

ILLUSTRATIVE REPORT OF THE BOARD OF DIRECTORS OF RECORDATI INDUSTRIA CHIMICA E FARMACEUTICA S.p.A. ON THE COMMON PROJECT OF CROSS-BORDER MERGER FOR THE MERGER BY ACQUISITION OF “RECORDATI SA CHEMICAL AND PHARMACEUTICAL COMPANY” INTO “RECORDATI INDUSTRIA CHIMICA E FARMACEUTICA S.p.A.”

This report has been drawn up in accordance with Art. 2501-quinquies of the Italian Civil Code, Art. 8 of Legislative Decree No. 108 of 30th May 2008 and Art. 70, paragraph 2 of the Issuers’ Regulations and the relative Attachment 3A.

Approved by the Board of Directors of
RECORDATI INDUSTRIA CHIMICA E FARMACEUTICA S.p.A. on 1st March 2017

Website: www.recordati.it

INTRODUCTION

The purpose of this report is to illustrate the operation for the cross-border merger by acquisition of RECORDATI SA CHEMICAL AND PHARMACEUTICAL COMPANY, a Luxembourg registered “anonymous company” (société anonyme) (herein after also “**Recordati SA**” or the “**Company Acquired**”) into RECORDATI INDUSTRIA CHIMICA E FARMACEUTICA S.p.A., an Italian registered joint-stock company (hereinafter also “**Recordati SpA**” or the “**Acquiring Company**”), which directly holds all the shares, hereinafter also the “**Merger**” or the “**Operation**”.

The Merger will therefore be carried out by means of the “simplified” procedure laid down for the merger of fully owned companies in accordance with Art. 2505 of the Italian Civil Code which, amongst other things, exempts the Board of Directors from drawing up the report pursuant to Art. 2501-*quinquies* of the Italian Civil Code.

Nevertheless, as already stated, the Company Acquired, fully owned by Recordati SpA, falls under Luxembourg law and therefore the merger involves the possibility of a “cross-border merger” in accordance with Directive 2005/56/EC relating to the cross-border mergers of joint-stock companies (hereinafter the “Directive”).

This Directive is implemented in Italy by means of Legislative Decree No. 108 of 30th May 2008 (hereinafter the “**Implementation Decree**”) and in Luxembourg by a law of 10th August 1915, as subsequently amended (hereinafter the “**Luxembourg Law**”).

The Operation must be concluded in compliance with Italian and Luxembourg law and for Recordati SpA and Recordati SA with the provisions contained in the Decree and in the Luxembourg Law respectively.

Therefore, although the Operation falls within the possibilities of a “simplified” merger, in compliance with the provisions of Art. 8 of the Implementation Decree and in order to provide shareholders and the market in general with precise information on the characteristics of the Operation, today’s meeting of the Board of Directors of Recordati SpA has prepared this report to illustrate the Merger.

This report has been drafted in compliance with Art. 2501-*quinquies* of the Italian Civil Code, Art. 8 of the Implementation Decree and, because the shares of Recordati S.p.A. are quoted on the *Mercato Telematico Azionario* (electronic stock exchange) organised and managed by Borsa Italiana S.p.a., also with Art. 70, paragraph 2 of the regulations to implement Legislative Decree No. 58 of 24th February 1998 containing regulations for issuers adopted with Consob resolution No. 11971 of 14th May 1999 as subsequently amended and added to (the “*Issuers’ Regulations*”) and with Attachment 3A of the Issuers’ Regulations.

1. UNDERLYING BUSINESS AND STRATEGIC MOTIVATIONS FOR THE OPERATION

The decision by the Recordati Group to deploy a strong presence (also) in Luxembourg had been dictated in the past by reasons of a strategic/financial nature, with the expectation that in this country in particular the dynamism of the capital markets made it possible to raise international capital more easily compared with the Italian market and that the location of the Group’s main foreign shareholdings also made the use of that capital within the Group more efficient.

In recent years, the international capital market – which follows global trends – no longer sees Luxembourg as a key financial centre, to the extent that the Recordati Group itself has changed its strategies for raising debt capital by financing itself directly through its parent company or other Group subsidiaries.

On the basis of these circumstances, the management bodies of Recordati S.p.A. and Recordati SA came to a decision to dispose of its investments held in that country and at the same time to rationalise the chain of command for foreign companies.

In fact as a result of the Merger, all the stakes currently held by Recordati SA will be transferred to the Acquiring Company.

It follows that Recordati SpA – and as a consequence its shareholders – will benefit from the structural simplifications and efficiencies resulting from the elimination of the costs and complexities connected with maintaining a foreign registered sub-holding company.

The expected impacts of the Operation can therefore be summarised as follows:

- a decrease in overheads;
- simplification of cash flows;
- simplification of the Group's corporate ownership structure with a view to greater transparency with respect to the market;
- a stronger operating and capital structure of the listed company.

2. TECHNICAL AND LEGAL ASPECTS OF THE OPERATION

With regard to the technical and legal aspects of the Operation, because the Acquiring Company holds the entire share capital of the Company Acquired:

- (i) the Merger will take place by means of the cancellation of all the Recordati SA shares with no increase in the share capital by the Acquiring Company;
- (ii) in accordance with the provisions of Art. 6 of the Implementation Decree, the common project of cross-border merger have been approved in the same terms by the competent bodies of the companies participating in the Merger and in addition to the requirements of Italian and Luxembourg regulations they also contain mention of the following additional information:
 - a. the law that regulates each of the companies participating in the Merger;
 - b. mention of the circumstance that no advantages exist for the members of the controlling bodies of the companies participating in the Operation;
 - c. mention of the circumstance that the necessary conditions specified in Art. 19, paragraph 1 of the Implementation Decree relating to the procedures for the involvement of workers in the Acquiring Company are not satisfied;
 - d. the probable repercussions of the Merger on unemployment;
 - e. information on the measurement of asset and liability items that are transferred to the Acquiring Company.
- (iii) in accordance with Art. 2505 of the Italian Civil Code:
 - a. the project of merger need not provide the information pursuant to Art. 2501-ter, paragraph 1, numbers (3), (4), (5) of the Italian Civil Code;

- b. it is not necessary to acquire an expert's report on the fairness of the exchange ratio pursuant to Art. 2501-*sexies* of the Italian Civil Code, because there will be no share exchange;
- (iv) in accordance with Art. 18 of the Implementation Decree and Art. 22 of the corporate by-laws of Recordati SpA, because this is a "simplified" merger, the Merger will be approved by the Board of Directors of the Acquiring Company. Without prejudice to the foregoing, in accordance with Art. 2505, paragraph 3 of the Italian Civil Code, the shareholders of the Acquiring Company that represent at least 5% of the share capital may in any case ask for the decision-making power to be transferred to a Shareholders' Meeting by means of an application made to the Acquiring Company within eight days of the date on which the project of merger is filed with the Milan Company Registrar;
- (v) With regard to the Company Acquired, the Merger will be resolved upon by the Board of Directors in compliance with the applicable Luxembourg regulations.

The common project of cross-border merger has been prepared on the basis of the financial positions of the companies participating in the Merger as at 31st December 2016, consisting of the financial statements approved respectively by a Shareholders' Meeting of the Company Acquired held on 27th April 2017, and the proposed separate financial statements as at 31st December 2016, duly approved today by the Board of Directors of the Acquiring Company.

As already mentioned, the project of merger will be filed with the Milan Company Registrar. Pursuant to and in accordance with the combined effect of articles 2501-*septies* and 2505 of the Italian Civil Code, during the 30 days prior to the decision to implement the Merger, the following will be deposited at the registered offices of each of the companies participating in the Merger:

- the project of merger and this report by the Board of Directors;
- the financial statements for the last three financial years of the companies participating in the Merger, with the respective reports of those responsible for management and statutory audit, the financial statements for the financial year 2016 act as the financial position of reference in compliance with Art. 2501-*quater*, paragraph 2 of the Italian Civil Code.

The project of merger, this report and additional documentation relating to Merger will also be made available to the public at least 30 days prior to the meeting of the Board of Directors of Recordati SpA convened to resolve on the merger in accordance with Art. 70, paragraph 5 of the Issuers' Regulations.

The real legal effects of the Operation will run from the date on which the merger contract is filed with the Company Registrar of the Acquiring Company or from a different date which will be indicated in the merger contract. The latter will in any case be subsequent to the date on which the merger contract is filed with the Company Registrar of the Acquiring Company.

On the other hand, for accounting and tax purposes the Merger will take effect from 1st January 2017.

On the date on which the Merger takes effect, the Acquiring Company will maintain its current form, company name and registered offices. Furthermore, no amendments to the corporate by-laws of Recordati SpA will be made as a consequence of the Merger.

From the date of legal effect of the Merger, Recordati SpA from a legal viewpoint will fully inherit all the accounting assets and liabilities, physical assets both movable and immovable, tangible and intangible and so forth of which the Company Acquired is the owner, committing itself to meet all commitments and obligations under the agreed terms and conditions.

As already mentioned, the Merger (because carried out between Recordati SpA and a company wholly owned by it) does not involve any obligation to publish reports pursuant to Art. 70, paragraph 6 of the Issuers' Regulations and, in any case, Recordati SpA has resolved, from 20th December 2012, to take advantage of the right to except itself from the obligations to publish reports required when significant transactions take place, including mergers, in accordance with Art. 70, paragraph 8 and Art. 71 paragraph 1-*bis* of the Issuers' Regulations.

3. TAX IMPACTS ON THE COMPANIES PARTICIPATING IN THE MERGER

3.1 Tax neutrality

For income tax purposes, the Merger is tax neutral and therefore it does not constitute any realisation or distribution in Italy of gains or losses on the assets of the Company Acquired, inclusive of those relating to inventories and the value of goodwill.

3.2 Merger differences

Any merger differences that might arise from the Merger will not form part of the taxable income of Recordati SpA because they are not taxable for income tax purposes.

4. CONSEQUENCES OF THE CROSS-BORDER MERGER FOR ITS SHAREHOLDERS, CREDITORS AND WORKERS

4.1 Consequences for Shareholders

There will be no direct consequences for shareholders of Recordati SpA as a result of the implementation of the Operation. In fact the necessary conditions for the right of withdrawal will not arise as a result of the Operation, nor will the shareholder structure change in any way because the Company Acquired is wholly owned by the Acquiring Company.

Furthermore, rights associated with shareholder status will not change in any way for shareholders of Recordati SpA and nor will the procedures for exercising those rights because the Acquiring Company will remain subject to Italian law and listed on the *Mercato Telematico Azionario* (electronic stock exchange) also following the date of legal effect of the Merger.

Furthermore, as of today no shareholder agreements exist with regard to the shares of the Acquiring Company that are significant pursuant to Art. 122 of Legislative Decree No. 58/1998.

4.2 Consequences for Creditors

As a result of the Merger all assets and liabilities of the Company Acquired will be automatically transferred to the Acquiring Company and therefore all creditors of the Company Acquired will become creditors of the Acquiring Company.

Creditors may possibly benefit, if they consider it necessary, from the procedure to object guaranteed by Art. 2503 of the Italian Civil Code and from the provisions of Luxembourg law that concern the protection of creditors.

4.3 Consequences for Workers

The Company Acquired has no employees and neither will the merger have any impact on the employment of workers in the Acquiring Company and in the group in general. Furthermore, since the Company Acquired has no employees, the procedure provided for by Art. 47 of Law No. 428 of 29/12/1990 does not apply.

In accordance with Art. 8 of the Implementation Decree, this illustrative report on the common project of cross-border merger will be sent to representatives of Recordati SpA's workers at least thirty days before the final approval of the common project of the Merger by the Board of Directors of the Acquiring Company.

In any event, conclusion of the Merger will not involve any changes to employment contracts currently existing between Recordati SpA and its employees, nor are any repercussions of the Merger envisaged on the employment of the workers of the Acquiring Company and the Group in general.

Finally, we report that Art. 19 of the Implementation Decree that regulates the participation of workers in the Acquiring Company is not implemented in the case in question because the necessary conditions applicable are not satisfied. In fact neither the Acquiring Company nor the Company Acquired are managed under the workers participation scheme in accordance with Art. 2, paragraph 1, letter m of Legislative Decree No. 108 of 19th August 2005.

Milan, 1st March 2017

on behalf of the Board of Directors

Dr. Andrea Recordati
Vice Chairman and Chief Executive Officer