Interim Report

First Nine Months
2019

RECORDATI

Recordati, established in 1926,
is an international pharmaceutical group, listed on the Italian Stock Exchange
(Reuters RECI.MI, Bloomberg REC IM, ISIN IT 0003828271),
dedicated to the research, development,
manufacturing and marketing of pharmaceuticals
and pharmaceutical chemicals, with headquarters in Milan, Italy,
Recordati has operations throughout the whole of Europe,
including Russia, Turkey, North Africa, the United States of America,
Canada, Mexico, some South American countries, Japan and Australia.

MANAGEMENT REVIEW

HIGHLIGHTS

FIRST NINE MONTHS 2019

REVENUE

€ (thousands)	First nine months 2019	%	First nine months 2018	%	Change 2019/2018	%
Total revenue	**1,100,418**	**100.0**	**1,013,308**	**100.0**	**87,110**	**8.6**
Italy	220,597	20.0	206,704	20.4	13,893	6.7
International	879,821	80.0	806,604	79.6	73,217	9.1

KEY CONSOLIDATED P&L DATA

€ (thousands)	First nine months 2019	% of revenue	First nine months 2018	% of revenue	Change 2019/2018	%
Revenue	1,100,418	100.0	1,013,308	100.0	87,110	8.6
EBITDA[1]	409,612	37.2	380,050	37.5	29,562	7.8
Operating income	353,500	32.1	336,969	33.3	16,531	4.9
Net income	253,674	23.1	237,877	23.5	15,797	6.6

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

KEY CONSOLIDATED B/S DATA

€ (thousands)	30 September 2019	31 December 2018	Change 2019/2018	%
Net financial position[2]	(498,673)	(588,380)	89,707	(15,2)
Shareholders' equity	1,179,618	963,586	216,032	22,4

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

THIRD QUARTER 2019

REVENUE

€ (thousands)	Third quarter 2019	%	Third quarter 2018	%	Change 2019/2018	%
Total revenue	**357,165**	**100.0**	**317,254**	**100.0**	**39,911**	**12.6**
Italy	65,500	18.3	60,913	19.2	4,587	7.5
International	291,665	81.7	256,341	80.8	35,324	13.8

KEY CONSOLIDATED P&L DATA

€ (thousands)	Third quarter 2019	% of revenue	Third quarter 2018	% of revenue	Change 2019/2018	%
Revenue	357,165	100.0	317,254	100.0	39,911	12.6
EBITDA(1)	130,299	36.5	120,033	37.8	10,266	8.6
Operating income	110,941	31.1	105,038	33.1	5,903	5.6
Net income	79,400	22.2	73,689	23.2	5,711	7.8

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

The financial results obtained in the first nine months of the year confirm the continued growth of the Group. Consolidated revenue is € 1,100.4 million, up by 8.6% compared to the same period of the preceding year. International sales grow by 9.1%. EBITDA, at 37.2% of sales, is € 409.6 million, an increase of 7.8% over the first nine months of 2018. Operating income, at 32.1% of sales, is € 353.5 million, an increase of 4.9% over the same period of the preceding year. Net income, at 23.1% of sales, is € 253.7 million, an increase of 6.6% over the first nine months of 2018.

Net financial position at 30 September 2019 records a net debt of € 498.7 million compared to net debt of € 588.4 million at 31 December 2018. Shareholders' equity is € 1,179.6 million.

CORPORATE DEVELOPMENT NEWS

In February, Recordati signed a license agreement with Aegerion Pharmaceuticals Inc., a subsidiary of Novelion Therapeutics Inc., for the exclusive rights to commercialize Juxtapid®, currently approved for the treatment of homozygous familial hypercholesterolemia (HoFH), in Japan. The agreement includes a right of first negotiation for product commercialization in Japan of any potential new indications that may be developed by Aegerion. Upon signing of the agreement an upfront payment of $ 25 million was paid to Aegerion and a milestone of $ 5 million was paid in June. Commercial milestones and royalty payments are also included as is customary. In 2018 sales of the product in Japan were of $ 10.8 million. Juxtapid® (lomitapide) is a microsomal triglyceride transfer protein inhibitor. It was approved, and granted orphan market exclusivity, in September 2016 by Japan's Ministry of Health, Labor & Welfare (MHLW) for patients with homozygous familial hypercholesterolemia (HoFH). HoFH is a serious, rare genetic disease that impairs the function of the receptor responsible for removing LDL-C ("bad" cholesterol) from the body. A loss of LDL receptor function results in extreme elevation of blood cholesterol levels. HoFH patients often develop premature and progressive atherosclerosis, a narrowing or blocking of the arteries. The addition of Juxtapid® to our portfolio of rare disease products in Japan is very important for the development of our recently established subsidiary in this country, given its potential for significant growth.

Recordati Rare Diseases, a worldwide leader in rare diseases and orphan drugs, recently announced that its strategy aimed at establishing a direct presence in the key markets across all continents has been successfully executed. Local Recordati Rare Diseases companies are now active in North America, Latin America, Europe, MENA (Middle East and North Africa) and Asia Pacific. Several companies formerly operating under the name of Orphan Europe were recently renamed Recordati Rare Diseases, which is today the global brand of Recordati's organization dedicated to treatments for rare diseases and orphan drugs. Orphan Europe, founded in 1990, pioneered the development of orphan drugs in Europe and became part of Recordati in 2007.

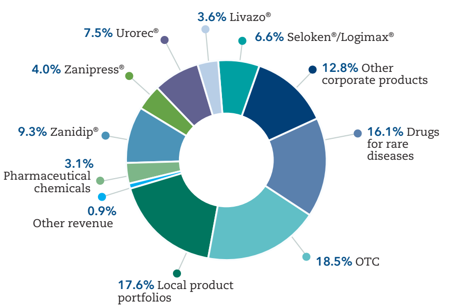
On 12 July 2019 an agreement was signed with Novartis for the acquisition of worldwide rights to Signifor® and Signifor® LAR® for the treatment of Cushing's disease and acromegaly in adult patients for whom surgery is not an option or for whom surgery has failed. Worldwide sales of Signifor® in 2018 were $ 72 million. The agreement also covers the acquisition of worldwide rights to osilodrostat (LCI699), an investigational innovative drug for the treatment of endogenous Cushing's syndrome, for which marketing authorization applications have been filed in the European Union and in the USA. The transaction was completed on 23 October and a consideration of $ 390 million was paid to Novartis. At closing, the consideration was funded by existing liquidity and new debt facilities. Subsequently, additional milestone payments contingent upon the approval and market access of osilodrostat as well as royalties on sales of this new product, will be due.

Within Cushing's syndrome (CS), Cushing's disease (CD) is a severe endocrine disease caused by a pituitary adenoma, an enlargement in the pituitary gland which results in over-production of cortisol by the adrenal glands. Other causes of endogenous Cushing's syndrome include rarer conditions such as adrenal adenoma, ectopic corticotropin syndrome and ACTH independent macronodular adrenal hyperplasia. This condition is associated with increased morbidity and mortality. Acromegaly is caused by an overexposure to growth hormone that leads to the production of insulin-like growth factor-1. The most common cause of acromegaly is a pituitary adenoma. Signifor® contains the active substance pasireotide, a somatostatin analogue. The human body naturally produces somatostatin, which blocks the production and release of certain hormones, including ACTH. Pasireotide works in a very similar way to somatostatin. Signifor® is thus able to block the production of ACTH, helping to control the over-production of cortisol and improve the symptoms of Cushing's disease. Osilodrostat is an orally administered steroidogenesis inhibitor of 11Beta-hydroxylase, an enzyme which catalyses the final step of cortisol synthesis in the adrenal cortex. This new drug for endogenous Cushing's syndrome is expected to represent an effective new treatment option for patients.

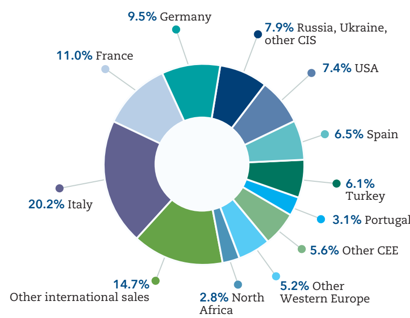
REVIEW OF OPERATIONS

Net revenue in the first nine months of 2019 is € 1,100.4 million, up 8.6% over the same period of the preceding year, and includes sales generated by Natural Point S.r.l., consolidated as from 1 July 2018, of € 9.7 million, sales generated by Tonipharm S.A.S., acquired at the end of 2018 and consolidated as from 1 January 2019, of € 18.8 million and the sales of Juxtapid®, a product acquired under license in February 2019 in Japan, of € 6.9 million, in addition to an estimated negative currency exchange rate effect of € 3.1 million. Excluding these items growth would have been of 5.4%. International sales grow by 9.1% to € 879.8 million, which represent 80.0% of total sales. Pharmaceutical sales are € 1,066.4 million, up by 8.5% while pharmaceutical chemicals sales are € 34.1 million, up by 10.9%, and represent 3.1% of total revenues.

SALES BY BUSINESS



PHARMACEUTICAL SALES



The Group's pharmaceutical business, which represents 96.9% of total revenue, is carried out in the main European markets, including Central and Eastern Europe, in Russia, Turkey, North Africa, the United States of America, Canada, Mexico, in some South American countries, in Japan and Australia through our own subsidiaries and in the rest of the world through licensing agreements with pharmaceutical companies of high standing.

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

€ (thousands)	First nine months 2019	First nine months 2018	Change 2019/2018	%
Zanidip® (lercanidipine)	102,216	95,611	6,605	6.9
Zanipress® (lercanidipine+enalapril)	44,377	46,120	(1,743)	(3.8)
Urorec® (silodosin)	82,694	76,141	6,553	8.6
Livazo® (pitavastatin)	40,001	34,395	5,606	16.3
Seloken®/Seloken® ZOK/Logimax® (metoprolol/metoprolol+felodipine)	72,479	73,845	(1,366)	(1.8)
Other corporate products*	225,496	198,106	27,390	13.8
Drugs for rare diseases	177,136	162,989	14,147	8.7

** Include the OTC corporate products for an amount of € 84.7 million in 2019 and € 74.8 million in 2018 (+13.3%).*

Zanidip® is a specialty containing lercanidipine, Recordati's original calcium channel blocker for the treatment of hypertension. Our lercanidipine based products are sold directly to the market by our own marketing organizations in Europe, including Central and Eastern Europe, in Russia, in Turkey and in North Africa. In the other markets they are sold by licensees, and in some of the above co-marketing agreements are in place.

€ (thousands)	First nine months 2019	First nine months 2018	Change 2019/2018	%
Direct sales	55,462	51,333	4,129	8.0
Sales to licensees	46,754	44,278	2,476	5.6
Total lercanidipine sales	**102,216**	**95,611**	**6,605**	**6.9**

Lercanidipine direct sales are up by 8.0% mainly due to the increase of sales in Germany, Poland and Russia as well as to the direct sales by our organizations now operational in the Nordic countries and in BeNeLux, areas where sales were previously realized by our licensees. Sales to licensees, which represent 45.7% of total lercanidipine sales, are up by 5.6% mainly thanks to the good sales performance in Australia and China.

Zanipress® is an original specialty also indicated for the treatment of hypertension developed by Recordati which consists of a fixed combination of lercanidipine with enalapril. This product is successfully marketed directly by Recordati and/or by its licensees in 30 countries.

€ (thousands)	First nine months 2019	First nine months 2018	Change 2019/2018	%
Direct sales	39,670	36,947	2,723	7.4
Sales to licensees	4,707	9,173	(4,466)	(48.7)
Total lercanidipine+enalapril sales	**44,377**	**46,120**	**(1,743)**	**(3.8)**

Direct sales of Zanipress® in the first nine months of 2019 are up by 7.4% due to the growth of sales in Turkey and to the direct to market handling by our own organization in France of the sales that were previously realized by a licensee under a co-marketing agreement. Sales to licensees represent 10.6% of total Zanipress® sales and are down by 48.7% mainly due to lower sales to licensees in France.

Urorec® (silodosin) is a specialty indicated for the treatment of symptoms associated with benign prostatic hyperplasia (BPH). Currently the product has been successfully launched in 40 countries with sales of € 82.7 million in the first nine months of 2019, up 8.6% due to the good performance of the product in all main markets.

Sales of Livazo® (pitavastatin), a statin indicated for the reduction of elevated total and LDL cholesterol, in Spain, Portugal, Ukraine, Greece, Switzerland, Russia, other C.I.S. countries and Turkey, are € 40.0 million in the first nine months of 2019, up by 16.3% due mainly to the performance of the product in Turkey, Russia and Spain.

Sales of Seloken®/Seloken® ZOK (metoprolol) and associated Logimax® fixed dose combination (metoprolol and felodipine), metoprolol based products belonging to the beta-blocker class of drugs widely used in the treatment of various cardiovascular disorders, are of € 72.5 million in the first nine months of 2019, down by 1.8% compared to the same period of the preceding year.

In the first nine months of 2019 sales of other corporate products totaled € 225.5 million, up by 13.8% compared to the same period of the preceding year thanks mainly to the launch of Reagila® and to the good performance of Lomexin®, Citrafleet® and of the OTC products Procto-Glyvenol® and Casenlax®. Other corporate products comprise both prescription and OTC products and are: Reagila® (cariprazine), Lomexin® (fenticonazole), Urispas® (flavoxate), Kentera® (oxybutynin transdermal patch), TransAct® LAT (flurbiprofen transdermal patch), Rupafin®/Wystamm® (rupatadine), Lopresor® (metoprolol), Procto-Glyvenol® (tribenoside), Tergynan® (fixed association of anti-infectives) as well as CitraFleet®, Casenlax®, Fleet enema, Phosphosoda®, Reuflor®/Reuteri® (lactobacillus Reuteri) and Lacdigest® (tilactase), gastroenterological products, Polydexa®, Isofra® and Otofa®, ENT anti-infective products, the Hexa line of products indicated for seasonal disorders of the upper respiratory tract, Abufene® and Muvagyn® for gynecological use, Virirec®

(alprostadil) and Fortacin® (lidocaine+prilocaine) for male sexual disorders.

In the first nine months of 2019, our specialties indicated for the treatment of rare diseases, marketed directly throughout Europe, in the Middle East, in the U.S.A., Canada, Mexico, in some South American countries, in Japan and Australia, and through partners in other parts of the world, generated sales of € 177.1 million, up by 8.7%, despite competition from a generic version of Cosmegen® in the United States of America.

The pharmaceutical sales of the Recordati subsidiaries, which include the abovementioned product sales, are shown in the following table.

€ (thousands)	First nine months 2019	First nine months 2018	Change 2019/2018	%
Italy	215,147	200,894	14,253	7.1
France	117,028	98,084	18,944	19.3
Germany	101,465	101,345	120	0.1
Russia, other C.I.S. countries and Ukraine	83,589	75,120	8,469	11.3
U.S.A.	78,342	75,060	3,282	4.4
Spain	69,420	64,655	4,765	7.4
Turkey	65,314	57,577	7,737	13.4
Portugal	32,979	30,994	1,985	6.4
Other C.E.E. countries	60,017	49,347	10,670	21.6
Other Western European countries	55,891	42,873	13,018	30.4
North Africa	30,288	31,732	(1,444)	(4.6)
Other international sales	156,871	154,920	1,951	1.3
Total pharmaceutical revenue	**1,066,351**	**982,601**	**83,750**	**8.5**

Both years include sales as well as other income.

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

€ (thousands)	First nine months 2019	First nine months 2018	Change 2019/2018	%
Russia (RUB)	4,824,138	4,397,329	426,809	9.7
Turkey (TRY)	393,024	297,179	95,845	32.3
U.S.A. (USD)	93,083	92,596	487	0.5

Net revenues in Russia and in Turkey exclude sales of products for rare diseases. Sales in the U.S.A. include the sales in Canada.

Sales of pharmaceuticals in Italy are up by 7.1% compared to those of the same period of the preceding year. Worth mentioning is the good performance of Urorec®, Cardicor® (bisoprolol), Lercadip® (lercanidipine) and Zanipril® (lercanidipine+enalapril), as well as the sales of Natural Point S.r.l., the Italian company acquired in June 2018 and consolidated as from July.

Pharmaceutical sales in France are up by 19.3%. Worth mentioning is the addition to the product portfolio of Ginkor® and Alodont®, the main products belonging to Tonipharm S.A.S., the French company acquired in December 2018, the P&L of which was consolidated as from 1 January 2019.

In Germany sales are substantially unchanged compared with those of the same period of the preceding year. Worth mentioning is the performance of Reagila® (cariprazine), a new drug for the treatment of schizophrenia launched in 2018, and of the OTC products.

Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) is € 83.6 million, up by 11.3% compared to the same period of the preceding year and includes estimated currency exchange gains of € 1.1 million. Sales in Russia, in local currency, are RUB 4,824.1 million, up by 9.7% compared to the same period of the preceding year. Worth mentioning is the significant growth of the corporate products Urorec®, Livazo®, Procto-Glyvenol®, Zanidip® and Lomexin®. Sales generated in Ukraine and in the C.I.S. countries, mainly Belarus, and Kazakhstan are growing and have reached € 15.9 million.

The Group's pharmaceutical business in the U.S.A. is dedicated to the marketing of products for the treatment of rare diseases. Sales in the first nine months of 2019 are € 78.3 million, up by 4.4%. The main products are Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency, Cystadane® (betaine anhydrous) indicated in the treatment of homocystinuria and Cosmegen® (dactinomycin for injection) used in the treatment of three rare cancers. The growth of the main products, particularly of Carbaglu® and Cystadane® offset the reduction due to competition from a generic version of Cosmegen®.

In Spain sales are € 69.4 million, up by 7.4% mainly due to the performance of Citrafleet®, Livazo®, Casenlax®, Virirec®, Urorec® and Bi-OralSuero®. Sales of the treatments for rare diseases are also growing significantly.

Sales in Turkey are up by 13.4% and include a negative currency exchange effect estimated to be of € 9.3 million. In local currency sales of our Turkish subsidiary grow by 32.3% thanks to the good performance of all the corporate products, in particular Urorec®, Zanipress®, Lercadip®, Livazo® and Procto-Glyvenol®, as well as the local products Mictonorm® (propiverine), Cabral® (phenyramidol), Kreval® (butamirate citrate) and Aknetrent® (isotretinoin).

Sales in Portugal are up by 6.4% thanks mainly to the good performance of TransAct® LAT and Livazo® and of the treatments for rare diseases.

Sales in other Central and Eastern European countries include the sales of Recordati subsidiaries in Poland, the Czech Republic, Slovakia, Romania, Bulgaria and the Baltic countries, in addition to sales of rare disease treatments in this area as well as in Hungary. In the first nine months of 2019 overall sales are up by 21.6% thanks mainly to the growth of sales in Poland, Bulgaria, the Czech Republic and the Baltics. Sales of the treatments for rare diseases in these countries are up by 20.4%.

Sales in other countries in Western Europe, up by 30.4%, comprise sales of products for the treatment of rare diseases in these countries (+9.3%) and sales of specialty and primary care products generated by the Recordati subsidiaries in the United Kingdom, Ireland, Greece, Switzerland, in the Nordic countries (Finland, Sweden, Denmark, Norway and Iceland) and in BeNeLux. The increase in sales is to be attributed mainly to the direct commercialization by Recordati organizations in the Nordic countries and in BeNeLux where sales were previously made through licensees.

Sales in North Africa are € 30.3 million, down by 4.6%, and comprise both the export sales generated by Laboratoires Bouchara Recordati in these territories, in particular in Algeria, and sales generated by Opalia Pharma, the Group's Tunisian subsidiary. Sales in Tunisia in the first nine months of 2019, in local currency, are up by 17.8%.

Other international sales are up by 1.3% as compared to the same period of the preceding year and comprise the sales to, and other revenues from, our licensees for our corporate products, Laboratoires Bouchara Recordati's and Casen Recordati's export sales, as well as the sales of products for the treatment of rare diseases in the rest of the world. The increase is to be attributed mainly to the good sales performance of the treatments for rare diseases in the rest of the world and particularly to the sales in Japan thanks to the newly acquired license for Juxtapid®.

FINANCIAL REVIEW

INCOME STATEMENT

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

€ (thousands)	First nine months 2019	% of revenue	First nine months 2018	% of revenue	Change 2019/2018	%
Revenue	**1,100,418**	**100.0**	**1,013,308**	**100.0**	**87,110**	**8.6**
Cost of sales	(329,069)	(29.9)	(296,015)	(29.2)	(33,054)	11.2
Gross profit	**771,349**	**70.1**	**717,293**	**70.8**	**54,056**	**7.5**
Selling expenses	(273,446)	(24.8)	(250,258)	(24.7)	(23,188)	9.3
Research and development expenses	(91,581)	(8.3)	(79,436)	(7.8)	(12,145)	15.3
General and administrative expenses	(51,740)	(4.7)	(48,543)	(4.8)	(3,197)	6.6
Other income (expense), net	(1,082)	(0.1)	(2,087)	(0.2)	1,005	(48.2)
Operating income	**353,500**	**32.1**	**336,969**	**33.3**	**16,531**	**4.9**
Financial income (expense), net	(15,980)	(1.5)	(13,757)	(1.4)	(2,223)	16.2
Pretax income	**337,520**	**30.7**	**323,212**	**31.9**	**14,308**	**4.4**
Provision for income taxes	(83,846)	(7.6)	(85,335)	(8.4)	1,489	(1.7)
Net income	**253,674**	**23.1**	**237,877**	**23.5**	**15,797**	**6.6**
EBITDA*	**409,612**	**37.2**	**380,050**	**37.5**	**29,562**	**7.8**

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

Revenue for the period is € 1,100.4 million, an increase of € 87.1 million compared to the first nine months of 2018. For a detailed analysis please refer to the preceding "Review of Operations".

Gross profit is € 771.3 million with a margin of 70.1% on sales, lower compared to that of the same period of the preceding year due mainly to price and currency effects.

Selling expenses increase by 9.3% with a slight increase as a percent of revenue compared to the same period of the preceding year due to marketing expenses for the launch of Reagila®, the new commercial organizations in the Nordic countries, BeNeLux and the Baltics and the initial reinforcement of the organization dedicated to the rare diseases segment following the addition of new important products.

R&D expenses are € 91.6 million, up by 15.3% compared to those recorded in the first nine months of 2018 due to the advancement of new development programs and the amortization of the amounts allocated to intangible assets following the acquisition of Natural Point S.r.l. and of Tonipharm S.A.S. and of the up-front payments for the recently acquired licenses to the rare disease products Ledaga® and Juxtapid®.

G&A expenses are up by 6.6% but are slightly reduced as percent of sales.

The EBITDA (earnings before interest, taxes, depreciation and amortization), at 37.2% of sales, is € 409.6 million, an increase of 7.8% over the first nine months of 2018. Total D&A charges, classified in the lines above, are € 56.1 million. Amortization charges are € 37.8 million, an increase of € 4.9 million over the same period of the preceding year. Depreciation charges are € 18.3 million, up by € 8.2 million compared to the first nine months of 2018, mainly due to the application of the new accounting principle IFRS 16 which also led to lower leasing costs.

Net financial charges are € 16.0 million, an increase of € 2.2 million compared to the same period of the preceding year mainly due to the recognition in the P&L of the fair value of two cross-currency swaps following the early reimbursement during the period of the underlying loans.

The effective tax rate during the period is 24.8%, lower than that of the same period of the preceding year.

Net income at 23.1% of sales is € 253.7 million, an increase of 6.6% over the same period of the preceding year and benefited from the reduction of the effective tax rate.

NET FINANCIAL POSITION

The net financial position is set out in the following table:

€ (thousands)	30 September 2019	31 December 2018	Change 2019/2018	%
Cash and short-term financial investments	612,948	198,036	414,912	n.s.
Bank overdrafts and short-term loans	(16,466)	(16,905)	439	(2.6)
Loans and leases – due within one year [(1)]	(101,094)	(135,278)	34,184	(25.3)
Net liquid assets	495,388	45,853	449,535	n.s.
Loans and leases – due after one year [(1)]	(994,061)	(634,233)	(359,828)	56,7
Net financial position	**(498,673)**	**(588,380)**	**89,707**	**(15.2)**

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

At 30 September 2019 the net financial position shows a net debt of € 498.7 million compared to net debt of € 588.4 million at 31 December 2018. During the period dividends were distributed for a total of € 96.1 million, an amount of $ 30.0 million were paid as per the license agreement with Aegerion Pharmaceuticals Inc. covering the exclusive rights to Juxtapid® (lomitapide) in Japan and a € 40.0 million milestone was paid to Helsinn as per the license agreement for Ledaga® (chlormethine). Furthermore, the application of IFRS 16 generated a medium/long term financial liability of € 25.9 million.

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

In June Recordati S.p.A. undersigned a loan agreement for an amount of € 300.0 million, with the potential to be extended to € 400.0 million, aimed at supporting the Group's growth strategy. The loan, initially undersigned by Mediobanca, Natixis and Unicredit was subsequently syndicated involving a pool of Italian and international banks. Mediobanca also acted as agent. The high credit standing of the beneficiary allowed more funds to be raised than required. The company opted for an increase in the loan amount to € 400.0 million. The terms of the loan provide for a variable interest rate at the 6 months' Euribor (with a zero floor) plus a 135 basis points spread and a duration of 5 years with principal repayment starting 30 June 2020 through June 2024. Funding, net of up-front commissions (95 basis points on € 300.0 million and 65 basis points on the incremental € 100.0 million), took place on 30 July 2019.

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

RELATED PARTY TRANSACTIONS

Tax liabilities shown in the consolidated balance sheet at 30 September 2019 include those payable to the controlling company FIMEI S.p.A. for an amount of € 3.8 million. This amount refers to tax liabilities computed by the parent Recordati S.p.A. based on estimated taxable income and transferred to the controlling company consequent to the participation in a tax consolidation grouping under tax laws in Italy.

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

BUSINESS OUTLOOK

The growth of Group's business continued during October. For the full year 2019, taking into account the acquisition of the new products Signifor® and Signifor® LAR® announced on 12 July and completed on 23 October, our targets are to achieve sales ranging from € 1,460 million to € 1,480 million, an EBITDA of between € 535 and € 545 million, EBIT of between € 460 and € 470 million and net income of between € 330 and € 335 million.

Milan, 31 October 2019

on behalf of the Board of Directors
the Chief Executive Officer
Andrea Recordati

CONSOLIDATED FINANCIAL STATEMENTS AT 30 SEPTEMBER 2019

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT

€ (thousands) [1]	Note	First nine months 2019	First nine months 2018[*]
Revenue	3	1,100,418	1,013,308
Cost of sales	4	(329,069)	(296,015)
Gross profit		771,349	717,293
Selling expenses	4	(273,446)	(250,258)
Research and Development expenses	4	(91,581)	(79,436)
General and Administrative expenses	4	(51,740)	(48,543)
Other income (expense), net	4	(1,082)	(2,087)
Operating income		353,500	336,969
Financial income (expense), net	5	(15,980)	(13,757)
Pretax income		337,520	323,212
Provision for income taxes	6	(83,846)	(85,335)
Net income		253,674	237,877
Attributable to:			
Equity holders of the parent		253,642	237,841
Non-controlling interests		32	36
Earnings per share			
Basic		€ 1.239	€ 1.163
Diluted		€ 1.213	€ 1.137

(1) Except for share and per-share amounts.
Earnings per share (EPS) are based on average shares outstanding during each year, 204,706,235 in 2019 and 204.556.132 in 2018, net of average treasury stock which amounted to 4,.418,921 shares in 2019 and to 4,569,024 shares in 2018.
Diluted earnings per share is calculated taking into account stock options granted to employees.

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

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS

€ (thousands)	Note	30 September 2019	31 December 2018(*)
Non-current assets			
Property, plant and equipment	7	131,080	103,582
Intangible assets	8	702,424	672,462
Goodwill	9	582,226	579,557
Other investments	10	29,208	20,773
Other non-current assets	11	6,137	5,860
Deferred tax assets	12	74,762	81,267
Total non-current assets		**1,525,837**	**1,463,501**
Current assets			
Inventories	13	213,454	206,084
Trade receivables	13	277,371	245,742
Other receivables	13	28,944	38,462
Other current assets	13	11,749	5,193
Fair value of hedging derivatives (cash flow hedge)	14	11,789	6,414
Short-term financial investments, cash and cash equivalents	15	612,948	198,036
Total current assets		**1,156,255**	**699,931**
Total assets		**2,682,092**	**2,163,432**

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

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

€ (thousands)	Note	30 September 2019	31 December 2018(*)
Shareholders' equity			
Share capital		26,141	26,141
Additional paid-in capital		83,719	83,719
Treasury stock		(97,902)	(145,608)
Hedging reserve (cash flow hedge)		(8,081)	(8,399)
Translation reserve		(134,495)	(154,146)
Other reserves		54,700	43,081
Retained earnings		1,001,669	897,990
Net income for the period		253,642	312,376
Interim dividend		0	(91,761)
Group shareholders' equity		**1,179,393**	**963,393**
Non-controlling interests		225	193
Shareholders' equity	16	**1,179,618**	**963,586**
Non-current liabilities			
Loans – due after one year	17	1,005,638	640,647
Staff leaving indemnities	18	19,515	19,547
Deferred tax liabilities	19	45,564	45,653
Other non-current liabilities	20	3,257	3,257
Total non-current liabilities		**1,073,974**	**709,104**
Current liabilities			
Trade payables	21	148,179	165,020
Other payables	21	83,237	85,534
Tax liabilities	21	38,056	42,149
Other current liabilities	21	15,253	19,359
Provisions	21	16,912	21,446
Fair value of hedging derivatives (cash flow hedge)	22	9,303	9,746
Loans – due within one year	17	101,094	130,583
Bank overdrafts and short-term loans	23	16,466	16,905
Total current liabilities		**428,500**	**490,742**
Total equity and liabilities		**2,682,092**	**2,163,432**

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

RECORDATI S.p.A. AND SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME

€ (thousands) [1]	First nine months 2019	First nine months 2018[*]
Net income for the period	253,674	237,877
Gains/(losses) on cash flow hedges, net of tax	318	(1,886)
Gains/(losses) on translation of foreign financial statements	19,651	(37,321)
Gains/(losses) on equity-accounted investees, net of tax	8,596	(1,742)
Income and expense for the period recognized directly in equity	**28,565**	**(40,949)**
Comprehensive income for the period	**282,239**	**196,928**
Attributable to:		
Equity holders of the parent	282,207	196,892
Non-controlling interests	32	36
Per share data		
Basic	€ 1.379	€ 0.963
Diluted	€ 1.350	€ 0.942

(1) Except for share and per-share amounts.
Earnings per share (EPS) are based on average shares outstanding during each year, 204,706,235 in 2019 and 204.556.132 in 2018, net of average treasury stock which amounted to 4,.418,921 shares in 2019 and to 4,569,024 shares in 2018.
Diluted earnings per share is calculated taking into account stock options granted to employees.

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

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

	Attributable to equity holders of the Parent										
€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the period	Interim dividend	Non-controlling interests	Total
Balance at 31.12.2017[*]	**26,141**	**83,719**	**(17,029)**	**(5,867)**	**(124,004)**	**40,684**	**822,154**	**288,762**	**(87,470)**	**147**	**1,027,237**
Allocation of 2017 net income:											
- Dividends							37,910	(212,506)	87,470		(87,126)
- Retained earnings							76,256	(76,256)			0
Change in the reserve for share based payments						1,297	1,664				2,961
Purchase of own shares			(169,769)								(169,769)
Disposal of own shares			35,487				(17,903)				17,584
Other changes							221				221
Comprehensive income for the period				(1,886)	(37,321)	(1,742)		237,841		36	196,928
Balance at 30.9.2018	**26,141**	**83,719**	**(151,311)**	**(7,753)**	**(161,325)**	**40,239**	**920,302**	**237,841**	**0**	**183**	**988,036**
Balance at 31.12.2018[1]	**26,141**	**83,719**	**(145,608)**	**(8,399)**	**(154,146)**	**43,081**	**897,990**	**312,376**	**(91,761)**	**193**	**963,586**
Allocation of 2018 net income:											
- Dividends							29,486	(217,330)	91,761		(96,083)
- Retained earnings							95,046	(95,046)			0
Change in the reserve for share based payments						3,023	2,264				5,287
Disposal of own shares			47,706				(23,700)				24,006
Other changes							583				583
Comprehensive income for the period				318	19,651	8,596		253,642		32	282,239
Balance at 30.9.2019	**26,141**	**83,719**	**(97,902)**	**(8,081)**	**(134,495)**	**54,700**	**1,001,669**	**253,642**	**0**	**225**	**1,179,618**

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

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT

€ (thousands)	First nine months 2019	First nine months 2018(*)
Operating activities		
Cash flow		
Net Income	253,674	237,877
Depreciation of property, plant and equipment	18,348	10,181
Amortization of intangible assets	37,764	32,900
Equity-settled share-based payment transactions	5,287	2,961
Total	**315,073**	**283,919**
(Increase)/decrease in deferred tax assets	7,801	(6,302)
Increase/(decrease) in staff leaving indemnities	(32)	0
Increase/(decrease) in other non-current liabilities	(1,325)	824
	321,517	**278,441**
Changes in working capital		
Trade receivables	(31,629)	(97)
Inventories	(7,370)	(5,848)
Other receivables and other current assets	2,751	10,763
Trade payables	(16,841)	(19,669)
Tax liabilities	(4,093)	19,103
Other payables and other current liabilities	(6,403)	7,052
Provisions	(4,534)	3,550
Changes in working capital	**(68,119)**	**14,854**
Net cash from operating activities	**253,398**	**293,295**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(20,503)	(12,430)
Net (investments)/disposals in intangible assets	(61,909)	(39,796)
Net (investments)/disposals in subsidiaries	0	(74,606) (1)
Net (increase)/decrease in other non-current receivables	(277)	(781)
Net cash used in investing activities	**(82,689)**	**(127,613)**
Financing activities		
Medium/long term loans granted	425,151	4,547
Re-payment of loans	(111,948)	(41,707)
Payment of lease liabilities	(7,311)	-
Purchase of treasury stock	0	(169,769)
Sale of treasury stock	24,006	17,584
Other changes in shareholders' equity	583	221
Dividends paid	(96,083)	(87,126)
Net cash from/(used in) financing activities	**234,398**	**(276,250)**
Changes in net cash and cash equivalents	**405,107**	**(110,568)**
Net cash and cash equivalents at beginning of period *	181,131	285,500
Change in translation reserve	10,244	(7,347)
Net cash and cash equivalents at end of period *	596,482	167,585

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

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

*(1) Acquisition of **Natural Point S.r.l.**: Working capital (1,628), fixed assets (63,764), goodwill (27,872), personnel leaving indemnity 114, medium/long-term loans 1,351, deferred tax liabilities 17,193.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

1. GENERAL

The consolidated financial statements of the Recordati group for the period ended 30 September 2019 have been prepared by Recordati Industria Chimica e Farmaceutica S.p.A., Via Matteo Civitali 1, Milan, Italy, and were approved by the Board of Directors on 31 October 2019 that authorised their public disclosure. Details regarding the accounting principles adopted by the Group are set out in Note 2.

The consolidated financial statements for the period ended 30 September 2019 comprise Recordati S.p.A. (the Company or the Parent) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in Note 28.

During the first nine months of 2019 the consolidation perimeter changed consequent to the establishment of the company Recordati Bulgaria Ltd and the liquidation of Orphan Europe Switzerland GmbH. Furthermore, in order to improve the recognition of the Group's business in the segment dedicated to rare diseases, its operational dedicated subsidiaries have changed their names from Orphan Europe to Recordati Rare Diseases: in France Recordati Rare Diseases S.à R.L., and in the other countries Recordati Rare Diseases Italy S.r.l., Recordati Rare Diseases Germany GmbH, Recordati Rare Diseases Spain S.L., Recordati Rare Diseases UK Limited, Recordati Rare Diseases Middle East FZ LLC. The recognition in the accounts of the purchase price allocation following the acquisition in 2018 of Natural Point S.r.l. is now definite and the values recognized in the 2018 financial statements for the assets and liabilities acquired are confirmed. The recognition in the accounts of the purchase price allocation following the acquisition in December 2018 of Tonipharm S.a.s. is not yet definite as allowed by IFRS 3.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements were prepared in accordance with the recognition and measurement criteria prescribed by the International Financial Reporting Standards (IFRS) adopted by the European Union, but do not include the full information required for the annual financial statements and must therefore be read together with the annual report for the full year ended 31 December 2018, prepared in accordance with the IFRS, issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

The preparation of the interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. Valuation exercises, in particular complex calculations such as those required to identify impairment loss, are carried out in depth only for the preparation of the year-end consolidated financial statements, except when there is an indication that an asset has suffered an impairment loss which would require an immediate estimate of the loss.

In relation to financial instruments measured at Fair Value, IFRS 13 requires the classification of these instruments according to the standard's hierarchy levels, which reflect the significance of the inputs utilized in establishing the fair value. The following levels are used:

- Level 1: unadjusted assets or liabilities subject to valuation on an active market;
- Level 2: inputs other than prices listed at the previous point, which are directly observable (prices) or indirectly (derivatives from the prices) on the market;

- Level 3: input which is not based on observable market data.

Disclosure of the net financial position is included under the preceding management review.

Application of new accounting principles

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements.

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

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made.

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

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

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

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

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

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

During the first nine months 2019 further right-of-use assets and the corresponding lease liabilities were recognized for an amount of € 6.4 million, while payments were booked for € 7.3 million. Furthermore, amortization charges were booked for an amount of € 7.8 million as well as interest charges of € 0.9 million in substitution for leasing costs.

3. REVENUE

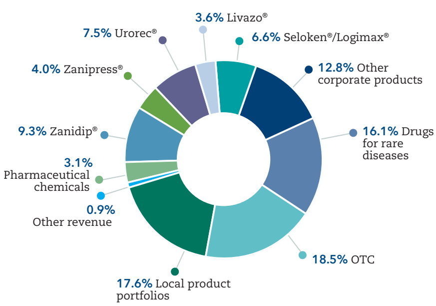
The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers.

Net revenue for the first nine months of 2019 is € 1.100,4 million (€ 1.013,3 million in the same period of the preceding year) and can be broken down as follows:

€ (thousands)	First nine months 2019	First nine months 2018(*)	Change 2019/2018
Net sales	1,085,523	1,002,510	83,013
Royalties	5,107	4,605	502
Up-front payments	4,673	2,035	2,638
Others	5,115	4,158	957
Total revenue	**1,100,418**	**1,013,308**	**87,110**

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

The following graph illustrates the composition of revenues by product for the first nine months of 2019.



A further in depth analysis of sales is presented in the Management Review.

Revenue from up-front payments refers to the licensing out and distribution of products in the Group's portfolio. In the first nine months of 2019 it refers mainly to agreements for the commercialization of the lercanidipine-enalapril fixed combination (€ 1.2 million), lercanidipine (€ 0.9 million), pitavastatin (€ 0.8 million), silodosin (€ 0.5 million) and Cystadrops® (cysteamine hydrochloride) (€ 0.6 million).

The amount of € 14.2 million (31 December 2018: € 18.6 million), classified in other current liabilities (see Note 21), is related to the up-front payments received from customers for the licencing-out and distribution of products agreements. These will be recognised as revenue when the products are delivered to customers.

The Group's revenue is not subject to seasonal fluctuations.

4. OPERATING EXPENSES

Overall operating expenses in the first nine months of 2019 are € 746.9 million, an increase as compared to the € 676.3 million in the same period of the preceding year and are analyzed by function as follows:

€ (thousands)	First nine months 2019	First nine months 2018(*)	Change 2019/2018
Cost of sales	329,069	296,015	33,054
Selling expenses	273,446	250,258	23,188
Research and development expenses	91,581	79,436	12,145
General and administrative expenses	51,740	48,543	3,197
Other income (expense), net	1,082	2,087	(1,005)
Total operating expenses	**746,918**	**676,339**	**70,579**

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

Research and development expenses include the amortization of intangible assets, classified as licenses, brands and patents, referable to acquired products for an overall amount of € 37.4 million.

Other income (expense) comprises non-recurring events, operations and matters which are not often repeated in the ordinary course of business.

Total operating expenses are analyzed by nature as follows:

€ (thousands)	First nine months 2019	First nine months 2018(*)	Change 2019/2018
Material consumption	258,032	230,368	27,664
Payroll costs	185,631	172,931	12,700
Other employees costs	26,663	29,606	(2,943)
Variable sales expenses	56,888	50,606	6,282
Depreciation and amortization	56,112	43,081	13,031
Utilities and consumables	23,885	21,967	1,918
Other expenses	139,707	127,780	11,927
Total operating expenses	**746,918**	**676,339**	**70,579**

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

Payroll costs include a cost for stock options of € 5.3 million in the first nine months of 2019 and € 3.0 million in the same period of the preceding year.

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

At 30 September 2019 recognition under IFRS 2 generated a cost booked to the profit and loss of € 0.6 million.

Amortization charges are € 37.8 million, an increase of € 4.9 million over the same period of the preceding year. Depreciation charges are € 18.3 million, up by € 8.2 million compared to the first nine months of 2018, mainly due to the application of the new accounting principle IFRS 16 (see Note 2).

5. FINANCIAL INCOME AND EXPENSE

In the first nine months of 2019 and in the same period of 2018 financial items record a net expense of € 16.0 million and € 13.8 million respectively and are comprised as follows:

€ (thousands)	First nine months 2019	First nine months 2018(*)	Change 2019/2018
Currency exchange (gains) losses	893	1,749	(856)
Interest expense on loans	9,614	9,292	322
Net interest (income) expense on short-term financial position	4,221	2,510	1,711
Interest cost on leases (see Note 2)	881	38	843
Interest cost on tax assessments	222	0	222
Interest cost in respect of defined benefit plans	149	168	(19)
Total financial income (expense), net	**15,980**	**13,757**	**2,223**

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

The increase in net interest on the short-term financial position is to be attributed mainly to the valuation of two loans between the Parent company and the US subsidiary Recordati Rare Diseases Inc. (stipulated in November 2016 for an overall amount of $ 70 million and which correspond to the two tranches of the notes privately placed by the US subsidiary in 2013) and the relative cross-currency swaps. Following the early reimbursement of the notes in the first half of 2019, the derivative financial instruments no longer qualify as hedging instruments and the loss due to their change in fair value is recognized to the profit and loss, net of the effect of the conversion of the loans to the current Euro/Dollar exchange rate, for an amount of € 1.1 million.

6. PROVISION FOR TAXES

The provision for taxes amounts to € 83.8 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies.

During the period an agreement was signed with the Italian Revenue Agency covering the complete definition of all the disputes connected with the tax periods 2016 and 2017 (see Note 25). The overall cost, which was already accrued in the previous year, is of € 4.8 million, in addition to € 0.2 million of interest cost, with all penalties waived. The agreed amount was paid in June. The € 0.5 million difference between the amount paid and the amount previously accrued was reversed and booked to provision for taxes.

7. PROPERTY, PLANT AND EQUIPMENT

The composition and variation of property, plant and equipment, including the valuation of the right to use the assets conveyed under leases and determined as prescribed by IFRS 16 (see Note 2), are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
Cost					
Balance at 31 December 2018	77,204	227,870	68,033	14,751	387,858
First time application IFRS 16	14,214	420	10,383	0	25,017
Balance at 1 January 2019	91,418	228,290	78,416	14,751	412,875
Additions	855	1,255	8,055	10,642	20,807
Disposals	(1,632)	(24)	(2,181)	0	(3,837)
Other changes	609	3,707	2,003	(4,922)	1,397
Balance at 30 September 2019	**91,250**	**233,228**	**86,293**	**20,471**	**431,242**
Accumulated depreciation					
Balance at 31 December 2018	43,767	186,365	54,144	0	284,276
Depreciation for the period	4,383	6,021	7,944	0	18,348
Disposals	(1,575)	(16)	(1,942)	0	(3,533)
Other changes	330	455	286	0	1,071
Balance at 30 September 2019	**46,905**	**192,825**	**60,432**	**0**	**300,162**
Carrying amount at					
30 September 2019	44,345	40,403	25,861	20,471	131,080
31 December 2018	33,437	41,505	13,889	14,751	103,582

The additions during the period are € 20.8 million and refer to investments in the Italian plants and in the headquarters building for an amount of € 10.6 million.

The conversion into euros of the tangible assets booked in different currencies gives rise to a net increase of € 0.3 million as compared to 31 December 2018, mainly attributable to the revaluation of the Tunisian dinar.

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

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Total
Cost				
Balance at 31 December 2018*	3,132	0	543	3,675
First time application IFRS 16	14,214	420	10,383	25,017
Balance at 1 January 2019	17,346	420	10,926	28,692
Additions	739	7	5,690	6,436
Disposals	(192)	(12)	(802)	(1,006)
Other changes	17	0	254	271
Balance at 30 September 2019	**17,910**	**415**	**16,068**	**34,393**
Accumulated depreciation				
Balance at 31 December 2018*	911	0	224	1,135
Depreciation for the period	2,734	177	4,849	7,760
Disposals	(135)	(4)	(579)	(718)
Other changes	19	1	74	94
Balance at 30 September 2019	**3,529**	**174**	**4,568**	**8,271**
Carrying amount at				
30 September 2019	14,381	241	11,500	26,122
31 December 2018	2,221	0	319	2,540

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

8. INTANGIBLE ASSETS

The composition and variation of intangible assets are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trade-mark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31 December 2018	582,461	413,510	18,948	30,567	1,045,486
Additions	7	34,055	190	27,699	61,951
Disposals	0	(300)	(177)	(13)	(490)
Other changes	7,689	4,800	2,903	(6,585)	8,807
Balance at 30 September 2019	**590,157**	**452,065**	**21,864**	**51,668**	**1,115,754**
Accumulated amortization					
Balance at 31 December 2018	187,418	168,918	16,688	0	373,024
Amortization for the period	19,942	17,445	377	0	37,764
Disposals	0	(268)	(180)	0	(448)
Other changes	2,881	(2,532)	2,641	0	2,990
Balance at 30 September 2019	**210,241**	**183,563**	**19,526**	**0**	**413,330**
Carrying amount at					
30 September 2019	379,916	268,502	2,338	51,668	702,424
31 December 2018	395,043	244,592	2,260	30,567	672,462

Increases during the period refer to:

- the payment of $ 30 million to Aegerion Pharmaceuticals Inc. as per the license agreement for the exclusive commercialization rights in Japan for Juxtapid®, a product indicated for patients with homozygous familial hypercholesterolemia;
- a further € 20.0 million as per the agreement, signed in 2018 with Helsinn, for the acquisition of the exclusive commercialization rights to Ledaga® (chlormethine), indicated for the topical treatment of mycosis fungoides-type cutaneous T-cell lymphoma, in all the world excluding the U.S.A., China, Hong Kong and Israel;
- € 6.7 million for the renewal of the agreement with Amdipharm covering the distribution rights to TransAct® LAT;
- € 2.5 million milestone to Gedeon Richter as per the license agreement for Reagila® (cariprazine).

The conversion into euros of the intangible assets booked in different currencies gives rise to a net increase of € 5.8 million as compared to 31 December 2018, mainly attributable to the revaluation of the U.S. dollar (increase of € 3.5 million) and of the Russian ruble (increase of € 2.2 million).

9. GOODWILL

Net goodwill at 30 September 2019 amounts to € 582.2 million, an increase of € 2.6 million as compared to that at 31 December 2018, and is attributed to the operational areas, which represent the same number of cash generating units:

- France: € 76.0 million;
- Russia: € 27.5 million;
- Germany: € 48.8 million;
- Portugal: € 32.8 million;
- Treatments for rare diseases business: € 110.6 million;
- Turkey: € 40.5 million;
- Czech Republic: € 13.7 million;
- Romania: € 0.2 million;
- Poland: € 15.0 million;
- Spain: € 58.1 million;
- Tunisia: € 17.3 million;
- Italy: € 133.2 million;
- Switzerland: € 8.5 million.

As prescribed by IFRS 3, the recognition of the purchase price allocation associated with the acquisition of the Italian company Natural Point S.r.l. in 2018 is to be considered definite. The preliminary process for the measurement of the fair value of the assets and liabilities at the date of acquisition, which resulted in the identification of added value for the intangible asset Magnesio Supremo®, is confirmed. Therefore, an amount of € 61.2 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to this asset and € 17.1 million to the relative deferred tax liabilities, while € 27.9 million were allocated to goodwill. Such goodwill was allocated to the specialty and primary care segment and is not tax deductible.

As allowed by IFRS 3, the recognition of the purchase price allocation associated with the acquisition of the French company Tonipharm S.a.s. in December 2018 is to be considered not yet definite. The preliminary process for the measurement of the fair value of the assets and liabilities at the date of acquisition resulted in the identification of added value for the intangible assets Ginkor® and Alodont®. Therefore, an amount of € 38.5 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to these assets and € 12.3 million to the relative deferred tax liabilities, while € 30.2 million were allocated to goodwill. Such goodwill was allocated to the specialty and primary care segment and is not tax deductible.

Goodwill related to acquisitions made in countries outside the European Monetary Union is calculated in local currency and converted into euros at the period-end exchange rate. Conversion at 30 September 2019 resulted in an overall net increase of € 2.6 million, compared to that at 31 December 2018, to be attributed to the acquisitions in Russia (increase of € 1.7 million), Tunisia (increase of € 1.5 million), Switzerland (increase of € 0.3 million), Turkey (decrease of € 0.6 million) and Poland (decrease of € 0.3 million).

In compliance with IFRS 3 goodwill is not systematically amortized. Instead, it is tested for impairment on an annual basis or more frequently if specific events or circumstances indicate a possible loss of value. During the period no events or circumstances arose to indicate possible value loss related to any of the abovementioned items.

10. OTHER INVESTMENTS

At 30 September 2019 other investments amount to € 29.2 million, an increase of € 8.4 million compared to those at 31 December 2018.

The main investment is that made in the U.K. company PureTech Health plc, specialized in investment in start-up companies dedicated to innovative therapies, medical devices and new research technologies. Starting 19 June 2015 the shares of the company were admitted to trading on the London Stock Exchange. At 30 September 2019 the overall fair value of the 9.554.140 shares held is of € 27.3 million. The € 9.3 million increase in value compared to that at 31 December 2018 is recognized directly in equity, net of the relative tax effect, and shown on the statement of comprehensive income.

This account also comprises € 1.8 million regarding an investment made during 2012 in Erytech Pharma S.A., a listed late development stage French biopharmaceutical company focused on orphan oncology and rare diseases. The investment, originally structured as a non-interest bearing loan, was converted into 431,034 shares of the company in May 2013. As compared to 31 December 2018 the value of the investment was reduced by € 0.9 million to bring it in line with its fair value. This amount, net of its tax effect, is recognized directly in equity and shown on the statement of comprehensive income.

11. OTHER NON-CURRENT ASSETS

Other non-current assets at 30 September 2019 are € 6.1 million, a slight increase compared to those at 31 December 2018 and they comprise medium to long-term receivables.

12. DEFERRED TAX ASSETS

At 30 September 2019 deferred tax assets are € 74.8 million, a net decrease of € 6.5 million compared to those at 31 December 2018, mainly generated by the franking of the differences between the book values and the fiscal values, following the acquisitions made in 2016. The effect of deferred tax assets related to components of the other comprehensive income is a net increase of € 0.1 million.

13. CURRENT ASSETS

Inventories are € 213.5 million, an increase of € 7.4 million compared to those stated at 31 December 2018.

Trade receivables at 30 September 2019 are € 277.4 million, an increase of € 31.6 million compared to that at 31 December 2018 due to the increase in sales. Trade receivables are stated net of a € 16.0 million provision for doubtful accounts, an increase of € 1.4 million compared to 31 December 2018, classified in selling expenses, which reflects the collection risk connected with certain customers and geographic areas. Days sales outstanding are 67.

Other receivables, at € 28.9 million, decrease by € 9.5 million compared to those at 31 December 2018.

Other current assets are € 11.7 million and refer mainly to prepaid expenses.

14. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGE)

The cross currency swaps covering the cash flows related to the notes issued and privately placed on 30 September 2014, for an amount of $ 75 million, measured at fair value at 30 September 2019 give rise to a € 11.6 million asset recognized under current assets as 'Fair value of hedging derivatives (cash flow hedge)'. This amounts represents the potential benefit of a lower value in euros of the future dollar denominated capital and interest flows, in view of the revaluation of the foreign currency subsequent to the moment in which the loan and hedging instrument were negotiated. In particular, the change in fair value of the hedging instrument covering the $ 50 million tranche of the loan, provided by Mediobanca, was positive for an amount of € 7.9 million, and that covering the $ 25 million tranche of the loan, provided by UniCredit, yielded a € 3.7 million positive value change.

The cross currency swap agreements undersigned by the Parent and Unicredit in November 2016 following two loan agreements with the U.S. company Recordati Rare Diseases for an overall nominal amount of $ 70 million, measured at fair value at 30 September 2019 yielded a € 0.2 million positive value change.

15. SHORT-TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

Short term financial investments, cash and cash equivalents at 30 September 2019 are € 612.9 million, an increase of € 414.9 million compared to those at 31 December 2018. The increase is mainly attributable to the funds received on 30 July 2019 following a loan agreement for an amount of € 400.0 million, aimed at supporting the Group's growth strategy, initially undersigned by Mediobanca, Natixis and Unicredit and subsequently syndicated involving a pool of Italian and international banks.

The short term financial investments, cash and cash equivalents are mostly denominated in euros, U.S. dollars and Pounds Sterling and comprise mainly current accounts and short-term deposits.

16. SHAREHOLDERS' EQUITY

Shareholders' Equity at 30 September 2019 is € 1,079.6 million, an increase of € 216.0 million compared to that at 31 December 2018 for the following reasons:

- net income for the period (increase of € 253.7 million);
- cost of stock option plans set-off directly in equity (increase of € 5.3 million);
- disposal of 1,688,500 own shares in treasury stock to service the stock option plans (increase of € 24.0 million);
- change in the value of cross currency swaps, the underlying loans and interest rate swaps set-off directly in equity, net of the relative tax effect (increase of € 0.3 million);
- application of IFRS (increase of € 8.6 million), almost entirely due to the change in fair value of the holdings in PureTech Health plc and in Erytech Pharma S.A., net of the tax effect;
- translation adjustments (increase of € 19.6 million);
- other changes (increase of € 0.6 million);
- dividend distribution (decrease of € 96.1 million).

The Italian company Recordati Rare Diseases Italy is 99% owned giving rise to a minority interest of € 225.0 thousand.

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

	Strike price (€)	Options outstanding at 1.1.2019	Options granted during 2019	Options exer-cised during 2019	Options cancelled or expired	Options outstanding at 30.9.2019
Date of grant						
9 February 2011	6.7505	73,500	-	(35,500)	-	38,000
8 May 2012	5.3070	427,500	-	(185,000)	-	242,500
17 April 2013	7.1600	25,000	-	-	-	25,000
30 October 2013	8.9300	15,000	-	(10,000)	-	5,000
29 July 2014	12.2900	2,171,000	-	(962,500)	-	1,208,500
13 April 2016	21.9300	2,961,500	-	(495,500)	(159,000)	2,307,000
3 August 2018	30.7300	4,818,000	-	-	(154,000)	4,664,000
Total		10,491,500	-	(1,688,500)	(313,000)	8,490,000

At 30 September 2019, 3,465,071 own shares are held as treasury stock, a reduction of 1,688,500 shares as compared to those at 31 December 2018. The change is to be attributed to the disposal of 1,688,500 shares for an overall value of € 24.0 million to service the exercise of stock options issued under the stock option plans. The overall purchase cost of the shares held in treasury stock is € 97.9 million with an average unit price of € 28.25.

During the period, some Group employees were designated as beneficiaries of an incentive plan, for a duration of 5 years, under which they acquired, at nominal value, shares of Rossini Luxembourg S.à r.l., an indirect shareholder of Recordati S.p.A., and will benefit from a return at the expiry of the plan's duration.

17. LOANS

At 30 September 2019 medium and long-term loans are € 1,106.7 million, a net increase of € 335.5 million compared to those at 31 December 2018.

Loans include the liability, determined by the application of the new accounting principle IFRS 16, that represents the obligation of making the payments provided for in the existing lease contracts (see Note 2). The value of this liability at the date of first time application of the principle is of € 25.0 million, while new contracts entered into during the period account for an additional liability of € 6.4 million.

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

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

The above conditions were amply fulfilled during the period.

In July Recordati S.p.A. obtained a loan for an amount of € 300.0 million, with the potential to be extended to € 400.0 million, aimed at supporting the Group's growth strategy. The loan, initially undersigned by Mediobanca, Natixis and Unicredit was subsequently syndicated involving a pool of Italian and international banks. Mediobanca also acted as agent. The high credit standing of the beneficiary allowed more funds to be raised than required. The company opted for an increase in the loan amount to € 400.0 million. The terms of the loan provide for a variable interest rate at the 6 months' Euribor (with a zero floor) plus a 135 basis points spread and a duration of 5 years with principal repayment starting 30 June 2020 through June 2024. Funding, net of up-front commissions (95 basis points on € 300.0 million and 65 basis points on the incremental € 100.0 million), took place on 30 July 2019. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

Reimbursements during the first nine months of 2019 amount to € 119.3 million, of which € 61.3 million are due to the early repayment of the privately placed notes issued by Recordati Rare Diseases on 13 June 2013 for a total of $ 70 million, following the acquisition of FIMEI S.p.A. (shareholder of the Parent) by a Consortium of investment funds controlled by CVC Capital Partners, and € 7.3 million due to payments of lease liabilities.

The conversion of loans in foreign currency gave rise to an increase of € 4.6 million compared to those at 31 December 2018.

The other main long-term loans outstanding are:

a) A loan agreement undersigned with Mediobanca by the Parent in November 2018 for an amount of € 150.0 million. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a spread of 130 basis points with semi-annual repayments of principal from 23 November 2020 through 22 November 2023. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 1.619%. The measurement at fair value at 30 September 2019 of the swap generated a liability of € 3.4 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

  The above conditions were amply fulfilled during the period.

b) A loan of € 4.3 million granted to the Parent in July 2018 by the Banca del Mezzogiorno-Mediocredito Centrale to fund investments in research and development, of which € 3.9 million at a reduced fixed interest rate of 0.50% to be repaid in six semi-annual installments starting 30 June 2019 through 31 December 2021, and € 0.4 million at a variable interest rate equal to the 6 months' Euribor plus a spread of 220 basis points, to be repaid in two installments on 30 June and 31 December 2021. The debt outstanding at 30 September 2019 is of € 3.6 million.

c) A loan agreement with Banca Passadore undersigned by the Parent in November 2017 for an amount of € 15.0 million, disbursed net of up-front commissions of 0.05%. The main terms and conditions provide for variable interest rate fixed at the three months' Euribor plus a spread of 65 basis points with quarterly payments of interest and a duration of 5 years with annual repayments of principal from November 2020 through November 2022. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

d) A loan agreement with Intesa Sanpaolo undersigned by the Parent in October 2017 for an amount of € 75.0 million, disbursed net of up-front commissions of 0.30%. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a spread of 95 basis points, semi-annual payments of interest and a duration of 8 years with semi-annual repayments of principal from June 2019 through October 2025. The debt outstanding at 30 September 2019 is of € 69.5 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 1.305%. The measurement at fair value at 30 September 2019 of the swap generated a liability of € 1.9 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

e) A loan agreement with UniCredit undersigned by the Parent in September 2017 for an amount of € 50.0 million, disbursed net of up-front commissions of 0.15%. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 55 basis points with semi-annual payments of interest and the repayment of principal on 29 September 2021. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.698%. The measurement at fair value at 30 September 2019 of the swap generated a liability of € 0.6 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

f) A loan agreement with UBI Banca undersigned by the Parent in September 2017 for an amount of € 50.0 million, disbursed net of up-front commissions of 0.10%. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 50 basis points with semi-annual payments of interest and the repayment of principal on 7 September 2022. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.714%. The measurement at fair value at 30 September 2019 of the swap generated a liability of € 1.0 million. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

g) A loan agreement with Mediobanca undersigned by the Parent in July 2017 for an amount of € 75.0 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 95 basis points and a duration of 7 years with annual repayments of principal from July 2018 through July 2024. The debt outstanding at 30 September 2019 is of € 54.0 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 1.29%. The measurement at fair value at 30 September 2019 of the swap generated a liability of € 1.3 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

- the ratio of consolidated net debt to consolidated EBITDA

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

The above conditions were amply fulfilled during the period.

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

The above conditions were amply fulfilled during the period.

i) A loan agreement with Banca Nazionale del Lavoro undersigned by the Parent company in December 2016 for an amount of € 25.0 million, disbursed net of expenses and commissions of € 0.1 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 40 basis points and a duration of 4 years with semi-annual repayments of principal from March 2019 through September 2020. The debt outstanding at 30 September 2019 is of € 12.5 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.41%. The measurement at fair value at 30 September 2019 of the swap generated a liability of € 0.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:
- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated operating income to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

The above conditions are amply fulfilled.

j) A loan agreement with Intesa Sanpaolo undersigned by the Parent company in December 2016 for an amount of € 25.0 million, disbursed net of expenses and commissions of € 0.1 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 60 basis points and a duration of 5 years with semi-annual repayments of principal from June 2019 through December 2021. The debt outstanding at 30 September 2019 is of € 20.8 million. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.68%. The measurement at fair value at 30 September 2019 of the swap generated a liability of € 0.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:
- the ratio of consolidated net debt to EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated operating income to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

The above conditions are amply fulfilled.

k) A loan agreement with UniCredit undersigned by the Parent company in May 2015 for an amount of € 50.0 million. The main terms and conditions provide for variable interest rate fixed at the 6 months Euribor plus a spread of 80 basis points and a duration of 5 years with semi-annual repayments of principal from November 2015 through May 2020. The debt outstanding at 30 September 2019 is of € 10.0 million. The loan is partly covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges on a portion of the debt from variable to a fixed rate of 1.734%. The measurement at fair value at 30 September 2019 of the swap covering € 4.2 million generated a slight liability which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:
- the ratio of consolidated net debt to EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated operating income to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

The above conditions are amply fulfilled.

l) A loan agreement with ING Bank for an amount of € 30.0 million, originally undersigned by the Parent company on 8 January 2014, was re-negotiated on 12 June 2015 with only the interest rate being changed. Main terms are: variable interest rate equivalent to the 6 months' Euribor plus a spread of 85 basis points (as opposed to the 190 basis points in the previous agreement), and reimbursement of principal at the end of every six months starting July 2016 through January 2020. The debt outstanding at 30 September 2019 is of € 3.7

million. The loan was simultaneously covered with an interest rate swap qualifying as a cash flow hedge transforming the interest payable on the entire debt to a fixed interest rate of 1.913% following the above mentioned re-negotiation. The fair value measurement of the swap at 30 September 2019 generated a slight liability which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The ING Bank loan agreement contains covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions are amply fulfilled.

m) A loan agreement with IFC-World Bank undersigned by the subsidiary Recordati Ilaç on 16 October 2014 for an amount of 71.6 million Turkish lira to finance the construction of a new production plant. Main terms are: variable interest rate equivalent to the 3 months' Trlibor plus a spread of 162 basis points, 8-year duration and reimbursement of principal at the end of every three months starting November 2016 through August 2022. The value in euros of the outstanding loan at 30 September 2019 is of € 5.7 million, resulting in a reduction of the liability by € 1.5 million as compared to that at 31 December 2018, of which € 0.2 million was due to the devaluation of the Turkish lira at the date of consolidation. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

- the ratio of consolidated net debt to consolidated shareholders' equity must be less than 0.75;
- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated operating income to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

The above conditions were amply fulfilled.

n) Privately placed guaranteed senior notes by the Parent company on 30 September 2014 for an amount of $ 75 million in two tranches: $ 50 million at a fixed interest rate of 4,28% to be reimbursed bi-annually as from 30 March 2022 through 30 September 2026, and $ 25 million at a fixed interest rate of 4.51% to be reimbursed bi-annually as from 30 March 2023 through 30 September 2029. The conversion of the loan into euros at 30 September 2019 resulted in an increase of the liability by € 3.4 million as compared to that at 31 December 2018 due to the revaluation of the U.S. dollar. The loan was simultaneously covered with two currency rate swaps transforming the overall debt to € 56.0 million, of which € 37.3 million at a fixed interest rate of 2.895% on the 12-year tranche and € 18.7 million at a fixed interest rate of 3.15% on the 15-year tranche. At 30 September 2019 the measurement at fair value of the hedging instruments generated an overall positive amount of € 11.6 million recognized directly to equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current assets (see Note 14).

The note purchase agreement covering the senior guaranteed notes issued by Recordati S.p.A. includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

o) A loan agreement with Centrobanca undersigned by the Parent company on 30 November 2010 to fund a three-year research and investment program. The loan, for which Centrobanca received funding from the European Investment Bank, amounts to € 75.0 million of which € 30.0 million were cashed in during 2010 and € 45.0 million in the first quarter of 2011, net of the € 0.3 million expenses. The main terms and conditions provide for a variable interest rate and a duration of 12 years with semi-annual repayments of principal from June 2012 through December 2022. At 30 September 2019 the outstanding amount of the loan is € 23.8 million. During the month of June 2012 interest on the whole loan was covered with an interest rate swap qualifying as a cash flow hedge. The current interest rate on the loan is 2.575%. The measurement at fair value of the hedging instrument at 30 September 2019 generated a liability of € 0.9 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 22). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

- the ratio of consolidated net debt to consolidated net equity must be less than 0.75;
- the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of consolidated EBITDA to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

The above conditions were amply fulfilled during the period.

18. STAFF LEAVING INDEMNITIES

The staff leaving indemnity fund at 30 September 2019 is of € 19.5 million and is measured as prescribed by IAS 19.

19. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 30 September 2019 are € 45.6 million, substantially unchanged as compared to those at 31 December 2018.

20. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities at 30 September 2019 are € 3.3 million and refer entirely to the debt for the acquisition of a further 10% of the share capital of Opalia Pharma which, in line with the put and call options in the purchase agreement, is expected to be settled not before the next 12 months. The fair value of such purchase option is measured at level 2 as the valuation model considers the present value of expected payments.

21. CURRENT LIABILITIES

Trade payables, which include the accrual for invoices to be received, are € 145.2 million.

Other payables are € 83.2 million, a decrease of € 2.3 million compared to those at 31 December 2018, and relate mainly to amounts owed to personnel and social security institutions. This account also includes:

- € 5.4 million to be paid to the "Krankenkassen" (German health insurance) by Recordati Pharma GmbH;
- € 6.1 million to be paid to U.S. health insurance institutions by Recordati Rare Diseases;
- € 4.1 million to be paid to the Italian health authorities resulting from the 1.83% claw-back applicable on the price to the public before VAT of pharmaceutical products reimbursed by the National Health Service and the pay-back due in substitution for a 5% price reduction on selected products.

Tax payables are € 38.8 million, a reduction of € 3.3 million compared to those at 31 December 2018.

Other current liabilities are € 15.3 million, a reduction of € 4.1 million as compared to those at 31 December 2018. An amount of € 14.2 million is attributable to the effect of the application of IFRS 15. This liability is released to the profit and loss in variable quotas as revenue recognition conditions are met.

Provisions are € 16.9 million, a reduction of € 4.5 million compared to those at 31 December 2018.

22. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGE)

The measurement at fair value of the interest rate swaps covering the cash flows related to medium and long-term loans gave rise to a net € 9.3 million liability at 30 September 2019 recognized under current liabilities as 'Fair value of hedging derivatives (*cash flow hedge*)'. This amount represents the unrealized opportunity of paying the current expected future rates instead of the rates agreed. The amount refers to the interest rate swaps to cover the interest rate risk associated with the loans granted by Mediobanca (€ 4.7 million), Intesa Sanpaolo (€ 2.0 million), UBI Banca (€ 1.0 million), Centrobanca (€ 0.9 million), UniCredit (€ 0.6 million) and Banca Nazionale del Lavoro (€ 0.1 million).

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

23. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans are € 16.5 million at 30 September 2019 and are comprised mainly of temporary use of lines of credit, current account overdrafts and interest accrued on existing loans.

At 30 September 2019 the revolving line of credit obtained in July 2017 by Recordati Ilaç, the subsidiary in Turkey, for a maximum amount of 40 million Turkish lira and a 24 months' maximum duration, was extinguished.

24. OPERATING SEGMENTS

The financial information reported by line of business and by geographical area, in compliance with IFRS 8 – *Operating segments*, is prepared using the same accounting principles and reporting standards used for the preparation and disclosure of the Group consolidated financial statements. Following the acquisition of Orphan Europe two main business segments can be identified, the specialty and primary care segment and the rare diseases segment.

The following tables show financial information for these two business segments as at 30 September 2019 and includes comparative data.

€ (thousands)	Specialty & primary care segment*	Rare diseases segment	Non-allocated	Consolidated accounts
First nine months 2019				
Revenues	923,282	177,136	-	1,100,418
Expenses	(650,382)	(96,536)	-	(746,918)
Operating income	**272,900**	**80,600**	**-**	**353,500**
EBITDA(1)	**321,832**	**87,780**	**-**	**409,612**
First nine months 2018				
Revenues	850,319	162,989	-	1,013,308
Expenses	(591,346)	(84,993)	-	(676,339)
Operating income	**258,973**	**77,996**	**-**	**336,969**
EBITDA(1)	**296,882**	**83,168**		**380,050**

* *Includes the pharmaceutical chemicals operations*

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

€ (thousands)	Specialty & primary care segment*	Rare diseases segment	Non-allocated **	Consolidated accounts
30 September 2019				
Non-current assets	1,218,337	278,292	29,208	1,525,837
Inventories	187,139	26,315	-	213,454
Trade receivables	229,245	48,126	-	277,371
Other current assets	30,171	10,522	11,789	52,482
Short-term investments, cash and cash equivalents	-	-	612,948	612,948
Total assets	**1,664,892**	**363,255**	**653,945**	**2,682,092**
Non-current liabilities	65,215	3,121	1,005,638	1,073,974
Current liabilities	253,085	48,553	126,862	428,500
Total liabilities	**318,300**	**51,674**	**1,132,500**	**1,502,474**
Net capital employed	**1,346,592**	**311,581**		
31 December 2018				
Non-current assets	1,216,263	226,466	20,772	1,463,501
Inventories	188,988	17,096	-	206,084
Trade receivables	206,389	39,353	-	245,742
Other current assets	38,371	5,284	6,414	50,069
Short-term investments, cash and cash equivalents	-	-	198,036	198,036
Total assets	**1,650,011**	**288,199**	**225,222**	**2,163,432**
Non-current liabilities	65,805	2,652	640,647	709,104
Current liabilities	264,813	68,694	157,235	490,742
Total liabilities	**330,618**	**71,346**	**797,882**	**1,199,846**
Net capital employed	**1,319,393**	**216,853**		

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

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

La riconciliazione tra l'utile netto e l'EBITDA è riportata di seguito:

€ (thousands)	First nine months 2019	First nine months 2018
Net income	**253,674**	**237,877**
Provision for income taxes	83,846	85,335
Financial (income) expenses, net	15,980	13,757
Depreciation and amortization	56,112	43,081
EBITDA(1)	**409,612**	**380,050**

(1) Net income before provision for income taxes, financial (income) expenses, net, depreciation, amortisation and write down of both property, plant and equipment and intangible assets. No write-down of both property, plant and equipment and intangible assets in the first nine months of 2019 and 2018.

25. LITIGATION AND CONTINGENT LIABILITIES

In December 2015, the Italian Tax Police (*Guardia di Finanza*) notified the Company of their intention to commence a general income tax inspection covering the years 2009 through 2014 involving the Group company in Ireland, Recordati Ireland Ltd. The declared intention of the inspection was to evaluate the operational context of the foreign company in order to verify whether said company is in reality only formally localized abroad but is substantially managed/administered from Italy. On 28th February 2017 the Italian Tax Police (*Guardia di Finanza)* prescribed the extension of the income tax inspection to include the year 2015. After having analysed the documents and completed the investigation process, the Italian Tax Police finally revealed to Recordati Ireland Ltd, on 6th September 2017, their reasons for considering the Irish company subject to tax in Italy for corporate tax purposes in the reference period, resulting in an assessment of taxes allegedly owed to Italy, in the amount of € 109,4 million, against taxes of € 51,8 million already paid in Ireland. Recordati Ireland Ltd. filed its comments and observations on the findings reported in the above mentioned Tax Audits Reports within the legal deadlines. During 2018, the Lombardy Regional Directorate of the Italian Revenue Agency, in charge of Recordati S.p.A, reviewed the claims raised in the aforementioned audit report and carried out an in-depth analysis on the relations between Recordati S.p.A and the Irish subsidiary in the tax periods from 2009 to 2015. Following that analysis, the Agency concluded - confirming the soundness of the Company's thesis - that, in the tax periods from 2009 to 2015, the Irish company cannot be deemed a fictitious foreign resident company. However, according to the Agency, part of the profit made by the Irish subsidiary in the aforementioned financial years was attributable to Recordati S.p.A, due to an alleged management support provided by the Italian parent company to the Irish subsidiary. Based on those assumptions, the Agency made a proposal of tax settlement for Ires and Irap purposes with respect to the tax years from 2009 to 2015, wherein it required the payment of further taxes equal to a total of € 21.0 million, over € 4.9 million of interest and € 2.5 million for penalties, which Recordati S.p.A., with a view to avoid litigation, accepted and paid in November 2018. Finally, in relation to the same transactions occurred between Recordati S.p.A. and the Irish subsidiary in the tax periods 2016 and 2017, the Agency made a tax settlement proposal based on the same criteria applied in the previous years and requested payment of additional Ires and Irap – fully covered by existing provisions – for a total amount of € 4,8 million, in addition to € 0,2 million of interest, with no penalties imposed. Recordati S.p.A., again with a view to avoid litigation, accepted and paid the said amounts in June 2019. As from 2018 the same criteria defined by the Agency for the preceding years was applied and set out in a Commercial and Management Service Agreement.

26. RELATED PARTY TRANSACTIONS

Tax liabilities shown in the consolidated balance sheet at 30 September 2019 include those payable to the controlling company FIMEI S.p.A. for an amount of € 3.8 million. This amount refers to tax liabilities computed by the parent Recordati S.p.A. based on estimated taxable income and transferred to the controlling company consequent to the participation in a tax consolidation grouping under tax laws in Italy.

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

27. SUBSEQUENT EVENTS

On 23 October 2019 the agreement with Novartis for the acquisition of worldwide rights to Signifor® and Signifor® LAR® for the treatment of Cushing's disease and acromegaly, in adult patients for whom surgery is not an option or for whom surgery has failed, was completed. Worldwide sales of Signifor® in 2018 were $ 72 million. The agreement also covers the acquisition of worldwide rights to osilodrostat (LCI699), an investigational innovative drug for the treatment of endogenous Cushing's syndrome, for which marketing authorization applications have been filed in the European Union and in the USA. A consideration of $ 390 million was paid and was funded by existing liquidity and new debt facilities.

28. SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 30 SEPTEMBER 2019

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.p.A. Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals	Italy	26,140,644.50	EUR	Line-by-line
INNOVA PHARMA S.p.A. Marketing and sales of pharmaceuticals	Italy	1,920,000.00	EUR	Line-by-line
CASEN RECORDATI S.L. Development, production, marketing and sales of pharmaceuticals	Spain	238,966,000.00	EUR	Line-by-line
BOUCHARA RECORDATI S.A.S. Development, production, marketing and sales of pharmaceuticals	France	4,600,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA Holds pharmaceutical marketing rights in Brazil	Brazil	166.00	BRL	Line-by-line
RECORDATI RARE DISEASES INC. Development, production, marketing and sales of pharmaceuticals	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD Development, production, marketing and sales of pharmaceuticals	Ireland	200,000.00	EUR	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. Development, production, marketing and sales of pharmaceuticals	France	14,000,000.00	EUR	Line-by-line
RECORDATI PHARMA GmbH Marketing and sales of pharmaceuticals	Germany	600,000.00	EUR	Line-by-line
RECORDATI PHARMACEUTICALS LTD Marketing and sales of pharmaceuticals	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. Marketing and sales of pharmaceuticals	Greece	10,050,000.00	EUR	Line-by-line
JABA RECORDATI S.A. Marketing and sales of pharmaceuticals	Portugal	2,000,000.00	EUR	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. Marketing of pharmaceuticals	Portugal	50,000.00	EUR	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. Marketing of pharmaceuticals	Portugal	50,000.00	EUR	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S. Holding company	France	57,000,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES MIDDLE EAST FZ LLC Marketing and sales of pharmaceuticals	United Arab Emirates	100,000.00	AED	Line-by-line
RECORDATI AB Marketing and sales of pharmaceuticals	Sweden	100,000.00	SEK	Line-by-line
RECORDATI RARE DISEASES S.à R.L. Development, production, marketing and sales of pharmaceuticals	France	320,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES UK Limited Marketing and sales of pharmaceuticals	United Kingdom	50,000.00	GBP	Line-by-line
RECORDATI RARE DISEASES GERMANY GmbH Marketing and sales of pharmaceuticals	Germany	25,600.00	EUR	Line-by-line
RECORDATI RARE DISEASES SPAIN S.L. Marketing and sales of pharmaceuticals	Spain	1,775,065.49	EUR	Line-by-line
RECORDATI RARE DISEASES ITALY S.R.L. Marketing and sales of pharmaceuticals	Italy	40,000.00	EUR	Line-by-line
RECORDATI BVBA Marketing and sales of pharmaceuticals	Belgium	18,600.00	EUR	Line-by-line

PERCENTAGE OF OWNERSHIP										
Recordati S.p.A. *(Parent)*	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Casen Recordati S.L.	Recordati Orphan Drugs S.A.S.	Recordati Rare Diseases S.à R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Recordati AG	Total
100.00										100.00
100.00										100.00
100.00										100.00
99.398					0.602					100.00
100.00										100.00
100.00										100.00
		100.00								100.00
55.00			45.00							100.00
100.00										100.00
100.00										100.00
			100.00							100.00
			100.00							100.00
			100.00							100.00
90.00	10.00									100.00
				100.00						100.00
				100.00						100.00
				100.00						100.00
					100.00					100.00
					100.00					100.00
					100.00					100.00
					99.00					99.00
				99.46	0.54					100.00

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
FIC MEDICAL S.à.R.L. Marketing of pharmaceuticals	France	173,700.00	EUR	Line-by-line
HERBACOS RECORDATI s.r.o. Development, production, marketing and sales of pharmaceuticals	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o Marketing and sales of pharmaceuticals	Slovakia	33,193.92	EUR	Line-by-line
RUSFIC LLC Marketing and sales of pharmaceuticals	Russian Federation	3,560,000.00	RUB	Line-by-line
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S. Marketing of pharmaceuticals	Turkey	10,000.00	TRY	Line-by-line
RECORDATI ROMÂNIA S.R.L. Marketing and sales of pharmaceuticals	Romania	5,000,000.00	RON	Line-by-line
RECORDATI ILAÇ Sanayi Ve Ticaret A.Ş. Development, production, marketing and sales of pharmaceuticals	Turkey	180,000,000.00	TRY	Line-by-line
RECORDATI POLSKA Sp. z o.o. Marketing and sales of pharmaceuticals	Poland	4,500,000.00	PLN	Line-by-line
ACCENT LLC Holds pharmaceutical marketing rights	Russian Federation	20,000.00	RUB	Line-by-line
RECORDATI UKRAINE LLC Marketing of pharmaceuticals	Ukraine	1,031,896.30	UAH	Line-by-line
CASEN RECORDATI PORTUGAL Unipessoal Lda Marketing and sales of pharmaceuticals	Portugal	100,000.00	EUR	Line-by-line
OPALIA PHARMA S.A. Development, production, marketing and sales of pharmaceuticals	Tunisia	9,656,000.00	TND	Line-by-line
OPALIA RECORDATI S.à.R.L. Marketing of pharmaceuticals	Tunisia	20,000.00	TND	Line-by-line
RECORDATI RARE DISEASES S.A. DE C.V. Marketing of pharmaceuticals	Mexico	16,250,000.00	MXN	Line-by-line
RECORDATI RARE DISEASES COLOMBIA S.A.S. Marketing of pharmaceuticals	Colombia	150,000,000.00	COP	Line-by-line
ITALCHIMICI S.p.A. Marketing of pharmaceuticals	Italy	7,646,000.00	EUR	Line-by-line
RECORDATI AG Marketing of pharmaceuticals	Switzerland	15,000,000.00	CHF	Line-by-line
PRO FARMA GmbH Marketing of pharmaceuticals	Austria	35,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES CANADA Inc. Marketing of pharmaceuticals	Canada	350,000.00	CAD	Line-by-line
RECORDATI RARE DISEASES JAPAN K.K. (1) Marketing of pharmaceuticals	Japan	10,000,000.00	JPY	Line-by-line
NATURAL POINT S.R.L. (2) Marketing of pharmaceuticals	Italy	10,400.00	EUR	Line-by-line
RECORDATI RARE DISEASES AUSTRALIA Pty Ltd (1) Marketing of pharmaceuticals	Australia	200,000.00	AUD	Line-by-line
TONIPHARM S.A.S. (2) Marketing of pharmaceuticals	France	257,700.00	EUR	Line-by-line
RECORDATI BULGARIA Ltd (3) Marketing of pharmaceuticals	Bulgaria	50,000.00	BGN	Line-by-line

(1) Established in 2018
(2) Acquired in 2018
(3) Established in 2019

PERCENTAGE OF OWNERSHIP											
Recordati S.p.A. *(Parent)*	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Casen Recordati S.L.	Recordati Orphan Drugs S.A.S.	Recordati Rare Diseases S.à R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Recordati AG	Total
		100.00								100.00
100.00										100.00
						100.00				100.00
		100.00								100.00
							100.00			100.00
100.00										100.00
			100.00							100.00
100.00										100.00
100.00										100.00
0.01		99.99								100.00
			100.00							100.00
90.00										90.00
		1.00						99.00		100.00
99.998					0.002					100.00
			100.00							100.00
100.00										100.00
100.00										100.00
									100.00	100.00
100.00										100.00
					100.00					100.00
100.00										100.00
					100.00					100.00
100.00										100.00
100.00										100.00

RECORDATI S.P.A. AND SUBSIDIARIES

ATTACHMENT 1

THIRD QUARTER 2019 REVIEW

€ (thousands)	Third quarter 2019	% of revenue	Third quarter 2018	% of revenue	Change 2019/2018	%
Revenue	**357,165**	**100.0**	**317,254**	**100.0**	**39,911**	**12.6**
Cost of sales	(105,771)	(29.6)	(93,002)	(29.3)	(12,769)	13.7
Gross profit	**251,394**	**70.4**	**224,252**	**70.7**	**27,142**	**12.1**
Selling expenses	(89,562)	(25.1)	(77,465)	(24.4)	(12,097)	15.6
Research and development expenses	(31,824)	(8.9)	(25,809)	(8.1)	(6,015)	23.3
General and administrative expenses	(17,142)	(4.8)	(15,403)	(4.9)	(1,739)	11.3
Other income (expense), net	(1,925)	(0.5)	(537)	(0.2)	(1,388)	n.s.
Operating income	**110,941**	**31.1**	**105,038**	**33.1**	**5,903**	**5.6**
Financial income (expense), net	(5,058)	(1.4)	(5,299)	(1.7)	241	(4.5)
Pretax income	**105,883**	**29.6**	**99,739**	**31.4**	**6,144**	**6.2**
Provision for income taxes	(26,486)	(7.4)	(26,050)	(8.2)	(433)	1.7
Net income	**79,400**	**22.2**	**73,689**	**23.2**	**5,711**	**7.8**
Attributable to:						
Equity holders of the parent	79,390	22.2	73,677	23.2	5,713	7.8
Non-controlling interests	10	0.0	12	0.0	(2)	(16.7)
EBITDA*	130,299	36.5	120,033	37.8	10,266	8.6

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

Net revenue is € 357.2 million, up by 12.6% over the third quarter 2018. Pharmaceutical sales are € 348.3 million, up by 13.3%. Pharmaceutical chemical sales are € 8.9 million, down by 10.4%.

Gross profit is € 251.4 million with a margin of 70.4% on sales, lower compared to that of the same period of the preceding year due mainly to price and currency effects.

Selling expenses increase by 15.6%, more than sales, due to the marketing expenses for the launch of Reagila®, the new commercial organizations in the Nordic countries, in BeNeLux and the Baltics and the initial reinforcement of the organization dedicated to the rare diseases segment following the addition of new important products.

R&D expenses are € 31.8 million, up by 23.3% compared to those recorded in the third quarter of 2018 due to the advancement of new development programs and the amortization of the amounts allocated to intangible assets following the acquisition of Natural Point S.r.l. and of Tonipharm S.A.S. during 2018 and of the up-front payments for the recently acquired licenses to the rare disease products Ledaga® and Juxtapid®.

G&A expenses are up by 11.3% but are reduced as percent of sales to 4.8%.

The EBITDA (net income before interest, taxes, depreciation and amortization), at 36.5% of sales, is € 130.3 million, an increase of 8.6% over the third quarter of 2018. Total D&A charges, classified in the lines above, are € 19.4 million. Amortization charges are € 13.2 million, an increase of € 1.6 million over the same period of the preceding year. Depreciation charges are € 6.2 million, up by € 2.8 million compared to the third quarter of 2018, mainly due to the application of the new accounting principle IFRS 16 which also led to lower leasing costs.

Net financial charges are € 5.1 million, a reduction of € 0.2 million compared to the same period of the preceding year.

Net income at 22.2% of sales is € 79.4 million, an increase of 7.8% over the same period of the preceding year.

DECLARATION BY THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

The manager responsible for preparing the company's financial reports Fritz Squindo declares, pursuant to paragraph 2 of Article 154-*bis* of the Consolidated Law on Finance, that the accounting information contained in this report corresponds to the document results, books and accounting records.

Milan, 31 October 2019

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

Statements contained in this report, other than historical facts, are "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements are based on currently available information, on current best estimates, and on assumptions believed to be reasonable. This information, these estimates and assumptions may prove to be incomplete or erroneous, and involve numerous risks and uncertainties, beyond the Company's control. Hence, actual results may differ materially from those expressed or implied by such forward-looking statements. All mentions and descriptions of Recordati products are intended solely as information on the general nature of the company's activities and are not intended to indicate the advisability of administering any product in any particular instance.

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