possibility of counterfeiting.

Finally, the Recordati Group operates a post-sale pharmacovigilance policy, enabling doctors and patients to promptly notify the Group of any significant events or adverse reactions experienced during the use of Recordati medicines.

#### **Compliance with legislation and regulations**

The Recordati Group operates in full compliance with legislation and regulations in different fields thanks to dedicated and qualified employees. The Group's Code of Ethics states: *"ensuring the compliance of all conduct with applicable legislation and ethical regulations is a mandatory prerequisite for Recordati and our collaborators in every country in which we operate"*.

Important company figures in this regard include the managers of the Pharmacovigilance Department, the Scientific Department, the Clinical and Manufacturing Quality Assurance Departments and the Regulatory Affairs Department, as well as the Qualified Person, the Health, Safety and Environment Manager and the Compliance Officer.

Activities aimed at ensuring compliance with legislation and regulations are undertaken in compliance with international best practices and are constantly examined through inspections conducted by commercial partners, authorities or certification bodies.

In this regard, the Recordati Group complies with the regulations issued by industry certification bodies and has been awarded the GMP (Good Manufacturing Practice) certification for product quality and safety at its plant in Cork, which is valid until 11/01/2020.

The Campoverde di Aprilia site is regularly inspected by the Italian Medicines Agency, the US Food and Drug Administration, the Brazilian *Agência Nacional de Vigilância Sanitária* and the Korean Food and Drug Administration and is certified by the Japanese Ministry of Health.

As regards cases of non-compliance, in 2018 the Group recorded a limited number of episodes: in fact, only a small number of Group branches recorded breaches and/or disputes reported by local authorities:

- the Turkish branch Recordati İlaç Sanayi ve Ticaret Anonim Şirketi was awarded an administrative fine of € 29,000 by Turkey's Social Security Institution. The Institution claimed to have sustained damages due to the branch's failure to promptly announce price variations of certain products in the reference countries. As the appeal presented before the competent governing authorities was not accepted, the Company brought legal action - which is still ongoing - against the local Social Security Institution;
- due to a manufacturing defect regarding the packaging of a product, the Russian company RUSFIC LLC voluntarily recalled - without the application of penalties - the product batches already in circulation;
- in 2018 the Portuguese branch Jaba Recordati S.A received a warning from the National Authority of Medicines and Sanitary Products ("INFARMED") for failure to monitor the online information of its products. Following an inspection carried out by INFARMED, and with the application of a warning without further consequences, Jaba Recordati S.A resolved to appeal to the Administrative Court to obtain greater clarity on the circumstances.

Finally, it is noted that in relation to the information provided in the Non-Financial Statement 2017, in 2018 the Portuguese branch completed the action plan drawn up by the Parent Company regarding the consolidated processing of information relative to pharmacovigilance activities. This action plan was launched in response to a specific request issued by the Portuguese authorities following a branch inspection.

### 3.1. RESEARCH & DEVELOPMENT AND INTELLECTUAL PROPERTY

The Group is constantly committed to Research & Development activities, implemented through the development and launch of pipeline pharmaceuticals and the acquisition of new specialities. In particular, in recent years Recordati has focused its efforts on the research and development of pharmaceuticals to treat rare diseases and urological conditions.

Over the last few years, the development of new pharmaceuticals, both through internal research programmes and through R&D opportunities in partnership with external companies and research institutions, has been a fundamental element in enriching the pipeline and ensuring the Group's future growth.

The Group's intellectual property is protected by its patents, which enable Recordati to transform its R&D investments into a profitable activity. Following a positive outcome of the patent criteria assessment (principally relating to new products and innovative development phases) according to local laws and legislation, the award of European and international patents provides for patent protection in a great number of companies.

This protection, which varies from country to country, depends on the type of patent application and the intended objective. The patent application may be formulated to protect new compounds, manufacturing processes, medical indications, devices and the composition of materials. In countries where the Group files an application to gain patent protection, the duration of the same is generally twenty years, beginning from the date of filing. This period may be extended for a maximum of five years in certain countries, particularly in Europe and the United States, following the approval of the pharmaceutical product by the local Health Authorities.

The patent portfolio is regularly monitored in collaboration with the operational units involved, in order to identify potential breaches and take any necessary legal action. The Group also benefits from the protection of international intellectual property rights through licensing agreements for products and compounds that have been patented by other companies.

As at 31 December 2018 the Group held 563 patents, of which 12 were granted in 2018.

Trademarks also protect the Group's intellectual property. This protection, which varies from country to country, refers principally to their use and registration. Trademark rights are obtained based on national, international and EU registrations, and are generally granted for renewable periods of 10 years. The Group holds around 7,300 registrations for 900 trademarks filed in the name of various companies. Approximately 50% of the trademarks are currently in use.

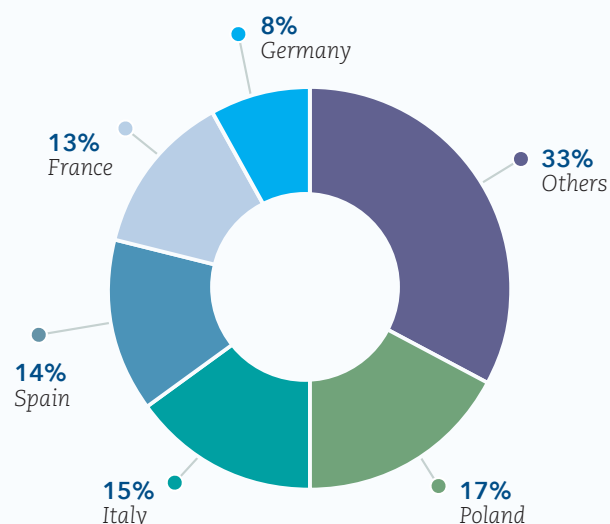
For more information on the Group's research and development activities please refer to the "Research and Development" section of the Annual Report.

### 3.2. SUPPLY CHAIN

The supply chain of the Recordati Group operates within a highly regulated market and is characterised by the search for efficiency both in terms of financial viability and the maintenance of the supply chain. The Recordati Group is served by approximately 14,500 suppliers, predominantly located in the countries in which the Group operates manufacturing plants or has a commercial presence. The supply chain is characterised by the purchase of direct ingredients (active substance, packaging material, excipients and chemical intermediates), finished products and indirect services required for regular operation (consultancy services, marketing, supplies, licensing, etc.). In this regard, the main purchase categories are represented by APIs (Active Pharmaceutical Ingredients), packaging, industrial products and services and finished products.

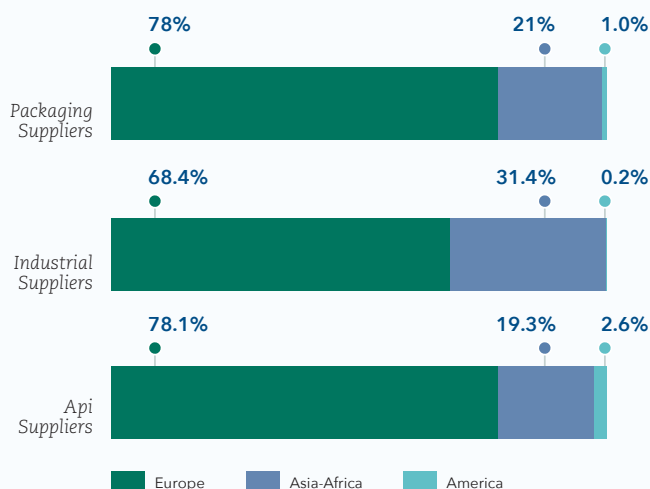
In 2018 the Recordati Group interacted with around 450 certified API suppliers principally located in Europe and India. Approved suppliers for the packaging of medicinal products produced directly in the Group's plants numbered approximately 200, located principally in the countries in which the Group has a manufacturing site (of these, approximately 10% are approved suppliers for two or more factories). Suppliers of industrial materials and services for use in the Group's plants numbered approximately 1,400, with a pronounced local presence due to the type of goods and services. Finally, it should be noted that there are approximately 130 suppliers of finished products at Group level, with a pronounced predominance of European producers.

PERCENTAGE BREAKDOWN OF SUPPLIERS OF THE RECORDATI GROUP BY LOCATION, 2018





**PERCENTAGE SUBDIVISION OF THE THREE SUPPLIER CATEGORIES OF THE RECORDATI GROUP BY LOCATION, 2018**



In order to operate within the Recordati Group, our suppliers are selected and approved according to two different methods for direct and indirect products. For the purchase of indirect materials and services, information regarding the suppliers' economic and financial position is collected through documental evidence and research. For the purchase of direct materials, potential suppliers are subjected to financial checks and are required to follow a regulated documentation collection procedure in line with GMPs and GDPs (Good Manufacturing Practices and Good Distribution Practices) before undergoing a strict monitoring and auditing process.

In order to standardise the selection process, in 2015 the ATTITUDE project was launched, aimed at implementing a new purchase management policy at Group level using an eProcurement platform. The project aims to promote transparency in the procurement process in terms of supplier assessment and effective negotiation in line with the distribution of procedures and tools at a centralised and local level. Our supplier selection criteria include:

- focus on the environment and the laws that regulate it;
- compliance with the Group's Code of Ethics which includes respect of the basic Human Rights of all employees, the prevention of child exploitation and the prohibition of forced or enslaved labour, in accordance with the International Labour Organisation. These selection criteria are binding and all suppliers must declare their commitment to the Code of Ethics and the practices contained therein.

This management process was successfully implemented in Italy in 2016. Recordati has set itself the target of extending the initiative to all Group Companies by the end of 2021, in order to create a unique and shared supplier database.

**3.3. AUDITS AND INSPECTIONS**

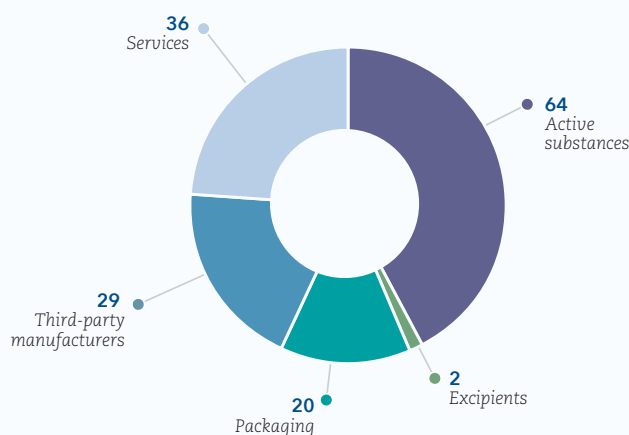
In order to ensure the safety of its products and verify the compliance of its suppliers with quality, environmental, health and safety legislation and regulations, the policies implemented by the Recordati Group include periodic audits of the supply chain, as well as continuous inspections and self-inspections within its own manufacturing plants.

**Supplier audits**

One of the main control measures implemented in the supply chain are the audits carried out by the Group at third-party pharmaceutical companies which produce medicines, as well as suppliers of APIs, excipients and packaging. As well as assessments at the supplier approval stage, the supplies provided by suppliers are constantly monitored for quality assurance purposes.

In line with the current procedures for supplier approval, all suppliers, particularly those supplying active substances, excipients and services, are subjected to periodic audits as defined by a risk assessment rating. In fact, in 2018 the Pharmaceutical Division of the Recordati Group conducted 151 supplier audits, of which 20% related to third-party manufacturers, 42% to suppliers of active substances, 13% to suppliers of packaging, 24% to service suppliers and 1% to suppliers of excipients.

**SUBDIVISION OF SUPPLIER AUDITS CONDUCTED BY THE PHARMACEUTICAL DIVISION BY PRODUCT CATEGORY, 2018**



Regarding supplier inspections carried out by the Chemical and Pharmaceutical Division, it should be noted that in the course of 2018 the Campoverde di Aprilia plant conducted ten audits of suppliers of raw materials.

### Production plant inspections

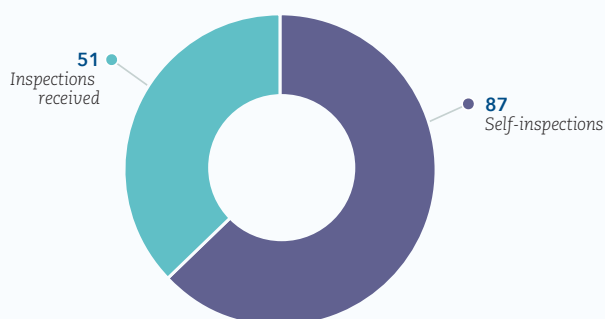
The production plants of the Recordati Group are regularly subjected to internal or external inspections (the latter by competent authorities, third-party companies and clients) in order to verify compliance with product quality regulations.

During the production phase, every single batch of Recordati medicines is produced in accordance with the dossiers approved by the relative health authorities and is subject to controls designed to ensure their quality.

Within its own pharmaceutical plants, the Group is committed to maintaining a quality control system that fulfils all national and international requirements, guidelines and standards for the production of finished pharmaceutical products. In particular, the manufacturing plants operate in line with GMPs (Good Manufacturing Practices) and are regularly verified by inspections conducted by national and international competent authorities. The Quality Control departments are responsible for the control of procured raw materials and the finished products in accordance with the relative procedures, approved methods and the pharmacopoeial monographs.

In 2018, a total of 138 inspections and audits were carried out at the Group's pharmaceutical plants in order to assess product quality and safety. Of these, 87 (63%) were self-inspections carried out by the Group at its own plants while the remaining 51 were carried out by competent authorities (Health Ministries, Agencies, Certification Bodies, FDA and AIFA) and third-party companies.

#### SUBDIVISION OF QUALITY AND SAFETY INSPECTIONS/AUDITS CARRIED OUT AT GROUP PHARMACEUTICAL PLANTS IN 2018



Among the inspections received in 2018, the pharmaceutical plants received inspection from regulatory bodies in order to review/grant manufacturing authorisations. In this regard, the inspections conducted by the Russian authorities at the plants in Utebo (Spain), Nanterre (France) and Cerkezkoy (Turkey) and by the Danish authorities in Cerkezkoy (Turkey), were of particular

note. While those carried out in Utebo and Nanterre were predominantly aimed at renewing existing authorisations, those carried out in Cerkezkoy were aimed at authorising the site to produce certain specialist pharmaceutical products for the Russian and European market, ensuring the presence of a back-up site for said products/markets. While in the case of Utebo the existing authorisations had already been renewed, post-inspection procedures are currently in progress at Nanterre and Cerkezkoy (e.g. the presentation of a corrective action plan) in order to bring the process to a successful conclusion.

With a view to constantly improving production, in the course of 2018 inspections were carried out at the plant in Kalaat El Andalous (Tunisia) to obtain the ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2017 certifications. The outcome of these inspections was positive and the certificates were issued in May 2018.

As well as the inspections conducted by external bodies since 2018, the pharmaceutical production plants were subject to internal audits carried out by the Group's internal Quality Assurance department on an annual basis (not all sites were subject to these controls in the first year but will be from 2019).

With regard to the inspections carried out at the two chemical pharmaceutical plants, it should be noted that an external inspection of the Quality Management System was carried out at the Campoverde di Aprilia plant in 2018 by the US Food and Drug Administration (FDA), the US pharmaceuticals control body. The inspection concerned compliance with GMPs in relation to the production, control and storage of 14 products distributed in the United States, and a positive outcome was obtained with no observations made by the inspecting body. Furthermore, the internal Quality Assurance department conducted 14 internal audits at the plant in Campoverde di Aprilia in the production, quality control and maintenance departments, and was subjected to 26 customer audits.

With regard to the plant in Cork, the following inspections were carried out:

- an inspection was carried out by the Health Products Regulatory Authority (HPRA) of the Irish Health Ministry in May 2018, as part of the three-year renewal of the plant's Certificate of Compliance with Good Manufacturing Practices for the production of active substances. This inspection aimed to verify the progress and effective efficacy of the control measures identified following the recommendations issued by the Authority in 2017. The inspection was passed and enabled the renewal of the GMP certificate for a further three years.
- during the year the plant was also inspected and approved by a client who buys an active substance manufactured on the site;
- during the year the internal audit plan consisting of various inspections in different sectors (Production, Quality, Maintenance) was carried out, resulting in the identification of measures and improvements to strengthen the various activities.

### 3.4. PRODUCT SERIALISATION

Since 2006, the European Federation of Pharmaceutical Industries and Associations (EFPIA) has been developing a standardised medicinal products traceability system as part of the fight against counterfeiting. Working in collaboration with three other European organisations, EFPIA has been involved in the creation of an ambitious coding and serialisation system known as the European Stakeholder Model (ESM). In conjunction with this project, ESM members worked to implement the European Medicines Verification System (EMVS) which aims to regulate the dispensation of medicines to ensure product authenticity.

In this context, in February 2016 the European Parliament issued a regulation dictating the technical requirements for all prescription medicines in order to combat medicines being counterfeited. This regulation will come into force in February 2019. However, certain member states, Italy included, are exempt from implementing this regulation for a further six years due to the adoption of internal anti-counterfeiting systems at national level. After this date, medicinal products that do not comply with the safety requirements established by this regulation may no longer be commercialised.

In this regard, in 2015 the Recordati Group launched a project to ensure that all medicinal products produced at its own production plants or those of third-party companies comply with this regulation. The process is continuing in line with the implementation deadlines provided for by legislation and the packs produced for the Group will comply with legislative requirements by January 2019. In order to prevent unforeseen circumstances and/or delays, reserve stocks have been established according to a risk assessment plan, so as to ensure continuity of supply for all products. All equipment was successfully installed according to the envisaged deadlines in the four pharmaceutical plants involved in the project. All information generated in regard to the serialisation of individual packs shall be collated in a database designed to enable the in-out management of all third-parties of the Group as part of a European data collection system.

Similar initiatives aimed at combating the counterfeiting of medicinal products have been launched or are currently being implemented in various countries in which the Group operates. In particular, in Turkey, China, the USA and Korea, the medicinal products commercialised by the Recordati Group already comply with these safety requirements, while the Group's sites in Russia will conform in the course of 2019, as provided for by local legislation.

## 4. THE RECORDATI GROUP'S EMPLOYEES

### 4.1. THE IMPORTANCE OF OUR EMPLOYEES

The Recordati Group operates in highly specialised sectors including traditional pharmaceuticals, the treatment of rare diseases and chemical pharmaceuticals. In order to operate effectively in these fields, it is essential to collaborate with increasingly highly qualified employees able to bring professionalism and added value to the Group and enable us to confront and overcome market challenges.

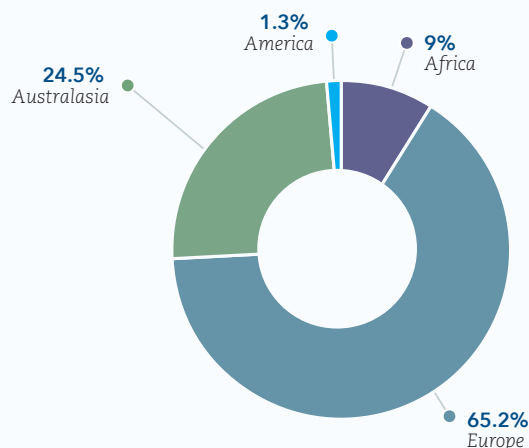
For this reason, the Group policy for the development and optimisation of human resources aims to incentivise professional growth and career development. This policy has been developed through our belief that the Group's results are closely linked to the ability of our employees to engage their own commitment and talent to reach targets. Furthermore, optimisation of human resources is a key priority when fulfilling company roles. The recruitment process is aimed at selecting the candidates that best respond to the profiles required by company departments in accordance with the given time frames and market cost criteria.

As of 31 December 2018, the Group's workforce was formed of 4,142 employees, with a gender division of 55% and 45% of men and women respectively. The workforce in 2018 was substantially in line with that recorded at the end of 2017 (4,176 employees). At present, the Group's workforce is also supplemented by some 100 resources who collaborate with the Group at various levels; approximately one third of these collaborators is represented by women.

#### SUBDIVISION OF EMPLOYEES AND COLLABORATORS BY GENDER, AS OF 31 DECEMBER 2018

Number of employees	2018			2017		
	Men	Women	Total	Men	Women	Total
Employees	2,276	1,866	4,142	2,297	1,879	4,176
Collaborators	74	34	108	103	97	200
<b>Total</b>	<b>2,350</b>	<b>1,900</b>	<b>4,250</b>	<b>2,400</b>	<b>1,976</b>	<b>4,376</b>

#### PERCENTAGE BREAKDOWN OF EMPLOYEES BY GEOGRAPHIC AREA, AS OF 31 DECEMBER 2018<sup>6</sup>



#### SUBDIVISION OF EMPLOYEES BY COUNTRY, AS OF 31 DECEMBER 2018 (NO. PEOPLE)

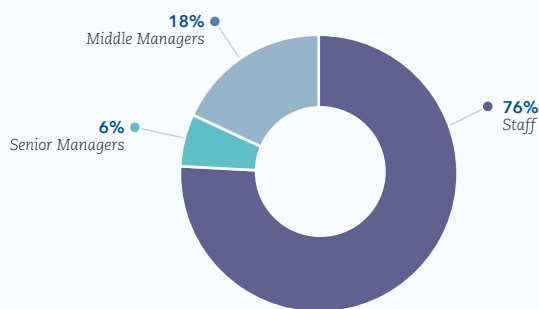
Total	4,142
Italy (28%)	1,189
Turkey (18%)	672
France (9%)	387
Tunisia (9%)	371
Spain (7%)	307
Russia (7%)	287
Germany (5%)	203
Portugal (3%)	121
Poland (3%)	117
Czech Republic (2%)	95
Ukraine (2%)	84
Ireland (1.4%)	61
Greece (1%)	44
Romania (1%)	30
United States (1%)	30
Switzerland (0.4%)	18
Kazakhstan (0.4%)	18
Belarus (0.3%)	16
Colombia (0.2%)	12
Georgia (0.2%)	11
Other Countries* (1.1%)	69

(\*) The item "Other Countries" includes employees who work in Armenia, Benelux, Brazil, United Arab Emirates, Mexico, United Kingdom, Sweden, Hungary, Canada, Australia, Japan and Malaysia.

<sup>6</sup> Australasia includes the Turkish branch (Recordati İLAÇ ve Hammaddeleri Sanayi ve Ticaret A.S.) and the Russian branch (RUSFIC LLC).

As regards the breakdown of the Recordati Group's workforce by professional category, 239 employees are Senior Managers (6% of the total), 741 are Middle Managers (almost 18%) while the remaining 3,162 people are ordinary employees (76%). In line with 2017, all Senior Managers, men and women, were recruited locally<sup>7</sup>.

**PERCENTAGE BREAKDOWN OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL, AS OF 31 DECEMBER 2018**



Approximately 64% of the workforce is comprised of employees aged between 30 and 50, around 25% are over 50 and approximately 11% are under 30.

**SUBDIVISION OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND AGE, AS OF 31 DECEMBER 2018**

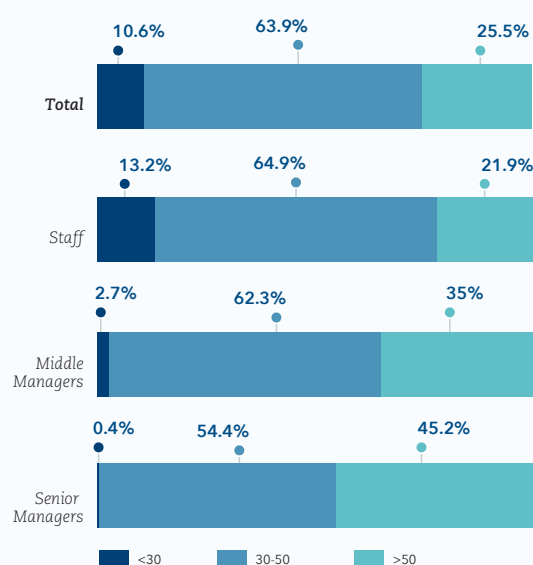
**2018**

Number of employees	<30	30-50	>50	Total
Senior Managers	1	130	108	239
Middle Managers	20	462	259	741
Staff	418	2,053	691	3,162
<b>Total</b>	<b>439</b>	<b>2,645</b>	<b>1,058</b>	<b>4,142</b>

**2017**

Senior Managers	1	138	98	237
Middle Managers	18	405	175	598
Staff	455	2,167	719	3,341
<b>Total</b>	<b>474</b>	<b>2,710</b>	<b>992</b>	<b>4,176</b>

**PERCENTAGE BREAKDOWN OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND AGE, AS OF 31 DECEMBER 2018**



The selection process outlined by the recruitment policy can take place internally, through the development of horizontal and vertical career paths designed to develop the technical and professional skills of employees already operating within the Group through the self-application system, or externally through recruitment campaigns conducted directly or through the use of approved recruitment agencies.

In order to optimise the development of human resources, in the case of suitable vacancies and candidates the Group prioritises the recruitment of internal employees. For junior positions, the recruitment process begins at university level, focusing on undergraduates in their final year or new graduates who have been selected according to their university or Master's specialisation. This policy offers young people the opportunity to embark on a professional development programme within the Group through placements and apprenticeships, in particular in the areas of Finance, Research and Development, Marketing and Industry. To select the best candidates, the Group uses an internal Assessment Centre that aims to assess the transferable skills and communication abilities of the young candidates.

With a view to standardising the selection of candidates, a "Recruiting Grid" has been implemented in the HR departments of the various Group Companies, aimed at supporting line managers involved in the selection of a new employee during the candidate interviewing process. In a nutshell, this initiative provides a series of prompts aimed at exploring if, and to what extent, the candidate possesses the managerial skills that characterise employees of the Recordati Group.

<sup>7</sup> Senior Managers recruited locally include those born, or with the legal permanent right to reside (as naturalised citizens or permanent visa holders) in the country in which they were hired.

During the interview, the manager draws on a series of suggestions on how to engage with the interviewee, such as how to pose questions and which aspects to develop further. Furthermore, the "Recruiting Grid" offers various positive and negative indicators to indicate whether a candidate possesses a certain skill.

In 2018, 653 new employees joined the Recordati Group, with an inbound turnover rate (the ratio between the number of new employees and the total Group workforce as at 31 December 2018) of approximately 16%, while the number of employees who left the company was 687 (with an outbound turnover rate - the ratio of number of people leaving the Group to total Group workforce as of 31 December 2018 - of around 17%).

#### SUBDIVISION OF TOTAL EMPLOYEES ENTERING AND LEAVING THE COMPANY BY GENDER AND AGE, AS OF 31 DECEMBER 2018

Number of employees	2018					2017				
	<30	30-50	>50	Total	Turnover %	<30	30-50	>50	Total	Turnover %
<b>New employees entering the Group</b>										
Men	84	209	32	325	14%	92	183	26	301	13%
Women	101	208	19	328	18%	97	212	21	330	18%
Total	185	417	51	653	16%	189	395	47	631	15%
Turnover %	42%	16%	5%	16%		40%	15%	5%	15%	
<b>Employees leaving the Group</b>										
Men	50	245	51	346	15%	55	207	25	287	12%
Women	70	238	33	341	18%	76	173	35	284	15%
Total	120	483	84	687	17%	131	380	60	571	14%
Turnover %	27%	18%	8%	17%		28%	14%	6%	14%	

#### SUBDIVISION OF EMPLOYEES ENTERING AND LEAVING THE COMPANY BY GENDER, AGE AND LOCATION, AS OF 31 DECEMBER 2018

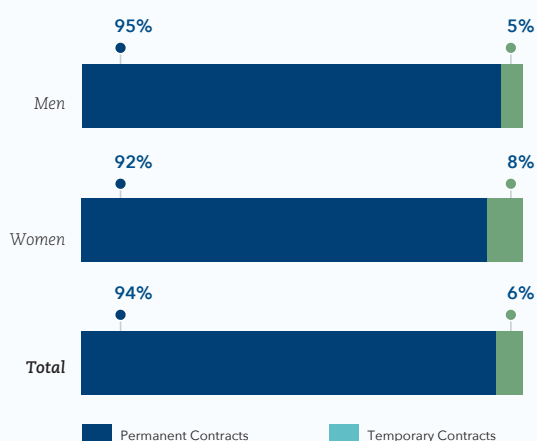
Number of employees	2018									
	<30	30-50	>50	Total	Turnover %	<30	30-50	>50	Total	Turnover %
<b>Employees joining the Group - Europe</b>					<b>Employees leaving the Group - Europe</b>					
Men	42	104	21	167	11%	17	73	40	130	9%
Women	43	117	19	179	15%	30	123	29	182	15%
Total	85	221	40	346	13%	47	196	69	312	12%
Turnover %	47%	14%	4%	13%		26%	13%	7%	12%	
<b>Employees joining the Group - Australasia</b>					<b>Employees leaving the Group - Australasia</b>					
Men	25	81	9	115	20%	24	140	7	171	30%
Women	27	69	0	96	22%	21	90	1	112	26%
Total	52	150	9	211	21%	45	230	8	283	28%
Turnover %	37%	18%	22%	21%		32%	28%	20%	28%	
<b>Employees joining the Group - Africa</b>					<b>Employees leaving the Group - Africa</b>					
Men	17	22	0	39	24%	9	32	4	45	27%
Women	30	18	0	48	23%	19	22	1	42	20%
Total	47	40	0	87	23%	28	54	5	87	23%
Turnover %	41%	17%	0%	23%		25%	23%	29%	23%	
<b>Employees joining the Group - America</b>					<b>Employees leaving the Group - America</b>					
Men	0	2	2	4	14%	0	0	0	0	0%
Women	1	4	0	5	18%	0	3	2	5	18%
Total	1	6	2	9	16%	0	3	2	5	9%
Turnover %	33%	24%	7%	16%		0%	12%	7%	9%	

The Recordati Group believes that offering a stable and long-lasting working relationship is an important factor to promoting employee motivation and represents an essential element of the Group's growth and economic development. For this reason, 94% of all resources are recruited on permanent contracts while 6% are on temporary contracts, in line with the data for 2017.

**SUBDIVISION OF EMPLOYEES BY CONTRACT TYPE (PERMANENT OR TEMPORARY) AND GENDER, AS OF 31 DECEMBER 2018**

Number of employees	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent Contracts	2,165	1,718	3,883	2,189	1,733	3,922
Temporary Contracts	111	148	259	108	146	254
<b>Total</b>	<b>2,276</b>	<b>1,866</b>	<b>4,142</b>	<b>2,297</b>	<b>1,879</b>	<b>4,176</b>

**PERCENTAGE SUBDIVISION OF EMPLOYEES BY CONTRACT TYPE (PERMANENT OR TEMPORARY) AND GENDER, AS OF 31 DECEMBER 2018**



In order to promote continuous improvement aimed at optimising the sharing of information regarding human resources, in 2017 a feasibility study was launched to assess the possibility of creating a centralised database, with the aim of collating the information (name, contract, wage) of all Group employees and implementing initiatives aimed at promoting maximum intra-group cooperation. In 2018, assessment activities were continued with the selected partner, a leading multinational HR service provider, prioritising the installation of the HR Administration platform for the Parent Company, with the aim of using it as a basis for the construction of a Group database.

**4.2. DIVERSITY AND EQUAL OPPORTUNITIES**

As stated in the Code of Ethics, the Recordati Group is committed to offering equal working opportunities without any discrimination based on ethnic background, age, sexual orientation, physical or mental disability, nationality, religious beliefs or membership of political parties or unions, and guarantees all employees equal and meritocratic treatment. Furthermore, the Code of Ethics states the Group's commitment to "the respect for basic human rights, the prevention of child exploitation and the prohibition of forced or enslaved labour" in compliance with the Conventions of the International Labour Organisation.

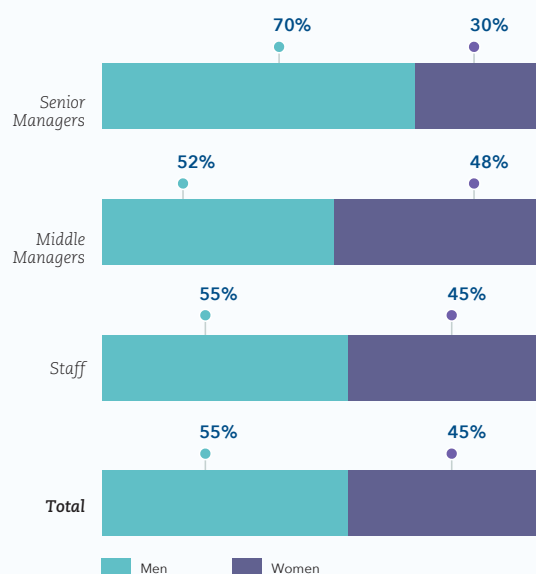
As such, all Group departments are committed to: adopting criteria based on merit, skills and professionalism; selecting, recruiting, training, rewarding and managing employees without discrimination; promoting the integration of employees from other countries.

The Group has a good gender balance, with 55% of employees represented by men and 45% represented by women. The workforce is evenly divided by professional category and the gender balance remains broadly in line with the previous year.

**SUBDIVISION OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND GENDER, AS OF 31 DECEMBER 2018**

Number of employees	2018			2017		
	Men	Women	Total	Men	Women	Total
Senior managers	167	72	239	160	77	237
Middle managers	382	359	741	320	278	598
Staff	1,727	1,435	3,162	1,817	1,524	3,341
<b>Total</b>	<b>2,276</b>	<b>1,866</b>	<b>4,142</b>	<b>2,297</b>	<b>1,879</b>	<b>4,176</b>

**PERCENTAGE BREAKDOWN OF GROUP EMPLOYEES BY PROFESSIONAL LEVEL AND GENDER, AS OF 31 DECEMBER 2018**



The Recordati Group always aims to ensure the maximum respect for the human rights of its employees. In this context, the Group's Code of Ethics states that a constant commitment to promoting and consolidating the culture of a safe working environment is one of the fundamental principles of the human resources management policy, aimed at implementing practices and preventative measures to protect the physical and psychological health and safety all Group employees.

All company departments of the Group are committed to creating a working environment where the personal characteristics of individual employees do not form the basis for discrimination of any kind. As such, in compliance with the Conventions of the International Labour Organisation, the Group is committed to respecting basic human rights such as the prevention of child exploitation and the prohibition of forced or enslaved labour. Furthermore, the Group is committed to ensuring a healthy, clean and pollution-free environment in all of its sites and plants. In its internal and external working relations, the Group prohibits all cases of subjugation by violence, threat, deceit, abuse of authority, harassment of any kind, or exploration of a physical or psychological vulnerability or vulnerable situation.

Managers across all company departments constantly monitor compliance with the provisions of the Code of Ethics and are committed to intervening promptly in the event of any situation that could potentially result in breaches to the conduct required and promoted by the Group. With reference to the management models adopted by the Group to protect the human rights of its employees, the Group has integrated a management policy which promotes the concept of inclusion, respects diversity and gives all employees a voice in order that every contribution be heard and considered.

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

### 4.3. EMPLOYEE WELFARE

The Recordati Group believes that the welfare of its employees is a key element to achieving company targets. In general terms, welfare initiatives vary between countries due to the specific characteristics of different states (regulatory framework, availability of public services etc.) and the existence of previous agreements developed by the various corporate entities before they became part of the Group. The promotion of corporate welfare is part of a wider strategy aimed at managerial innovation and corporate social responsibility and represents a tool to improve relations with employees and internal stakeholders while also developing human, social and relational capital.

Regardless of format, every welfare initiative implemented by the Recordati Group aims to achieve both tangible and intangible results relating to the management of employee relations. In particular, these initiatives aim to promote:

- the maintenance of a healthy and positive working environment and life for all employees;
- the increase in engagement of human resources in the context of corporate activities and, more generally, an improvement in the quality of internal relations;
- a positive level of motivation resulting in a consistent professional contribution to individual and Group productivity;
- stable relations and a strong sense of belonging among employees;
- the reduction in turnover and, in terms of Employer Branding, an increasingly attractive and visible corporate profile on the employment market, particularly within the highly selective and competitive contexts within which the Recordati Group operates.

In its approach to employee welfare initiatives, the Recordati Group has always retained a strong belief in the importance of closely supporting employees and their families, offering concrete and proactive assistance particularly in the case of serious health concerns.

To this end, the increased focus on employee welfare at a corporate level in recent months led the Group to commission an external consultancy firm to produce a report on the various welfare systems in Italy's pharmaceutical sector. This report highlighted that the welfare package offered by the Recordati Group is in line with the other companies in the sample for its wide range of additional benefits; these include technical and specialist training programmes, language courses, preventive medicine initiatives (such as flu vaccines and in-house specialist appointments), membership of professional institutions, agreements with suppliers (such as public transport operators), company canteens, company vehicles and various health insurance packages. Based on these findings, the short-term goal is to develop a benefits scheme that further broadens the current welfare system, ensuring constant alignment with the needs of the Group's workforce while also achieving the expected results.



In 2018, the Parent Group launched a flexible benefits system: this system represents an alternative remuneration method for employed work consisting of a range of goods, services and non-financial benefits offered by the Group to its employees in addition to their "standard" wage package, in order to increase employees' buying power and improve their quality of life. More specifically, this system replaces a percentage of the overall remuneration package with goods and/or services which are usually purchased externally by the employee to meet their personal or family requirements, ranging from grocery or fuel vouchers and the reimbursement of medical or school fees for the employee or their family members, to membership to recreational initiatives and support for the care of elderly relatives.

The term "flexible benefits" refers to a fixed allowance allocated to employees that can be "spent" freely on the goods and services which best correspond to their individual requirements.

This package has been designed to offer the broadest possible variety of options, meeting the different needs of a population characterised by diverse ages and requirements. After consolidation at corporate level, the aim is to evaluate the possible extension of the package to other Group companies, in line with the individual characteristics of local legislation, with a view to further standardisation.

At a contractual level and in line with 2017, 98 people opted for part-time contracts. 80% of employees on part-time contracts are women. Compared to 2017, it is noted that the number of men opting for part-time contracts has risen by approximately 20%.

#### SUBDIVISION OF EMPLOYEES BY PROFESSIONAL TYPE (FULL OR PART TIME) AND GENDER, AS OF 31 DECEMBERER

Number of employees	2018			2017 <sup>8</sup>		
	Men	Women	Total	Men	Women	Total
Part-time	18	80	98	15	81	96
Full-time	2,258	1,786	4,044	2,282	1,798	4,080
<b>Total</b>	<b>2,276</b>	<b>1,866</b>	<b>4,142</b>	<b>2,297</b>	<b>1,879</b>	<b>4,176</b>

#### Remuneration system

The remuneration system of the Recordati Group is based on the meritocratic "Pay for performance" principle and has been designed to encourage and reward high levels of performance, aligning managers' interests with those of our shareholders. The remuneration strategy aims to ensure that pay corresponds to the responsibilities of each role and individual performance, optimising and retaining key resources while remaining in line with national employment legislation. The remuneration system is composed of basic pay, variable short-term compensation (variable annual bonus), additional benefits (pension contributions, reimbursement of medical expenses, etc.) and variable mid-to-long term compensation (principally represented by stock option plans). The variable short and mid-to-long term payments are subject to the achievement of financial results which are measurable, quantifiable and made known to beneficiaries.

The Group's remuneration policy aims to guarantee equal conditions for men and women across all professional levels, rewarding merit and the ability to fulfil the assigned role and meet defined objectives. In terms of remuneration, the ratio between the average basic salary of female employees and male employees is 75% at Senior Management level, 92% at Middle Management level and 96% for all other employee categories. The ratio in terms of total remuneration is 73% for Senior Managers, 88% for Middle Managers and 93% for all other employee categories.

#### RATIO BETWEEN BASIC SALARY AND TOTAL REMUNERATION<sup>9</sup> FOR MEN AND WOMEN BY PROFESSIONAL LEVEL, FOR ITALIAN AND FOREIGN COMPANIES OF THE RECORDATI GROUP, AS AT 31 DECEMBER 2018

Ratio between women and men	2018		2017	
	Basic Salary	Total Remuneration	Basic Salary	Total Remuneration
Senior managers	75%	73%	70%	71%
Middle managers	92%	88%	94%	87%
Staff	96%	93%	98%	90%

#### Principle internal engagement initiatives

The MBO system plays a key role in the definition of internal engagement and sharing initiatives, aimed at directing the Group's results and the energies and efforts of senior managers and middle managers towards a common goal through the definition of clear, challenging and shared objectives.

In terms of "soft" initiatives, significant importance is placed on the Recordati style of management. Developed through the identification of the distinctive managerial skills that have characterised the Group's evolution over the years and which will continue to overcome future challenges, this managerial approach is implemented through the skills appraisal process which promotes the sharing and discussion of assessments between the "assessor" and the "assessee" (manager and collaborator) in order to optimise and promote Recordati's distinctive managerial style.

Through the combination of MBOs and appraisals, managers are assessed in terms of their achievements (individual targets assigned by the Group) and the way in which these achievements are reached (conduct which displays the use of managerial skills).

More generally, the principle internal engagement initiative is the Management Meeting of the Recordati Group, held each year in Milan. This meeting represents an opportunity for debate and discussion between Managers from all Group Companies and features a series of presentations given by Senior Managers or important figures in the pharmaceutical industry about the Group's results, the advancement of activities, the development of the business and its products and, more generally, any new initiatives which have been launched or are in development.

<sup>8</sup> The data for 2017 have been revised in line with the new requirements of the GRI Standards that provide for the breakdown in full-time and part-time for the total workforce, as a substitute for the GRI G4, which required the breakdown only for permanent employees.

<sup>9</sup> The variable component of total remuneration differs between Italian and foreign companies. In Italy, this variable component is predominantly composed of MBO programmes (available for all senior managers and around half of all middle managers) and the participation bonus offered to all middle managers and employees except senior managers. Foreign Companies manage the variable component independently through packages similar to MBO programmes which are offered to all employees in line with local regulations.

Achieved targets are discussed and future strategies and developments are defined and reinforced. At the end of the day, a much anticipated and appreciated Awards Ceremony is held to reward the best scientific contributors from each branch. Furthermore, the sector meetings held by each company department with representatives of foreign branches are a smaller-scale but equally important method of the sharing of methods and tools. Developed as part of the launch of new projects, these events now represent an essential opportunity for debate and orientation, aiming to promote a shared approach and develop the sense of Group belonging in an increasingly complex and multicultural context. At a local level, conventions are organised for local management teams and staff operating in commercial facilities "in the field" (scientific consultants and area managers), representing important opportunities for sharing best practices and discussing commercial themes and products.

One of the most important initiatives of an informative nature is the "Inside Recordati" magazine. Presenting the Group's activities and distributed to all employees, the publication features news articles and describes the events and initiatives that have characterised the Group during the given period.

As regards the most recent hires in the Recordati Group, an induction process is now carried out at corporate level. For employees of the Parent Company, this programme consists of a day-long course for new hires which takes place within six months of recruitment, enabling resources to have developed direct knowledge of the company structure before being guided by HR to receive a comprehensive overview of the organisation of the Recordati Group.

The day course is usually introduced by the Human Resources Manager who explains the Group policies, after which presentations are given to provide background information on the organisational structure, history and characteristics of the company. The morning is brought to a close by a session centred around the Communications and Investor Relations department. The rest of the day consists of talks given by managers of various departments to illustrate the activities and processes of the various business areas. This provides an ideal opportunity for new hires to ask questions or seek clarifications on the business model and the company's adopted policies.

In the second half of the day, a visit is made to the Milan plant, offering a constructive method of learning about the organisation and its processes.

For new resources recruited to sites outside Italy, an individual induction process is carried out at corporate level each time a new employee is appointed to the local Management Team; shortly after hiring, the new member is invited to the head offices to meet the managers of the main departments with whom they will interact as a result of their role, giving both parties an opportunity to get to know one another and also providing an overview of the department's key activities and priorities.

#### 4.4. TRAINING AND DEVELOPMENT OF HUMAN CAPITAL

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

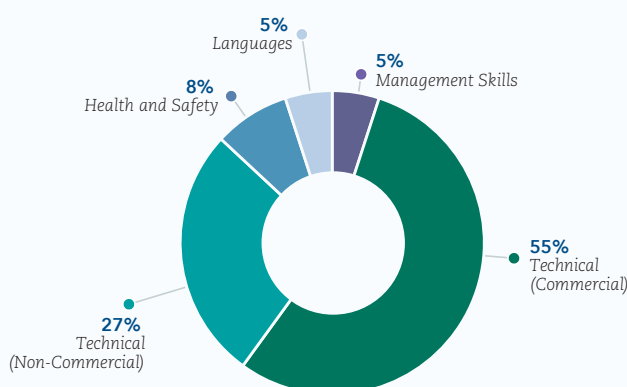
In this respect, the main initiatives promoted by the Group throughout the year have aimed to define and develop the technical, managerial and linguistic skills of managers, as well as offer training programmes to develop specialised and professional skills.

In line with the previous year, in 2018 the Recordati Group provided over 85,000 hours of training to its employees, equating to 20.6 hours of training pro capita. In particular, 77% of all training hours was provided to staff, 18% to Middle Managers and 5% to Senior Managers. Various types of training courses were offered including management skills, technical commercial skills, technical non-commercial skills, languages and health and safety.

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

Average number of hours	2018			2017		
	Average number of hours Men	Average number of hours Women	Average number of hours Total	Average number of hours Men	Average number of hours Women	Average number of hours Total
Senior Managers	16.8	25.9	19.6	16.7	26.6	19.9
Middle Managers	21.7	18.8	20.3	23.9	25.7	24.8
Staff	23.4	17.6	20.8	23.0	23.5	23.2
<b>Total</b>	<b>22.7</b>	<b>18.2</b>	<b>20.6</b>	<b>22.7</b>	<b>23.9</b>	<b>23.2</b>

##### PERCENTAGE BREAKDOWN OF TRAINING HOURS PROVIDED TO EMPLOYEES BY TRAINING TYPE, 2018



The intense expansion and internationalisation project of the Recordati Group has led to the need to develop a system to better understand, evaluate and optimise the Group's human capital. In this regard, in the last few years the Recordati Group has launched a skills evaluation project which is currently being consolidated in Italy and throughout the Group's international branches. The initiative aims to identify, evaluate, optimise and promote the key skills that have characterised the Group's evolution over the years and which will continue to contribute to the Group's success as it confronts new challenges. This is not a simple assessment of performance, which could result in attitudes not in line with the spirit of the project but is an assessment of skills aimed at promoting the continuous development of the Group and the professional growth of each employee. To manage the individual evaluation process, the Recordati Group has implemented a cloud-based platform (which in 2018 was replaced with a new, more user-friendly platform with more comprehensive and effective reporting capabilities) in order to ensure standardised procedures, ease of use and the possibility of carrying out assessments involving numerous assessors (but nonetheless respecting the corporate hierarchy) and personalising forms, fields and messages at a global Group level. The project's aim is to promote the professional growth of each employee and ensure the continued development of the Group. Managers assess their collaborators based on skills observed during their working activities. The initial assessment is then reviewed by the manager's superior or the department manager at corporate level. At the end of the assessment period, an internal committee analyses the results and mitigates any elements of subjectivity (calibration phase). The appraisal process is concluded by a meeting between the assessor and the assessed employee in order to share and discuss the results. The Recordati Group has also constructed a *Competency Model* that links the observed behaviour with a soft skill. Based on these evaluations, the system automatically generates a development programme (accessible on the cloud platform) for each employee to develop any skills that fall below a certain threshold. Finally, the system automatically forwards these proposals to the assessor who is then free to make amendments, additions or alternatives to the plan. This is the truly innovative aspect of the system and has been deemed highly effective by the HR Innovation Practice Observatory of Milan Polytechnic University.

For "top performers", career and retention plans are defined while "poor performers" are offered programmes to improve their managerial skills. In the future, the same assessment approach will be extended to technical skills as defined by the analysis of the roles in each country. The appraisal system enables all employees to gain a better understanding of their role and helps to construct a development plan. Employees with the required skills and experience may be offered opportunities to develop their role and enhance their performance. Specific tools to assess soft and transversal skills are used to evaluate whether a change of role is appropriate and identify any training that may be required to best encourage professional development.

In 2018, training continued in the same vein as in 2017, with individual training courses (ad hoc courses designed around an individual's needs) and departmental initiatives (ITIL - Information Technology Infrastructure Library - and Prince - Projects in Controlled Environments - for the entire IT team, Project Management for the Auditing team, promotion of best practices and insights on opportunities of the future market scenario for the sales force in terms of Products for Consumers), as well as initiatives aimed at broader areas of the company workforce ("lean organisation" techniques, waste-free culture, IT security training delivered to all employees at the Milan branch in 2018 and then rolled out to the entire External Sales Force).

Following the assessments made, in 2018 various training and professional development initiatives were implemented. Many of these involved individual initiatives, such as the management coaching tool aimed at professionals operating in Italy and abroad.

In most cases these initiatives were aimed at valued resources whose commitment to the Group has been recognised, offering the opportunity to further improve their performance by developing certain management skills such as assertiveness, leadership abilities or organisational skills. All of the projects are implemented with the involvement - from the planning stage onwards - of the manager concerned, the line manager and the HR department at corporate or branch level.

The management coaching initiatives are sometimes combined with technical training delivering one-to-one or in small groups, such as the courses held for certain managers of the Orphan Drugs business which focused on the Life Cycle of the pharmaceutical product.

This year, focus was given in particular to Pharmaceutical Research and Development at corporate level and the corresponding operational branches of the Orphan Drugs business, defining a structured plan of activities and projects to effectively support interaction between branches and the Parent Company. After an initial meeting held in Paris in February to launch the project and define its requirements, all resources involved in the project took part in an outdoor training event. At the event, attended by representatives of top management such as the CEO, R&D Manager and HR Manager, the foundations were laid for a business approach inspired by a matrix model. This model revolves around project management skills and aims to guarantee increasing levels of efficiency and efficacy in Research and Development departments.

After the necessary orientation period, employees became increasingly engaged and involved: a further two meetings were held in April and September to strengthen the technical project management skills gained, to promote the sense of team spirit and to share the results achieved in the first few months of work. Employee satisfaction and motivation was very high, while the success of the project was confirmed by a visibly different approach to everyday work.

A second, very technical project focused on the Risk Environment was extended to all employees with a scientific background: the course was custom-designed by a specialist consultancy firm and featured a modular structure with various levels of detail: all resources in the R&D departments were involved, participating in different modules depending on their level of interest.

Another development-oriented project concerned the HR Department, with the design and implementation of a 360° feedback system during the appraisal process aimed at providing employees with feedback from their line Manager, colleagues in their own department and in other business units, and collaborators for comparison with their own self-appraisal, with the entire process managed by a cloud-based platform. The questions were defined by constructing a skills system consistent with, yet not identical to, the management skills appraisal system, identifying areas and practices that best relate to the Group's culture.

Activities aimed at transversal areas of the workforce sharing similar training requirements include the decision to continue the use of the previously adopted online language training platform in 2018. A training package was put together with the previously selected training provider that combines online and telephone lessons with a considerable increase in the number of one-to-one lessons, aiming at teaching grammatical structures, fluency and full comprehension of the course content. Individual one-to-one lessons on a weekly or intensive basis are still used in the case of specific professional requirements.

Finally, the "lean" training project continues to be provided, aimed at increasing and consolidating existing expertise within the organisation and promoting the top-down distribution of specific skills aimed at reducing everyday operational inefficiencies.

## 4.5. HEALTH AND SAFETY IN THE WORKPLACE<sup>10</sup>

The Recordati Group recognises that the protection of the health and safety of its workers is a key priority and responsibility. The Group is committed to implementing a policy to promote initiatives aimed at preventing work-related accidents and diseases, minimising the risks that may impact the health and safety of employees and other workers and providing appropriate technical, financial, human and professional resources.

As stated in the Code of Ethics, the Group is committed to *“promoting and consolidating a culture of safety, raising awareness of risks, promoting responsible behaviour among all Recipients and working to protect the health and safety of those operating for the Company, including by preventive measures. All company activities are carried out in compliance with current legislation regarding risk prevention and protection, with a constant focus on the improvement of workplace health and safety conditions”*.

At the Group's production sites, independently of the nature and purpose of the activities carried out, the prevention measures provided for by local legislation apply, aimed at ensuring the constant improvement of workplace health and safety conditions. To this end, technical and organisational measures are implemented, such as:

- the introduction of an integrated risk management and security system;
- continuous assessment of the risks and critical issues and the resources to be protected;
- the continuous maintenance and adoption of advanced technologies to prevent the emergence of risks relating to workers' health and safety;
- the review and updating of working practices;
- the provision of training and communications initiatives;
- the adoption of appropriate emergency procedures and health check protocols.

All Recordati employees, particularly department Managers, are constantly reminded to employ the maximum care in performing their activities, strictly observing any safety and prevention measures established and avoiding any possible risks to themselves or their collaborators and colleagues.

In this respect, the Group aims to promote responsibility among the management team through the definition of health and safety roles and responsibilities, and each production plant has a level of autonomy over its health and safety budget. In particular, the person in charge of health and safety oversees working activities and ensures compliance with any received directives, verifying their correct implementation by workers and using personal initiative to carry out their role. In this regard, the Recordati Group complies with the regulations issued by industry certification bodies. In fact, the Tunisian pharmaceutical production plant employs an OHSAS 18001-certified Management System.

Activities at each production site are controlled and monitored through inspections and audits.

In particular, in 2018 the production plant in Cork, Ireland received an inspection from the company Ramboll regarding the health and safety procedures in place at the site. The inspection did not reveal any irregularities and the report to certify the plant's compliance with health and safety regulations is currently being produced.

In 2018 the Campoverde di Aprilia plant was inspected by the Commission established pursuant to Article 27, paragraph 6 of Legislative Decree no. 105 of 26 June 2015, in order to ascertain the adequacy of the Fire Prevention Policy adopted by the Manager. This led to the scheduled and systematic control of the technical, organisational and management systems pursuant to Legislative Decree no. 105/15. In particular, the Safety Management System and its compliance to Legislative Decree no. 105/2015 (Seveso) were assessed.

At the Campoverde di Aprilia plant, in order to prevent the occurrence of accidents a series of preventive measures relating to equipment, operating processes, management systems and procedures has been implemented, including a computerised control system for various devices, the installation of locking devices on certain equipment, safety valves for exhaust devices, air pollution control devices and systems to detect the presence of dangerous substances in the atmosphere. Moreover, dedicated fire prevention systems are available on site such as fire-fighting vehicles and portable fire extinguishers. Standardised procedures regulate the unloading of tank vehicles, the preparation of warehouse stock, the transportation of components, pre-loading controls and all cleaning, sampling, analysis and shipping operations. In addition, an internal Emergency Plan which described the procedures and measures to be adopted in the case of an incident was approved for the same production plant. An internal Emergency Team ensures a constant presence during each shift to offer the highest possible levels of safety for internal and external personnel.

<sup>10</sup> The scope of data relative to health and safety and the principle accident indicators for 2018 include:

- employees at the Group's production plants in Italy - Campoverde di Aprilia (Recordati S.p.A.), Ireland (Recordati Ireland Ltd), Czech Republic (Herbacos Recordati S.R.O.), Turkey (Recordati İLAÇ ve Hammaddeleri Sanayi ve Ticaret A.S.) and France - Nanterre (Orphan Europe S.A.R.L)

- employees at production plants and commercial offices in the following sites: Italia - Milan (Recordati S.p.A. and Innova Pharma S.p.A.), Spain (Casen Recordati S.L.), Tunisia (Opalia Pharma) and France - Bouchara (Laboratoires Bouchara Recordati S.a.s.).

However, a reporting system is currently being developed to process data regarding the workforce at all of the Group's offices and commercial sites.

In the Group's chemical-pharmaceutical and pharmaceutical plants, various health and safety risk assessment activities were carried out in 2018:

- at the Milan plant the machinery used on the blister pack production lines was inspected, with the aim of ensuring continued compliance with the Machines Directive. This specific control was then used to update the General Risk Assessment Document of the department;
- at the Campoverde di Aprilia plant, a seismic risk assessment is currently being carried out for the entire site, based on a geological, geomorphological and hydro-geological study and a seismic model. Launched in 2017, the study involves a dynamic analysis aimed at determining any structural deformations or strains in the tanks containing the most hazardous or critical substances. The same study was rolled out across all departments at the plant in 2018;
- at the same chemical-pharmaceutical plant at Campoverde di Aprilia, the project to install two tanks (S-8626 and S-8627) containing benzoyl chloride, which may be alternated and used independently of each other, was concluded. This operating method offers maximum system security. A risk limitation study was carried out and a request for approval by the Latina Fire Department was submitted. Additionally, a feasibility study was carried out to assess the possibility of expanding the acetone storage facilities at the site. The analysis did not find any factors determining the aggravation of the current risk level pursuant to Legislative Decree no. 105/2005 and approval was granted by the Fire Department;
- at the Cork plant, a study of the entire thionyl chloride transportation line was concluded, leading to the identification of certain areas for improvement in terms of site equipment and procedures for the transportation phase of the chemical substance from its arrival on site until its deposit in its dedicated storage tank, in order to further strengthen the protection against chemical risk for employees and the public. The implementation of these measures has been scheduled for the first half of 2019, supported by training for the persons involved in the process.

During the year, the Group also implemented initiatives involving various production plants:

- at the Saint Victor site in France, a management system to regulate the management of workplace health and safety documentation was implemented, including training, safety procedures, risk assessments, operational instructions and the management of safety data sheets. Furthermore, in 2018 the plant-based chemical products inventory, the corresponding safety data sheets and the specific chemical risk assessment software (SEIRICH) were updated. The software consolidates all of the data provided on the substance safety data sheets in order to assess the relative chemical risk. The assessment highlighted a lower risk level at the chemical laboratory than the Occupational Exposure Limit Value ("OELV");
- at the Italian sites in Milan and Campoverde di Aprilia, specialist software (SIMPLEDO) was installed in 2017 to manage workplace health and safety

aspects in accordance with the provisions of Italian Legislative Decree no. 81/08 and Italian Legislative Decree no. 106/2009. The software enables the management of all company data, the supply and expiry date of PPE (Personal Protective Equipment), staff training courses and their expiry dates, risk assessments, health inspections, management of cases of non-compliance and the implementation of corrective actions, the management of audits and control checklists, contract management and the Consolidated Inference Risk Assessment Document. In particular, at the galenic production department at the Milan plant, a project is in progress to enhance the ergonomics for operators during working activities, improving access to work decks. Also in the galenic production department, to improve the transition of the pharmaceutical product from the mixers to the storage tanks, flexible polyurethane connectors have been installed to enable a continuous, closed-cycle connection with resulting benefits in terms of the reduction of airborne dust. In this regard, in 2017 a "zero gravity" handler was installed to handle heavy bags/crates/boxes without any effort by the operator, while systems are due to be installed to reduce the manual handling of loads without any effort by the operator.

This project was originally planned exclusively for the preparation areas but was later extended to the previous and subsequent processes, prolonging the time required for installation. Furthermore, the Milan plant has obtained a renewal of the Fire Prevention Certificate issued by the Italian Fire Department which extends its validity until 12/04/2022. To this end, various initiatives were carried out such as the installation of three fire suffocation extinguishing systems in the solvent warehouse, the oil warehouse and the alcohol distillation department. In 2018 an additional inert gas fire suppression system was installed for the counter-sample room on the third floor. Other work has been carried out at the Milan plant to ensure an increasingly high level of workplace safety, including the installation of five oxygen sensors in five production areas which use nitrogen (wash room and preparation areas for vials, ointments and drops), a gas which is otherwise difficult to detect;

- the Group's focus on terms of health and safety is also consolidated through the regular use and review of its assets at its production sites. At the Milan plant, assessments were carried out in 2018 aimed at obtaining the Static Stability Certificate (Certificato di Idoneità Statica - CIS). The Buildings Regulation of the Municipality of Milan, in force from 26 November 2014, introduced new provisions concerning the "Maintenance and periodic review of buildings" and consisting of the granting of the CIS, a document certifying the structural resistance of the building's supporting structure to the loads to which it is currently subjected, accompanied by an assessment of the condition of certain elements such as parapets, façades, walls, etc. On the basis of the results achieved, it is possible to determine the "supporting capacity" of the construction against the measures provided for by legislative measures at the time of construction, identifying any critical issues. In response to the above, at the Milan site the first phase of the evaluation was launched in 2018, consisting of a qualitative analysis of the production plant (first level assessment): document retrieval, geometric and typological surveys, load resistance assessments, crack surveys, temporal evolution analysis, maintenance assessment, assessment of interaction with external elements.

In 2018 the first assessment phase was completed and the second phase is due to continue in the coming months, consisting of an analysis based on experimental and/or analytical surveys (second level assessment) according to the legislation in force at the time of construction.

The Recordati Group believes that training and educating its employees is essential to ensuring the prevention of health and safety risks. For this reason, each production plant implements training plans aimed at workers exposed to specific risks.

All personnel who work within the two chemical pharmaceutical plants (plant in Campoverde di Aprilia and plant in Cork) receive ongoing training in the application of GMPs, environmental protection procedures and workplace health and safety. New employees undergo a training period supported by experienced operators and theoretical lessons delivered by qualified personnel. The training activities at the plants are carried out according to the integrated Quality, Environmental and Safety Training Plan. The main health and safety training and educational activities focus on safety issues relating to the operational activities of managers, safety officers, the RLSSA (Work, Health and Safety and the Environment Representatives), vehicle operators, the emergency team, chemical operators and new employees.

The internal training and education programme was continued at the two chemical pharmaceutical plants in 2018. At the Campoverde di Aprilia factory, more than 1,500 hours of health and safety training was provided to all employees at all levels, in addition to 860 hours of specialist training dedicated to the internal emergency team. In particular, in the Campoverde di Aprilia plant in 2018, 350 people attended internal training courses, in line with the 352 employees who attended in 2017. In line with 2017, the number of people taking part in external training courses remained stable at approximately 250.

Specifically, at the Italian chemical-pharmaceutical plant the following training initiatives were carried out:

- refresher courses and practical exercises for the internal emergency team;
- training and education course for the use of industrial self-propelled trucks with on-board driver - retractable category;
- Machine Risk training courses with a particular focus on hydraulic machine and seal risks;
- "Chemical Risk" and "Machine Risk" training courses for employees hired in the last three years;
- three-year first aid refresher course;
- training and education course on "Category III Personal Protective Equipment (PPE) - APVR TR82 Spasciani";
- annual training course on critical incident risks (Legislative Decree no. 105/15) with particular focus on materials and distillations;
- training and educational course on the 3M Series 6000 half mask; qualitative face-fit test to monitor correct use.

In 2018 the plant in Cork, Ireland recorded 200 training hours on the following topics: first aid, fire prevention and the manual handling of loads. The fire prevention course takes place each year. In 2018, 12 members of the Production Team and one member of the Maintenance Team completed the course and received the necessary training on this subject. Training courses on chemical hazards and first aid are structured differently and the training provided will be brought to conclusion in 2019.

Furthermore, in 2018 various pharmaceutical plants implemented numerous health and safety training programmes:

- at the Utebo site in Spain, in 2018 training sessions on noise risk, repetitive strain and activities in hyperbaric chambers were delivered;
- at the Cerkezkoj site in Turkey, various training sessions were provided on the following topics: waste management, waste classification, the correct use of absorbent materials, waste water treatment and correct environmental management;
- at the Milan site, approximately 650 hours of health and safety training were provided involving the entire workforce, focusing on the following themes: training of new staff, coaching and practical tests for the emergency and first aid team, correct use of PPE in the packaging department, correct use of equipment in the dispensing department, correct use of PPE in laboratories, refresher courses for Safety Officers and Managers.

All work-related accidents and illnesses regarding the Group's production plants are recorded and managed through the quarterly report prepared by the Risk and Sustainability Control Committee.

This system monitors key accident indicators and analyses the causes and circumstances of any incidents. Moreover, health and safety incidents are brought to the attention of the Group's senior management team at least once a year.

**NUMBER OF ACCIDENTS AND HEALTH AND SAFETY INDICATORS OF GROUP EMPLOYEES BY GENDER, COUNTRY OR PRODUCTION SITE IN 2018**
**Italy (Campoverde di Aprilia) - Chemical pharmaceutical production plant**

Injuries and Injury Index <sup>11</sup>	2018			2017		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	9	0	9	6	0	6
<i>Accidents during travel (No.)</i>	3	0	3	2	0	2
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	81.0	0	74.0	82.4	0	75.5
Frequency Index/Injury Rate (IR)	4.7	0	4.3	3.2	0	2.9
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	5.0%	1.8%	4.7%	4.6%	1.9%	4.4%

**Ireland (Cork) - chemical pharmaceutical plant**

Injuries and Injury Index	2018			2017		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	0	1	1	0	0	0
<i>Accidents during travel (No.)</i>	0	0	0	0	0	0
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	0	390.5	175.7	0	0	0
Frequency Index/Injury Rate (IR)	0	4.3	1.9	0	0	0
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	5.7%	5.4%	5.6%	0.8%	3%	1.8%

**Italy (Milan) - Pharmaceutical production plant and offices**

Injuries and Injury Index	2018			2017		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	6	2	8	2	5	7
<i>Accidents during travel (No.)</i>	2	4	6	1	0	1
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	33.6	86.7	51.9	16.5	76.1	37
Frequency Index/Injury Rate (IR)	3.1	4.4	3.6	1.1	3.6	2
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	2.7%	2.7%	2.7%	2.6%	2.6%	2.6%

<sup>11</sup> The severity index represents the ratio between the number of days lost due to professional injury/disease and the total number of working hours in the same period, multiplied by 200,000 (Source: Sustainability Reporting Guidelines - Version GRI Standards, Global Reporting Initiative).

The frequency index represents the ratio between the total number of injuries and the total number of hours worked in the same period, multiplied by 200,000 (Source: Sustainability Reporting Guidelines - Version GRI Standards, Global Reporting Initiative).

The occupational disease rate represents the ratio between the number of cases of work-related diseases and the number of hours worked in the same period, multiplied by 200,000 (Source: Sustainability Reporting Guidelines - Version GRI Standards, Global Reporting Initiative).

The absenteeism rate is the percentage of daily absences against the total number of working days in the same period (Source: Sustainability Reporting Guidelines - Version GRI Standards, Global Reporting Initiative).

**Czech Republic - Pharmaceutical production plant**

Injuries and Injury Index	2018			2017		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	0	0	0	0	0	0
<i>Accidents during travel (No.)</i>	0	0	0	0	0	0
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	0	0	0	0	0	0
Frequency Index/Injury Rate (IR)	0	0	0	0	0	0
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	2.7%	6.5%	5.4%	0%	0%	0%

**Spain <sup>12</sup>**

Injuries and Injury Index	2018			2017		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	2	4	6	3	0	3
<i>Accidents during travel (No.)</i>	0	0	0	0	1	1
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	14.3	9.1	11.7	9.5	193.4	119.8
Frequency Index/Injury Rate (IR)	1.5	3.2	2.4	14.9	3.4	8.1
Occupational Disease Rate (ODR)	0.0	0.0	0.0	0	0	0
Absentee Rate (AR) (%)	2.2%	5.6%	3.9%	4.3%	5.5%	5.0%

**Tunisia<sup>13</sup>**

Injuries and Injury Index	2018			2017		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	5	2	7	4	3	7
<i>Accidents during travel (No.)</i>	0	0	0	0	0	0
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	21.2	3.8	11.5	23.6	6.1	18.8
Frequency Index/Injury Rate (IR)	2.7	0.91	1.7	2.4	1.7	2
Occupational Disease Rate (ODR)	0.0	0.0	0.0	0	0	0
Absentee Rate (AR) (%)	2.6%	6.6%	4.8%	2.4%	3.9%	3.2%

12 Unlike the 2017 data for the Spanish site which extended only to production plant staff, the data for 2018 includes production plant and office staff.

13 Unlike the 2017 data for the Tunisian site which extended only to production plant staff, the data for 2018 includes production plant and office staff.



**Turkey - Pharmaceutical production plant**

Injuries and Injury Index	2018			2017		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	7	2	9	4	0	4
<i>Accidents during travel (No.)</i>	0	0	0	0	0	0
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	24.7	6.8	19.3	12.2	0	8.7
Frequency Index/Injury Rate (IR)	4.8	3.2	4.3	2.4	0	1.7
Occupational Disease Rate (ODR)	0.0	0.0	0.0	0	0	0
Absentee Rate (AR) (%)	0.3%	0.2%	0.3%	0.4%	0.4%	0.4%

**France (Bouchara)<sup>14</sup>**

Injuries and Injury Index	2018			2017		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	1	4	5	4	1	5
<i>Accidents during travel (No.)</i>	0	0	0	0	0	0
Cases of work-related diseases (No.)	0	1	1	0	0	0
Severity Index (Lost Day Rate LDR)	63.3	250.2	175.5	573.9	8.3	309.1
Frequency Index/Injury Rate (IR)	3.8	3.8	3.8	9.9	2.8	6.5
Occupational Disease Rate (ODR)	0.0	0.0	0.0	0	0	0
Absentee Rate (AR) (%)	7.9%	6.0%	6.7%	6.4%	3.2%	4.9%

**France (Nanterre) - Distribution Centre (Orphan Europe)**

Injuries and Injury Index	2018			2017		
	Men	Women	Total	Men	Women	Total
<i>Accidents in the workplace (No.)</i>	0	0	0	0	0	0
<i>Accidents during travel (No.)</i>	0	0	0	0	1	1
Cases of work-related diseases (No.)	0	0	0	0	0	0
Severity Index (Lost Day Rate LDR)	0	0	0	0	0	0
Frequency Index/Injury Rate (IR)	0	0	0	0	20.5	11.1
Occupational Disease Rate (ODR)	0	0	0	0	0	0
Absentee Rate (AR) (%)	0.9%	0.5%	0.7%	4.0%	4.4%	4.2%

14 Unlike the 2017 data for the French branch Laboratoires Bouchara Recordati S.a.s. which extended only to production plant staff, the data for 2018 includes production plant and office staff.

## 5. FOCUS ON THE ENVIRONMENT<sup>15</sup>

### 5.1. COMMITMENT TO ENVIRONMENTAL PROTECTION

As stated in the Code of Ethics, the Recordati Group considers environmental protection to be a vital component of its general approach to company activities aimed at supporting the sustainable development of the regions in which it operates. To this end, in the course of its operational management and activities the Group has adopted a policy aimed at reducing the negative impact that company activities may have on the environment and complying with all related legislative and regulatory requirements, including:

- the promotion of environmentally sustainable processes and procedures through the use of advanced environmental technology, energy efficiency and the sustainable use of resources;
- evaluation of the environmental impact of all company activities and processes;
- collaboration with stakeholders both internally (employees) and externally (institutions) to optimise the management of environmental issues;
- active employee participation through regular environmental training plans and the adoption of environmentally sustainable principles in the course of operational activities;
- compliance with environmental protection standards through the implementation of appropriate management and monitoring systems.

The Group is committed to ensuring environmental sustainability at its production plants and all branches are required to comply with local legislation, minimising energy use and effectively managing water resources. Environmental sustainability compliance officers, whose roles include formal responsibilities with precise operational powers, are particularly important in this regard.

All of the Group's production sites hold the necessary environmental authorisations and ensuring compliance with said authorisations is an important part of the responsibilities of the management team at each site. The Recordati Group responds to any cases of increased environmental risk by implementing a series of internal inspections. The sites of Campoverde di Aprilia and Cork, where active pharmaceutical ingredients are manufactured, are included in the European Pollutant Release and Transfer Register (E-PRTR), set up on the basis of EU Regulation 166/2006. Furthermore, the Campoverde di Aprilia site is included in the national inventory of plants capable of causing potential environmental accidents, pursuant to Legislative Decree no. 334/99, replaced by Legislative Decree no. 105/2015, which implemented the directive 2012/18/EU. All the duties deriving from such inclusions are regularly fulfilled.

Furthermore, the Campoverde di Aprilia site – following a communication of voluntary disclosure to competent authorities made in 2001 based on art. 9 of Ministerial Decree no. 471/99, in respect of the potential contamination of soils and waters of the site deriving from past industrial manufacturings – was included in 2001 in the temporary register of contaminated sites of the Lazio Region. The administrative proceeding commenced in 2004 by the Company following such communication is still pending, the Company is waiting feedback from local authorities; in the meantime the Company has continued implementing, in respect to such historical contamination, the necessary containment measures and monitoring activities, in compliance with applicable laws.

In this regard, in 2018 the Campoverde di Aprilia plant received an environmental audit by a consultancy firm and carried out five audits of intermediaries and waste disposal plants. Furthermore, the inspection aimed at renewing the environmental certificate ISO 14001 and monitoring the transition to the new ISO 14001:2015 regulation carried out in May 2018 by the accredited company DNV GL was particularly significant. During the visits of the Lead Auditor of DNV GL, accompanied at various times by four inspectors specialising in different areas, the entire Environmental Management System of the Campoverde di Aprilia plant was inspected.

The high level of control was necessary in order to renew the three-year certificate and monitor transition to the ISO 14001:2015 standard that presents various differences to the previous standard (ISO 14001:2004).

The audit considered all areas of the new system: policy, planning, legal compliance, implementation and operation, monitoring, corrective action and review. The result was considered highly satisfactory and confirmed the implementation by all Recordati personnel of the management system, which conforms to the required standards and is able to provide a high level of environmental protection and safety. In the inspection's final report, no cases of non-compliance were noted and only six formal observations were made.

In particular, the new edition of the Environmental Analysis pursuant to standard ISO 14001:2015 was issued, accompanied by an environmental risk assessment document based on the concept of the life cycle of all plant processes and the relative activities that may result in a lesser or greater environmental impact.

The Campoverde di Aprilia plant also supplemented its training and information programme with specific training for the changes to the Environmental Management System associated with the application of the new standard ISO 14001:2015, informing employees at all levels of the plant's environmental policies, projects and objectives as well as the environmental risks associated with the plant's activities.

The analysis conducted previously enabled the definition of the Risk Management procedure associated with the Site's Environmental Management, and thus the measures to be implemented in order to identify and assess the risks associated with the context and the interested parties, defining, if necessary, the mitigation actions to reduce the risk factors to an acceptable level.

<sup>15</sup> The information and data regarding environmental aspects (energy use, emissions, water use and waste) refer exclusively to the Group's production plants as such aspects are not deemed significant at other sites (with the exception of the Milan plant, where the offices at the same site are also considered).

These measures enable the organisation to gain:

- a better impression of the medical community and the market, and thus a potential increase in market competitiveness;
- a reduction in the costs related to production shut-offs following accidents and/or emergencies and associated with any remediation activities or the management of fires or other emergencies;
- a reduction in direct and indirect costs linked to disputes and/or complaints by Clients or the external Community, Environmental Associations, Supervisory Bodies, etc., relating to non-compliant atmospheric emissions, non-compliance waste, odour and noise emissions over the permitted limits, environmental remediation;
- a positive image to Customers and the medical community as a result of the reduction in environmental risks associated with its activities and compliance with legislation.

At environmental level, in 2018 the site in Cork received an unannounced inspection from the Environmental Protection Agency (EPA), focusing on the environmental management system and the traceability of waste and waste materials - no cases of non-compliance were observed by the Authority. Effluent discharged from the site was monitored on two occasions during the year and all chemical samples analysed were below current discharge limits.

In addition to the environmental inspections, it is noted that:

- in the course of recent years, the chemical pharmaceutical plant in Cork has joined the Responsible Care initiative which aims to promote the continuous improvement in the chemical and pharmaceutical industry of all aspects that have a direct or indirect aspect on the environment, employees or the community. In this regard, in 2013 the site received the *“Responsible Care Award”* for SMEs from the European Chemical Industry Council (CEFIC) in recognition of the continuous improvements achieved by the site in the last five years. The plant’s environmental system was developed to ensure full compliance with environmental legislation, regulated in Ireland by the Environmental Protection Agency (EPA), and is subject to regular inspections by EPA officers;

- in January 2016, the pharmaceutical plant in Milan obtained the AUA (Autorizzazione Unica Ambientale) environmental authorisation from the Metropolitan City of Milan for atmospheric emissions, discharges into the water grid of water from the geothermal heat pump system and discharges into the sewers of industrial waste water and rainwater used to clean areas of the site. Waste water sampling and analysis activities are carried out regularly to confirm compliance with the limits provided by Italian Legislative Decree no. 152/06. Furthermore, in summer 2017, daytime and night-time phonometric surveys were carried out at the production plant in Milan to assess the impact on the local population of extending production to include a third shift. Following this assessment, with a view to continuous improvement in 2018 acoustic absorption panels were installed close to the plant to reduce noise pollution caused by the machinery;
- as well as the Campoverde di Aprilia plant, it is noted that the production plant in Tunisia is also certified according to standard ISO 14001:2015;
- At the Milan site, during the 2018 construction works to redevelop the third and fourth floors, controls were carried out pursuant to Article 10 of the Buildings Regulation of the Municipality of Milan to assess the quality of the environmental matrices and identify any cases of contamination. Thirteen geognostic surveys were carried out across the site, of which three penetrated to a maximum depth of 3.0 m below ground level and ten penetrated to a maximum depth of 5.0 m below ground level, while two excavations by suction excavator penetrated to a depth of 1.5 m below ground level. The soil samples were subject to analytical investigations to assess possible contamination and identify the scale of the volume of contaminated soil or the possible migration of the contaminant to groundwater reserves. The analyses carried out revealed concentrations which were significantly lower than legal limits, by an order of magnitude of at least one compared to legal limits, and at times undetectable by the analytical method applied.

## 5.2. ENERGY USE AND EMISSIONS

### Energy use

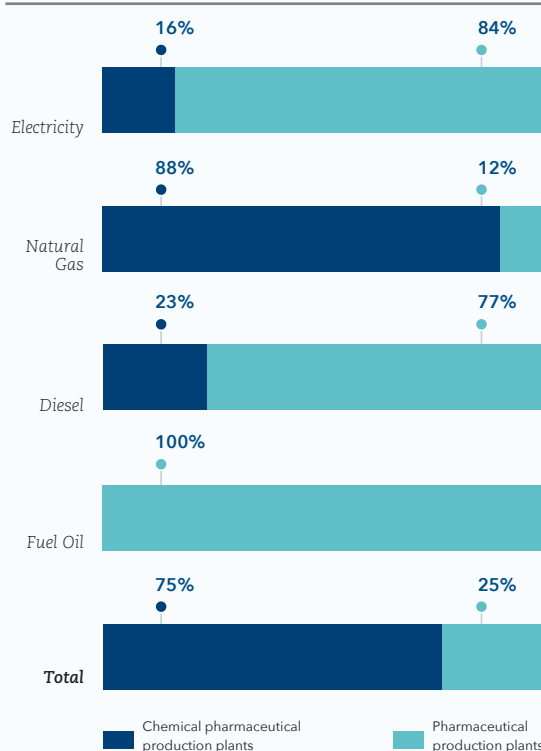
The Recordati Group manages the general use of energy resources through a range of initiatives to reduce energy use, with the aim of improving energy efficiency in all of the Group's industrial and commercial operations. The main energy resources used at the Group's production plants are electricity, natural gas, diesel and fuel oil. In 2018, the Group's plants consumed approximately 614 TJ, a slight increase of 1% compared to the previous year due to the overall increase in production volume.

In consideration of this, thanks to continuous efforts to improve energy efficiency the increase in energy use is negligible and is not proportional to the increase in the Group's industrial production. Furthermore, it is noted that the percentage in electricity obtained from renewable energy sources relates solely to the supply of electricity to the Milan and Cork plants, while the use of fuel oil is attributable to the distribution plant of Orphan Europe in France. In this regard, it is noted that the significant percentage increase in the use of fuel oil is predominantly linked to a power outage at the Nanterre plant, in response to which an emergency fuel oil generator was used.

### ENERGY USE AT THE PRODUCTION PLANTS OF THE RECORDATI GROUP BY SOURCE<sup>16</sup>

Type of fuel	Unit of measurement	2018	2017	Variation %
Purchased electricity	kWh	31,671,271	29,124,233	9%
	GJ	114,017	104,847	
<i>originating from renewable sources<sup>17</sup></i>	kWh	1,498,981	1,545,565	-3%
	GJ	5,396	5,564	
Natural Gas	m <sup>3</sup>	14,135,292	14,227,325	-0.3%
	GJ	498,269	499,863	
Diesel	Litres	67,912.62	48,942	39%
	GJ	2,431	1,752	
Fuel oil	Litres	658	389	69%
	GJ	27	16	
<b>Total</b>	<b>GJ</b>	<b>614,744</b>	<b>606,478</b>	<b>1%</b>

### PERCENTAGE SUBDIVISION OF ELECTRICITY USE BY PRODUCTION PLANTS, SUBDIVIDED BY USAGE AND TYPE OF PLANT, 2018



Energy use at pharmaceutical production plants totalled approximately 155 TJ (equal to 25% of the total), a 1% increase on the previous year. In particular, compared to chemical pharmaceutical plants, pharmaceutical plants used higher quantities of diesel to produce electricity and more electricity was bought from the national grid. However, in 2018 energy use by the Group's chemical pharmaceutical production plants was 459 TJ (75% of the total), a slight increase on the previous year.

<sup>16</sup> Lower Calorific Value (LCV) of natural gas: 0.035 GJ/m<sup>3</sup>; average density of diesel: 0.835 kg/ltr; LCV of diesel: 42.87 GJ/ltr; average density of fuel oil: 0.98 kg/ltr; LCV of fuel oil: 41.02 GJ/ltr (Source: Italian Ministry of the Environment and the Protection of Land and Sea, Table of National Standard Limits, 2018).

<sup>17</sup> The proportion of electricity obtained from renewable sources originates from a combination of national energy providers and the Guarantee of Origin is not certified. As such, this quota is included in the calculation of Scope 2 Emissions (Market-based approach).

#### ENERGY USE AT PHARMACEUTICAL PRODUCTION PLANTS BY FUEL SOURCE

Type of fuel	Unit of measurement	2018	2017	Variation %
Purchased electricity	kWh	26,565,569	25,500,470	4%
	GJ	95,636	91,802	
<i>originating from renewable sources</i>	kWh	1,136,854	1,111,565	2%
	GJ	4,093	4,002	
Natural Gas	m <sup>3</sup>	1,647,294	1,730,744	-5%
	GJ	58,067	60,808	
Diesel	Litres	52,521	36,142	45%
	GJ	1,880	1,294	
Fuel oil	Litres	658	389	69%
	GJ	27	16	
<b>Total</b>	<b>GJ</b>	<b>155,610</b>	<b>153,919</b>	<b>1%</b>

#### ENERGY USE AT CHEMICAL PHARMACEUTICAL PRODUCTION PLANTS BY FUEL SOURCE

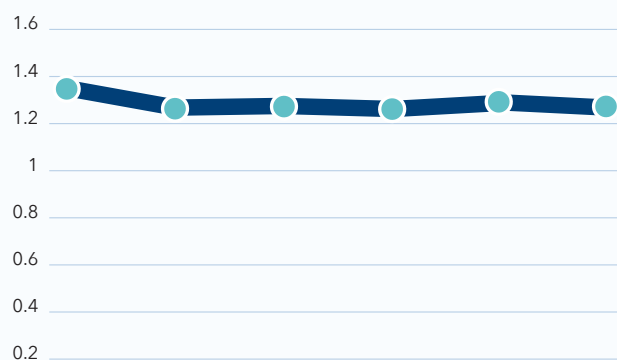
Type of fuel	Unit of measurement	2018	2017	Variation %
Purchased electricity	kWh	5,105,702	3,623,763	41%
	GJ	18,381	13,045	
<i>originating from renewable sources</i>	kWh	362,127	434,000	-17%
	GJ	1,303	1,562	
Natural Gas	m <sup>3</sup>	12,487,998	12,496,581	-0.3%
	GJ	440,202	439,055	
Diesel	Litres	15,388	12,800	20%
	GJ	551	458	
<b>Total</b>	<b>GJ</b>	<b>459,134</b>	<b>452,558</b>	<b>1%</b>

The chemical pharmaceutical plants consume higher quantities of natural gas than the pharmaceutical plants: a high proportion of this gas usage derives from the electricity generation system at the Campoverde di Aprilia plant, where a self-generation policy for electricity and thermal energy has been in place for over 20 years thanks to the installation of a co-generation system (for more details, see the "Co-Generation System of the Campoverde di Aprilia" information box). Through the use of a single fuel source (natural gas), the co-generation system enables the plant to generate enough electricity to meet its needs, sell any excess to the national grid and produce all of the steam used in the plant without the use of any additional gas or resources. In 2018, the proportion of self-generated electricity used internally fell by 5% compared to 2017, while the amount of electricity sold back to the grid decreased by approximately 23%. The reduction in energy production at the Campoverde di Aprilia plant relates predominantly to the malfunction of the co-generation plant in March and December 2018 which also led to the need to buy in a higher percentage of electricity. It should also be noted that while the usage of methane per kilogram of material (chemical intermediates, solvents and finished products) at the plant remained consistent, the use of methane per turnover unit (in thousands of Euro) fell in 2018 by approximately 7%, demonstrating a consistent trend of the co-generation system's energy efficiency.

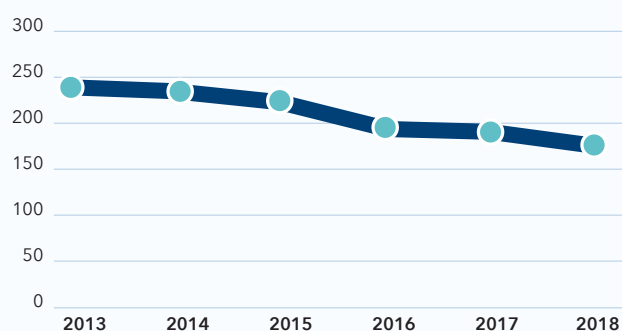
#### ELECTRICITY AND THERMAL ENERGY GENERATED AND SOLD BY THE CAMPOVERDE DI APRILIA CO-GENERATION PLANT

Type of fuel	Unit of measurement	2018	2017	Variation %
Self-generated electricity	kWh	29,685,824	31,242,481	-5%
<i>Consumed internally</i>	kWh	25,829,795	26,207,618	-1%
<i>Sold externally</i>	kWh	3,856,029	5,034,863	-23%
Self-generated and consumed thermal energy	Kg of steam	65,795,000	66,794,000	-1%

#### RATIO OF CUBIC METRES OF METHANE ACQUIRED AGAINST KILOGRAMS OF PRODUCT PROCESSED BY THE CAMPOVERDE DI APRILIA PLANT, 2018



#### RATIO OF CUBIC METRES OF METHANE ACQUIRED AGAINST TURNOVER (IN THOUSANDS OF EURO) GENERATED BY THE CAMPOVERDE DI APRILIA PLANT, 2018



## THE CO-GENERATION SYSTEM AT THE CAMPOVERDE DI APRILIA PLANT

In 1994, following the increased demand for electricity and thermal energy determined by the production facilities at the time, a feasibility study was launched and concluded to assess the installation of a steam and electricity co-generation production system at the Recordati chemical plant in Campoverde di Aprilia. Following the completion of the feasibility study, a co-generation system was installed at the site, entering into service in September 1996 and in operation ever since.

Co-generation is defined as the combined generation of electricity and heat based upon a cascade process where electricity is produced using a high temperature thermo-dynamic cycle which, in turn, releases heat and produces thermal energy. In the industrial sector, co-generation is also produced using gas-powered turbines.

The co-generation system at the Campoverde di Aprilia plant is equipped with a 15-bar methane gas turbine. In its current configuration and with an air temperature of 9°C, the system is able to generate a maximum output of approximately 4.3 MW of electricity.

Gas turbines operate by burning the fuel source in a special combustion chamber and expanding it with compressed air inside the turbine itself. During expansion, the mixture of air and fuel interacts with the blades of the turbines and activates the rotational motion of the rotor to generate mechanical energy.

This mechanical energy is then converted into electricity by an alternator.

The fumes produced by the gases expanded in the turbine are emitted at very high temperatures (450-500°C) and consequently specialist heat exchangers or boilers may be used (the Recordati plant at Campoverde di Aprilia uses a steam recovery boiler - Figure 1) to produce hot water or steam.

The use of the steam recovery boilers prevents exclusive use of methane gas to meet the plant's demand for steam for use in chemical processes and as a heating fluid.



Figure 1  
Exhaust gases vent and recovery boiler - Co-Generation System - Campoverde di Aprilia Plant

The steam recovery boiler installed in the co-generation system, which recovers the gases expanded in the turbine, enables the production of 15-bar saturated steam up to a capacity of 16 tons per hour.

Without the steam produced using the gas turbine fumes in the recovery boiler, it is estimated that in 2018 approximately 4 million cubic metres of gas would have been required.

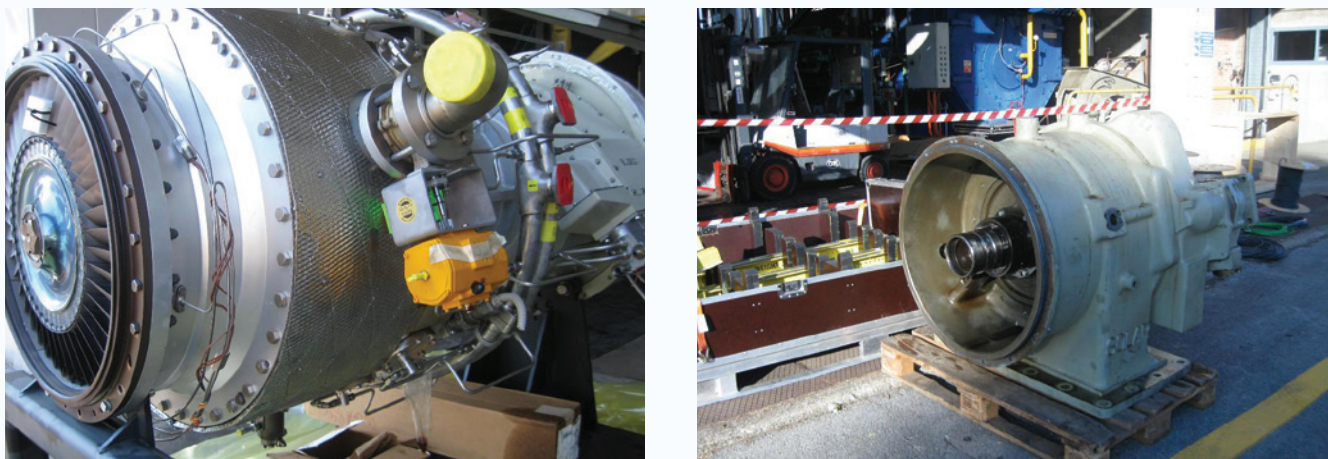
As described above, the co-generation system at the Campoverde di Aprilia plant features a gas turbine (Figure 2) fuelled by methane gas at a pressure of 15 bar and above constructed by the company SOLAR (model TBM-T50), coupled by a reduction gearbox to a GEC Alsthom alternator.

In its current configuration and with an air temperature of 9°C, the system is able to generate a maximum output of approximately 4.3 MW of electricity.

The gas turbine is composed of three main pieces of machinery: the compressor, the combustion unit and the power turbine. The compressor draws in air from the environment through filters, compressing it in the combustion chamber (combuster). The sparks generated by the spark plugs in the ignition chamber light the flame in the combustion chamber. The expansion of the discharged gases causes the power turbine to rotate, enabling the transmission of mechanical energy to the rotator shaft to which it is keyed.

The final conical cog of the compressor shaft is connected to the gearbox.

The reduction gearbox, which is a coupling mechanism with a rotating body able to vary the torque and the angular speed, enables the reduction in rotation speed of the power turbine from 15,000 g/min to 1,500 g/min, the correct rotation speed for the generation of electricity at a voltage of 6300 V and a frequency of 50 HZ.



*Figure 2*  
The gas turbine during its replacement (left); the dismantled reduction gearbox during installation (right) (August 2016)

The gas turbine and reduction gearbox continue to operate 24 hours a day year-round, except for the scheduled site closures in August (at least three weeks), in the last eight days of December and at Easter (except in the last three years).

The manufacturer of the two machines, Turbomach, recommends a full service at its offices at least every 32,000 hours of operation, which in the Recordati plant is the equivalent of four years. This service requires the gas turbine and the reduction gearbox to be completely dismantled, replacing the machines with equivalent newly serviced systems with operating times reset to zero.

In 2016 the control system of the entire machine was replaced with a new, more reliable system.

Both the gas turbine and the reduction gearbox are covered by Maintenance Service Agreements and are continuously monitored by the manufacturer. Furthermore, both the turbine and the reduction unit are subject to ordinary maintenance activities twice a year by Turbomach technicians.

This enables the Recordati site at Campoverde di Aprilia to guarantee the constant supply of electricity to its systems for safety reasons.

### Principle initiatives to reduce energy consumption implemented by the Recordati Group

In recent years, the Italian Parent Group has launched a reduced energy consumption policy through the implementation of initiatives aimed at company vehicles, the technological modernisation of IT equipment such as printers and photocopiers, and the use of LED lighting. This plan is enabling the Group to reduce energy usage and mitigate the environmental impact resulting from the use of company equipment, promoting a more efficient use of energy resources and reducing CO<sub>2</sub> equivalent gases. Continued focus on the environment has been confirmed as one of the primary themes for 2018. This year, the Group aims to optimise investments and acquisitions at a general level in order to ensure maximum respect for the environment and optimise the regions in which it operates without damaging the efficacy of its operational tools.

In 2018 the Group also carried out a monitoring and control activity to assess the emissions of its global fleet of company vehicles. This led the Parent Group to request a detailed six-monthly report from all branches in order to highlight the energy consumption and CO<sub>2</sub> emissions of vehicles used by the Group. This enabled the Group to optimise investments and evaluate corrective actions, where necessary. In 2018, a total of 1,782 company cars were in use by employees of the Recordati Group, while the average CO<sub>2</sub> emissions emitted by the vehicles was 107 g/km, according to the new Worldwide Harmonized Light-Duty Vehicles Test Procedures (WLTP).

For internal combustion vehicles, the application of the WLTP translate to higher official values for fuel consumption and emissions compared to the measurements made with the previous procedure; as a result, the data for 2018 is not easily comparable with the data for 2017. Nonetheless, the Group is continuing its objective to progressively and consistently reduce this statistic over the coming years<sup>18</sup>.

In this regard, the Group has a rigorous vehicle selection policy, encouraging the selection of technologically advanced hybrid solutions which have a reduced environmental impact.

In the last few years the Group has promoted various energy efficiency initiatives implemented at individual branches, including the gradual and systematic replacement of bulbs with new LED or energy-efficient bulbs at the sites in Milan (Italy), Utebo (Spain), Kalaat El Andalous (Tunisia) and Saint Victor (France). In the Saint Victor plant in France, a feasibility study was launched aimed at assessing the replacement of the neon bulbs through the use of leased equipment with motion-activated LED lights to increase the site's energy efficiency; this study is due to conclude in 2019.

Furthermore, in order to further reduce energy consumption, in 2019 the roof at the Saint Victor plant will be renovated and insulated. These works are also aimed at improving roof access for future maintenance.

In 2018 at the Czech plant in Pardubice, an electricity supply contract was signed benefiting from an overnight tariff with ecological and economic benefits.

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

- in 2016 a heating and air-conditioning system was installed with a geothermal heat pump that uses groundwater as a thermal carrier and can reduce the plant's natural gas usage;
- following the energy analysis conducted in 2015, the consumption of the most energy-intensive equipment (refrigerators, pressurised air compressors, air treatment units) was measured as part of a project to install energy-efficient smart devices. To measure the expected improvements, in 2018 an INTELIGENS system was installed to measure variations in voltage in the electricity supply network, stabilise current outputs and configure the voltage, ensuring the best possible energy saving and maximum performance of connected devices.

This system is an electronically operated static device that operates at high frequency without moving parts, ensuring maximum efficiency (>99%). The system eliminates system harmonics, peaks and micro-outages, reducing device failure rates by 50%. The system is managed by a remote system able to monitor electricity consumption and savings (estimated at around 10%) in real time. As well as reducing energy use, the system also provides significant environmental benefits by reducing CO<sub>2</sub> emissions;

- in 2018, the hot water production and distribution system was reconditioned and optimised, with the installation of a new system consisting of two boilers with a capacity of approximately 2,000 litres each, two electric recirculation pumps and a thermostat system. Furthermore, the distribution lines on various floors were modified and, at the same time, a new return line was installed in order to guarantee the availability of hot water at the time of use;
- in the case of faults or new installations, neon lights are being replaced with LED bulbs and motion sensors have been installed to automatically activate the lighting in certain areas of the galenic department when people are present;
- thanks to a contract signed in 2017 with a new electricity provider, 14% of all purchased electricity derives from renewable sources;
- during the works to renovate the third and fourth floors, the old heating and air-conditioning units were demolished and replaced with energy-efficient devices.

In recent years the Irish plant in Cork has been committed to optimising and streamlining its production chain through the use of a programming procedure and preventive maintenance. The Energy Manager at the plant has promoted initiatives to increase employee awareness regarding energy saving according to a training plan agreed with Parent Group and smaller projects approved at local level. In a tangible demonstration of this commitment, in 2012 the plant's efforts to reduce energy consumption were recognised by the SEAI (Sustainable Energy Authority of Ireland) with the *Energy Efficiency Award* for SMEs. Other energy efficiency initiatives that have taken place at the Cork plant include:

- the replacement of warehouse lighting with LED bulbs, saving energy and reducing fire risk through the replacement of incandescent bulbs which reached high temperatures during use;
- the replacement of all steam distribution pipes with insulated pipes, resulting in less heat dispersion.

### Greenhouse gases and other emissions

The Recordati Group's commitment to protecting the environment is also expressed through policies and initiatives aimed at reducing the emission of greenhouse gases and other air pollutants.

In all of the Group's production plants, old equipment containing fluorinated greenhouse gases is being progressively replaced with new machinery that does not use substances which are harmful to the ozone. Other initiatives to reduce emissions have taken place:

- at the Saint Victor plant in France, where emission points have been equipped with air filters to prevent the release of hazardous particles. Each filtering system is regularly maintained by the internal maintenance department;

<sup>18</sup> Average emissions of the vehicle fleet were calculated on the basis of estimated annual CO<sub>2</sub> emissions and annual mileage of company vehicles.



- at the Cork plant in Ireland, with the completion in 2017 of the project to replace obsolete refrigerators which used R-22 as the refrigerating gas with new units using R404a, a gaseous mix with a much lower impact on the ozone layer. Furthermore, all emission points at the plant in Ireland are monitored according to the requirements of the National Environment Agency. A study is currently being carried out to assess the possibility of installing an automatic air sampling and analysis system;
- at the Pardubice plant in the Czech Republic, where a new air conditioning unit was installed in cleanrooms which does not contain gases such as freon which are harmful to the ozone layer. The new system also offers greater efficiency and reduces energy consumption;
- at the Cerkezkoj plant in Turkey, where all emission points were constantly monitored in 2018, with the installation of new ventilation systems in production and laboratory areas and the insertion of six new emission sources (a total of 31 points of emission have been declared). Emissions were measured by an accredited laboratory; emission values related to the production process are well below permitted limits.

At the Campoverde di Aprilia plant in 2018, measures implemented to reduce emissions of harmful substances into the atmosphere specifically regarded the following actions:

- after a study was conducted in 2017 to assess the optimisation of atmospheric emission treatment and mitigation systems, a new control system to moderate emissions related to the works at the Ala Latina plant was installed, replacing the two existing water scrubbers (joint project with the company Amec Foster Wheeler). In 2019 the aim is to optimise the emission control system at Ala Roma;
- in 2018 the works to recondition the discharge areas of the centrifuges used to isolate wet active substances were completed. The project aimed to isolate the discharge zone from the surrounding area and to install UTA air treatment units able to monitor particulate contamination according to the parameters set forth by the ISO 14644 guidelines for class 8 environments, or class D environments according to EU GMP;
- in order to minimise polluting emissions and fuel use, the steam generators at the Plan were equipped with control systems to monitor fuel efficiency, based on an analysis of the oxygen content of the fumes.

In 2018, Scope 1 direct emissions relating to the use of energy for industrial production (natural gas, diesel and fuel oil) remained mainly in line with those of the previous year; furthermore, in 2017 the proportion of Scope 1 direct emissions caused by the Group's fleet of vehicles fell by approximately 20%. However, Scope 2 indirect emissions linked to the purchase of electricity from the National Grid increased by 8%.

#### GREENHOUSE GAS EMISSIONS (TONNES OF CO<sub>2</sub>) AT RECORDATI GROUP PRODUCTION PLANTS AND COMPANY VEHICLE FLEET<sup>19</sup>

	2018	2017	Variation %
Direct emissions (Scope 1)	35,232	34,458	2%
<i>Relating to energy consumption</i>	28,056	28,073	-0.1%
<i>Relating to the company vehicle fleet<sup>20</sup></i>	7,176	6,385	12%
Indirect emissions (Scope 2) - Location-based approach <sup>21</sup>	11,407	10,567	8%
Indirect emissions (Scope 2) - Market-based approach <sup>22</sup>	13,427	12,384	8%

With reference to other air pollutants, depending on the type of pollutant various thresholds have been defined; these are respected by the Group thanks to continuous monitoring and control activities of the emission points. In particular, the list of authorised emission points at the Milan plant is included by the Autorizzazione Unica Ambientale certification awarded in 2018.

The reduction in other atmospheric emissions from 2017 to 2018 (in particular NO<sub>x</sub>) predominantly relates to the production plant in Campoverde di Aprilia. In fact, in 2017 the increase in emissions recorded at the plant was attributable to the activation of the after-burner of the co-generation system during the final inspection phase to meet an increase in demand of steam for production purposes.

#### OTHER EMISSIONS (KG/YEAR) OF RECORDATI GROUP PRODUCTION PLANTS<sup>23</sup>

	2018	2017
Nitric oxide (NO <sub>x</sub> )	11,389	20,038
Sulphur oxide (SO <sub>x</sub> )	25	82
Persistent Organic Pollutants (POP)	0	0
Volatile Organic Pollutants (VOC)	4,178	13,304
Hazardous Air Pollutants (HAP)	1,923	2,948
Particulate Matter (PM)	4,103	3,546
Methane (CH <sub>4</sub> )	0	1
Others	415	1,923

19 Source of emission coefficient data for natural gas, diesel and fuel oil: Italian Ministry of the Environment and the Protection of Land and Sea, Table of National Standard Limits, 2018.

20 Scope 1 emissions relating to the use of fuel oil by company vehicles have been estimated based on the average mileage of each car and the average emission rating of fleet vehicles (107 g/km).

21 The reporting standards applied (GRI Sustainability Reporting Standards 2016) provide for two different approaches for the calculation of Scope 2 emissions: "location-based" and "market-based". The location-based approach uses national average emission factors relating to the specific configuration of national electricity production (source of emission factors: TERNA, Confronti Internazionali, 2016).

22 The market-based approach uses an emission factor defined on a contractual basis with the electricity supplier. Given the absence of specific contractual agreements between Group companies and the energy supplier (e.g. acquisition of Guarantees of origin), for this approach the national "residual mix" emission factors were applied (source of residual mixes: AIB European Residual Mixes 2016 (Version 1.2, 15th June 2017) and AIB European Residual Mixes 2017 (Version 1.13, 2018-07-11)).

23 Any significant changes in the other emissions into the atmosphere are due to the way the data are calculated, because the annual value of emissions are calculated by multiplying the result of a single emissions analysis (taken over one hour) by the annual operating hours.

### 5.3. MANAGEMENT OF WATER RESOURCES

In recognition of the value of natural resources, the Recordati Group is developing production processes aimed at reducing water usage. In particular:

- at the head office in Milan, since 2016 the new heating and air conditioning unit equipped with geothermal heat pumps has used groundwater as the principle thermal carrier. The groundwater is drawn from a shaft and channelled into the system for use in the heating or air conditioning systems before being returned in its original condition to the groundwater reserves via two return channels. The quantity of water used and recycled by the heat pump is 110,330 m<sup>3</sup>/year and corresponds to approximately 4% of the Group's annual water intake. Each year, the chemical and physical characteristics (pH, suspended solids, BOD5, COD, metals, aromatic solvents, chlorinated aromatic solvents, aliphatic solvents and surfactants) of the waste water, non-potable groundwater and potable water from the aqueduct are monitored at the Milan plant on a monthly basis;
- at the Campoverde di Aprilia plant, a project to extend the water treatment plant for the disposal of waste water was implemented in 2016 through the maintenance and use of disused tanks. This project enabled the development of a pre-treatment system for water used in various processes considered critical to the plant's operation, ensuring higher levels of compliance with the limits established by the Autorizzazione Integrata Ambientale (AIA). At the same plant, in 2017 and 2018 an important project was carried out to revamp and reline the sewage pipes (surface water drains and sewage pipes) and outflow pipes for clarified water treated at the plant;
- at the Cork plant in Ireland, particular focus was given to water use, particularly water used to ensure the correct operation of the scrubbers. In any case, water usage is constantly monitored to identify any anomalies and facilitate prompt intervention when required. At the same plant, in 2017 a study was carried out to assess the current performance of the biological process used to treat waste water, identifying any measures that could improve the treatment process in terms of stability and the effective removal of polluting substances. This study, which aimed to verify the plant's compliance with the more stringent regulations due to enter into force in the coming years, was completed in 2018. The study identified three solutions that could be implemented if necessary: the direction of untreated water to a public body (Irish Water), the direction of partially treated water to Irish Water, or the complete reconditioning of the waste water treatment process. It is also noted that new apparatus was installed at this plant in 2017 to enable the automatic analysis of the total organic carbon (TOC) and total nitrogen (TN) content of water discharged into the sewage system. This device provides detailed analysis in real time and facilitates the control and management of the waste water treatment plant, promptly revealing any anomalies and enabling preventive measures to be implemented before the water is discharged;

- at the Utebo factory in Spain, groundwater used to ensure the correct operation of the heat pumps in the heating and air conditioning system is returned to the groundwater system;
- at the Saint Victor plant in France, all industrial waste water is treated in a 20 m<sup>3</sup> tank before being disposed of as pharmaceutical waste. In order to reduce the amount of water disposed of as pharmaceutical waste, water used in the first cleaning process which contains high concentrations of pollutants is recovered and stored in vats for processing as pharmaceutical waste. Furthermore, a study is currently being conducted into the recovery of grey water for cooling and irrigation purposes.

In 2018, the overall water intake at the Group's production plants fell by 3% compared to 2017. In particular, total water intake in 2018 was 2.8 million cubic metres, of which 42% was surface water, 48% was groundwater and the remaining 17% was taken from aqueducts. It should also be noted that in 2018, 17% of total water intake at the Group's production plants was recycled and reused internally.

#### WATER INTAKE AT RECORDATI GROUP PRODUCTION PLANTS BY SOURCE

	Unit of measurement	2018	2017	Variation %
Surface water	m <sup>3</sup>	1,204,150	1,415,480	-15%
Groundwater	m <sup>3</sup>	1,364,326	1,280,560	7%
Aqueduct	m <sup>3</sup>	248,506	220,095	13%
<b>Total</b>	<b>m<sup>3</sup></b>	<b>2,816,982</b>	<b>2,916,135</b>	<b>-3%</b>

#### PERCENTAGE OF RECYCLED WATER AT RECORDATI GROUP PRODUCTION PLANTS

Unit of measurement m <sup>3</sup>	2018		2017	
	Total	% of total water intake	Total	% of total water intake
Quantity of water recycled and reused	471,287	17%	419,997	14%

## 5.4. WASTE MANAGEMENT

The Recordati Group's commitment to environmental protection is also evidenced by its activities to reduce the waste produced by its activities and ensure the correct disposal of chemical and pharmaceutical products, particularly at its production sites.

In particular, at the Milan plant waste management is regulated by a specific internal procedure which assigns each waste product a specific code: HW (Hazardous Waste) such as solvents, excess pharmaceuticals, filters, pharmaceutical waste and contaminated celite, and SNHW (Special Non-Hazardous Waste) such as clean glass, special waste similar to sold urban waste (SUW), paper, cardboard, wood and iron. In particular, the various types of waste produced at the plant are classified as hazardous or non-hazardous. In accordance with internal operating procedures, all waste is assigned an EWC code which defines the relative management procedure for that type of waste.

In accordance with Italian law (Legislative Decree no. 231/01), the Group's organisational model includes the appointment of various waste management officers within the company. Furthermore, waste disposal is contracted to specialist firms that hold the relative authorisations to act as carriers, intermediaries and recipients. As well as the paper forms used to identify transported waste, the SISTRI Waste Tracking System is also applied, enabling the prompt and accurate tracking of special waste throughout the supply chain.

Correct spillage management is regulated by a specific standard operating procedure, which states that the spilled product must be collected using absorbent sheets and pads suitable for use with all types of hazardous and non-hazardous materials. Once used, the absorbent sheets are managed and destroyed in the most appropriate way, considering the hazardous nature of the product.

Other important waste disposal initiatives implemented at plants by the Group include:

- the research programme at the Campoverde di Aprilia plant to investigate the possibility of internally managing certain types of waste that have previously been disposed of externally. For certain types of waste, this project has resulted in a significant reduction in costs, due not only to the internal management but also the reduction in number of transport journeys and containers used. The reduction in the number of journeys is in line with the policy of reducing external environmental impacts;

- at the Cork plant in Ireland, solid hazardous waste is segregated on site by production operators as soon as it is produced and is then sent off site for incineration by specialised contractors. Liquid hazardous waste is managed internally using closed systems: part of this waste is sent via a specialised contractor for disposal, while the majority is treated at the waste treatment plant of the Recordati Ireland branch. Biological sludge extracted by the waste treatment plant is sent for incineration by the specialist contractor. Furthermore, a specialist study is current being conducted at the plant in Cork to evaluate and provide a detailed emergency plan to manage leaks of thionyl chloride, the most reactive and hazardous chemical substance used in plant processes. To align with the guidelines issued by the Environmental Protection Agency (EPA), the study was made official in January 2019;
- at the Cerkezkooy plant in Turkey, all waste is classified according to three main categories: domestic waste (such as food waste), recyclable and non-hazardous waste (such as paper, cardboard, plastic, glass and aluminium packaging) and hazardous waste. A specific policy has been adopted at the plant to regulate waste collection, storage, recycling and transfer procedures. This policy includes a waste tracking system which monitors the transfer of special waste throughout the supply chain in real time. In 2018 a new area equipped with a controlled access system was designated for the temporary storage of waste awaiting final disposal; In 2018, the waste water treatment system was subjected to various maintenance works, with a consequent reduction in waste water pollution levels. Furthermore, these optimisation measures reduced the consumption of chemical substances used in treatment plants, with a consequent reduction in operating costs;
- at the Milan plant, in order to limit the number of collections made by the carrier, two waste compressor units have been installed, one for paper and cardboard and one for special waste similar to SUW.

A total of 5,892 tonnes of waste was produced in 2018, of which 54% was hazardous waste (substances defined as hazardous in the country of origin) and 46% was non-hazardous waste (all other forms of liquid and solid waste). In line with 2017, the majority of the hazardous waste produced by the production plants in 2018 (equal to 2,686 tonnes) was exported for disposal, while the remaining 516 tonnes were processed internally.

**TOTAL WASTE PRODUCED BY RECORDATI GROUP PLANTS, SUBDIVIDED BY TYPE AND DISPOSAL METHOD**

Disposal method	Unit of measurement	2018			2017		
		Hazardous waste	Non-hazardous waste	Total	Hazardous waste	Non-hazardous waste	Total
Reuse	tonnes	-	1	1	-	1	1
Recycling	tonnes	36	551	587	42	504	546
Compost	tonnes	-	24	24	-	14	14
Recovery	tonnes	1,606	957	2,563	1,627	897	2,524
Incineration	tonnes	403	18	421	276	29	305
Landfill	tonnes	34	72	106	50	162	212
Storage on site	tonnes	2	-	2	3	-	3
Other <sup>24</sup>	tonnes	1,121	1,067	2,188	1,384	977	2,361
<b>Total</b>	<b>tonnes</b>	<b>3,202</b>	<b>2,690</b>	<b>5,892</b>	<b>3,382</b>	<b>2,584</b>	<b>5,966</b>

**TOTAL HAZARDOUS WASTE PRODUCED BY RECORDATI GROUP PLANTS, SUBDIVIDED BY DESTINATION**

Hazardous waste	Unit of measurement	2018		2017	
		Total	% of Total	Total	% of Total
Exported	tonnes	2,686	84%	2,862	85%
Processed	tonnes	516	16%	520	15%
<b>Total</b>	<b>tonnes</b>	<b>3,202</b>	<b>100%</b>	<b>3,382</b>	<b>100%</b>

As regards the various disposal methods, particular emphasis was given to the recycling of packaging materials and the use of reliable suppliers of waste transportation and disposal services. In order to reduce the volume of waste produced, the Recordati Group is committed to reducing the amount of packaging entering the waste system and increasing consumer recycling activities through re-engineering its products.

The Group ensures that the materials used in its packaging can be recycled or incinerated without causing any negative environmental impacts or producing hazardous waste. For example, the paper and cardboard used for the boxes and the paper used for the package leaflets are completely recyclable and use ecologically sustainable materials such as wood pulp from responsibly managed forests. Moreover, where possible the Recordati Group is committed to reducing the weight of packaging material and the proportion of non-recyclable waste. When coordinating these initiatives, the Group works with national recycling organisations such as CONAI (Consorzio Nazionale Imballaggi).

<sup>24</sup> This category includes the disposal methods classified as D8, D9, D13, D14 and D15 used at the Campoverde di Aprilia plant and listed in Annex B of Italian Legislative Decree no. 152/06.

# GRI Index

The following table shows the material topics identified by Recordati relating to the GRI Reporting Standards and the topics covered by Legislative Decree no. 254/2016. For these topics, the column "Scope of material topics" lists all parties who may generate an impact for each topic, both internally and externally to the Group. The column "Type of impact" indicates Recordati's role in relation to the general impact for each material topic.

Material topics of the Recordati Group	Correlation with GRI Standards	Correlation with the topics covered by Legislative Decree no. 254/2016	Scope of material topics	Type of impact
Compliance and business ethics	GRI 419: Socio-economic compliance	Fight against active and passive corruption	Recordati Group	Caused by the Group
	GRI 206: Anti-competitive practices			
Anti-corruption	GRI 205: Anti-corruption	Fight against active and passive corruption	Recordati Group	Caused by the Group
Risk management	N/A	N/A	Recordati Group	Caused by the Group
Corporate Governance	N/A	N/A	Recordati Group	Caused by the Group
Financial performance	GRI 201: Financial performance	Social	Recordati Group; Investors and the financial community	Caused by the Group
Market presence	GRI 202: Market presence	Relating to staff	Recordati Group;	Caused by the Group
Commitment to local communities	GRI 203: Indirect financial impacts	Social	Recordati Group; Local community;	Caused by the Group
Access to medical products and health insurance	N/A	Social	Recordati Group; Clients and consumers; Patients and associations	Caused by the Group
Research and development	N/A	N/A	Recordati Group; Scientific organisations and Universities	Caused by the Group
Patient health and safety	GRI 416: Customer health and safety	Social	Recordati Group; Clients and consumers; Patients and associations	Caused by the Group
Anti-counterfeiting	GRI-417: Marketing and labelling	N/A	Recordati Group	Caused by the Group
Responsible marketing	GRI-417: Marketing and labelling	N/A	Recordati Group;	Caused by the Group
Product quality and safety	GRI 416: Customer health and safety	Social	Recordati Group	Caused by the Group
Procurement practices	GRI 414: Supplier Social Assessment	Social	Recordati Group; Suppliers and strategic partners	Caused by the Group and directly connected to its activities
	GRI 308: Supplier Environmental Assessment	Environmental		
HR management	GRI 401: Employment	Relating to staff	Recordati Group; Employees	Caused by the Group
Diversity and equal opportunities	GRI 405: Diversity and equal opportunities	Relating to staff	Recordati Group; Employees	Caused by the Group
Employee health and safety	GRI 403: Health and safety in the workplace	Relating to staff	Production plants; Suppliers and strategic partners	Caused by the Group and directly connected to its activities
Training and development	GRI 404: Training and education	Relating to staff	Recordati Group; Employees	Caused by the Group
Human rights	GRI 414: Supplier Social Assessment	Human rights	Recordati Group; Suppliers and strategic partners	Caused by the Group and directly connected to its activities
Efficient use of natural resources	GRI 302: Energy	Environmental	Production plants	Caused by the Group
	GRI 303: Water			
Environmental conservation	GRI 305: Emissions	Environmental	Production plants	Caused by the Group
	GRI 307: Environmental compliance			
Disposal of chemical products and pharmaceuticals	GRI 306: Effluents and waste	Environmental	Production plants	Caused by the Group

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

Indicator	References and other information	Omission
<b>GRI 102: GENERAL DISCLOSURES (2016)</b>		
<b>Organisation Profile</b>		
102-1	Name of Organisation	Page 110
102-2	Activities, brands, products, and services	Pages 112; Annual Report, “Business activities” section
102-3	Location of headquarters	Page 110
102-4	Location of operations	Pages 12-13; page 112
102-5	Ownership and legal form	Corporate Governance Report and Ownership Structure, “Profile of the issuer and general information” section
102-6	Markets served	Page 112
102-7	Scale of the organisation	Pages 128; Annual Report, “Summary of results” section; Corporate Governance Report and Ownership Structure, “Profile of the issuer and general information” section
102-8	Information on employees and other workers	Page 31; page 33
102-9	Supply chain	Pages 124-125
102-10	Significant changes to the organisation and its supply chain	Pages 110-111; Corporate Governance Report and Ownership Structure, “Introduction” and “Ownership structure”
102-11	Precautionary Principle or approach	Pages 114-115
102-12	External initiatives	Pages 116-118
102-13	Membership of associations	Page 118; pages 121-122
<b>Strategy</b>		
102-14	Statement from senior decision-maker	Annual Report, “Letter to Shareholders” section
102-15	Principle impacts, risks and opportunities	Page 115
<b>Ethics and integrity</b>		
102-16	Values, principles, standards, and norms of behaviour	Pages 112-114
<b>Governance</b>		
102-18	Governance structure	Corporate Governance Report and Ownership Structure, “Profile of the issuer and general information” section
<b>Stakeholder engagement</b>		
102-40	List of stakeholder groups	Page 117
102-41	Collective bargaining agreements	Page 132
102-42	Identifying and selecting stakeholders	Page 117
102-43	Approach to stakeholder engagement	Pages 116-117
102-44	Key topics and concerns that have been raised through stakeholder engagement	Page 119
<b>Reporting practices</b>		
102-45	Entities included in the Consolidated Financial Statements	Pages 110-111
102-46	Defining report content and topic boundaries	Pages 110-111; page 153
102-47	List of material topics	Page 119; page 153

Indicator		References and other information	Omission
102-48	Restatements of information	Pages 110-111	
102-49	Changes in reporting	Pages 110-111; page 119; page 153	
102-50	Reporting period	Page 110	
102-51	Date of most recent report	The previous Consolidated Non-Financial Statement was published by the Recordati Group on 15 March 2018.	
102-52	Reporting cycle	Page 111	
102-53	Contact point for questions regarding the report	Page 111	
102-54	Chosen "in accordance" option	Page 110	
102-55	GRI content index	Pages 154-160	
102-56	External assurance	Pages 161-163	

#### TOPIC-SPECIFIC STANDARDS

##### GRI 200: ECONOMIC SERIES (2016)

###### Material aspect: Financial performance

###### GRI-103: Management approach (2016)

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Page 120
103-3	Evaluation of the management approach	Page 120

###### GRI-201: Financial performance (2016)

201-1	Direct economic value generated and distributed	Page 120
-------	---	----------

###### Material aspect: Market presence

###### GRI-103: Management approach (2016)

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 128-129
103-3	Evaluation of the management approach	Pages 128-129

###### GRI-201: Financial performance (2016)

202-2	Proportion of senior management hired from the local community	Page 129
-------	--	----------

###### Material aspect: Indirect financial impacts

###### GRI-103: Management approach (2016)

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Page 121
103-3	Evaluation of the management approach	Page 121

###### GRI-203: Indirect financial impacts (2016)

203-1	Infrastructure investments and services supported	Page 121
-------	---	----------

**Material aspect: Anti-corruption****GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 112-114
103-3	Evaluation of the management approach	Pages 112-114

**GRI-205: Anti-corruption (2016)**

205-1	Operations assessed for risks related to corruption	Pages 112-114
205-3	Confirmed incidents of corruption and actions taken	Page 114

**Material aspect: Anti-competitive behaviour****GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 112-114
103-3	Evaluation of the management approach	Pages 112-114

**Material aspect: Anti-competitive behaviour (2016)**

206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	No legal action for anti-competitive behaviour, anti-trust cases or monopoly practices was reported during the year.
-------	--	--

**GRI 300: ENVIRONMENTAL SERIES (2016)****Material aspect: Energy****GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 142-148
103-3	Evaluation of the management approach	Pages 142-148

**GRI-302: Energy (2016)**

302-1	Energy consumption within the organisation	Pages 144-145 This indicator considers production plants only, except for the site in Milan, Italy, where site offices were also considered.
-------	--	---

**Material aspect: Water****GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 142-143; page 150
103-3	Evaluation of the management approach	Page 150

**GRI-303: Water (2016)**

303-1	Water intake by source	Page 150 This indicator considers production plants only, except for the site in Milan, Italy, where site offices were also considered.
-------	------------------------	--



## Material aspect: Emissions

GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 142-143; pages 148-149
103-3	Evaluation of the management approach	Pages 148-149
GRI-305: Emissions (2016)		
305-1	Direct (Scope 1) GHG emissions	Page 149 This indicator considers company vehicle fleet and production plants only, except for the site in Milan, Italy, where site offices were also considered.
305-2	Indirect (Scope 2) GHG emissions	Page 149 This indicator considers production plants only, except for the site in Milan, Italy, where site offices were also considered.
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	Page 149 This indicator considers production plants only, except for the site in Milan, Italy, where site offices were also considered.

## Material aspect: Effluents and waste

GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 142-143; pages 151-152
103-3	Evaluation of the management approach	Pages 151-152
GRI-306: Effluents and waste (2016)		
306-2	Waste by type and disposal method	Pages 151-152 This indicator considers production plants only, except for the site in Milan, Italy, where site offices were also considered.

## Material aspect: Environmental compliance

GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 142-143
103-3	Evaluation of the management approach	Pages 142-143
GRI-307: Environmental compliance (2016)		
307-1	Non-compliance with environmental laws and regulations	In 2018 a € 45,015.49 fine was issued to the Recordati S.p.A. following certain cases of non-compliance detected at the Campoverde di Aprilia plant regarding the sampling and treatment of atmospheric emissions.

## Material aspect: Supplier Environmental Assessment

GRI-103: Management approach (2016)		
103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Page 123; pages 124-126
103-3	Evaluation of the management approach	Pages 124-126
GRI-308: Supplier Environmental Assessment (2016)		
308-1	New suppliers that were screened using environmental criteria	Page 113; pages 125-126  As per the new procurement process, all suppliers for Italian Companies are selected based on compliance to environmental regulations. This process will be extended to all Group Companies by the end of 2021

**GRI 400: SOCIAL SERIES (2016)****Material aspect: Employment**

<b>GRI-103: Management approach (2016)</b>		
103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 128-130; pages 132-134
103-3	Evaluation of the management approach	Pages 128-130; pages 132-134
<b>GRI-401: Employment (2016)</b>		
401-1	New employee hires and employee turnover	Page 130
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Pages 132-133 The benefits described do not vary based on contract type or professional level.

**Material aspect: Health and safety in the workplace**

<b>GRI-103: Management approach (2016)</b>		
103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 136-138
103-3	Evaluation of the management approach	Pages 136-138
<b>GRI-403: Occupational health and safety (2016)</b>		
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Pages 139-141 This indicator considers production plants only, with the exception of sites in Italy (Milan), Spain, Tunisia and France (Bouchara), for which office and commercial staff are also considered.

**Material aspect: Training and education**

<b>GRI-103: Management approach (2016)</b>		
103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 134-135
103-3	Evaluation of the management approach	Pages 134-135
<b>GRI-404: Training and education (2016)</b>		
404-1	Average hours of training per year per employee	Page 134
404-2	Programs for upgrading employee skills and transition assistance programs	Pages 134-135

**Material aspect: Diversity and equal opportunities**

<b>GRI-103: Management approach (2016)</b>		
103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 131-132; page 133
103-3	Evaluation of the management approach	Pages 131-132; page 133
<b>GRI-405: Diversity and equal opportunities 2016</b>		
405-1	Diversity of governance bodies and employees	Page 131; Corporate Governance Report and Ownership Structure, "Board of Directors" section
405-2	Ratio of basic salary and remuneration of women to men	Pages 133

---

**Material aspect: Supplier Social Assessment**


---

**GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Page 113; page 123; pages 124-126
103-3	Evaluation of the management approach	Pages 124-126

---

**GRI-414: Supplier Social Assessment (2016)**

414-1	New suppliers that were screened using social criteria	Page 123; pages 124-125	As per the new procurement process, all suppliers for Italian Companies are selected based on compliance to environmental regulations. This process will be extended to all Group Companies by the end of 2021.
-------	--	-------------------------	---

---

**Material aspect: Customer health and safety**


---

**GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Page 123
103-3	Evaluation of the management approach	Page 123

---

**GRI-416: Customer health and safety (2016)**

416-1	Assessment of the health and safety impacts of product and service categories	Page 123
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Page 123

---

**Material aspect: Marketing and labelling**


---

**GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Page 123; page 127
103-3	Evaluation of the management approach	Page 123; page 127

---

**GRI-417: Marketing and labelling 2016**

417-2	Incidents of non-compliance concerning product and service information and labelling	Page 123
417-3	Incidents of non-compliance concerning marketing communications	Page 123

---

**Material aspect: Socio-economic compliance**


---

**GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Page 123
103-3	Evaluation of the management approach	Page 123

**GRI-419: Socio-economic compliance (2016)**

419-1	Non-compliance with laws and regulations in the social and economic area	A fine of € 13,500 was issued to Recordati S.p.A. in 2018 following the reintegration of an employee dismissed in 2012. A fine for a negligible amount was issued in 2018 to the Turkish branch Recordati İlaç Sanayi ve Ticaret Anonim Şirketi following certain incidences of non-compliance regarding the application of occupational health and safety regulations.
-------	--	--

**Material aspect: Risk management****GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 114-115
103-3	Evaluation of the management approach	Pages 114-115

**Material aspect: Corporate Governance****GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Pages 112-114
103-3	Evaluation of the management approach	Pages 112-114

**Material aspect: Access to medical products and health insurance****GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Page 122
103-3	Evaluation of the management approach	Page 122

**Material aspect: Research and development****GRI-103: Management approach (2016)**

103-1	Explanation of the material topic and its boundary	Page 110; page 119; page 153
103-2	The management approach and its components	Page 123; page 124
103-3	Evaluation of the management approach	Pages 123; page 124

Milan, 28 February 2019

Andrea Recordati  
Chief Executive Officer

# INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED NON FINANCIAL STATEMENT



KPMG S.p.A.  
Revisione e organizzazione contabile  
Via Vittor Pisani, 25  
20124 MILANO MI  
Telefono +39 02 6763.1  
Email [it-fmauditaly@kpmg.it](mailto:it-fmauditaly@kpmg.it)  
PEC [kpmgspa@pec.kpmg.it](mailto:kpmgspa@pec.kpmg.it)

(Translation from the Italian original which remains the definitive version)

## **Independent auditors' report on the consolidated non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of the Consob Regulation adopted with Resolution no. 20267 of 18 January 2018**

*To the board of directors of  
Recordati Industria Chimica e Farmaceutica S.p.A.*

Pursuant to article 3 of Legislative decree no. 254 of 30 December 2016 (the "decree") and article 5 of the Consob (the Italian Commission for listed companies and the stock exchange) Regulation adopted with Resolution no. 20267 of 18 January 2018, we have been engaged to perform a limited assurance engagement on the 2018 consolidated non-financial statement of the Recordati Group (the "group") prepared in accordance with article 4 of the decree and approved by the board of directors on 28 February 2019 (the "NFS").

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

The directors are responsible for the preparation of a NFS in accordance with articles 3 and 4 of the decree and the "Global Reporting Initiative Sustainability Reporting Standards" issued in 2016 by GRI - Global Reporting Initiative (the "GRI Standards").

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for the identification of the content of the NFS, considering the aspects indicated in article 3.1 of the decree and the group's business and characteristics, to the extent necessary to enable an understanding of the group's business, performance, results and the impacts it generates.

The directors' responsibility also includes the design of an internal model for the management and organisation of the group's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the group's policies for the identification and management of the risks generated or borne.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Aosta Bari Bergamo  
Bologna Bolzano Brescia  
Catania Como Firenze Genova  
Lecco Milano Napoli Novara  
Padova Palermo Parma Perugia  
Pescara Roma Torino Treviso  
Trieste Varese Verona

Società per azioni  
Capitale sociale  
Euro 10.345.200,00 I.V.  
Registro Imprese Milano e  
Codice Fiscale N. 00709600159  
R.E.A. Milano N. 512867  
Partita IVA 00709600159  
VAT number IT00709600159  
Sede legale: Via Vittor Pisani, 25  
20124 Milano MI ITALIA



**Recordati Group**  
*Independent auditors' report*  
 31 December 2018

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, compliance with the decree's provisions.

#### ***Auditors' independence and quality control***

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### ***Independent auditors' responsibilities***

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the NFS with the requirements of the decree and the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 4 (revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries, primarily of the parent's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

1. Analisi dei temi rilevanti in relazione alle attività e alle caratteristiche del Gruppo rendicontati nella DNF, al fine di valutare la ragionevolezza del processo di selezione seguito alla luce di quanto previsto dall'art. 3 del Decreto e tenendo presente lo standard di rendicontazione utilizzato.
2. Analysing and assessing the identification criteria for the reporting scope, in order to check their compliance with the decree.
3. Comparing the financial disclosures presented in the NFS with those included in the group's consolidated financial statements.
4. Gaining an understanding of the following:
  - the group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the decree;
  - the entity's policies in connection with the aspects set out in article 3 of the decree, the achieved results and the related key performance indicators;



**Recordati Group**  
*Independent auditors' report*  
 31 December 2018

- the main risks generated or borne in connection with the aspects set out in article 3 of the decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 5.a).

5. Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

Specifically, we held interviews and discussions with the parent's management personnel. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

Furthermore, with respect to significant information, considering the group's business and characteristics:

- at parent and subsidiaries level,
  - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence,
  - b) we carried out analytical and limited procedures to check the correct aggregation of data in the quantitative information;
- we visited Recordati Industria Chimica e Farmaceutica S.p.A. and the Campoverde site, which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.

### **Conclusion**

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2018 consolidated non-financial statement of the Recordati Group has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the decree and the GRI Standards.

Milan, 20 March 2019

KPMG S.p.A.

(signed on the original)

Claudio Mariani  
 Director of Audit