



# ANNUAL REPORT 2013

2

RECORDATI,  
AN INTERNATIONAL  
GROUP

4

THE FUTURE  
OF THE GROUP

5

LETTER FROM  
THE CHAIRMAN

8

THE GROUP  
IN FIGURES

10

GEOGRAPHICAL  
PRESENCE

12

GROUP  
ACTIVITIES

22

RARE DISEASES  
AND ORPHAN  
DRUGS

28

RESEARCH AND  
DEVELOPMENT

34

THE ARRIGO  
RECORDATI PRIZE

36

PHARMACEUTICAL  
CHEMICALS  
AND PRODUCTION  
PLANTS

38

THE RECORDATI  
SHARE

41

FINANCIAL  
HIGHLIGHTS

42

2013 OPERATIONAL  
AND FINANCIAL  
REVIEWS

58

CONSOLIDATED  
FINANCIAL  
STATEMENTS

85

ATTESTATION IN  
RESPECT OF THE  
CONSOLIDATED  
FINANCIAL  
STATEMENTS

86

AUDITORS'  
REPORT

88

CORPORATE  
GOVERNANCE  
REPORT

MANAGEMENT  
AND SUPERVISORY  
BODIES



# RECORDATI, AN INTERNATIONAL GROUP

Recordati is a modern and dynamic international pharmaceutical group. It is always open to new opportunities and faces the challenges of a constantly changing marketplace with determination.

In 2013 the group generated revenues of € 941.6 million and has a staff of around 4,000 employees.

REVENUE (million euros)

941.6

NET INCOME (million euros)

133.7

EMPLOYEES

4,000

**R**ecordati is a well-established international pharmaceutical group listed on the Italian Stock Exchange (now part of the London Stock Exchange) since 1984. The Group has its headquarters in Milan and is one of the oldest Italian pharmaceutical companies. Since it was founded in 1926 Recordati has grown constantly thanks to the success of its products and to its model for growth and development based on internationalization and diversification by means of an acquisition strategy initiated in the 1990's and still ongoing.

Today Recordati has many subsidiaries, both in Europe and outside Europe. In addition to the countries in Western Europe the Group is also directly present in the Czech Republic and Slovakia, in Romania and in Poland, in Russia and the other C.I.S. countries, in Turkey, in Tunisia and in the U.S.A.. Recordati sells its original products in 135 markets both directly and through license agreements. In addition to its geographical expansion the Group has enriched its product portfolio by developing its own pipeline of products and by entering the segment dedicated to rare diseases. Recordati develops, produces and

sells drugs for the treatment of rare diseases through Orphan Europe and Recordati Rare Diseases, two companies dedicated mainly to metabolic deficiencies of a genetic nature.

Among its most important products in the cardiovascular therapeutic area Recordati offers a fixed combination of lercanidipine and enalapril. Successfully launched in many countries it is based on the fixed association of Recordati's original calcium channel blocker and a widely prescribed ACE inhibitor responding in this way to increasing needs in antihypertensive therapy. Lercanidipine, a latest generation calcium channel blocker indicated for the treatment of hypertension, discovered and entirely developed in the Recordati research laboratories is still of great importance for the Group. Recordati's commitment in the uro-genital therapeutic area and its know-how and expertise accumulated over 40 years of research and study has led to its being the European partner of established international pharmaceutical companies such as the Japanese company Kissei among others.

Silodosin, a treatment for benign prostatic hyperplasia discovered by researchers at Kissei and developed for the European and Middle Eastern markets by Recordati, is one of the group's most important new

specialties. This product is now marketed successfully in 24 countries. Furthermore, a new innovative treatment also indicated for benign prostatic hyperplasia licensed from the American company Nymox, is currently in development. Also pitavastatin, a latest generation statin for controlling hypercholesterolemia, discovered and developed by Kowa, was obtained under license for most of Europe. The broad geographical coverage achieved by the group, its own efficient network of medical sales representatives in addition to its many years of experience in the regulatory field and its expertise in the management of highly specialized products, makes Recordati an ideal partner for the development and marketing of new products throughout Europe including Russia, Poland and the other Central and Eastern European countries as well as Turkey, the U.S.A. and Tunisia, an important strategic platform to establish a direct presence in North Africa and extend its business to the countries in Central Africa and the Gulf States.





# THE FUTURE OF THE GROUP



**R**ecordati's proven ability to generate profitable alliances with prominent players in the pharmaceutical industry is the basis of an increasingly intense activity directed at the identification and execution of new license agreements or development partnerships for innovative products.

In the future Recordati will extend its presence in the international pharmaceutical market. Group strategy provides for the re-investment of its profits in acquisitions for growth.

# LETTER FROM THE CHAIRMAN

To our Shareholders,

2013 was a very productive year, both in terms of initiatives and investments, for the development of our group in international markets. The acquisition of products for the treatment of rare diseases in the U.S.A., the reinforcement of our position in Spain and the entry into Tunisia, which consolidates our position in North Africa, will drive further growth in these important markets. These investments were made possible thanks to the group's solid financial situation and the continuing growth of profits. Group consolidated revenue for 2013 is € 941.6 million, up 13.7% over the preceding year and pharmaceutical revenue is € 909.9 million, up 14.1%. Operating income, at 20.8% of sales, is € 195.4 million, a growth of 17.0% compared with the preceding year. Net income at 14.2% of sales is € 133.7 million (+12.8%). The Group's net financial position records net debt of € 261.0 million compared to net debt of € 153.5 million at the end of 2012.

Shareholders' equity further increased to € 701.8 million.

In addition, a number of initiatives were pursued in 2013 which are important for the future development of the Group.

In January the acquisition from Lundbeck LLC of all rights concerning a portfolio of products indicated for the treatment of rare and other diseases, marketed mainly in the United States of America, was successfully concluded. The value of the transaction is of \$ 100 million, of which \$ 80 million paid at the closing on January 18 and \$ 20 million in August. The acquired portfolio is now marketed in the U.S. by Recordati Rare Diseases Inc., a wholly-owned U.S. corporation. The main product in the portfolio is Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria. Other important drugs acquired are NeoProfen® (ibuprofen lysine injection), indicated to close a clinically significant patent ductus arteriosus (PDA) in premature infants,



A NUMBER OF  
INITIATIVES WERE  
PURSUED IN 2013  
WHICH ARE IMPORTANT  
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INTERNATIONAL  
DEVELOPMENT  
OF THE GROUP.

and Cosmegen® (dactinomycin for injection), used mainly in the treatment of three rare cancers.

During July the agreements covering the acquisition of 90% of the share capital of Opalia Pharma S.A., a Tunisian pharmaceutical company with headquarters in Ariana, a suburb of Tunis, were signed.

The value of the transaction (enterprise value) is of around € 37 million. A partial closing of the transaction, involving the majority of the capital held by non-Tunisian shareholders (around 67%), was finalized in October with the payment of € 22.6 million. Opalia Pharma was established in 1988, ranks eighth in the Tunisian pharmaceutical market and is the third largest local pharmaceutical company.

The company markets branded generic drugs with leading products in dermatology and in the gastrointestinal and respiratory therapeutic areas. Opalia manufactures most of its products in a modern, cGMP certified production facility specialized in liquid and semi-solid forms. The company employs around 320 people and generates annual sales of around TND 40 million (around € 18 million). Recordati already operates successfully in the North African countries through its

export activities. This acquisition represents a strategic platform to establish a direct presence in North Africa with the objective of extending our operations also to countries in Central Africa and in the Gulf states.

During September the agreements covering the acquisition of 100% of the share capital of Laboratorios Casen Fleet S.L.U., a Spanish pharmaceutical company with headquarters in Madrid and production facilities in Utebo, Zaragoza, were signed. The transaction was successfully concluded in October. The value of the transaction (enterprise value) is of € 93 million of which € 89.5 million were paid at the closing. Casen Fleet primarily markets internally developed drugs in Spain and Portugal through its own organisation and in other countries through partners.

Approximately 55% of revenue is generated by a line of products used in the preparation for colonoscopy. The main product in this line is Citrafleet®, already marketed by Recordati in Germany. The company's product portfolio also comprises oral rehydration products, probiotics and OTC brands for gynecological use. Approximately 80% of revenue is generated by private payers and is therefore outside public healthcare

reimbursement schemes. Casen Fleet develops and manufactures most of its medicines in its own facility in Utebo, Zaragoza, which occupies an area of 23,165 sq. m. The company employs around 230 people and sales in 2012 are € 45.3 million.

The acquisition of Casen Fleet represents not only an excellent opportunity to reinforce our presence in Spain and to improve our profitability in this important market, the fifth pharmaceutical market in Europe, but also to acquire a portfolio of products, and in particular Citrafleet®, with worldwide marketing rights.

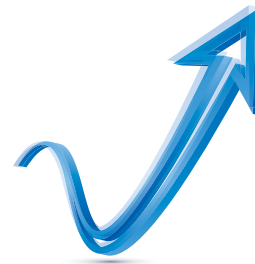
During the year Recordati strengthened its management structure to adapt its organization to the current size of the group and to be in a better position to meet the challenges arising in the three areas which comprise the consolidated Western European markets, the markets of Central-Eastern Europe, and the emerging markets in North Africa and Turkey. The newly established business areas are headed by managers of proven international experience.

Going forward we will continue to develop the business internationally, both by growing the existing product portfolio as well as through

acquisitions of products or companies, with the objective of enhancing our presence in markets with higher growth potential. In particular, growth in the segment dedicated to treatments for rare diseases will continue to be a priority. Our group already makes these treatments available through its own organizations throughout Europe, in the Middle East and has now reinforced its presence in the U.S.A. following the recent acquisition of a portfolio of products from Lundbeck. In coming years our objective is to extend the presence of our rare disease operations to other important markets worldwide. Furthermore, we will continue to

dedicate resources to research and development and strong emphasis will be placed on the enrichment of our product portfolio both through the development and launch of pipeline products as well as through the acquisition of new specialties.

We believe that the strict implementation of our strategy will enable us to be optimistic regarding the future, and we count, as always, on the entrepreneurship and determination of our management team, the professional skills of our employees and the trust of our shareholders. We would like to express our gratitude to all of them for their support during 2013.



## DIVIDENDS

Based on the results obtained, the Board of Directors of the parent company will propose to the shareholders a dividend of € 0.11 per share, in full balance of the interim 2013 dividend of € 0.22, to be paid to all shares outstanding at ex-dividend date, excluding those in treasury stock, as from 2 May 2014 (record date 30 April 2014), with ex-dividend on 28 April 2014 (against presentation of coupon no. 13). The full 2013 dividend is therefore of € 0.33 per share (€ 0.30 per share last year).

**Giovanni Recordati**

*Chairman and Chief Executive Officer*

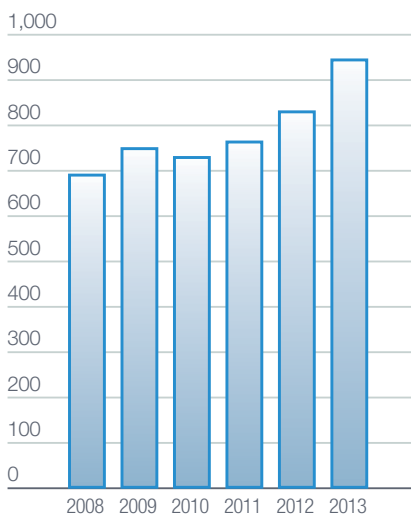
IN COMING YEARS OUR OBJECTIVE IS TO EXTEND THE PRESENCE OF OUR RARE DISEASE OPERATIONS TO OTHER IMPORTANT MARKETS WORLDWIDE. WE WILL CONTINUE TO DEDICATE RESOURCES TO RESEARCH AND DEVELOPMENT AND STRONG EMPHASIS WILL BE PLACED ON THE ENRICHMENT OF OUR PRODUCT PORTFOLIO.



# THE GROUP IN FIGURES

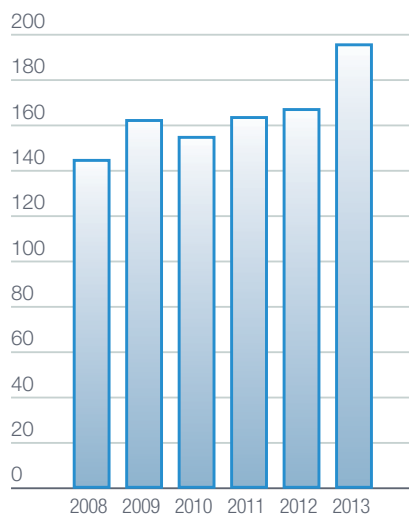
## REVENUE

■ Revenue in millions of Euro



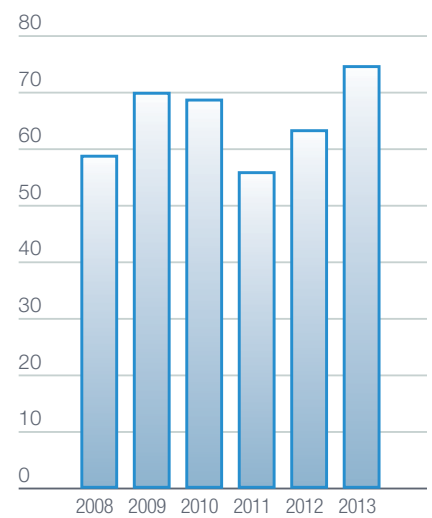
## OPERATING INCOME

■ Operating Income in millions of Euro

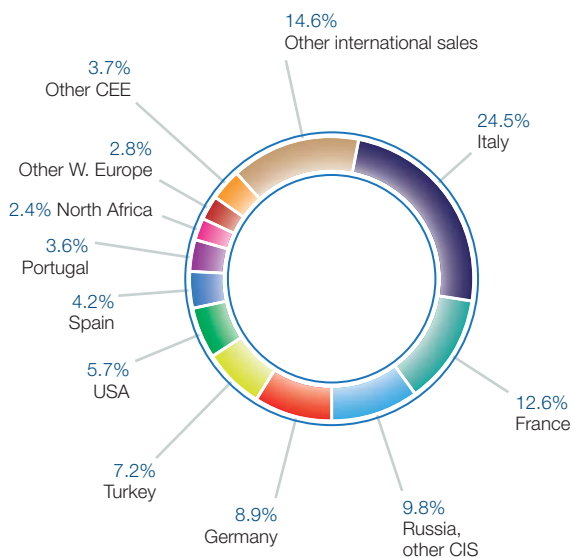


## R&D EXPENSES

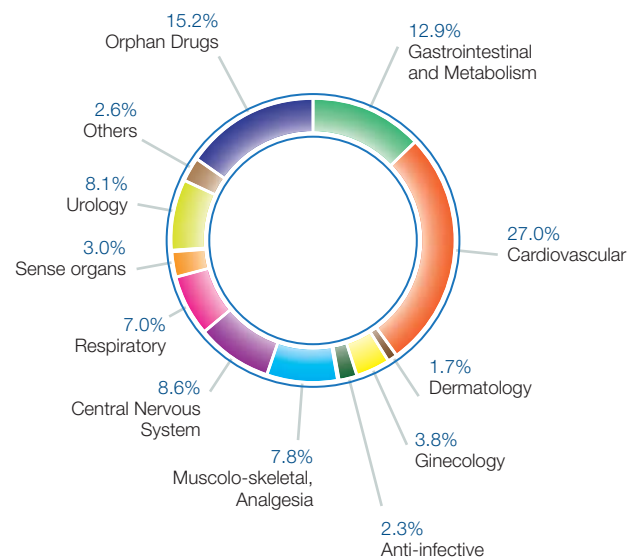
■ R&D Expenses in millions of Euro



## GEOGRAPHICAL COMPOSITION OF PHARMACEUTICAL SALES



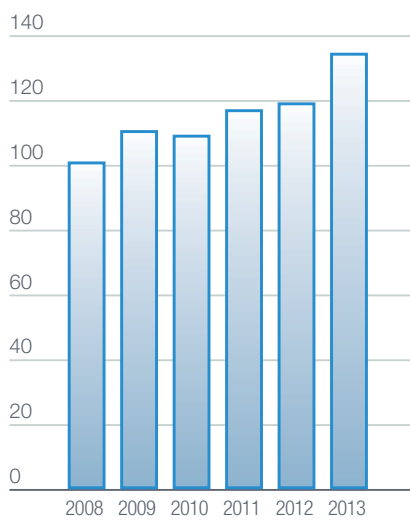
## PHARMACEUTICAL SALES BY THERAPEUTIC AREA





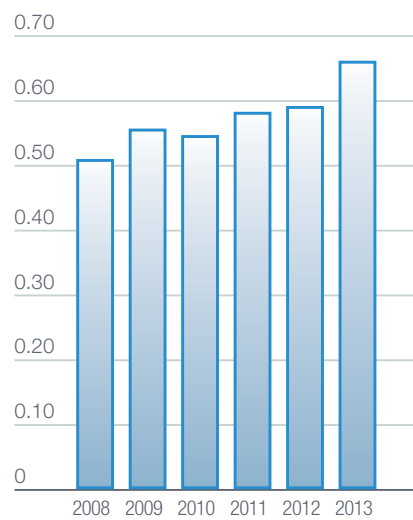
## NET INCOME

Net Income in millions of Euro



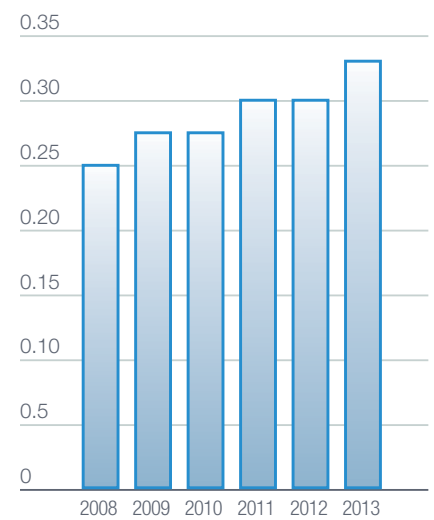
## NET INCOME PER SHARE

Net Income per Share in Euro



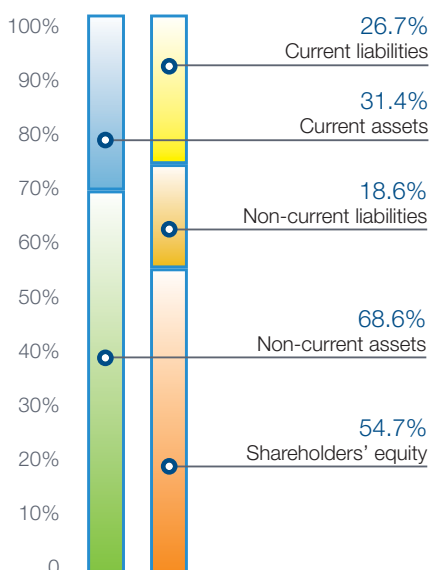
## DIVIDEND PER SHARE

Dividend per Share in Euro



## BALANCE SHEET

at 31 december 2013



## NET FINANCIAL POSITION

(Million euros)

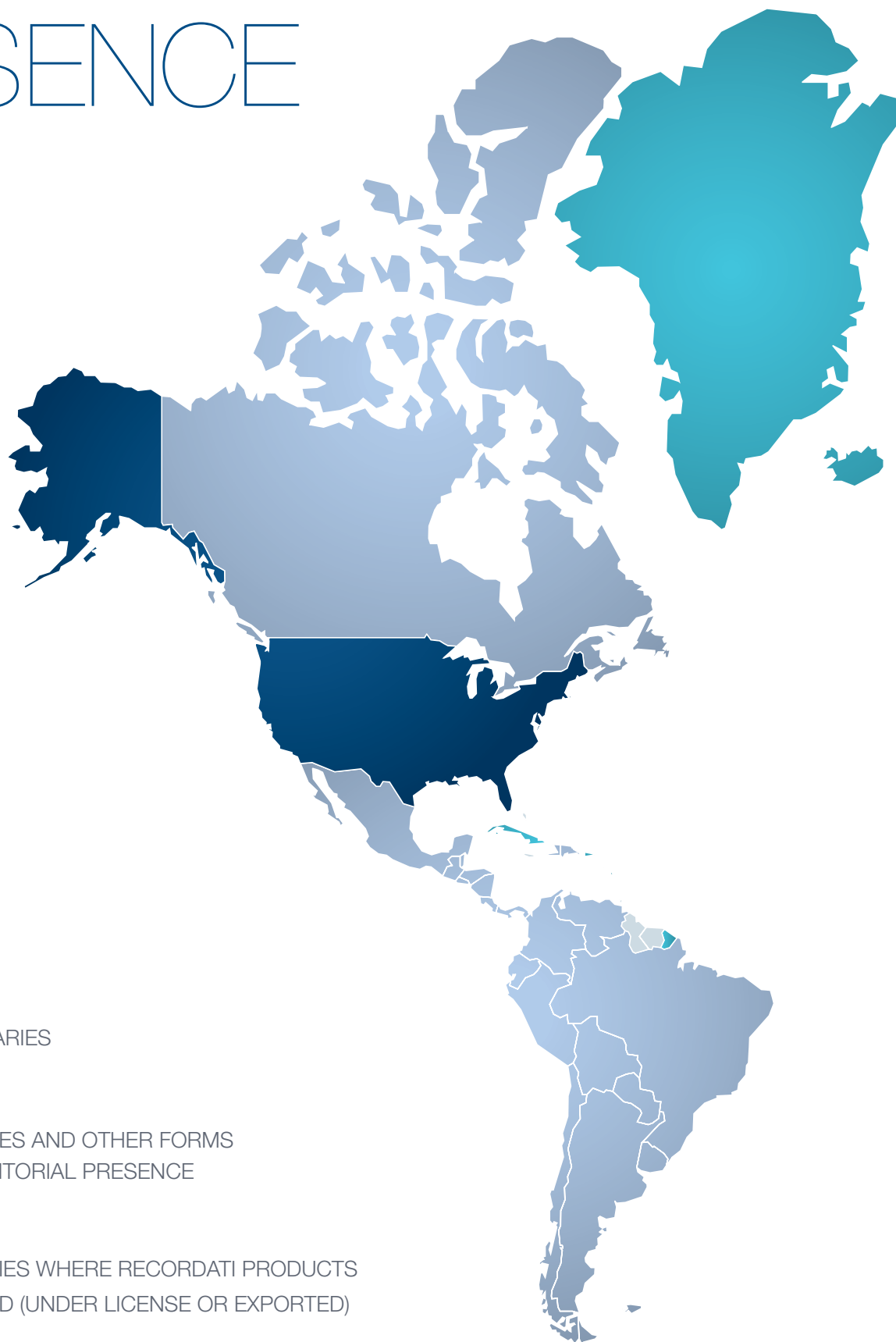
(261.0)

## SHAREHOLDERS' EQUITY

(Million euros)

701.9

# GEOGRAPHICAL PRESENCE



135  
COUNTRIES



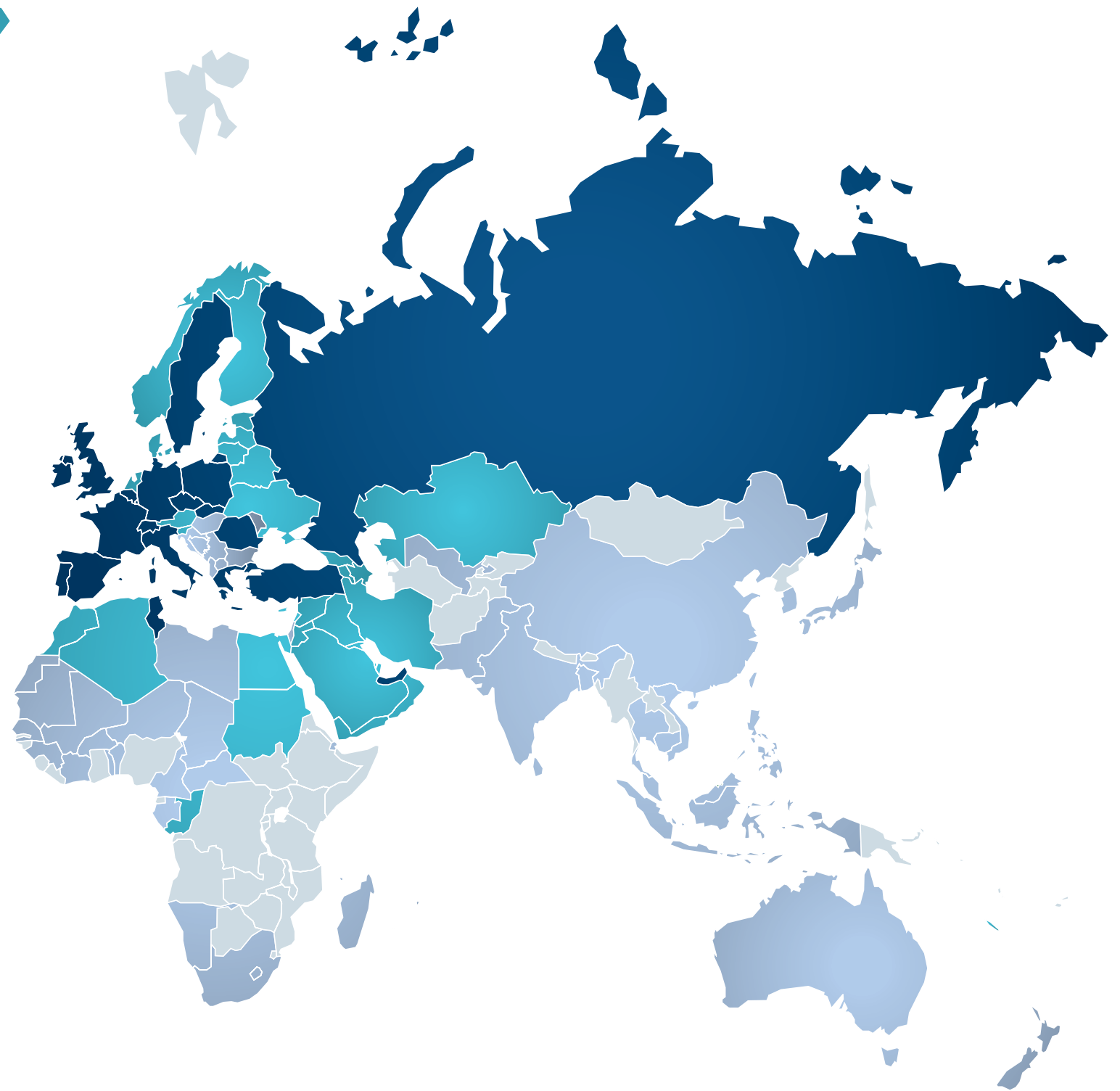
SUBSIDIARIES



BRANCHES AND OTHER FORMS  
OF TERRITORIAL PRESENCE



COUNTRIES WHERE RECORDATI PRODUCTS  
ARE SOLD (UNDER LICENSE OR EXPORTED)

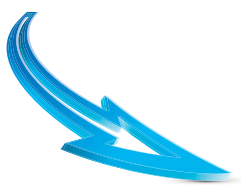


# GROUP ACTIVITIES

In addition to being present in the field of cardiovascular disease, and in particular in hypertension, Recordati also operates in the area of urology with important new treatments for benign prostatic hyperplasia and in the area dedicated to treatments for rare diseases where the group researches, develops and markets a number of orphan drugs.







## THE RECORDATI GROUP MARKETS A WIDE RANGE OF INNOVATIVE PRODUCTS ORIGINATED BY ITS OWN RESEARCH, DEVELOPED IN-HOUSE OR OBTAINED UNDER LICENSE

### **ZANIPRESS®/ZANEXTRA®/ LERCAPREL®/LERCARIL® (lercanidipine + enalapril)**

Is an antihypertensive drug developed by Recordati.

It associates lercanidipine, a latest generation calcium channel blocker, with enalapril, a widely prescribed ACE inhibitor, allowing the simultaneous administration of two active ingredients.

The administration of a single pill, for a patient who often takes a number of different medicines every day, increases compliance which is an important success factor in the treatment of hypertension.

As stated by the European Society of Hypertension, combination therapy should be considered as first line treatment for hypertensive patients at high risk for cardiovascular events. The use of fixed combinations of antihypertensive agents is growing and is expected to play a significant and increasing role in the treatment of hypertension.

Most hypertensive patients, and those with other associated risk factors in particular, require more than one antihypertensive drug to keep their

blood pressure at desired levels. The benefits of the combination of these two active ingredients, and in particular its increased effectiveness and tolerability, have been confirmed by the results of clinical trials, such as ACCOMPLISH, which have shown that a combination of a calcium channel blocker plus and ACE inhibitor is more effective than the combination of a calcium channel blocker with a diuretic in reducing cardiovascular risk.

### **ZANIDIP®/CORIFEQ®/LERCADIP® (lercanidipine)**

Is an antihypertensive drug discovered and developed entirely in the Recordati research laboratories.

The Group's main product, lercanidipine, is effective in gradually lowering blood pressure values to optimal levels avoiding episodes of reflex tachycardia and reducing the risk of cardiovascular events and their related mortality.

It's lipofilicity and high selectivity are properties which render lercanidipine effective with a superior tolerability profile.

It ensures protection of the kidneys and the endothelium of the blood vessels.

Thanks to this organ protection characteristic and its metabolic neutrality lercanidipine is well tolerated by patients suffering from other diseases such as diabetes and nephropathy.

### **UROREC® (silodosin)**

Silodosin is a new drug indicated for the treatment of benign prostatic hyperplasia (BPH), a widespread disease on the increase in aging populations.

It manifests in males, generally after the age of fifty, with problems linked to urination, such as reduced urine stream, increased frequency and urgency and nocturia.

Silodosin is a powerful antagonist of the  $\alpha 1$  adrenergic receptors with a high affinity for  $\alpha 1A$  receptors. Blocking of the  $\alpha 1A$  receptors leads to a rapid increase in urine flow and an improvement in both irritative symptoms (frequency, urgency, nocturia) and obstructive symptoms

(hesitancy, incomplete emptying of the bladder, intermittency, weak stream). As demonstrated by a study conducted in Europe by Recordati on more than 800 patients, the administration of silodosin leads to an improvement in urine flow after only 2-6 hours and rapid relief from both obstructive and irritative symptoms in the course of 3-4 days. Symptom improvement is maintained during long term treatment. The safety and tolerability of silodosin has been assessed with positive results on 1,600 patients. The low incidence of orthostatic and vasodilatory side effects make it a well-tolerated treatment even in patients who take antihypertensive medication. In all the clinical studies conducted until now, Urorec® has been found to be highly effective, so much so that it is considered a valid and innovative alternative to treatments currently in use. Silodosin is the result of original research by the Japanese pharmaceutical company Kissei Pharmaceutical Co. Ltd. and was obtained under license by Recordati for the whole of Europe (45 countries) and a further 18 countries in the Middle East and Africa. The clinical development of the product was conducted by Recordati for its own markets. Recordati has already successfully launched the drug in 24 countries including France, Germany, Italy,

Spain, Russia and other CIS markets and Turkey.

### **LIVAZO®/ALIPZA® (pitavastatin)**

Pitavastatin is an innovative statin for the treatment of dyslipidemia, a condition characterized by altered levels of blood cholesterol and other lipids and associated with an increased risk for heart disease and stroke. Pitavastatin is indicated for the reduction of elevated total cholesterol (TC) and LDL cholesterol (LDL-C), in adult patients with primary hypercholesterolemia and combined (mixed) dyslipidemia when response to diet and other non-pharmacological measures is inadequate. In controlled clinical trials involving more than 1,600 patients it was shown that pitavastatin induces not only a reduction in LDL-cholesterol (the “bad” cholesterol that contributes to formation of atherosclerotic plaques) but also an increase in HDL-cholesterol (the “good” cholesterol that is removed from the arterial walls), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications. Furthermore, it has been shown that pitavastatin is minimally metabolized by the enzymes of the Cytochrome P-450 family, enzymes that play a key

role in the metabolism of many drugs, thus minimizing the potential risk for unpredictable responses to treatment or for interaction with drugs metabolized by this pathway. Pitavastatin therefore presents an excellent safety profile due to the lower likelihood of drug-drug interactions than that of most other statins. Pitavastatin was obtained under license by Recordati from the Japanese pharmaceutical company Kowa for many European markets including Russia, other CIS and Turkey. The drug has already been successfully launched in Spain, Portugal, Switzerland and the Ukraine.

### **LOMEXIN®/FALVIN® (fenticonazole)**

Lomexin® (fenticonazole), originated by Recordati, is an antimycotic that is widely used. Indicated for the treatment of dermatological and gynaecological infections from fungi, molds, yeasts and gram positive bacteria, fenticonazole destroys fungal cells by means of its dual acting mechanism which prevents the formation of ergosterol and inhibits the aspartic proteinase of the candida. Lomexin® has a wide range of action and is also effective at low concentrations without creating resistances. Fenticonazole is a

modern drug available in different forms and very flexible doses, it is well tolerated and is supported by years of experience in clinical practice.

#### **GENURIN®/URISPAS® (flavoxate)**

Flavoxate, a Recordati original research product, is a muscle relaxant of the urinary tract. It is indicated for the symptomatic treatment of dysuria, urgency, nocturia, frequency and incontinency and the treatment of bladder and urethral spasms.

It is able to control symptoms associated with urgency and hyper activity of the detrusor, thanks to its action on the transmission of the reflex impulse to empty the bladder. Flavoxate is the first Italian drug to be approved by the American Food and Drug Administration and to be marketed in the United States of America, and is widely used in many countries.

#### **KENTERA® (oxybutynin transdermal patch)**

Kentera® is an oxybutynin transdermal system indicated for the treatment of symptoms associated with disorders of the lower urinary tract, such as incontinence, frequency and urgency. Kentera® is indicated for all patients with overactive bladder as it combines

the effectiveness of oxybutynin (considered the 'gold standard' for this disorder) with its excellent tolerability, thanks to the reduced first pass liver effect, and with the ease of use of a patch applied twice a week which constitutes a valid alternative to oral medications.

Under license from Actavis (previously Watson Pharmaceuticals), Kentera® is currently marketed by Recordati in sixteen European countries by the group's subsidiaries and its partners.

#### **TRANSACT® LAT (flurbiprofen transdermal patch)**

TransAct® LAT is a transdermal patch containing flurbiprofen, a non steroidal antiinflammatory drug (NSAID), indicated for the symptomatic relief of localized pain involving the musculoskeletal system.

The underlying technology, the excipients and the active ingredient all contribute to the treatment's effectiveness, to its constant release over a twelve hour period and to its localized antiinflammatory and analgesic action, acting only where the patient feels pain, thereby avoiding the problems connected with the use of NSAIDs delivered systemically.

All these characteristics and the efficacy of flurbiprofen, demonstrated by numerous clinical studies, make TransAct® LAT a highly appreciated specialty among doctors and the

patients themselves. It is a successful product marketed in a number of countries in Europe.

#### **RUPAFIN®/WYSTAMM® (rupatadine)**

Rupatadine is a second generation antihistamine which effectively resolves the problems that afflict patients suffering from allergies. It is a histamine antagonist with selective peripheral H1 receptor antagonist activity. It further blocks the receptors of the platelet-activating factor (PAF), a characteristic which distinguishes it from other specialties belonging to the same class of drugs. Rupatadine inhibits allergic effects affecting both the nasal mucosa and other organs targeted by the allergic reaction, such as the skin, controlling symptoms such as sneezing, itching, rhinorrhea, nasal congestion, wheals and rashes.

Its pharmacokinetic properties allow quick and effective control of allergies, rapid relief from symptoms and a long-lasting antihistamine action. Under license from Uriach it is marketed in Italy, Germany and France.

#### **LOPRESOR® (metoprolol)**

Lopressor® belongs to the beta-blocker class of drugs and is indicated for the treatment

of hypertension either alone or in association with other antihypertensive agents. This selective beta blocker is also indicated for long term treatment of angina pectoris. Lopresor® is available in a number of European countries and is particularly successful in Greece and in Germany.

**TERGYNAN®**  
(ternidazol, neomycin, nistatin, prednisolone)

A fixed combination of ternidazol, neomycin, nistatin and prednisolone,

this product is used for the treatment of vaginal infections and the prevention of gynecological infections. Tergynan® is a leading brand of anti-infective and antiseptic gynecological medicines in the countries in which it is marketed, in particular in Russia, Ukraine and the other countries belonging to the Commonwealth of Independent States

**PROCTO-GLYVENOL®**  
(tribenoside)

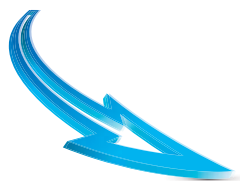
Is an OTC product indicated for the treatment of internal and external

hemorrhoids and is a leading brand in its class. Procto-Glyvenol® is available mostly in the Central and Eastern European markets including Turkey.

**CITRAFLEET® and FOSFOSODA®**

Both brands are bowel cleansers used in preparation for any diagnostic procedure which requires emptying of the intestines, such as colonoscopy or X-rays and belong to the Spanish company Casen Fleet acquired during 2013. These products are sold mainly in Spain and in Germany.





## SOME PRODUCTS OR PRODUCT LINES MARKETED LOCALLY BY RECORDATI'S SUBSIDIARIES DETAIN PROMINENT POSITIONS IN THEIR MARKETS OF REFERENCE.

### ITALY

The Recordati Group offers a broad range of medications in this country through its organizations Recordati S.p.A. and Innova Pharma S.p.A. and provides doctors and specialists with up-to-date support of high scientific value.

In addition to its historic and established presence in the cardio-metabolic field, the Italian product portfolio also boasts quality medicines in the central nervous system therapeutic area, in gastroenterology and in analgesia.

Entact® (escitalopram) is a highly selective antidepressant, with an excellent tolerability and compliance profile, which makes it suitable for use also in severe clinical conditions and in polytherapy.

Peptazol® (pantoprazole), a proton pump inhibitor frequently used for the treatment of gastro esophageal reflux disease and in the prevention of gastro duodenal ulcers caused by NSAIDs, belongs to a large and competitive market.

Its use is growing continuously thanks to its good and proven pharmacological properties.

Its lower potential for pharmacological interactions distinguishes it from other similar medications.

This is an important factor and is widely recognized by doctors because the greatest users of this class of drugs are patients who simultaneously undergo a number of different treatments.

Tora-Dol® (ketorolac tromethamine) is an effective fast-acting non-steroidal anti-inflammatory drug which has always been a leader in its class. It is considered by a large number of both specialists and general practitioners as one of the most effective drugs for pain control. It is currently widely used also in hospitals and out-patient clinics for the treatment of post-surgical pain and renal colic, that is, for acute and severe pain.

Urorec® (silodosin) is appreciated by physicians in Italy and reinforces the company's presence in the field of urology.

Recordati's offering in cardiology, apart from Zanedip® and Zanipress®, includes Cardicor® (bisoprolol), a drug belonging to the beta-blocker class indicated for the treatment of chronic, stable, moderate to severe heart failure, associated with reduced systolic ventricular function.

It is administered together with ACE inhibitors and diuretics and is much appreciated by physicians.

Lovinacor® (lovastatin), a well-known and trustworthy statin, is an important brand in the Italian portfolio.

It is one of the first-in-class for the pharmacological treatment of dyslipidemia and is one of the statins with the most scientific documentation.

Recordati has always been close to both family doctors and specialists and each year sponsors a number of educational projects, training courses,

symposiums and lectures at major national and international congresses involving themes in urology, internal medicine, cardiology, allergies and pain.

Recordati also has an excellent reputation at the pharmacy level and continues to grow in the self-medication market, thanks to its large offering and a number of successful products.

The product portfolio comprises a number of OTC products (Proctolyn®, Imidazyl®, Imidazyl Antistaminico®, Recofluid®, Recotuss Sedativo®, Transcop®, Antoral Gola®, Valontan®), products not requiring a prescription (Falvin®, Naprosyn®), medical devices (the Alovex® and Eumill® lines), dietary supplements (Lactò® and Proctolyn® Integra Plus) and cosmetics (Dentosan®).

The five main products in the portfolio are Alovex®, Proctolyn®, Dentosan®, Imidazyl® and Eumill® all of which are market leaders.

The Alovex® line comprises Alovex® active protection and Alovex dentizione®. The first is indicated for the treatment of aphthas and mouth sores while the second is a product specifically created for newborns which provides rapid relief from pain and irritation caused by teething. In the antihemorrhoids segment the Proctolyn® line reinforced its leadership and enriched its offering with Proctolyn® Integra Plus, a new formulation which acts systemically.





In the oral care market Dentosan® is a well-known brand both by doctors and pharmacists. The Dentosan® mouthwash category represents a benchmark in the treatment of bacterial plaque and each formulation contains chlorhexidine at different concentrations. The Dentosan® line also comprises toothpaste gel and toothbrushes. In the decongestant and antihistamine eye drops market, the Imidazol® brand maintains its leading position. In the natural eye drops segment the Eumill® line consolidates its position thanks to the performance of Eumill Protection®, the lubricating and moisturizing drops which help to counteract ocular dryness and fatigue available alongside Eumill®, the freshening and soothing eye drops. Recordati also offers a line of OTC cough medicines which comprises Recotuss® Sedativo, syrup and tablets containing dextromethorphan bromide, an effective active principle for the symptomatic treatment of dry cough, and Recofluid®, a fluidifying mucolytic syrup which does not contain saccharose nor glucose and can therefore be administered to diabetics.

## FRANCE

Laboratoires Bouchara Recordati is solidly established in the French pharmaceutical market thanks to a number of prescription drugs and a line of OTC products which enjoys great success in France. The French subsidiary holds leading positions in the cardiovascular and urology areas with Zanextra® (lercanidipine+enalapril) and Urorec® (silodosin) respectively. Laboratoires Bouchara Recordati is the exclusive licensee for the production and marketing of methadone, a synthetic opioid analgesic, used as a substitute for heroin in somatic abstinence syndromes, in disintoxication from opiates and in maintenance programs. Highly specialized staff and dedicated resources lie behind the success of the disintoxication programs. The benefits of treatment with methadone are universally recognized. The most important are the decrease in deaths resulting from the use of narcotics, the reduction of the diffusion of viral infections (HIV, HCV), reduced health, legal and social costs related to the use of drugs and improvements in the health and rehabilitation of addicts.

A new capsules formulation, and more flexible prescribing conditions contribute to expand its use. Laboratoires Bouchara Recordati reinforces its position in the French OTC market. The Hexa line of products (Hexaspray®, Hexalyse® and Hexamer®) maintain their leadership and notoriety in the segment of winter maladies and Exomuc® is now the best-known and leading mucolytic containing N acetyl cysteine. The company has also developed an important international presence in the former French colonies and continues to expand in the Maghreb area, in French-speaking Africa and in Asia. Through its dynamic export and promotion activities it distributes a number of specialties from its product portfolio in 32 different countries. The main destinations of these exports are Algeria, Vietnam and Tunisia, and the largest product exported is Zanidip® (lercanidipine).

## GERMANY

An important part of the Recordati Pharma operations is linked to its traditional presence in the gastroenterological area and in

particular in that of chronic inflammatory intestinal diseases which consist mainly of Crohn's disease and ulcerative colitis. In Germany approximately 320,000 patients suffer from these diseases.

The "gold standard" treatment for these diseases is the administration of mesalazine.

Claversal® (mesalazine), the established Recordati Pharma brand, is the second largest in its class and offers specialists in the field a full range of formulations.

In 2012 Recordati Pharma added Citrafleet®, a bowel cleanser used in preparation for colonoscopy, to its product portfolio.

Thanks to the attention dedicated to gastroenterological disorders and to the activity devoted to the creation of awareness in the general public regarding the benefits resulting from the prevention of colorectal cancer, Recordati Pharma became official sponsor of the prestigious Felix Burda 2012 Award for the prevention of this disease.

Recordati Pharma has also developed an established presence in the area of orthopedics. The company has been supplying first class products to orthopaedic specialists for many years. The most important of these include Recosyn® (hyaluronic acid), which is available in four different formulations for specific treatment regimens, Lipotalon® (dexamethasone palmitate), SportVis™ (biocompatible hyaluronic acid adapted for soft tissues) and Orto-ton® (metocarbamol), a muscle relaxant used for back pain which in 2013 reinforced its position and is set to become the subsidiary's most important product.

With Genesis CS the German subsidiary has introduced a novel

PRP concentration system for the treatment of muscular inflammation and tendon injuries. Recordati Pharma is traditionally among the top five most highly rated pharmaceutical companies in the orthopedics field.

It was the official supplier to the German Olympics team in the last summer and winter Olympics.

The area of urology is now also strategic for the German subsidiary.

In addition to Urorec® (silodosin), the new drug for the treatment of benign prostatic hyperplasia, Recordati Pharma also successfully markets Kentera® (oxybutynin transdermal patch), indicated for urinary incontinence, and Remiprostan® (palmet extract), a recent acquisition which further enhanced its portfolio. Since 2012 the German subsidiary markets a line of OTC products with a specific sales organization dedicated to a number of brands the best-known of which are: Rhinopront® for rhinitis, Mirfulan®, a leading brand for diaper rash, J HP-Rödler®, a cough and cold medicine, Betadorm® for sleep disorders, as well as Osteoplus®, Xitix® and Dolobene®.

## PORTUGAL

Jaba Recordati is well positioned in the Portuguese pharmaceuticals market, mainly in the cardiovascular and urological fields and in the market for OTC products.

Its established presence in the cardiovascular area stems from the strong appreciation shown by the medical community and specialists for the subsidiary's products.

Jaba Recordati's main products are Livazo® (pitavastatin), an innovative and much appreciated statin for the treatment of dyslipidemia, Zanipress® the fixed combination of lercanidipine

and enalapril, which today is the leading brand in the calcium channel blocker + ACE inhibitor market, and Urorec® (silodosin).

TransAct® LAT, is a leading product in the market for transdermal patches within the topical antirheumatic class of drugs. Indicated for the symptomatic relief of localized pain involving the musculoskeletal system, it is an original delivery system for the administration of flurbiprofen, a well-known and widely used non-steroidal anti-inflammatory drug (NSAID). It is better tolerated thanks to this method of delivery.

Among the OTC products Guronsan®, a leader in the market for tonics for fatigue, is the most important.

Jaba Recordati is developing a promising export business to Portuguese speaking countries such as Angola, Cape Verde and Mozambique.

## SPAIN

The Recordati group has reinforced its presence in Spain, the fifth largest pharmaceutical market in Europe, with the acquisition of Laboratorios Casen Fleet, a Spanish pharmaceutical company with headquarters in Madrid and production facilities in Utebo, Zaragoza. Casen Fleet markets an interesting portfolio of products which are primarily internally developed drugs. The main product lines are the ones marketed under the brands Citrafleet® and Fosfosoda®, bowel cleansers used in preparation for diagnostic procedures which require emptying of the intestines. Citrafleet®, already established also in Germany, is an important product for which the group has international marketing rights.

The subsidiary's main products are Livazo® (pitavastatin) and Cidine® (cinitapride), a drug indicated for the treatment of the symptoms of chronic postprandial dyspepsia. It is a gastroprokinetic frequently used in the gastroenterological field and is well known and appreciated by physicians.

Recordati España is also present in cardiology (Zanipress®, Zanidip®, Dermatrans®, Lopresor®) and in gynecology (Yoduk®, Losferron®, Lomexin®). In collaboration with the Spanish Society of Cardiology, the company presented the results of the Cardiotens Study which analyzed data from 15,000 patients with hypertension over a period of 10 years with the objective of improving the treatment of hypertension and understanding its correlation with other diseases. As regards the area of gynecology Recordati España was the first company to educate both doctors and the general public on the risks of damage that iodine deficiency in mothers during pregnancy and lactation can cause to the physical and mental health of infants.

### **RUSSIA, UKRAINE AND OTHER C.I.S. COUNTRIES**

The success of Rusfic, Recordati Ukraine and FIC Médical, our organizations which operate in Russia and in the other markets of the C.I.S., is largely based on the success of Tergynan® (a fixed association of ternidazol, neomycin, nistatin and prednisolone) a product indicated for the topical treatment of vaginal infections. Tergynan® is a leading product in the class of gynaecological anti-infective and antiseptic drugs and is widely used in all the countries of the Commonwealth of Independent

States and in Ukraine where Polydexa® and Isofra® indicated for the treatment of ear, nose and throat (ENT) disorders also continue to grow. The five product lines acquired in 2012 are also performing well. These are well-known OTC product lines and dietary supplements such as Alfavit® which holds a leading position on the market for vitamins and minerals formulations and Qudesan®, based on coenzyme Q10, for the prevention and treatment of chronic fatigue and metabolic dysfunction. The sales organization in Russia was enhanced with the recruitment of a field force dedicated to the promotion of these products at pharmacy level.

### **TURKEY**

Recordati Ilaç has strengthened its position on the Turkish pharmaceutical market thanks to the success in the medical community of Urorec® (silodosin) and of Zanipress® (lercanidipine+enalapril) and to the launch of two new local products, Kreal Forte® (butamirate citrate), an extension of the Kreal® line indicated for the control of pre and post-operative acute cough, and the antihistamine Mayfex® (fexofenadine). The Turkish subsidiary is one of the leaders in the Turkish pharmaceuticals market for urological disorders thanks to Urorec® (silodosin) and to a number of other products including Urispas®, the flavoxate based antispasmodic drug indicated for urinary incontinence. The subsidiary also markets Procto-Glyvenol® (for the treatment of hemorrhoids), Lercadip® (lercanidipine), and Cabral® (feniramidol) a muscle relaxant, successfully. Recordati Ilaç launched an important investment program for the construction of a new production

plant to produce a number of different products for a total of 80 million packs per year.

### **POLAND**

The subsidiary in Poland, Recordati Polska, established in 2011, markets Procto-Glyvenol® (tribenoside) for the treatment of hemorrhoids, Urorec® (silodosin) and Tolzurin® (tolterodine) in the area of urology and many other established local brands in the self-medication and wellness segment. In 2012 the Group reinforced its presence in this country with the acquisition of the Polish company Farma-Projekt and a product portfolio marketed in Poland by the Romanian pharmaceutical company Labormed.

### **CZECH REPUBLIC AND SLOVAKIA**

Herbacos Recordati, the group's subsidiary present in the Czech Republic and in Slovakia, successfully markets pharmaceutical products belonging to a number of therapeutic areas, including analgesic, anti-inflammatory and dermatological medicines. It is particularly strong on the market for self-medication products such as Avilut® and Rybilka® for eye health and childcare respectively, Lipovitan®, a hepatic supplement and Veral® Gel for muscular and articular pain relief. The analgesics Valetol® and Acylpyrin® are among those most used in the country.

### **GREECE**

With a growing presence on the cardiovascular market, Recordati Hellas, in addition to lercanidipine and its fixed combination with enalapril, successfully markets Lopresor®

(metoprolol tartrate USP), a selective beta-blocker indicated for the treatment of various cardiovascular diseases and in particular for hypertension and angina pectoris. The drug was re-launched in 2011 and has become the Greek subsidiary's main product followed by Lomexin® (fenticonazole) and Urorec® (silodosin).

### ROMANIA

Through Recordati România, Recordati is also present in this Eastern European country. The Romanian subsidiary promotes both prescription and OTC products successfully. The company's main products are Lomexin® (fenticonazole), Urorec® (silodosin) and Procto-Glyvenol®, a tribenoside based treatment for hemorrhoids. The subsidiary also markets Tergynan® (fixed association of ternidazol, neomycin, nistatin and prednisolone) a gynecological product, Revada® (diosmin) which is prescribed for venous insufficiency

and other indications and Caldefix® (calcium and vitamin D3) for the treatment of osteoporosis. Recordati România also sells Recordati's products in the Republic of Moldavia through an agreement with a local distributor.

### U.S.A.

Recordati reinforced its international presence in the segment dedicated to treatments for rare diseases in 2013. Recordati Rare Diseases, its US subsidiary focused on rare disease treatments, makes available to patients a portfolio of products the most important of which are Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers, Carbaglu® (carglumic acid) for the treatment of hyperammonaemia due to NAGS deficiency and NeoProfen® (ibuprofen lysine injection) indicated to close a clinically significant patent ductus arteriosus (PDA) in premature infants.

### TUNISIA

Recordati has established a direct presence in North Africa, where it already operated successfully, with the acquisition of the Tunisian pharmaceutical company Opalia Pharma. The consolidation of its operations in these territories also represent an opportunity to extend its activities to countries in Central Africa and the Gulf States. Opalia Pharma, with headquarters in Ariana, a suburb of Tunis, was established in 1988, ranks eighth in the Tunisian pharmaceutical market and is the third largest local pharmaceutical company. The company markets branded generic drugs with leading products in dermatology and in the gastrointestinal and respiratory therapeutic areas. Opalia manufactures most of its products in a modern, cGMP certified production facility specialized in liquid and semi-solid forms.





# RARE DISEASES AND ORPHAN DRUGS





## A HEALTHCARE PRIORITY A RECORDATI PRIORITY

Rare diseases bring great suffering to millions of affected people worldwide and to their families. They are mostly genetic diseases that can affect patients of any age, sex or ethnic origin and involve any type of medical specialization. Very often sufferers are newborns, children and young adults.

An orphan drug is a medicinal product developed for the treatment of a rare disease. A rare disease is defined as a condition that affects fewer than 5 per 10,000 inhabitants in Europe or fewer than 200,000 Americans in the U.S.A., and is fatal or severely debilitating. Over 25 million people are affected in Europe alone.

There are over 7,000 known rare diseases but today treatment exists for only 200-300 of these. Due to the extensive spectrum of existing diseases physicians may never see a patient with a rare disease. For that reason there's always a risk that when a baby is born with a rare disease a correct diagnosis may not be made and appropriate treatment may not be provided.

The specificities of rare diseases – limited number of patients and scarcity of relevant knowledge and expertise – single them out as a

distinctive domain of very high European added value. European cooperation ensures that scarce knowledge is shared and resources combined.

Patient numbers are so small that a rare disease is often not “adopted” by the pharmaceutical industry and hence the expression orphan drug. To provide care for people with a rare disease and to encourage pharmaceutical and biotechnology companies to invest in treatments for rare diseases governments have created various legal and financial incentives. In 1983 the Orphan Drug Act was introduced in the U.S.A. and European legislation passed in 1999 explicitly recognized the unmet need of targeted treatments for orphan diseases and created regulatory pathways and incentives for manufacturers to develop orphan drugs.

From April 2000, when the EU orphan drug regulation came in to effect, many hundreds of drugs received orphan drug designation from the European Medicines Agency (EMA). Of those designated drugs, over 70 have received marketing authorization (MA).

Reports show that orphan drugs are estimated to account for between 1.7% and 4% of the total drugs expenditure. 40% of the orphan



Ci dedichiamo alla cura dei più vulnerabili.

OGNI PAZIENTE HA IL DIRITTO AL MIGLIOR TRATTAMENTO POSSIBILE. A MAGGIOR RAGIONE COLORO CHE SONO AFFETTI DA MALATTIE RARE.

Cistinosis nefropatica  
Deficit vitamina E  
Dotto arterioso pervio  
Iperammonemia da acido organico  
Iperammonemia da deficit di NAGS  
Morbo di Wilson  
Neoplasie infantili rare  
Omocistinuria  
Porfiria acuta

L'impegno di Recordati perché le malattie rare siano un po' meno orfane.

RECORDATI RARE DISEASES  
RECORDATI  
RECORDATI

medicines were licensed for oncological and hematological conditions and about 30% of the orphan drug market consists of drugs for rare inborn errors of metabolism. There is a surge of international research investment, from different funding bodies such as the European Commission and NIH, to boost the number of new authorized treatments in an attempt to bring 200 new drugs to the market by 2020.



## ORPHAN EUROPE AND RECORDATI RARE DISEASES: THE RECORDATI COMPANIES DEDICATED TO ORPHAN DRUGS

The Recordati group operates in the rare disease segment worldwide through its dedicated subsidiaries **Orphan Europe** and **Recordati Rare Diseases** who share the conviction that each person with a rare disease has the right to the best possible treatment. Our specialties indicated for the treatment of rare and orphan diseases are marketed directly all over Europe, in Turkey, in the Middle East and in the U.S.A., and through selected partners in other parts of the world. The main products in the segment dedicated to rare disease treatments are Panhematin<sup>®</sup>/Normosang<sup>®</sup> (human haemin) indicated for the

treatment of acute attacks of hepatic porphyria, Carbaglu<sup>®</sup> (carglumic acid) indicated for the treatment of hyperammonaemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and due to any of the three main organic acidurias, Cosmegen<sup>®</sup> (dactinomycin) used mainly in the treatment of three rare cancers: Wilms' tumor, childhood rhabdomyosarcoma and choriocarcinoma, and Pedeas<sup>®</sup>/Neoprofen<sup>®</sup> (i.v. ibuprofen) used in the treatment of a serious congenital cardiac malformation, the persistence of patent ductus arteriosus (PDA).

### IN EUROPE

**Orphan Europe**, Recordati group, is a leading orphan drug pharmaceutical company in Europe dedicated to the research, development and marketing of treatments for rare diseases. It is one of the companies with most orphan drugs on the European Market.

The company has been operating for 25 years and markets treatments mostly for inborn errors of metabolism.

Orphan Europe focuses on drugs for some of the most uncommon diseases. NAGS deficiency, treated with Carbaglu<sup>®</sup>, is 4000 times rarer than the European limit of 5 in 10,000 inhabitants.

In 2011 Carbaglu<sup>®</sup> received approval for an additional indication, the treatment of three of the most common organic acidurias. Organic acidurias disrupt normal amino acid metabolism causing a buildup of organic acids in the body.

These disorders can cause similar clinical symptoms to NAGS deficiency. These are life threatening diseases predominantly present in infancy. Children affected are at an increased risk of severe disability, impaired quality of life and reduced life expectancy.

Orphan Europe has worldwide coverage, through its subsidiaries all over Europe and in the Middle East, and through the presence of



dedicated highly trained representatives, commercial agreements and to a direct distribution and packaging system able to deliver very small numbers of specialist products to people around the world.

Orphan drug specialists visit clinicians from many disciplines that diagnose and/or treat patients suffering from rare diseases. Hospital pharmacists,

specialist nurses, biochemists and dieticians are also key contacts in these highly specialized disease areas.

In addition to their medical and pharmacological knowledge of rare disorders the orphan drug specialists are also trained in all aspects of orphan drug development and registration and are experienced in obtaining local reimbursement/funding for products.

## IN THE UNITED STATES OF AMERICA

Recordati has progressively intensified its commitment to treatments for rare diseases reinforcing its presence also in the U.S.A..

**Recordati Rare Diseases**, the group's American subsidiary offers a portfolio of products for the treatment of a number of rare diseases.

The main products in the portfolio are Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers, Wilms' tumor, childhood rhabdomyosarcoma and choriocarcinoma, Carbaglu® (carglumic acid) indicated for the treatment of hyperammonaemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and NeoProfen® (ibuprofen lysine injection), indicated to close a clinically significant patent ductus arteriosus (PDA) in premature infants. Also in the U.S.A. the organization works closely with specialists, healthcare professionals, patients' families and patient groups to meet the needs of people affected by these diseases and to spread the scarce knowledge available.

Recordati's commitment to making its products available to patients suffering from rare diseases was recognized by the **National**



**25** February 2014 EURORDIS (European Organization for Rare Diseases) awarded Orphan Europe the prestigious **EURORDIS** Company Award for distinction in the field of rare diseases. The award, presented at the EURORDIS ceremony held in celebration of Rare Disease Day in Brussels, recognizes Orphan Europe's established track record in the field of orphan drug development. The award also distinguishes Orphan Europe's engagement with the rare disease community in improving the diagnosis and management of these diseases. Orphan Europe achieves this through work to establish scientific networks, engaging with patient organizations and its staff volunteering program.

*"We are honoured to acknowledge the commitment and achievements of the recipients of the EURORDIS Awards on the occasion of Rare Disease Day 2014. This year, Rare Disease Day puts the spotlight on Care. Each of the 11 EURORDIS Award 2014 recipients is making a significant and unique contribution to improving access to the many different kinds of Care people living with a rare disease need and deserve. Working together, we are starting to make a real difference to the millions of patients and families throughout Europe who live with a rare disease,"* declared Yann Le Cam, Chief Executive Officer, EURORDIS.

**Organization for Rare Disorders (NORD)** in the U.S.A. with its 2011 “Corporate Award”. This important award was granted in recognition of the introduction into the United States of Carbaglu®, the first specific treatment approved by the FDA (Food and Drug Administration) for NAGS deficiency, a very rare inherited metabolic disease.

NORD is a unique federation of voluntary health organizations dedicated to helping people with rare diseases and advocating for their rights. The enhancement of the organization in the U.S.A. are confirmation of Recordati’s commitment to becoming a worldwide player in the segment dedicated to rare diseases.



## TREATMENTS FOR RARE DISEASES IN OUR PORTFOLIO

Adagen®	Pegademase bovine	Enzyme replacement therapy for the treatment of severe combined immunodeficiency disease associated with adenosine deaminase deficiency (SCID-ADA)
Carbaglu®	Carglumic acid	Treatment of hyperammonemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and some organic acidaemias (isovaleric acidaemia, methylmalonic acidaemia and propionic acidaemia)
Cosmegen®	dactinomycin	Treatment of three rare cancers
Cystadane®	Betaine anhydrous	Treatment of homocystinuria
Cystagon®	Cysteamine bitartrate	Treatment of nephropathic cystinosis
Normosang® / Panhematin®(USA)	Human hemin	Treatment of acute attacks of hepatic porphyria
Pedea® / NeoProfen® (USA)	Ibuprofene iv	Treatment of patent ductus arteriosus (PDA)
Vedrop®	Tocofersolan	Treatment or prevention of vitamin E deficiency in paediatric patients and adolescents suffering from congenital or hereditary chronic cholestasis
Wilzin®	Zinc acetate	Treatment of Wilson's disease
Cystadrops®	Cysteamine chlorhydrate	<i>In development</i> for the treatment of ocular manifestations of cystinosis

# RECORDATI RARE DISEASES ACADEMY OUR COMMITMENT TO RARE DISEASES



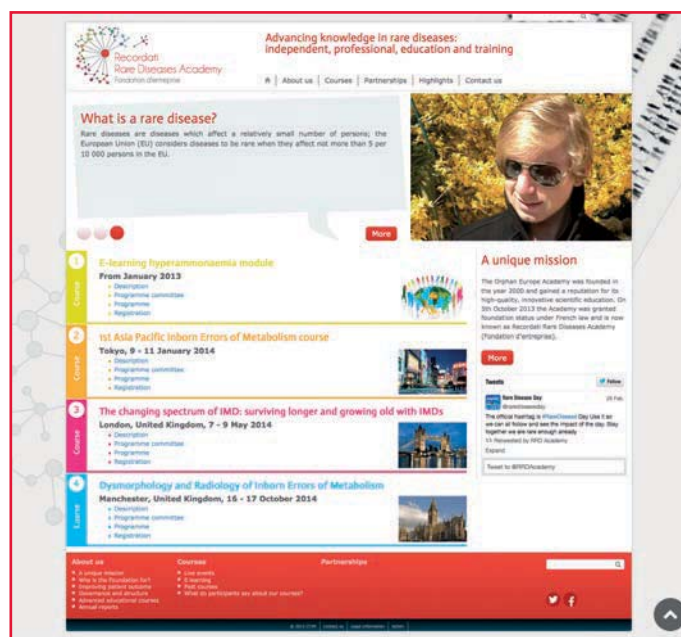
Working in the field of rare diseases is an important responsibility to patients and healthcare professionals and we put this at the heart of our strategy. Orphan Europe launched the **Academy** in 2000 providing unconditional grants for training in rare disease.

High-level courses are created under the authority of a scientific committee. The overall aim is to share experience in the management and outcome of rare disorders where individual experience is by its nature limited. The Academy offers specialists the opportunity to enrich their knowledge, develop new ideas and establish scientific relationships.

Four live events are held each year bringing together clinicians and scientists from all over the world to discuss innovations and new diagnostic and management strategies.

The Academy also provides online e-learning courses which aim to provide physicians, world-wide, with clinically useful and the most up-to-date information concerning current knowledge and recommendations for care.

Furthermore we work in partnership with recreational camps for children with serious debilitating disease through our staff volunteering program. We also support the work of European Reference Networks in providing equal and equitable care for patients with rare disease in Europe.



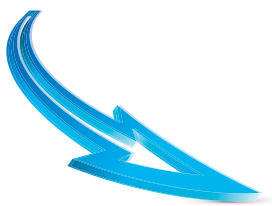




# RESEARCH AND DEVELOPMENT

During 2013 new clinical trials were launched, new molecules were identified to be evaluated and projects were initiated in new therapeutic areas. Our main programs in the areas of urology, cardiovascular disease and rare diseases were advanced.





In 2013 development activities focused on the progress of several ongoing programs in urology, hypertension and rare diseases.

During the year the enrolment of patients in the important phase III international clinical trial for REC 0482, involving more than forty clinical centers in seven European and non-European countries, started. Two new clinical development programs progressed in Europe, namely, the treatment of cancer-related pain in cases of resistance or

intolerance to opioids and the treatment of acute myeloblastic leukemia (AML) in patients older than 65 who are unfit for chemotherapy.

A new phase III clinical trial started in Germany involving the recently acquired product CitraFleet® to evaluate the effectiveness of two administration schedules in the preparation for colonoscopy in patients at risk of intestinal polyps. Renewed emphasis was given to all regulatory and post-approval activities regarding corporate products

(silodosin, lercanidipine, pitavastatin) and to pre-registration activities involving drugs for rare diseases (Carbaglu®, Cystadrops®).

In view of these activities of consolidation and expansion, Recordati continued to strengthen its drug discovery and development team, adding personnel specialized in pre-clinical and clinical disciplines to ensure the highest levels of performance. The following table shows the main projects and products in development.

## PRODUCT DEVELOPMENT PIPELINE

NAME	ORIGINATOR	INDICATION	DEVELOPMENT STATUS
CARBAGLU®	Recordati	Organic acidemias (OA)	Approved in EU Phase III in U.S.A.
ZANIPRESS®(1)	Recordati	Essential hypertension	Filed in EU
CYSTADROPS®	Recordati	Ocular cystinosis	Pre-registration in the EU
REC 0482 (NX-1207)	Nymox	Benign prostatic hyperplasia (BPH)	Phase III in USA (Nymox) Phase III in EU (Recordati)
methadone		Cancer related pain in cases of resistance or intolerance to opioids	Phase III b
CITRAFLEET®(2)	Recordati/Casen	Preparation for colonoscopy in patients at risk of intestinal polyps	Phase III
GRASPA®	Erytech	Acute lymphoblastic leukemia (ALL) in patients with first recurrence of Philadelphia chromosome negative ALL	Phase II/III
		Acute myeloid leukemia (AML) in patients >65 unfit for chemotherapy	Phase II b
REC 0438	Recordati/UFPeptides	Overactive bladder in patients with spinal lesions	Phase I

(1) New dosage

(2) New administration regimen

The introduction in the pipeline of new products, both through our discovery programs as well as through alliances with other companies, is of great importance for the group's future growth. During 2013 a wide range of products in development or ready to be launched were analyzed. Molecules belonging to different therapeutic areas (urology, metabolism, oncology and rare diseases), were evaluated in order to assess their therapeutical potential. Some of these projects are now under discussion and negotiation to define the subsequent phases of development and their potential inclusion in the Group's portfolio.

Research and development activities during 2013 are summarized in the following paragraphs.

## PROJECTS IN THE CARDIOVASCULAR AREA

### LERCANIDIPINE

In 2013 the marketing approval application with the European regulatory authorities for a new formulation and dosage form of the lercanidipine-enalapril fixed dose combination (lercanidipine 20 mg + enalapril 20 mg) went ahead. The approval is expected during the first half of 2014. The new dosage will allow patients to simplify their daily treatment of hypertension and increase compliance as has already been shown to occur in clinical practice and is encouraged by the scientific and research associations.

## PROJECTS IN UROLOGY

Recordati is committed to increase availability to patients of innovative, simple, effective and long-lasting treatments for significant urological disorders, and in particular for enlarged prostate (benign prostatic hyperplasia, BPH).

BPH is a common affliction of older men that causes difficulties with urine emission that can have a detrimental impact on health and quality of life and can lead to incontinence and acute urinary retention. This disorder, which is associated with an increase in the size of the prostate as the patient gets older, affects approximately 50% of men over age 50 and close to 90% of men by age 80. The market for BPH treatments is expected to grow progressively, as the population ages.

### REC 0482 (NX-1207)

The inclusion in our development pipeline of REC 0482 (NX-1207) is fully coherent with our commitment in urology. REC 0482 is a patented new chemical entity developed as NX-1207 by the North American company Nymox. The molecule involves a new targeted approach to the treatment of BPH. The drug is administered by a urologist in an office setting directly into the zone of the prostate where the enlargement occurs. The procedure takes only a



few minutes, causes little or no pain or discomfort, and does not require preliminary anaesthesia nor subsequent catheterization. The treatment does not cause the urinary, sexual or cardiovascular side effects associated with currently approved drugs. In the U.S.A. the enrolment of patients in the controlled, multi-center phase III clinical trials has been completed.

During 2013 the enrolment of patients in the important phase III international clinical trial for REC 0482, involving more than forty clinical centers in seven European and non-European countries, started. The program was designed in agreement with the European Medicines Agency (EMA). Patient enrolment started in 26 centers and is expected to be concluded in July 2014.

### IN-HOUSE UROLOGY PROJECTS

Recordati's discovery programs in Urology are primarily focused on the search for innovative treatments to address micturition disorders such as urgency and frequency, often associated with incontinence, which are frequent in the elderly. Opportunities exist for the development of effective and well-tolerated drugs.

REC 0438 represents a further differentiated class of compounds to be potentially used, upon intravesical administration, in patients with spinal

lesions with the object of improving their lower urinary tract stability. This molecule proved to have an optimal tolerability profile and, following the positive opinion issued by the Italian health institute (Istituto Superiore di Sanità), phase I clinical trials were initiated in 2013 with the enrolment of patients with spinal lesions.

Recordati's original molecule REC 1819, has a new mechanism of action targeting a group of receptors located in the central nervous system. During 2013 it was experimented in a phase I clinical trial involving healthy volunteers, both young and elderly. The results of the study led to the identification of a potentially interesting product. Based on the chemical characteristics of the lead molecule a series of backup

molecules were synthesized and characterized. These will now be put through a pre-clinical development program as potential successors or substitutes of the lead molecule.

### PROJECTS IN THE AREA OF CANCER-RELATED PAIN

In France Recordati markets methadone exclusively as replacement therapy for major opioid drugs dependence, in the framework of programs involving medical, social and psychological management. In other countries methadone is also prescribed, with increasing frequency and success for the treatment of





cancer-related pain as an alternative to morphine. In France, methadone is already used by teams in palliative care units and specialists of pain management in patients with cancer when level 3 analgesics (morphine, oxycodone, fentanyl, hydromorphone) are inadequately efficient or poorly tolerated. Thus, cancer pain control represents an attractive potential use of methadone. In 2012 Recordati started in France an open, multicentre, randomized, national phase III b clinical study on methadone for the treatment of cancer-related pain inadequately relieved by opioids. The study continued in 2013 with the objective of enrolling and treating 146 adult patients suffering from cancer, undergoing chemotherapy treatment or not, hospitalized or requiring hospitalization. Inclusions should be completed by the second quarter 2014.

## RARE DISEASES

Recordati is expanding its involvement in the discovery and development of treatments for rare diseases, and has a number of projects in the pipeline. Currently Recordati has seven “orphan” drugs in various development phases, from formulation studies to post-approval and phase III studies.

Carbaglu® (carglumic acid) is an orphan drug approved by the European Medicines Agency (EMA) and by the Food and Drug Administration (FDA) for the treatment of hyperammonaemia due to N-Acetyl Glutamate Synthase (NAGS) deficiency. NAGS deficiency is an extremely rare inherited metabolic disorder affecting the urea cycle which leads to accumulation of ammonia in the blood. If not adequately and

quickly treated, hyperammonaemia causes irreversible brain damage, coma, and eventually death. Carbaglu® is the only existing specific treatment of NAGS deficiency and this genetic disorder requires life-long treatment. Following the approval in Europe in 2011 for the extension of the use of Carbaglu® to treat hyperammonaemia due to organic acidemias (isovaleric acidemia, methylmalonic acidemia or propionic acidemia), Carbaglu® is now in phase III clinical development also in the U.S.A. for the treatment of organic acidemias.

Nephropathic cystinosis is a generalized congenital disorder which affects all body organs and benefits from systemic treatment with cisteamina. Cystinosis also affects the eyes and without proper treatment, cystine crystals accumulate in the cornea, resulting in progressive blurred vision, pain, photophobia and frequent corneal ulceration and eye infections. Cystadrops® are eye drops containing cysteamine chlorhydrate developed for the specific treatment of the ocular manifestations of cystinosis which cannot be controlled by orally administered cysteamine. Cystadrops® was specially formulated in a gel form for a patient-friendly administration with fewer instillations per day. A recent phase III clinical trial in a group of 30 patients with ocular cystinosis has shown safety and efficacy in the use of Cystadrops®. Now the product is in the pre-registration phase in Europe for the



treatment of the ocular manifestations of nephropathic cystinosis (deposits of cystine crystals in the cornea). In the meanwhile, the use of Cystadrops® continues with growing success in countries in Europe under a Named Patient Use (NPU) distribution plan, Autorisations Temporaires d'Utilisation (ATU) in France, and other territories (Middle East and North Africa).

## PROJECTS IN THE AREA OF ONCO-HEMATOLOGY

Asparagine is a tumor growth factor, and the enzyme L-asparaginase has been shown to possess a powerful antitumor activity, due to its capacity to degrade asparagine in plasma thus making it unavailable to the neoplastic cells which are unable to produce it. As the enzyme is highly toxic, part of the patient population does not tolerate well the treatment protocols that include the use of L-asparaginase and thus is not able to receive appropriate treatment. For these patients (mainly senior and elderly adults or relapsed patients) an important medical need is currently not adequately met.

GRASPA® is a new alternative for asparaginase administration generated by the French biotechnology company Erytech: it is L-asparaginase encapsulated in homologous human red blood cells.

GRASPA® reduces or eliminates the toxicity and hypersensitivity issues associated with L-asparaginase treatments, while effectively suppressing the plasmatic bioavailability of asparagine.

GRASPA® was granted Orphan Drug status in EU in 2006 and in US in 2010 for the treatment of Acute Lymphoblastic Leukemia (ALL).

ALL represents 12% of all cases of leukemia, with an incidence of 1 to 5 cases in 100,000 people. The U.S.A., Costarica, Switzerland and Italy are the countries where incidence is highest. During the past 30 years the prognosis for ALL has significantly improved thanks to the intensification and improvement of treatments. With the current treatment protocols based on poli-chemotherapy, which includes L-asparaginase, the cure rate exceeds 80%. Prognosis is, however, less favorable in critical patients.

In December 2009 an open, multicentre, randomized, Phase II-III clinical study to evaluate the efficacy and tolerability of GRASPA® vs. L-asparaginase in combination with standard poli-chemotherapy, was initiated involving a group of patients (children aged 1 to 17 and adults aged 18 to 55) affected by ALL after a first relapse. To date all of the 80 patients scheduled for the study have been enrolled (23 adults and 57 children). The last patient visit is expected to take place in the third quarter 2014. The aim of the study is to demonstrate that the use of

GRASPA® reduce the toxicity and hypersensitivity risks associated with L-asparaginase treatments while at the same time maintaining treatment efficacy.

There is a rational basis to evaluate the use of GRASPA® in other indications in onco-hematology. In March 2013 the enrolment of 123 patients in an open, multicenter, randomized, controlled, international Phase II b clinical study evaluating the efficacy and tolerability of GRASPA® plus low-dose cytarabine vs. low-dose cytarabine alone in the treatment of newly diagnosed Acute Myeloid Leukemia (AML) in patients over 65 years of age and unfit for intensive chemotherapy was initiated.



THE ARRIGO  
RECORDATI  
INTERNATIONAL  
PRIZE FOR  
SCIENTIFIC  
RESEARCH

The 2013 edition of the Arrigo Recordati International Prize for Scientific Research was dedicated to a topical theme: **“The pivotal role of microcirculation in systemic and organ diseases”**.

The prize was awarded to Prof. **Filippo Crea**, Full Professor in Cardiology at Policlinico “Agostino Gemelli”, Rome, Italy. The Jury recognized the winner for his outstanding and innovative contributions in researching the pivotal role of microcirculation in systemic and organ diseases. Throughout his professional career, Professor Filippo Crea has kept a consistent focus on clinical conditions related to dysfunction of the coronary microcirculation, identifying the clinical impact of events occurring in the coronary microcirculation, uncovering mechanisms, and pioneering therapeutic approaches. He was the first to demonstrate that adenosine is the main chemical stimulus responsible for cardiac ischemic pain. He identified a new clinical entity now known as microvascular angina and his work allowed the development of a diagnostic process and the identification of drugs which improve coronary microvascular dysfunction through a novel mechanism of action: the redistribution of myocardial perfusion towards underperfused myocardial regions.

He addressed the important issue of coronary microvascular obstruction in the setting of ST elevation myocardial infarction with the identification of novel biomarkers and forms of treatment.

Taken together studies carried out by Prof. Filippo Crea in the past 30 years have shown that microvascular dysfunction plays a pivotal role in all clinical manifestations of coronary artery disease, in sharp contrast with the accepted paradigm that coronary artery disease is entirely explained by epicardial stenosis.

The Jury panel of the 2013 edition of the Prize was composed of experts who have provided leadership throughout their long careers in the field of cardiology and microcirculation. The jury is chaired by **Mara Lorenzi**, MD, Professor of Ophthalmology, Harvard Medical School, Senior Scientist and George and Frances Levin Scholar in Diabetic Retinopathy, Schepens Eye Research Institute Massachusetts Eye and Ear, Boston, MA, USA. Members of the Jury are **Ignatios Ikonomidis**, MD, Ph.D., FESC, Assistant Professor in Cardiology, Director of the Laboratory of Preventive Cardiology, 2nd Cardiology Department, National and Kapodistrian University of Athens Attikon University Hospital, Athens, Greece and **Can Ince**, Ph.D., Professor of Clinical Physiology, Dept. of Translational Physiology, Academic Medical Center, University of

Amsterdam, Amsterdam, The Netherlands, Dept. of Intensive Care Adults, Erasmus MC University Medical Centre Rotterdam, Rotterdam, The Netherlands.

The prize-giving ceremony took place on 15 June 2013 during the 23rd ESH (European Society of Hypertension) Annual Meeting in Milan. The prize is an international award with the objective of promoting scientific research in the field of cardiovascular disease. A prize of 100,000 Euros is granted every two years to a distinguished scientist for his/her commitment and accomplishments in this field. Each edition of the Prize is devoted to a specific theme. The theme chosen for the next edition of the prize which will take place in 2015 is: **“Secondary prevention and risk reduction strategies for patients with cardiovascular disease”**.





# PHARMACEUTICAL CHEMICALS AND PRODUCTION PLANTS

## CURRENT STRATEGY

Recordati's pharmaceutical chemicals strategy focuses on:

- satisfying the requirements of the pharmaceuticals business.
- striving for maximum product quality.
- strengthening its presence in highly regulated markets (the United States, Europe and Japan).
- safety of production processes.
- protection of the environment.
- health and safety in the workplace.





The **Campoverde** plant mainly supplies the active ingredients used in the preparation of the various pharmaceutical specialties produced by the company, but is also an established independent producer of a number of active and intermediate ingredients for the pharmaceutical industry internationally.

It is one of the most important producers in the world of verapamil, phenytoin, papaverine and dimenhydrinate. Other pharmaceutical chemicals are produced on behalf of important pharmaceutical companies. The facility was one of the first European plants to be inspected by the American Food and Drug Administration and the United States has become, and continues to be, the main market for its production. The Campoverde site covers a surface area of 371,000 sq. m. with an installed area of 170,000 sq. m., and produces approximately 650 metric tonnes per year of finished goods with approximately 2,000 metric tonnes of semi-finished goods handled internally each year.

High-tech systems are employed for the management of particularly delicate processes such as the reactions which employ cyanides, high pressure hydrogenations, chloromethylations or those which involve substances which require very stringent safety measures.

Investments have been made for additional productions, 11 new reactors and a latest generation three stage distillation unit were installed to further enhance production capacity. The plant operates in compliance with

current Good Manufacturing Practices (cGMP) and is regularly inspected by external verifying authorities such as the AIFA and FDA. The Plant Environmental Management System is certified according to the UNI EN ISO 14001:2004 by Det Norske Veritas Italia (DNV) an internationally accredited body and is inspected on an annual basis.

In order to guarantee adequate and continuous supplies of the active ingredient lercanidipine, an important original Recordati drug, in 2005 a new dedicated plant was constructed in **Cork** in Ireland. This facility boasts automated process control systems which ensure constant high quality production. In 2012 the plant received the National Energy Efficiency Award promoted by the Sustainable Energy Authority of Ireland.

In both Recordati's pharmaceutical chemical plants a vast range of technologies, skills and expertise in the field of organic synthesis is employed which allow it to quickly and effectively study new processes from research stage through to final industrialization.

The laboratories in the Research and Development section are fitted with the latest equipment together with an extremely versatile pilot plant equipped for the industrialization of processes.

Recordati also has six pharmaceutical production facilities all of which operate with full respect for environmental protection regulations and in compliance with current Good Manufacturing Practices (cGMP). The largest are located in **Milan** in Italy, and in **Montluçon** in France.

The Milan site occupies a surface area of 23,000 sq. m. and produces 50 million packages per year.

It is specialized in the manufacture and packaging of solid oral forms, liquids, injectables and products for topical use.

The plant at Montluçon covers a surface area of 3,500 sq. m. and is specialized in the production and packaging of liquid, solid oral and spray formulations. It produces 35 million packages per year.

The other pharmaceutical production plants are located in **Turkey**, in **Spain**, in **Tunisia** and in the **Czech Republic**.

The Turkish site occupies a surface area of approximately 14,000 sq. m. It produces 40 million packages per year, of which 20% is dedicated to third party production.

It produces oral solid and liquid formulations and products for topical use.

The Spanish plant is situated near Zaragoza and is specialized in the production and packaging of solid and liquid oral and topical formulations.

In particular the plant manufactures a line of gastroenterological products. The plant produces around 12 million packs a year.

The Tunisian plant is situated near Tunis and produces liquid and semi-solid forms for the local market and for some of the countries in the Arabian peninsula.

A new unit for the production of solid oral forms is being completed.

The plant produces around 17 million packs a year.

The plant in the Czech Republic produces creams, gels and ointments for a total of 2.5 million packages per year, some of which for third parties.

# THE RECORDATI SHARE

## DIVIDEND

(per share)

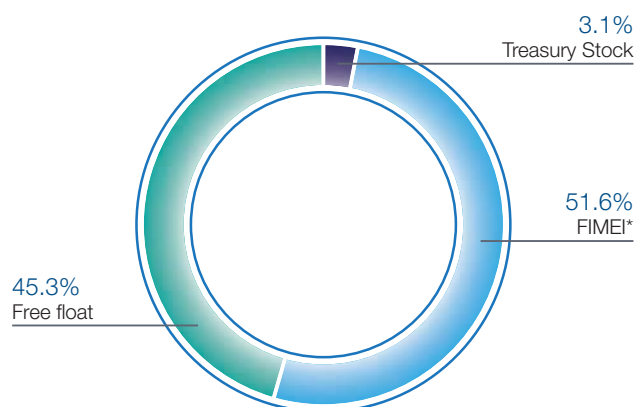
2006	2007	2008	2009	2010	2011	2012	2013
€0.185	€0.215	€0.25	€0.275	€0.275	€0.30	€0.30	€0.33



## THE RECORDATI SHARE AT 31 DECEMBER 2013

Listing:	Borsa Italiana Blue Chip segment, healthcare
ISIN Code:	IT 0003828271
Ticker:	Bloomberg REC IM, Reuters RECI.MI
Indexes:	FTSE Italia Mid Cap Index FTSE Italia All-Share Pharmaceuticals & Biotechnology Index: ICB Code 4570
Share Capital:	209,125,156 common shares
Nominal value:	€ 0.125 per share
EPS (diluted):	€ 0.631
Dividend per share:	€ 0.33

## PRINCIPAL SHAREHOLDERS' AT 31 DECEMBER 2013



\* FIMEI is 100% owned by the Recordati family

## COMPARED TO FTSE ITALIAN ALL-SHARE

■ Recordati S.p.A. (L)  
■ FTSE Italy All share (IT) (R)

Source: FactSet



## COMPARED TO STOXX 600/HEALTHCARE

■ Recordati S.p.A. (L)  
■ STOXX 600 / Health Care - SS (R)

Source: FactSet







# FINANCIAL HIGHLIGHTS

## REVENUE

€ (thousands)	2013	%	2012	%	Change 2013/2012	%
<b>TOTAL REVENUE</b>	<b>941,630</b>	<b>100.0</b>	<b>828,317</b>	<b>100.0</b>	<b>113,313</b>	<b>13.7</b>
Italy	228,900	24.3	219,898	26.5	9,002	4.1
International	712,730	75.7	608,419	73.5	104,311	17.1

## KEY CONSOLIDATED DATA

€ (thousands)	2013	% of revenue	2012	% of revenue	Change 2013/2012	%
Revenue	941,630	100.0	828,317	100.0	113,313	13.7
EBITDA <sup>(1)</sup>	230,130	24.4	191,711	23.1	38,419	20.0
Operating income	195,421	20.8	166,964	20.2	28,457	17.0
Net income	133,693	14.2	118,497	14.3	15,196	12.8

(1) Earnings before interest, taxes, depreciation and amortization.

## KEY BALANCE SHEET DATA

€ (thousands)	31 December 2013	31 December 2012	Change 2013/2012	%
Net financial position <sup>(2)</sup>	(261,031)	(153,456)	(107,575)	70.1
Shareholders' equity	701,820	661,397	40,423	6.1

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

## PER SHARE DATA

€ (thousands)	2013	2012	Change 2013/2012	%
Net income <sup>(3)</sup>	0.663	0.593	0.070	11.8
Shareholders' equity <sup>(3)</sup>	3.463	3.297	0.166	5.0
Dividend	0.33	0.30		

### SHARES OUTSTANDING:

- average during the year	201,585,061	199,722,208
- at December 31	202,615,046	200,619,366

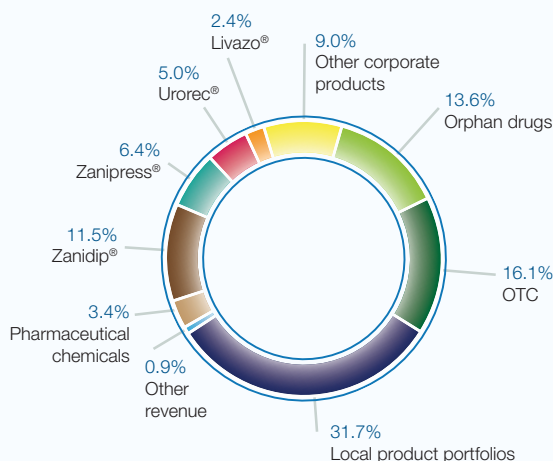
(3) Net income per share is based on average shares outstanding during the year net of average treasury stock. Average treasury stock amounted to 7,540,095 shares in 2013 and 9,402,948 shares in 2012. Shareholders' equity per share is based on total shares outstanding at year end net of treasury stock. Treasury stock amounted to 6,510,110 shares at 31 December 2013 and 8,505,790 shares at 31 December 2012.

# 2013 OPERATIONAL AND FINANCIAL REVIEWS

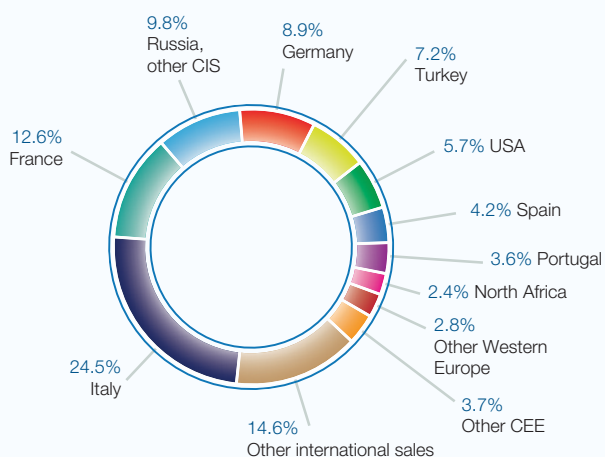
# REVIEW OF OPERATIONS

Net consolidated revenue in 2013 is € 941.6 million, up 13.7% over the preceding year, with an increase in international sales of 17.1% to € 712.7 million, which represent 75.7% of total sales. Pharmaceutical sales are € 909.9 million, up by 14.1%. Pharmaceutical chemicals sales are € 31.7 million, up by 2.5%, and represent 3.4% of total revenues. 2013 revenues include the sales in the United States of America of the products for the treatment of rare and other diseases, acquired in January 2013, for an amount of € 47.2 million as well as the € 30.0 million sales generated by the product portfolio acquired in Russia and other C.I.S. countries in November 2012. Furthermore, sales include € 11.3 million generated by the Polish company Farma-Projekt consolidated as from 1 September 2012, as well as sales generated by the Spanish company Casen Fleet and the Tunisian company Opalia Pharma, acquired during 2013 and consolidated as from 1 November 2013, of € 7.2 million and € 2.8 million respectively. Excluding the effect of these acquisitions sales growth is 2.6%. During 2013 some currencies were progressively devalued the effect of which can be estimated to be of € 14.2 million on sales.

## SALES BY BUSINESS



## PHARMACEUTICAL SALES



## PHARMACEUTICALS

The group's pharmaceutical business, which represents 96.6% of total revenue, is carried out in the main European markets, including Central and Eastern Europe, in Russia, in Turkey, in Tunisia and in the United States of America through our own subsidiaries and in the rest of the world through licensing agreements with pharmaceutical companies of high standing. We have gradually extended our international presence through the acquisition of existing marketing organizations with the aim to add our proprietary products, and those obtained under multi-territorial licenses, to the local portfolios.

The performance of products sold directly in more than one market (corporate products) during 2013 is shown in the table below.

€ (thousands)	2013	2012	Change 2013/2012	%
Zanidip® (lercanidipine)	108,709	114,573	(5,864)	(5.1)
Zanipress® (lercanidipine+enalapril)	59,829	49,325	10,504	21.3
Urorec® (silodosin)	46,737	32,740	13,997	42.8
Livazo® (pitavastatin)	22,516	16,305	6,211	38.1
Other corporate products	97,102	93,641	3,461	3.7
Orphan drugs	127,866	75,857	52,009	68.6

Zanidip® (lercanidipine) is Recordati's original calcium channel blocker for the treatment of hypertension available in 97 countries. Our lercanidipine based products are sold directly to the market by our own marketing organizations in Western Europe as well as in Central and Eastern Europe and in Turkey. In the other markets they are sold by licensees, and in some of the aforementioned ones co-marketing agreements are in place.

€ (thousands)	2013	2012	Change 2013/2012	%
Direct sales	58,838	62,369	(3,531)	(5.7)
Sales to licensees	49,871	52,204	(2,333)	(4.5)
<b>Total lercanidipine sales</b>	<b>108,709</b>	<b>114,573</b>	<b>(5,864)</b>	<b>(5.1)</b>

The reduction of direct sales is due mainly to the lower sales in Italy (-4.8%) and in France (-31.7%) principally due to lower sales volumes as a result of generic competition. Direct sales in the other countries are down by 1.5%. Sales to licensees, which represent 45.9% of total lercanidipine sales, are down by 4.5% as a result of generic competition.

Zanipress® is a specialty also indicated for the treatment of hypertension developed by Recordati which consists of a fixed combination of lercanidipine with enalapril. This new product is already marketed successfully by Recordati or by its licensees in 23 countries.

€ (thousands)	2013	2012	Change 2013/2012	%
Direct sales	41,745	33,203	8,542	25.7
Sales to licensees	18,084	16,122	1,962	12.2
<b>Total lercanidipine +enalapril sales</b>	<b>59,829</b>	<b>49,325</b>	<b>10,504</b>	<b>21.3</b>

This product is available in Italy as from the second quarter 2011 where it was launched by Recordati and Innova Pharma with the brands Zanipril® and Lercaprel® and by co-marketers sigma tau and Polifarma with the brands Coripren® and Atover® respectively. Sales recorded in 2013 by Zanipril® and Lercaprel® are € 9.1 million. Overall the product has achieved a market



share of 38% in a market segment which is growing at a rate of 65%. In France the lercanidipine/enalapril fixed combination is marketed by Bouchara Recordati and by Pierre Fabre under their respective brands Zanextra® and Lercapress®. Sales of Zanextra® are € 10.6 million, up by 4.2%. Overall the product has achieved a market share of 30% in a market segment which is growing by 16%. In Germany, Recordati Pharma sells Zanipress®, which recorded sales of € 8.5 million, an increase of 6.8%. The lercanidipine/enalapril fixed combination is also sold by Berlin Chemie (Menarini group) as Carmen ACE® and by Meda as Zaneril®. Overall this product is the leader in its class with a market share of over 60%. The lercanidipine/enalapril fixed combination is also sold directly by our marketing companies in Portugal, generating sales of € 5.5 million (+16.3%), in Spain with sales of € 3.7 million (+14.9%), in Turkey with sales of € 3.0 million, in Greece, in Ireland, in the Czech Republic in Russia and other C.I.S. and in North Africa.

Urorec® (silodosin) is a new drug indicated for the treatment of the symptoms of benign prostatic hyperplasia (BPH, enlargement of the prostate). BPH manifests with problems linked to urination and the prevalence of the disorder is increasing with the ageing of the population, it is frequent in men over the age of fifty and its symptoms significantly reduce quality of life. Clinical evidence shows that patients receiving silodosin benefited from a significant reduction of symptoms associated with BPH and an improvement in quality of life within the first week of treatment. Silodosin was originated by Kissei (Japan) and was obtained under license by Recordati for the development and marketing in the whole of Europe (45 countries) and a further 18 countries in the Middle East and Africa. Currently the product is successfully marketed in 24 countries, directly by our subsidiaries under the brand Urorec® and by licensees under the brand Silodyx™. Overall sales of silodosin based products in 2013 are € 46.7 million with a share of 12.4% of the alpha blocker segment of the BPH market in the 16 main European countries. Urorec® is doing particularly well in Italy, where it was launched in May 2011, achieving sales in 2013 of € 12.2 million (+59.2%). The product is also well accepted by physicians in France where sales are € 8.5 million, up by 28.8%. Urorec® was also launched successfully in Turkey in September 2012 and generated sales of € 3.9 million in 2013.

Livazo® (pitavastatin) is a novel statin indicated for the reduction of elevated total and LDL cholesterol. Controlled clinical trials show that pitavastatin induces a reduction in LDL-cholesterol (the "bad" cholesterol that contributes to formation of atherosclerotic plaques) and an increase in HDL-cholesterol (the "good" cholesterol that is removed from the arterial walls), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications. Furthermore, presents an excellent safety profile due to the lower likelihood of drug-drug interactions than that of most other statins. Thanks to these properties pitavastatin can be regarded as an effective and safe treatment of dyslipidemia. Pitavastatin was licensed by Recordati from the Japanese pharmaceutical company Kowa for the European market, Russia and the other C.I.S. countries and Turkey. The drug has been launched in Spain and in Portugal where it is marketed by our subsidiaries Recordati España and Jaba Recordati respectively, and by co-marketers Esteve in Spain and Delta (Rottapharm/Madaus) in Portugal. During 2012 it was also launched in Switzerland by our licensee Eli Lilly. Sales generated in 2013, including sales to licensees, are € 22.5 million and comprise initial sales in Ukraine generated by our subsidiary Recordati Ukraine.

Other corporate products include specialties obtained from Recordati's original research, through the acquisition of product rights for various markets and through license agreements for multiple territories. The following paragraphs describe their characteristics and sales generated.

- Tergynan® is a fixed combination of different active ingredients with antimicrobial, anti-inflammatory, antiprotozoal and antimycotic activity for the treatment and prevention of gynecological infections. Sales of this

product in 2013 are € 27.0 million, up 5.1%, and are generated mainly in Russia and the other C.I.S. countries.

- Lomexin® (fenticonazole), an original Recordati product, is an internationally and widely used broad-spectrum antimycotic indicated for the treatment of dermatological and gynecological infections caused by fungi, mould, yeast and gram positive bacteria. Sales of this product for 2013 are € 13.1 million, up 3.2% over the preceding year.
- Procto-Glyvenol® (tribenoside), indicated for the treatment of internal and external hemorrhoids, was acquired from Novartis Consumer Health at the beginning of 2011 in the following countries: Poland, Russia, Turkey, Romania, Czech Republic, Slovakia, Ukraine, Portugal, the Baltic states and Cyprus. Sales in the market of this product in 2013 are € 12.1 million, up by 20.3%.
- Flavoxate is an antispasmodic for the treatment of urinary incontinence, originated by Recordati, which is marketed internationally under the brands Genurin® and Urispas®. Sales of this product in 2013 are € 9.1 million, decreasing slightly.
- TransAct® LAT, a transdermal patch containing 40 mg of flurbiprofen indicated for the symptomatic relief of localized pain involving the musculoskeletal system, obtained under license from Amdipharm, is sold on the Italian and Portuguese markets. Sales of this product are € 9.2 million in 2013.
- Rupatadine is a systemic antihistamine indicated for the treatment of allergies and in particular allergic rhinitis. Under license from Uriach, it is marketed in Italy and Germany as Rupafin® and in France as Wystamm®. Sales of all brands of rupatadine in 2013 total € 9.0 million.
- Kentera® is an oxybutynin transdermal patch indicated for the symptomatic treatment of disorders of the lower urinary tract such as incontinence, increased urinary frequency and urgency, obtained under license from Actavis (previously denominated Watson Pharmaceuticals) and marketed in 16 countries. Sales of Kentera® are € 6.1 million in 2013.
- Lopresor® (metoprolol) is a selective beta blocker for the treatment of different cardiovascular disorders, in particular hypertension and angina pectoris, acquired from Novartis for the Greek and other European markets. Sales of this product in 2013 are € 5.8 million and are generated mostly in Greece and in Germany.
- CitraFleet® and FosfoSoda®, belonging to the Spanish company Casen Fleet acquired during 2013, are bowel cleansers used in preparation for any diagnostic procedure which requires emptying of the intestines, such as colonoscopy or X-rays. Our German subsidiary markets CitraFleet® since 2012 under license. Sales, which include those generated by Casen Fleet and consolidated as from 1 November 2013 and those generated by Recordati Pharma in Germany for the whole year 2013, are € 5.7 million.

Our specialties indicated for the treatment of rare and orphan diseases are marketed directly all over Europe, in Turkey, in the Middle East and in the U.S.A., and through partners in other parts of the world. Sales of these products in 2013 total € 127.9 million, an increase of 68.6% mainly thanks to the U.S. sales of the portfolio of products for the treatment of rare and other diseases acquired in January (€ 47.2 million). The main products in the segment dedicated to rare disease treatments are Panhematin®/ Normosang® (human haemin) indicated for the treatment of acute attacks of hepatic porphyria, Carbaglu® (carglumic acid) indicated for the treatment of hyperammonaemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and due to any of the three main organic acidaemias, Adagen® (pegademase bovine) indicated for the treatment of severe combined

immunodeficiency disease associated with adenosine deaminase deficiency (SCID-ADA deficiency), Cosmegen® (dactinomycin) used mainly in the treatment of three rare cancers: Wilms' tumor, childhood rhabdomyosarcoma and choriocarcinoma, and Pedeo®/Neoprofen® (i.v. ibuprofen) used in the treatment of a serious congenital cardiac malformation, the persistence of *patent ductus arteriosus* (PDA).

During 2013 Recordati's geographical presence has further expanded following the new acquisitions and now also includes direct operations also in the United States of America and in North Africa. The pharmaceutical sales of the Recordati subsidiaries are broken down as follows:

€ (thousands)	2013	2012	Change 2013/2012	%
Italy	222,699	214,697	8,002	3.7
France	115,089	120,208	(5,119)	(4.3)
Russia and other C.I.S. countries	89,399	51,288	38,111	74.3
Germany	81,365	70,922	10,443	14.7
Turkey	65,720	65,130	590	0.9
U.S.A.	51,584	7,354	44,230	n.s.
Spain	37,852	33,268	4,584	13.8
Portugal	32,927	33,889	(962)	(2.8)
Other C.E.E. countries	33,720	25,027	8,693	34.7
Other Western European countries	25,609	26,879	(1,270)	(4.7)
North Africa	21,418	19,363	2,055	10.6
Other international sales	132,517	129,349	3,168	2.4
<b>Total pharmaceutical sales</b>	<b>909,899</b>	<b>797,374</b>	<b>112,525</b>	<b>14.1</b>

*Both years include sales as well as income from up-front payments, royalties and miscellaneous items.*

## ITALY

€ (thousands)	2013	2012	Change 2013/2012	%
Prescription pharmaceuticals <sup>(a)</sup>	190,018	187,676	2,342	1.2
Self-medication pharmaceuticals <sup>(b)</sup>	32,681	27,021	5,660	20.9
<b>Pharmaceuticals, Italy</b>	<b>222,699</b>	<b>214,697</b>	<b>8,002</b>	<b>3.7</b>

*(a) Prescription pharmaceuticals include both reimbursable and non-reimbursable drugs.*

*(b) Self-medication pharmaceuticals include OTC products and other pharmaceuticals not requiring a prescription.*

The performance of the main products in Italy is the following:

€ (thousands)	Indication	2013	2012	Change 2013/2012	%
Entact®	depression	40,136	38,717	1,419	3.7
Peptazol®	gastric ulcers	22,706	20,934	1,772	8.5
Zanedip®/Lercadip®	hypertension	18,881	20,114	(1,233)	(6.1)
Cardicor®	heart failure	14,350	12,484	1,866	14.9
Tora-Dol®	pain	13,469	13,974	(505)	(3.6)
Urorec®	benign prostatic hyperplasia	12,227	7,679	4,548	59.2
Rextat®/Lovinacor®	hypercholesterolemia	10,180	10,002	178	1.8
Zanipril®/Lercaprel®	hypertension	9,138	5,465	3,673	6.7

Sales of pharmaceuticals in Italy grow by 3.7%, as compared to the preceding year. Urorec® (silodosin) and Zanipril®/Lercaprel® (lercanidipine+enalapril) as well as Cardicor® (bisoprolol) and Peptazol® (pantoprazole) are performing well. Sales of products for the treatment of rare diseases grow by 7.4%.

Sales of self-medication products in 2013 are € 32.7 million, up by 20.9%. Alovex™, indicated for the treatment of oral cavity aphthas, is our best-selling self-medication product with sales up by 4.8% to € 6.6 million, consolidating this product's position as a reference product for this condition. Sales of Proctolyn® (treatment of haemorrhoids) are € 6.0 million, slightly down. During the last quarter of 2012 Dentosan®, a line of oral care products, became part of our OTC portfolio and generated sales of € 5.3 million in 2013. Sales of Imidazol® (eye drops) are slightly down while those recorded for Eumill® (single dose eye drops) which, together with Imidazol® maintain Recordati's leadership in the eye drops market, are growing.

## FRANCE

The 2013 revenue realized by our subsidiaries in France is € 115.1 million, down by 4.3% compared to the preceding year. The decrease is to be attributed mainly to the sales volume reduction of Zanicidip® (lercanidipine) due to competition from generic versions of lercanidipine. The following table shows sales of the main products.

€ (thousands)	Indication	2013	2012	Change 2013/2012	%
Methadone	drug addiction	25,071	23,962	1,109	4.6
Zanextra®	hypertension	10,577	10,150	427	4.2
Hexa line	antibacterial	9,124	8,412	712	8.5
Urorec®	benign prostatic hyperplasia	8,471	6,577	1,894	28.8
Zanicidip®/lercanidipine	hypertension	7,895	11,565	(3,670)	(31.7)
Neocodion®	cough	6,787	7,026	(239)	(3.4)

Sales of Urorec® (silodosin), of methadone and of Zanextra® (lercanidipine+enalapril) are growing significantly. The OTC line of products indicated for the treatment of ENT disorders, and in particular the Hexa line and Exomuc®, are also performing well. Overall the line of self-medication products in France generates sales of € 24.6 million with a growth rate of 2.1% over the preceding year. The drugs for the treatment of rare diseases grow by 7.8%.

## RUSSIA AND OTHER C.I.S. COUNTRIES

Revenue generated in Russia and in the other countries within the Commonwealth of Independent States (C.I.S.) is € 89.4 million, up by 74.3% over the preceding year, and includes the sales of the five self-medication product lines acquired in November 2012. The brands of the products acquired are very well known in Russia. The Alfavit product line in particular comprises a wide range of formulations containing vitamins and minerals and holds a leading position on the market. Qudesan is based on coenzyme Q10, an adjuvant for cardiac function, promoted for the prevention and treatment of chronic fatigue and metabolic dysfunction. The key ingredient in Vetoron is beta-carotene, Focus contains bilberry anthocyanin and lutein for eye health and Carnitone is a source of L-carnitine. The sales organization in Russia was enhanced with the recruitment of a field force dedicated to the promotion of these products at pharmacy level.

The following table shows overall sales of the main products.

€ (thousands)	Indication	2013	2012	Change 2013/2012	%
Tergynan®	gynaecological infections	23,126	22,126	1,000	4.5
Alfavit®	food supplement	16,194	1,423	14,771	n.s.
Polydexa®	ear infections	14,677	12,231	2,446	20.0
Isofra®	nasal infections	12,749	8,781	3,968	45.2
Qudesan®	food supplement	11,234	785	10,449	n.s.

Sales in Russia are € 76.2 million and include Zanicidip® (lercanidipine) and Coripren® (lercanidipine+enalapril) launched during the second quarter 2012, and Procto-Glyvenol® (tribenoside) marketed as from the third quarter of 2012, as well as sales of the five lines of OTC products and dietary supplements acquired in November 2012. Sales generated in the other C.I.S. countries, mainly in Ukraine, are € 13.2 million with good performance of the main products in the portfolio and initial sales of Urorec® (silodosin), Livazo® (pitavastatin) and Procto-Glyvenol® (tribenoside).

## GERMANY

Sales generated by our subsidiaries in Germany are € 81.4 million, an increase of 14.7% compared to the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2013	2012	Change 2013/2012	%
Claversal®	ulcerative colitis	13,934	14,585	(651)	(4.5)
Ortoton®	muscle relaxant	11,825	6,434	5,391	83.8
Zanicpress®	hypertension	8,516	7,971	545	6.8
Mirfulan®	healing ointment	6,029	5,087	942	18.5
Recosyn®/Suplasyn®	musculo-skeletal	5,866	5,854	12	0.2
Lipotalon®	anti-inflammatory	5,231	5,018	213	4.2
Corifeo®	hypertension	4,544	4,996	(452)	(9.0)

The significant sales increase is to be attributed to the growth of Ortoton® (methocarbamol) in addition to the sales of the six OTC products and of Citrafleet® (preparation for colonoscopy) acquired in April 2012. The overall sales of self-medication products in Germany are € 18.4 million, up 42.9% over the preceding year, thanks mainly to the new products acquired. Sales of the treatments for rare diseases are also growing (+15.8%).

## TURKEY

Sales in Turkey are € 65.7 million, up by 0.9%, and were impacted by the significant devaluation of the Turkish Lira during the year. In local currency, sales in Turkey increase by 10.7%.

The following table shows sales of the main products.

€ (thousands)	Indication	2013	2012	Change 2013/2012	%
Lercadip®	hypertension	12,402	11,345	1,057	9.3
Cabral®	muscle relaxant	11,823	14,426	(2,603)	(18.0)
Mictonorm®	urinary incontinence	8,729	8,252	477	5.8
Urorec®	benign prostatic hyperplasia	3,911	994	2,917	n.s.
Zanicpress®	hypertension	3,028	584	2,445	n.s.

Worth mentioning is the good performance of the corporate products Lercadip® (lercanidipine) and Procto-Glyvenol® (tribenoside), in addition to sales of Urorec® (silodosin) and Zanicpress® (lercanidipine+enalapril) launched during the third quarter 2012.

## UNITED STATES OF AMERICA

The group's pharmaceutical business in the U.S.A. is dedicated exclusively to the marketing of products for the treatment of rare diseases. Sales in 2013 are € 51.6 million and consist of revenues generated by the portfolio of products for the treatment of rare and other diseases acquired from Lundbeck LLC in January 2013 and revenues from Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency, approved by the Food and Drug Administration (FDA) at the end of 2010. The main product in the recently acquired portfolio is Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria. Other important drugs acquired are NeoProfen® (ibuprofen lysine injection), indicated to close a clinically significant patent ductus arteriosus (PDA) in premature infants, and Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers.

## SPAIN

Revenues in Spain are € 37.9 million, up by 13.8% compared to the preceding year thanks mainly to the consolidation as from 1 November 2013 of the sales of Casen Fleet, the Spanish pharmaceutical company acquired during the year. The following table shows sales of the main products.

€ (thousands)	Indication	2013	2012	Change 2013/2012	%
Livazo®	hypercholesterolemia	7,980	5,851	2,129	36.4
Cidine®	gastroprokinetic	6,058	10,072	(4,014)	(39.9)
Urorec®	benign prostatic hyperplasia	4,731	3,738	993	26.6
Zanipress®	hypertension	3,664	3,190	474	14.9
CitraFleet®	bowel cleaning	2,167	-	2,167	n.s.

Livazo® (pitavastatin), Urorec® (silodosin) and Zanipress® (lercanidipine+enalapril) are performing well. Sales of treatments for rare diseases grow by 7.3%. Sales of Cidine® (cinitapride) are impacted by competition from generic versions of the product.

## PORTUGAL

Revenue generated by our subsidiaries in Portugal is € 32.9 million, down by 2.8% due to the termination of the license agreement for the products Tareg® and Co-Tareg®.

€ (thousands)	Indication	2013	2012	Change 2013/2012	%
Livazo®	hypercholesterolemia	5,587	4,189	1,398	33.4
Zanipress®	hypertension	5,549	4,770	779	16.3
TransAct® LAT	anti-inflammatory	3,427	2,914	513	17.6
Microlax®	laxative	3,152	2,857	295	10.3
Urorec®	benign prostatic hyperplasia	1,735	1,317	418	31.7

The corporate products Zanipress® (lercanidipine+enalapril), Livazo® (pitavastatin), TransAct® LAT, Urorec® (silodosin) and Urispas® (flavoxate), as well as the self-medication products, are performing well as is the portfolio of self-medication products. Sales include the portfolio of products belonging to the Portuguese subsidiary of Casen Fleet consolidated as from 1 November 2013.

## OTHER WESTERN EUROPEAN COUNTRIES

Sales in the United Kingdom are € 6.9 million and relate mainly to products for the treatment of rare diseases which account for 77.7% of our revenues in this country and which grow by 41.4% in 2013. The other sales are generated mainly by lercanidipine based products and are down due to the competition from generic versions. Sales in other countries in Western Europe comprise sales of products for the treatment of rare diseases in a number of countries for a total of € 8.8 million, sales in Ireland recorded by Recordati Ireland of € 1.6 million, mainly generated by Zanidip® (lercanidipine), and sales in Greece reported by Recordati Hellas Pharmaceuticals of € 8.2 million. Sales in Greece grow by 2.8% thanks to the good performance of Lopresor® (metoprolol), of Lomexin® (fenticonazole) and of Urorec® (silodosin).

## OTHER CENTRAL AND EASTERN EUROPEAN COUNTRIES

Sales in Poland in 2013 are € 15.1 million (€ 6.9 million in 2012). In August 2012 the Polish company Farma-Projekt and a portfolio of products, which were marketed in Poland by the Romanian company Labormed, were acquired. The Polish subsidiary's main product Procto-Glyvenol® (tribenoside) generated sales of € 3.3 million, up by 16.9%.

Sales generated by Herbacos Recordati in the Czech and Slovak Republics are € 13.0 million, down by 9.9% compared to the preceding year due mainly to lower local product sales. Sales of Procto-Glyvenol® are growing.

Sales in Romania reported by our subsidiary Recordati România are € 2.8 million, up by 22.0%. Worth mentioning is the good performance of Procto-Glyvenol® (tribenoside) (+39.9%), of Urorec® (silodosin) (+32.6%) and the introduction on the Romanian market of Tergynan®.

Sales in these markets of the specialty products indicated for the treatment of rare and orphan diseases amount to € 2.7 million and grow by 104.6%.

## NORTH AFRICA

Recordati's presence in North Africa has been enhanced by the acquisition of the Tunisian pharmaceutical company Opalia Pharma S.A.. Opalia Pharma was established in 1988, ranks eighth in the Tunisian pharmaceutical market and is the third largest local pharmaceutical company. The company markets branded generic drugs with leading products in dermatology and in the gastrointestinal and respiratory therapeutic areas.

Overall sales in North Africa are € 21.4 million and comprise both the export sales from Bouchara Recordati into these territories, in particular Algeria, which were previously reported as other international sales, and the sales generated by Opalia Pharma mainly in Tunisia consolidated as from 1 November 2013.



## OTHER INTERNATIONAL SALES

Other international sales comprise revenues generated by the Group's international business through licensing agreements and exports. Included are the sales to and other revenues from our licensees for our corporate products, Bouchara Recordati's export sales, except those generated in the C.I.S. and in North Africa which are stated separately, and export sales realized by Orphan Europe worldwide excluding the U.S.A..

€ (thousands)	2013	2012	Change 2013/2012	%
Sales to international licensees	96,460	94,752	1,708	1.8
Bouchara Recordati (export sales excluding C.I.S. and North Africa)	15,237	12,451	2,786	22.4
Orphan Europe (sales to licensees and exports)	15,803	12,056	3,747	31.1
Other income	5,017	10,090	(5,073)	(50.3)
<b>Total</b>	<b>132,517</b>	<b>129,349</b>	<b>3,168</b>	<b>2.4</b>

Sales to international licensees grow by 1.8% thanks to the sales performance of the new products silodosin (+16.7%) and pitavastatin (+39.9%) to co-marketers and to licensees in countries where Recordati is not present directly. Sales of the fixed combination of lercanidipine and enalapril increase by 10.6%. Sales to licensees of fenticonazole and flavoxate are slightly down. Sales of lercanidipine are down due to the competition on the market from generic versions of the molecule (-4.4%).

Sales outside France by our French subsidiary Bouchara Recordati are up by 20.4% mainly thanks to the good performance of the product portfolio sold mainly in the ex-French colonies in Asia and in Africa.

Sales of our treatments for rare diseases in other countries, either directly or through licensees, are € 16.0 million, up by 30.9%. Sales generated in the Middle East are € 10.3 million, up by 35.6%.

Other income refers to royalties and up-front payments related to license agreements and is lower compared to the preceding year because the process of granting licenses to our products has already been completed in the major markets.

## PHARMACEUTICAL CHEMICALS

€ (thousands)	2013	%	2012	%	Change 2013/2012	%
Italy	3.167	10,0	2,797	9.0	370	13,2
Europe (Italy excluded)	11.931	37,6	11,040	35.7	891	8,1
America	9.682	30,5	9,027	29.2	655	7,3
Australasia	5.270	16,6	6,178	20.0	(908)	(14,7)
Africa	1.681	5,3	1,901	6.1	(220)	(11,6)
<b>Total</b>	<b>31.731</b>	<b>100,0</b>	<b>30,943</b>	<b>100.0</b>	<b>788</b>	<b>2,5</b>

Sales of pharmaceutical chemicals, which comprise active substances produced in the Campoverde d'Aprilia (Latina, Italy) plant, increase by 2.5% as compared to 2012, mainly due to an increase in sales volumes, in particular for the products papaverine, dimenhydrinate, dobutamine and diphenhydramine, which more than offset the negative price and foreign exchange effects.

# HEALTH, SAFETY AND ENVIRONMENT

The Recordati group recognizes the protection of the environment, safety in the workplace and prevention in general concerning all themes related to health, safety and the environment as one of its most important priorities.

Company policy is implemented through the careful organization of roles with regard to guaranteeing the safety and health of workers. A well-defined corporate organization combined with a systemic approach to the management of safety at the workplace ensures continuous improvement in management with the object of constantly reducing work-related and environmental risks.

In order to define an organization model specifically designed to address health and safety at the workplace, as well as protect the environment, the Company has internal procedures in place to regulate these issues entitled "Procedures for Prevention Management, Accident Management and Medical Services" and "Procedures for environmental management".

The following common characteristics and measures for risk prevention are present within the system for the management of health, safety and the environment that the Recordati group employs in both its pharmaceutical chemicals and its pharmaceutical plants: risk assessment, training and information for workers, proper maintenance standards, environmental protection systems designed to minimize environmental impacts, appropriate emergency measures and compliance with local legislation on the subject. The group monitors and analyses injuries and accidents that occur at the various production sites. The results of these analyses of industrial accidents are periodically submitted to the Internal Audit Committee. Recordati employs a systematic approach to the management of health, safety and the environment, and sets itself the specific objective not only of compliance with the various national regulations in force at different production sites, but also of continuous improvement in the management of these matters.

Risk assessment is the principal tool used in the safety management system. It is used to define risk control factors along with the relative measures for prevention and protection to be adopted or monitored in order to reduce the risk to the health and safety of workers. The updating of the risk assessment document is a continuous activity, it records the sequence of the actions undertaken to improve the working environment and the activities in progress, and it also includes assessments of new activities or changes made to the work process.

Training, information and awareness of the workers are considered to be fundamental prevention tools in all matters related to health, safety and the environment. Health and safety training programs are implemented to ensure adequate competency of everyone within the whole company organization. The goal is to increase the attention placed by personnel on risks and the prevention measures put in place in order to reduce accident rates caused by human error, which is the main cause of accidents at the company. Training and the dissemination of information on the organization of safety in the company is provided for all employees and, thanks to the use of remote training, the operational forces in the field are also systematically involved.

Maintenance is one of the key prevention activities. Equipment, plant and machinery are subject to regular maintenance programmes performed by both internal and external resources.

Out-sourcing to third party contractors is managed by special internal procedures which include the verification that the contractor is suitable and the sharing of the "Single Interference Risk Assessment Document" in order to reduce, and if possible eliminate, potential interferences between the work activities of external firms and the normal operations of the company.

Regarding the health and safety management system implemented by Recordati at its Milan site, a project is underway in order to qualify for the BS OHSAS 18001:07 certification.

Particular attention is placed on all aspects of an environmental nature, in order to protect the environment and to prevent any form of pollution.

The environmental factor is controlled and managed in the pharmaceutical chemicals plants within an environmental management system that is part of the general management system. It includes the organizational structure, planned activities, responsibilities, practices, procedures and resources to formulate, implement, review and maintain the company's environmental policies.

The environmental management system goes beyond carefully ensuring that laws and regulations for preventing potential incidents from occurring are complied with. It involves a programme of continuous improvement in corporate conduct towards the surrounding environment.

In June 2013 the Campoverde (Latina, Italy) plant passed an on-site inspection performed by the certifying body DNV (Det Norske Veritas), which renewed its certification of the environmental management system recognizing it as compliant with the UNI EN ISO 14001/04 standard.

# FINANCIAL REVIEW

## INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2012:

€ (thousands)	2013	% of revenue	2012	% of revenue	Change 2013/2012	%
<b>Revenue</b>	<b>941,630</b>	<b>100.0</b>	<b>828,317</b>	<b>100.0</b>	<b>113,313</b>	<b>13.7</b>
Cost of sales	(327,329)	(34.8)	(293,557)	(35.4)	(33,772)	11.5
<b>Gross profit</b>	<b>614,301</b>	<b>65.2</b>	<b>534,760</b>	<b>64.6</b>	<b>79,541</b>	<b>14.9</b>
Selling expenses	(275,188)	(29.2)	(250,566)	(30.3)	(24,622)	9.8
R&D expenses	(74,725)	(7.9)	(63,407)	(7.7)	(11,318)	17.8
G&A expenses	(54,093)	(5.7)	(45,486)	(5.5)	(8,607)	18.9
Other income (expense), net	(14,874)	(1.6)	(8,337)	(1.0)	(6,537)	78.4
<b>Operating income</b>	<b>195,421</b>	<b>20.8</b>	<b>166,964</b>	<b>20.2</b>	<b>28,457</b>	<b>17.0</b>
Financial income (expense), net	(14,625)	(1.6)	(6,626)	(0.8)	(7,999)	120.7
<b>Pretax income</b>	<b>180,796</b>	<b>19.2</b>	<b>160,338</b>	<b>19.4</b>	<b>20,458</b>	<b>12.8</b>
Provision for income taxes	(47,103)	(5.0)	(41,841)	(5.1)	(5,262)	12.6
<b>Net income</b>	<b>133,693</b>	<b>14.2</b>	<b>118,497</b>	<b>14.3</b>	<b>15,196</b>	<b>12.8</b>
Attributable to:						
Equity holders of the parent	133,678	14.2	118,484	14.3	15,194	12.8
Minority interests	15	0.0	13	0.0	2	15.4

In 2013 international revenues went from € 608.4 million to € 712.7 million, an increase of 17.1%, and represent 75.7% of total revenue. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2013	%	2012	%
Europe (Italy excluded)	560,754	78.7	508,218	83.5
Australasia	74,274	10.4	30,366	5.0
Africa	46,309	6.5	40,614	6.7
America	31,393	4.4	29,221	4.8
<b>Total</b>	<b>712,730</b>	<b>100.0</b>	<b>608,419</b>	<b>100.0</b>

Gross profit is € 614.3 million with a margin of 65.2% on sales, an improvement compared to the preceding year due to the larger proportion of higher margin products sold partly thanks to the new products acquired.

Selling expenses increase by 9.8% compared to the preceding year mainly due to the new marketing activities in Russia and Poland and to the consolidation of the two companies acquired, Casen Fleet in Spain and Opalia Pharma in Tunisia, as from 1 November 2013.

R&D expenses are € 74.7 million, an increase of 17.8% as compared to 2012 mainly due to the initiation of various clinical trials and to the amortization of the price paid for the acquisition of the portfolio of products in the U.S.A. and in Russia & other C.I.S. countries.

Overall, labor cost in 2013 is € 220.8 million, an increase of 7.3% over 2012, while the cost per employee is down by 0.9%.

Personnel and other human resources data at 31 December 2013 and 2012 are shown in the following table:

€ (thousands)	2013	2012
<b>Employees at year-end</b>	<b>3,961</b>	<b>3,369</b>
Average age	42	41
Average service (years)	7.3	7.0
<b>Labor productivity:</b>		
Labor cost on net sales	23.4%	24.8%
Sales per employee (€ thousands) <sup>(a)</sup>	277.8	264.8
Value added per employee (€ thousands) <sup>(a)</sup>	133.0	127.1

*Labor cost includes wages, related charges and additional costs.*

*(a) Data per employee for both years are computed on the average number of personnel, 3,390 in 2013 and 3,128 in 2012.*

The strengthening of our corporate organization continued in order to ensure the integration, monitoring and coordination of the foreign subsidiaries in accordance with our internationalization strategy. In particular, Recordati strengthened its management structure to adapt its organization to the current size of the group and to be in a better position to meet the challenges arising in the three areas which comprise the consolidated Western European markets, the markets of Central-Eastern Europe, and the emerging markets in North Africa and Turkey. Personnel training and development represented a substantial portion of the Group's efforts also in 2013.

Other expenses net of other income are € 14.9 million and include € 11.4 million of personnel related costs, mainly for the completion of the sales

force reorganization in France, and € 1.1 million pay-back due to AIFA (the Italian medicines agency) in substitution for the 5% price reduction on selected products.

Net financial charges are € 14.6 million, an increase as compared to 2012 mainly due to higher level of indebtedness during the year and to negative currency exchange differences following the recent devaluation of the currencies in some of the countries in which the group operates, which are

to be attributed in particular to financial operations involving the Turkish subsidiary.

The effective tax rate during the year is 26.1%, in line with the preceding year.

Net income is € 133.7 million and increases by 12.8% compared to the preceding year.

## FINANCIAL POSITION

The net financial position at 31 December 2013 records net debt of € 261.0 million compared to net debt of € 153.5 million at 31 December 2012.

€ (thousands)	31.12.2013	31.12.2012	Change 2013/2012	%
Cash and short-term financial investments	52,271	38,418	13,853	36.1
Bank overdrafts and short-term loans	(34,024)	(55,987)	21,963	(39.2)
Loans – due within one year <sup>(1)</sup>	(82,490)	(8,147)	(74,343)	912.5
<b>Net liquid assets</b>	<b>(64,243)</b>	<b>(25,716)</b>	<b>(38,527)</b>	<b>149.8</b>
Loans – due after one year <sup>(1)</sup>	(196,788)	(127,740)	(69,048)	54.1
<b>Net financial position</b>	<b>(261,031)</b>	<b>(153,456)</b>	<b>(107,575)</b>	<b>70.1</b>

(1) Includes change in fair value (fair value hedge).

During 2013 the group's growth strategy through acquisitions continued. \$ 100.0 million (€ 75.0 million) were paid for the acquisition of a portfolio of products for the treatment of rare and other diseases in the United States of America and \$ 11.0 million (€ 8.3 million) for the existing stocks of these products. Furthermore, € 89.5 million were paid for the acquisition of the Spanish pharmaceutical company Casen Fleet and € 22.6 million for the acquisition of around 67% (the first tranche) of the Tunisian pharmaceutical company Opalia Pharma.

During the year dividends were distributed for an overall amount of € 64.6 million, of which € 20.1 million for the balance of the financial year 2012 dividend and € 44.5 for the interim financial year 2013 dividend.

An amount of € 14.2 million was invested in property, plant and equipment, mainly involving the Milan headquarters and the production sites in Campoverde di Aprilia (Italy) and in Turkey by Recordati Ilaç.

In order to meet funding requirements and to take advantage of the favorable

market conditions medium/long term financing agreements were put in place.

In order to fund the product portfolio acquisition in the U.S. a long-term loan agreement with U.S. investors for \$ 70 million, of which \$ 40 million ten year bullet and 4.55% coupon and \$ 30 million twelve year bullet and 4.70% coupon, was finalized by Recordati Rare Diseases Inc. in June 2013.

In September Recordati S.p.A. obtained a 5 year loan for an amount of € 50.0 million to be reimbursed in 8 installments due at the end of every six months starting March 2015. In November a further loan was obtained, also for an amount of € 50.0 million, for a duration of 6 years to be reimbursed in 12 installments due at the end of every six months starting May 2014.

In March Recordati S.p.A. obtained a revolving line of credit for a maximum of € 30.0 million for a duration of 36 months. At 31 December 2013 € 15.0 million were drawn down. This financing instrument allows financial flexibility as it combines the commitment of the line with the variability of drawdowns as specific financial needs arise.



Net working capital for operations at 31 December 2013 is € 125.9 million and is thus comprised:

€ (thousands)	31.12.2013	% of revenue	31.12.2012	% of revenue	Change 2013/2012	%
Trade receivables, net	179,775	19.1	155,359	18.8	24,416	15.7
Inventories	140,430	14.9	126,388	15.3	14,042	11.1
Other current assets	30,342	3.2	27,147	3.3	3,195	11.8
<b>Current assets</b>	<b>350,547</b>	<b>37.2</b>	<b>308,894</b>	<b>37.3</b>	<b>41,653</b>	<b>13.5</b>
Trade payables	107,156	11.4	106,926	12.9	230	0.2
Tax payable	15,951	1.7	9,789	1.2	6,162	63.0
Other current liabilities	101,502	10.8	74,986	9.1	26,516	35.4
<b>Current liabilities</b>	<b>224,609</b>	<b>23.9</b>	<b>191,701</b>	<b>23.1</b>	<b>32,908</b>	<b>17.2</b>
<b>Net working capital for operations</b>	<b>125,938</b>	<b>13.3</b>	<b>117,193</b>	<b>14.1</b>	<b>8,745</b>	<b>7.5</b>
Days of sales outstanding	63		65			
Inventories as % of cost of sales	39.9%		42.3%			

Details and comments relative to the different components are contained in the Notes to the financial statements.

## RELATED PARTY TRANSACTIONS

Tax assets include an amount of € 2.8 million, computed by Recordati S.p.A. based on estimated taxable income, receivable from the controlling company Fimei S.p.A. consequent to the participation in a tax consolidation grouping under tax laws in Italy.

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

## SUBSIDIARIES OUTSIDE THE EUROPEAN UNION

Pursuant to articles 36 and 39 of the Financial Markets Regulation concerning the listing conditions of companies with subsidiaries of significant relevance in their consolidated accounts, established and regulated under the laws of countries outside the European Union, we point out that at 31 December 2013 the provisions of art. 36 of the Financial Markets Regulation apply to the subsidiaries Recordati Ilaç and Recordati Rare Diseases Inc. and that the conditions indicated in the abovementioned art. 36 are fulfilled.

## SIGNIFICANT OPERATIONS, PUBLICATION REQUIREMENTS DEROGATION

The company has decided to avail itself, as from 20 December 2012, of the faculty of derogation of the requirements to publish the information documents prescribed in the event of significant operations involving mergers, spin-offs, capital increases through contribution in kind, acquisitions and disposals, pursuant to article 70, paragraph 8 and article 71, paragraph 1-bis of the Issuers' Regulations enacted by Consob under Resolution n. 11971/1999 and following modifications.

## FOURTH QUARTER 2013

€ (thousands)	IV quarter 2013	%	IV quarter 2012	%	Change 2013/2012	%
<b>Revenue</b>	<b>239,621</b>	<b>100.0</b>	<b>208,020</b>	<b>100.0</b>	<b>31,601</b>	<b>15.2</b>
Cost of sales	(85,414)	(35.6)	(74,828)	(36.0)	(10,586)	14.1
<b>Gross profit</b>	<b>154,207</b>	<b>64.4</b>	<b>133,192</b>	<b>64.0</b>	<b>21,015</b>	<b>15.8</b>
Selling expenses	(69,201)	(28.9)	(62,471)	(30.0)	(6,730)	10.8
R&D expenses	(19,335)	(8.1)	(18,951)	(9.1)	(384)	2.0
G&A expenses	(15,205)	(6.3)	(12,353)	(5.9)	(2,852)	23.1
Other income (expense), net	(3,367)	(1.4)	(4,849)	(2.3)	1,482	(30.6)
<b>Operating income</b>	<b>47,099</b>	<b>19.7</b>	<b>34,568</b>	<b>16.6</b>	<b>12,531</b>	<b>36.3</b>
Financial income (expense), net	(4,056)	(1.7)	(2,396)	(1.2)	(1,660)	69.3
<b>Pretax income</b>	<b>43,043</b>	<b>18.0</b>	<b>32,172</b>	<b>15.5</b>	<b>10,871</b>	<b>33.8</b>
Provision for income taxes	(10,832)	(4.5)	(6,790)	(3.3)	(4,042)	59.5
<b>Net income</b>	<b>32,211</b>	<b>13.4</b>	<b>25,382</b>	<b>12.2</b>	<b>6,829</b>	<b>26.9</b>
Attributable to:						
Equity holders of the parent	32,208	13.4	25,377	12.2	6,831	26.9
Minority interests	3	0.0	5	0.0	(2)	(40.0)

Revenues during the fourth quarter 2013 are € 239.6 million, an increase of 15.2% compared to the same period of the preceding year. Pharmaceutical sales are € 232.0 million, up by 16.3% compared to the fourth quarter 2012 and include the consolidation of Laboratorios Casen Fleet and Opalia Pharma as from 1 November 2013. Pharmaceutical chemicals revenue, at € 7.7 million, down by 10.2% compared to the same period of the preceding year.

Operating income, at 19.7% of sales, is € 47.1 million up by 36.3%. Other

expenses, net of other income, include € 1.5 million of personnel related costs and € 1.2 million of costs associated with the new acquisitions.

Financial charges increase significantly due to the higher level of indebtedness and to currency exchange losses.

Net income increases by 26.9%, less than the increase in operating income due to the increase in financial expenses and to a particularly favourable tax rate in the last quarter of the preceding year.

# MAIN RISKS AND UNCERTAINTIES

The principal risk factors to which the Group is exposed are described below with an indication of the management strategies and policies pursued. They have been classified as follows:

- Risks associated with the external context
- Risks associated with strategy and operations
- Financial risks
- Legal and compliance risks

## RISKS ASSOCIATED WITH THE EXTERNAL CONTEXT

### Risks associated with changes in legislation and regulations governing the pharmaceutical sector

The pharmaceuticals sector is heavily regulated locally, nationally and internationally and this affects activities at all levels. Group sales consist mainly of products subject to medical prescription which are reimbursed by national healthcare services or other medical insurance schemes which are, however, prevalently of a public nature. While on the one hand this situation protects the Group from general economic trends, on the other it exposes it to changes in local legislation governing public spending on healthcare. For many years the Group has pursued a policy of diversifying and expanding its sales on several geographical markets in order to mitigate dependency on decisions by single national governments to control spending on pharmaceuticals. The pharmaceuticals sector is also exposed to national and international technical standards which regulate pharmaceutical research and development, production and promotion.

The Group implements a policy to constantly monitor changes in regulations on all the markets on which it operates, with dedicated organisational units in the Parent Company and in subsidiaries designed to identify and rapidly adopt the most appropriate response strategies.

### Risks associated with business expansion into emerging markets

The policies pursued by the Group include the expansion of operations in countries with the highest potential for development and the strongest growth rates (for example Central and Eastern Europe, the Middle East and North Africa). Operations in those countries could present risks associated with political, economic, currency, regulatory and fiscal instabilities or discontinuities.

Recordati carefully assesses all growth opportunities in these countries in order to mitigate exposure to these uncertainties and where possible it prefers to acquire local companies with a smaller outlay of capital, rather than other companies that are more exposed to country risk. Evaluations of new business opportunities undergo analysis and monitoring by top management with the further recent introduction of Regional Directors who are responsible for the overall supervision of the subsidiaries and for the coordination of the relative strategic activities, in collaboration with corporate structures.

### Risks associated with market competition

The Group, like any company operating in the pharmaceuticals sector, is subject to competition from products which could determine a contraction in its market share. These consist of both new pharmaceuticals launched by competitors in the same therapeutic classes in which the Group is present and also generic versions of pharmaceuticals coming to market when patents expire.

While the Group monitors the market continuously to detect the introduction of competing pharmaceuticals as soon as possible, it also manages risk by pursuing a policy to progressively diversify and broaden the range of its product portfolio, in order to reduce dependency on a small number of strategic pharmaceuticals, and increase the presence in the product portfolio of OTC products and treatments for rare diseases.

## RISKS ASSOCIATED WITH STRATEGY AND OPERATIONS

### Risks associated with the internationalization of the Group

The Group currently operates in a growing number of countries and is therefore subject to risks arising from the complexity of conducting operations in delocalized areas.

In order to address this situation, the Group has put a management system in place with central units which integrate, monitor and co-ordinate the operations of local units on which operational and marketing powers are conferred to be exercised in compliance with guidelines and within limits indicated by the Group. Group policies and procedures have been formalized which provide corporate guidelines for the management of the main company processes which must be complied with by all subsidiaries.

### Risks associated with the expiry of patents

The pharmaceuticals industry makes large investments in research and development and as a consequence it enjoys a high degree of protection on its intellectual properties. Therefore, the expiry of patents covering important pharmaceuticals in product portfolios and the consequent introduction onto the market of generic versions exposes companies to reductions in revenues which can be large.

In order to counter the reduction in as a result of competition from generic pharmaceuticals, the Group is pursuing a diversification strategy based on the launch of new products and the expansion of its operations onto new markets with high growth rates.

### Risks associated with investments in research and development

The competitive positioning of the Group depends on the continuous development of its product portfolio through the research and development of new molecules and pharmaceutical products in which it invests a substantial part of its resources. Given the complexity and long periods involved in these initiatives, it is not possible to be certain that investments in research and development will always produce the expected results, because the research conducted may fail or the necessary authorisations to market products may not be obtained or the pricing and reimbursement conditions may not be satisfactory.

In order to mitigate exposure to these risks, the Group constantly monitors the intermediate results generated at the various stages of the research and development process, in order to select and move forward only the most reliable initiatives that have the highest probability of an economic return and success. Furthermore, health technology evaluations have been introduced during the clinical development phases in order to effectively support the negotiations with the relevant authorities regarding reimbursement conditions for the products. Additionally, prudentially, the costs for investments in research and development are fully expensed in the accounting period in which they are incurred.

### Risks associated with the launch of new products

A risk exists in the pharmaceuticals sector that delays in the development process, or in the issue of the necessary authorizations by regulatory authorities, may result in product launches occurring behind schedule with a consequent possible impact on the expected profitability of the product and/or delay in the achievement of growth targets.

In order to mitigate that risk Recordati pursues two policy lines. One is to broaden and balance its pipeline of products, implemented by acquiring pharmaceuticals that are already registered or are about to be registered, or of new products at different stages of development. The other is to pursue a plan of geographical diversification designed to limit dependence on the regulatory authorities of a single country.

### Risks associated with pharmacovigilance

The Group, as a holder of drug marketing authorizations, must comply with regulations on pharmacovigilance. These regulations require that holders of marketing authorizations submit to the regulatory bodies information regarding drug safety, within the time limits and in the manner established by these, with particular regard to adverse reactions. The ascertainment of serious adverse drug reactions can expose the Group to the risk of restrictions being placed on the prescription of a drug, and in the most serious cases, authorization to market the product can be revoked.

In order to efficiently handle this risk and to comply with national regulations in the countries where the Group operates, Recordati has assigned specific pharmacovigilance responsibilities within its organizations and has put integrated systems in place to collect, assess, manage and submit the information required to the competent authorities. Following the introduction of even more stringent regulatory requirements internal organizations, instruments, training, procedures have been further reinforced. Coordination with subsidiaries and partners has improved and includes centralized evaluation of all information relating to pharmacovigilance.

### Risks associated with the production process

The Group has production plants which produce both intermediate products and active ingredients and also finished pharmaceutical products. Production activities are carried out in strict compliance with internationally established Good Manufacturing Practices (GMP) implemented through Standard Operating Procedures applicable to the pharmaceutical sector, and are submitted to monitoring and inspection by national and international relevant authorities. The Group's production sites are provided with adequate structures and qualified personnel to ensure that the production of medicinal specialties and active ingredients is carried out in compliance with good manufacturing practices (GMP) and with specific internal procedures and rules in force. In particular, the Group's main production site in Campoverde di Aprilia (Italy) regularly passes successfully inspections carried out by the Food and Drug Administration (FDA) and other national and international authorities.

### Risks associated with interruption of the production process

Production is by its nature exposed to potential risks of interruption which, if they were to have significant or long lasting effects – caused for example by natural disasters, the revocation of production permits and licenses, malfunctioning of plant and equipment, interruptions in the supply of important raw materials or energy – could have adverse consequences on the continuity and regularity of sales.

In order to mitigate the effects of long lasting interruptions in production processes, the Group has an effective asset protection policy in place (through precise plant maintenance plans and adequate systems to automatically notice and put out fires) and has production plants with adequate capacity and flexibility to handle changed planning requirements. Furthermore, the Group uses only reliable suppliers, approved as complying with the relevant technical standards. It also constantly monitors the availability of raw materials and strategic excipients, in order to promptly identify potential local or worldwide "out-of-stock" situations and to take the necessary action (supply and/or production backups) to guarantee production autonomy. Furthermore, in order to reduce losses resulting from potential interruptions or damage to production cycles, the Group has taken out "All risk property" insurance policies which cover direct damages (such as damages to buildings, machines and goods) as well as indirect damages (such as loss of profit as a consequence of accidents).

### Risks associated with health, safety and the environment

Chemical and pharmaceutical production is subject to obligations to comply with environmental, health and safety rules and regulations. To ensure the correct application of these rules and regulations, the Group has in place organizational units specifically dedicated to prevention, verification and continuous monitoring as regards compliance with the structural technical standards (related to equipment, plant, the workplace, chemical, physical and biological agents) in addition to activities regarding health surveillance, security vigilance, workers training and information and the procurement of documents and certificates required by law. In particular, the environmental management system of the Group's main production plant, located at Campoverde di Aprilia, obtained certification from the accredited international body DNV (Det Norske Veritas, Italy) of compliance with the UNI EN ISO 14001:1996 standard in 2003, which was subsequently confirmed with certification for the UNI EN ISO 14001:2004 standard.

### Risks associated with the management of information technology resources and data security

Today's pervasiveness of information technology for the management of business and the necessary connection between company information systems and external information infrastructures (web and networks) exposes said systems to potential risks, both related to the availability, integrity and confidentiality of the data as well as to the availability and efficiency of the information systems.

In order to guarantee effective operational continuity, the Group has implemented a disaster recovery and business continuity system which ensures the immediate replication of the principal legacy systems' workstations. Furthermore, the active safety of the company's data and software is guaranteed by multiple protection levels of a physical and logic nature, of both servers and clients. Finally, the company is periodically submitted to VAPT (Vulnerability Assessment and Penetration Test) analysis and to additional IT security audits undertaken by independent technicians. The outcome of this analysis has always shown the company's information systems to be adequately protected.



## FINANCIAL RISKS

### Credit Risk

Credit risk is exposure to potential losses resulting from commercial counterparties failing to meet their obligations. This risk is higher during long lasting periods of economic and financial hardship and as a result of exposure to geographical areas with specific dynamics and peculiarities (for example Russia and Tunisia).

The Group closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system.

### Interest Rate Risk

The Group raises funds using debt and invests excess cash in money market and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Group's net financial charges. The significant expansion of the Group into countries with different economic dynamics from the Euro (for example Turkey, Russia and Tunisia) leads to an increase in risk.

The Group's policy is to limit the risk arising from interest rate fluctuations by establishing medium/long-term fixed interest loans or variable interest loans. Variable interest loans are covered with derivative financial instruments (for example interest rate swaps) for the sole purpose of minimizing such fluctuations and not for speculation. This hedging policy limits the Group's exposure to the risk of fluctuations in interest rates.

### Foreign Currency Risk

The Group operates in an international context and has assets and transactions denominated in foreign currency other than euro. It is therefore exposed to risks of foreign currency fluctuations which can affect its operating results and the value of its equity. The diversification strategy enacted by the Group results in a progressive higher exposure to trade transactions in foreign currency with respect to the Group's business volume. The Recordati Group companies are exposed to a limited level of exchange risk linked to operations because in each country most of cash flows generated both by sales and by expenses are denominated in the currency of the relative country. For the sole purpose of hedging and not for speculation, the Group engages in forward contracts for the purchase and sale of currencies to cover amounts at risk.

### Liquidity Risk

The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. The Group has at its disposal liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's loans and its financial assets are set out in notes 17, 20 and 29 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts at their natural due dates.

## LEGAL AND COMPLIANCE RISKS

### Risks associated with product liability

Despite careful compliance with standards and regulations, like any company operating in the pharmaceuticals sector, the Group could be exposed to risks of claims for damages caused by its pharmaceuticals. In order to meet those potential liabilities, the Group has taken out insurance policies to cover all the products marketed and under development. The maximum liability limits are considered adequate and are constantly monitored with the help of analyses and market research conducted by leading insurance brokers.

### Risks associated with compliance

All operating and marketing activities performed by the Group, both in Italy and abroad, are performed in compliance with the legislation and regulations that apply in the geographical areas in which it operates, including national and international technical standards that apply to the pharmaceuticals sector which regulate pharmaceutical research and development, production, distribution and promotion. As concerns the regulation of drug promotion activities, the Group has formulated a set of ethical rules of conduct. All company personnel are continuously informed of those rules and monitoring, both internally and by independent certifiers, is performed constantly to ensure that they are properly observed. In compliance with Legislative Decree 231/2001 on the administrative liability of legal entities, the Italian companies in the Group have an "Organisation, Management and Control Model" that is continuously updated to comply with the latest amendments to the relevant legislation.

### Risks associated with legal action

It is always possible that the Group may be required to meet costs resulting from litigation of various types. In these cases the Group may be called upon to pay extraordinary costs with consequences for operating and financial results. A detailed description of litigation in progress and the relative provisions made to meet future liabilities is given in notes 27 and 36 to the financial statements.

## SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

On 10 February 2014 an exclusive license agreement was signed with Apricus Biosciences Inc., a pharmaceutical company based in San Diego, U.S.A., for the marketing and sales of Vitaros® (alprostadil), an innovative topical product for the treatment of erectile dysfunction, in certain European countries including, among others, Spain, EU member countries in Central and Eastern Europe, Russia and the Commonwealth of Independent States (C.I.S.), Turkey and certain African countries.

On 16 January 2014 the company announced its financial targets for 2014. The objective is to achieve sales of more than € 1,000 million, operating income of more than € 220 million and net income of more than € 150 million.

Group consolidated sales during the first two months of 2014 are in line with the company's expectations for the whole year.

Milan, 6 March 2014

**Giovanni Recordati**  
*Chairman and Chief Executive Officer*

# CONSOLIDATED FINANCIAL STATEMENTS

## RECORDATI S.p.A AND SUBSIDIARIES

### CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEAR ENDED 31 DECEMBER 2013

The consolidated financial statements are presented in accordance with the International Accounting Standards (IAS) and the International Financial reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Interpretation Reporting Committee (IFRIC) previously named Standing Interpretations Committee (SIC). The financial statements comply with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting standards were used in the preparation of the financial statements at 31 December 2012.

## RECORDATI S.p.A. AND SUBSIDIARIES

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

#### INCOME STATEMENT

€ (thousands)	Note	2013	2012
<b>Revenue</b>	3	<b>941,630</b>	<b>828,317</b>
Cost of sales	4	(327,329)	(293,557)
<b>Gross profit</b>		<b>614,301</b>	<b>534,760</b>
Selling expenses	4	(275,188)	(250,566)
R&D expenses	4	(74,725)	(63,407)
G&A expenses	4	(54,093)	(45,486)
Other income (expense), net	4	(14,874)	(8,337)
<b>Operating income</b>		<b>195,421</b>	<b>166,964</b>
Financial income (expense), net	5	(14,625)	(6,626)
<b>Pretax income</b>		<b>180,796</b>	<b>160,338</b>
Provision for income taxes	6	(47,103)	(41,841)
<b>Net income</b>		<b>133,693</b>	<b>118,497</b>
Attributable to:			
Equity holders of the parent		133,678	118,484
Minority interests		15	13
<b>Earnings per share</b>			
Basic		€ 0.663	€ 0.593
Diluted		€ 0.631	€ 0.560

Earnings per share (EPS) are based on average shares outstanding during each year, 201,585,061 in 2013 and 199,722,208 in 2012, net of average treasury stock which amounted to 7,540,095 shares in 2013 and 9,402,948 shares in 2012.

Diluted earnings per share is calculated taking into account stock options granted to company personnel.

## RECORDATI S.p.A. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2013

#### ASSETS

€ (thousands)	Note	31 December 2013	31 December 2012
<b>Non-current assets</b>			
Property, plant and equipment	7	81,288	59,972
Intangible assets	8	295,498	231,470
Goodwill	9	468,807	413,213
Other investments	10	5,939	6,925
Other non-current assets	11	4,256	3,788
Deferred tax assets	12	25,205	22,837
<b>Total non-current assets</b>		<b>880,993</b>	<b>738,205</b>
<b>Current assets</b>			
Inventories	13	140,430	126,388
Trade receivables	14	179,775	155,359
Other receivables	15	24,979	24,983
Other current assets	16	5,363	2,164
Fair value of hedging derivatives (fair value hedge)	20	0	1,371
Short-term financial investments, cash and cash equivalents	17	52,271	38,418
<b>Total current assets</b>		<b>402,818</b>	<b>348,683</b>
<b>Total assets</b>		<b>1,283,811</b>	<b>1,086,888</b>

RECORDATI S.p.A. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2013

EQUITY AND LIABILITIES

€ (thousands)	Note	31 December 2013	31 December 2012
<b>Shareholders' equity</b>			
Share capital		26,141	26,141
Additional paid-in capital		83,719	83,719
Treasury stock		(37,791)	(46,254)
Hedging reserve ( <i>cash flow hedge</i> )		(2,270)	(4,983)
Translation reserve		(42,853)	(3,713)
Other reserves		25,776	26,326
Retained earnings		559,878	501,701
Net income for the year		133,678	118,484
Interim dividend		(44,526)	(40,077)
<b>Group shareholders' equity</b>	<b>18</b>	<b>701,752</b>	<b>661,344</b>
Minority interest	19	68	53
<b>Shareholders' equity</b>		<b>701,820</b>	<b>661,397</b>
<b>Non-current liabilities</b>			
Loans – due after one year	20	196,788	129,111
Staff leaving indemnities	21	16,698	17,862
Deferred tax liabilities	22	21,072	15,872
Other non-current liabilities	23	4,040	1,828
<b>Total non-current liabilities</b>		<b>238,598</b>	<b>164,673</b>
<b>Current liabilities</b>			
Trade payables	24	107,156	106,926
Other payables	25	71,193	53,984
Tax liabilities	26	15,951	9,789
Other current liabilities		855	458
Provisions	27	29,454	20,544
Fair value of hedging derivatives ( <i>cash flow hedge</i> )	28	2,270	4,983
Fair value of hedging derivatives ( <i>fair value hedge</i> )	20	2,210	0
Loans – due within one year	20	80,280	8,147
Bank overdrafts and short-term loans	29	34,024	55,987
<b>Total current liabilities</b>		<b>343,393</b>	<b>260,818</b>
<b>Total equity and liabilities</b>		<b>1,283,811</b>	<b>1,086,888</b>

RECORDATI S.p.A. AND SUBSIDIARIES  
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED  
31 DECEMBER 2013

€ (thousands)	2013	2012
<b>Net income for the year</b>	<b>133,693</b>	<b>118,497</b>
Gains/(losses) on cash flow hedges	2,713	(756)
Gains/(losses) on translation of foreign financial statements	(39,140)	4,519
Other gains/(losses)	(255)	(1,533)
<b>Income and expense for the year recognized directly in equity</b>	<b>(36,682)</b>	<b>2,230</b>
<b>Comprehensive income for the year</b>	<b>97,011</b>	<b>120,727</b>
Attributable to:		
Equity holders of the parent	96,996	120,714
Minority interests	15	13



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

€ (thousands)	Share capital	Add. paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Interim dividend	Minority Interest	Total
<b>Balance at 31.12.2011</b>	26,141	83,719	(53,215)	(4,227)	(8,232)	26,600	445,745	116,434	(38,525)	40	594,480
Allocation of 2011 net income:											
- Dividends								(59,802)	38,525		(21,277)
- Retained earnings							56,632	(56,632)			
Change in the reserve for share based payments											
Sale of own shares			6,961				(1,325)				5,636
Interim dividend									(40,077)		(40,077)
Other changes							25				25
Comprehensive income for the year				(756)	4,519	(1,533)		118,484		13	120,727
<b>Balance at 31.12.2012</b>	26,141	83,719	(46,254)	(4,983)	(3,713)	26,326	501,701	118,484	(40,077)	53	661,397
Allocation of 2012 net income:											
- Dividends								(60,194)	40,077		(20,117)
- Retained earnings							58,290	(58,290)			
Change in the reserve for share based payments											
Purchase of own shares			(8,828)								(8,828)
Sale of own shares			17,291				(1,974)				15,317
Interim dividend									(44,526)		(44,526)
Other changes							(95)				(95)
Comprehensive income for the year				2,713	(39,140)	(255)		133,678		15	97,011
<b>Balance at 31.12.2013</b>	26,141	83,719	(37,791)	(2,270)	(42,853)	25,776	559,878	133,678	(44,526)	68	701,820

RECORDATI S.p.A. AND SUBSIDIARIES  
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

€ (thousands)	2013	2012
<b>Operating activities</b>		
<b>Cash flow</b>		
Net Income	133,693	118,497
Depreciation of property, plant and equipment	9,679	8,786
Amortization of intangible assets	25,030	15,961
Write-down of assets	1,171	2,045
<b>Total cash flow</b>	<b>169,573</b>	<b>145,289</b>
(Increase)/decrease in deferred tax assets	(1,448)	6
Increase/(decrease) in staff leaving indemnities	(1,164)	1,170
Increase/(decrease) in other non-current liabilities	1,005	(329)
	<b>167,966</b>	<b>146,136</b>
<b>Changes in working capital</b>		
Trade receivables	(10,858)	(11,447)
Inventories	(3,598)	(16,856)
Other receivables and other current assets	(210)	(2,379)
Trade payables	(7,616)	5,463
Tax liabilities	3,200	(2,332)
Other payables and other current liabilities	15,022	(4,564)
Provisions	6,213	(1,269)
<b>Changes in working capital</b>	<b>2,153</b>	<b>(33,384)</b>
<b>Net cash from operating activities</b>	<b>170,119</b>	<b>112,752</b>
<b>Investing activities</b>		
Net (investments)/disposals in property, plant and equipment	(12,325)	(13,322)
Net (investments)/disposals in intangible assets	(65,775)	(49,546)
Net (increase)/decrease in equity investments	(123,725) <sup>(1)</sup>	(82,204) <sup>(2)</sup>
Net (increase)/decrease in other equity investments	986	(4,948)
Net (increase)/decrease in other non-current receivables	(369)	(2,506)
<b>Net cash used in investing activities</b>	<b>(201,208)</b>	<b>(152,526)</b>
<b>Financing activities</b>		
Medium/long term loans	151,687	0
Net financial position* of acquired companies	(3,740)	(2,695)
Re-payment of loans	(8,413)	(11,462)
Purchase of Treasury stock	(8,828)	0
Sale of Treasury stock	15,317	5,636
Effect of application of IAS/IFRS	1,406	350
Other changes in equity	(95)	25
Dividends paid	(64,643)	(61,354)
Change in translation reserve	(15,786)	96
<b>Net cash from/(used in) financing activities</b>	<b>66,905</b>	<b>(69,404)</b>
<b>Changes in short-term financial position</b>	<b>35,816</b>	<b>(109,178)</b>
Short-term financial position at beginning of year *	(17,569)	91,609
Short-term financial position at end of period *	18,247	(17,569)

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

(1) Acquisition of Casen Fleet (92,220): Working capital (4,042), Net Financial Position\* (1,356), Fixed Assets (34,483), Goodwill (58,125), Medium-long term loans 269, Deferred tax assets (805), Long term receivables (85), Deferred tax liabilities 6,407.

Acquisition of Opalia Pharma (31,505): Working capital (6,856), Net financial position\* 5,096, Fixed assets (8,641), Goodwill (23,552), Medium and long-term loans 2,577, Deferred tax assets (115), Long-term receivables (14).

(2) Acquisition of Accent (66,707): Working capital (6), Fixed Assets (49,642), Goodwill (26,976), Deferred tax assets (1), Deferred tax liabilities 9,918.

Acquisition of Farma-Projekt (15,497): Working capital (1,077), Net financial position\* 2,694, Fixed assets (678), Goodwill (16,094), Medium and long-term loans 6, Deferred tax assets (348).

# RECORDATI S.p.A. AND SUBSIDIARIES

## Notes to the consolidated financial statements for the year ended 31 december 2013

### 1. GENERAL

The consolidated financial statements at 31 December 2013 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in attachment 1.

During 2013 the consolidation perimeter changed to include two acquisitions made during the month of October. In Spain, Laboratorios Casen Fleet S.L.U., a pharmaceutical company with headquarters in Madrid and a production site in Utebo, Zaragoza, was acquired. The company is present mainly in the gastrointestinal therapeutic area, in Spain through its own organization, in Portugal through its subsidiary Laboratorios Casen Fleet Portugal Lda and in other countries through license agreements. The recognition of this company in the accounts is not yet definite, and could be subject to change, as allowed by IFRS 3, in view of the limited period of time elapsed and the need to assess the fair value of the assets and liabilities acquired. The profit and loss accounts of Laboratorios Casen Fleet S.L.U. and its Portuguese subsidiary are consolidated as from 1 November 2013 and the consolidated cash flow statement includes the effect of the balance sheet accounts at 31 October 2013. In Tunisia around 67% of the share capital of Opalia Pharma S.A., a pharmaceutical company based in Ariana, a suburb of Tunis, was acquired. Opalia Pharma S.A. is the third largest Tunisian pharmaceutical company with leading products in dermatology and in the gastrointestinal and respiratory therapeutic areas. 34% of the share capital was obtained through the acquisition of 100% of SGAM Al Kantara CO II s.a.r.l., a holding company based in Luxembourg. The recognition of this company in the accounts is not yet definite. The profit and loss accounts of Opalia Pharma S.A. and SGAM Al Kantara CO II s.a.r.l. are consolidated as from 1 November 2013 and the consolidated cash flow statement includes the effect of the balance sheet accounts at 31 October 2013. As allowed by IAS 32 the anticipated acquisition method was applied in the case of Opalia Pharma S.A. and therefore 100% of the company is consolidated despite the fact that not all the company's shares are owned. The acquisition of the remaining 33% is covered by contractual agreements which provide for reciprocal put and call options between the parties which have a high probability of being exercised. This accounting method is not detrimental to the rights of the minority shareholders during the period until all capital shares are transferred. During the year the acquisition of the Polish pharmaceutical company Farma-Projekt sp. z o.o. and of the Russian company Accent LLC, completed during the second half of 2012, were definitely recognized in the accounts. The asset and liability values recognized provisionally in the 2012 accounts are confirmed. During 2013 the consolidation perimeter changed due also to the establishment of the company Recordati Ukraine LLC. The company Recordati Polska sp. z o.o. was denominated Recordati Services sp. z o.o..

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and in compliance with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting policies applied in the preparation of the consolidated financial statements at 31 December 2013 were used in the preparation of the financial statements at 31 December 2012.

No significant changes in accounting policies were applied in the preparation of the consolidated financial statements.

The financial statements of the consolidated companies, prepared by the Board of Directors or the Sole Directors for submission to the respective Shareholders' meetings, have been reclassified and adjusted as required in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS). The criteria applied is consistent with that of the consolidated financial statements at 31 December 2012.

The financial statements have been prepared on the historical cost basis, except for the financial assets available for sale included under the line "Other investments", hedging derivatives (and the relative underlying hedged financial liability) for which their fair value has been applied as prescribed by IAS 39 and defined benefit plans for which the actuarial valuation was carried out as prescribed by IAS 19.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

The principal accounting policies adopted are set out below.

#### BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared according to the same accounting policies adopted by the Company. Where necessary, adjustments are made to bring the accounting policies used in line with those used by the Company.

All intercompany transactions and balances between group enterprises, including unrealized gains, are eliminated on consolidation. Intragroup

losses are also eliminated unless they indicate an impairment that requires recognition in the consolidated financial statements.

Subsidiaries are included in the consolidated financial statements from the effective date control is acquired up to the effective date control is transferred out of the group. When control is no longer exercised over a consolidated subsidiary, the results of the subsidiary are consolidated proportionally to the time period during which control was maintained.

The line-by-line consolidation method is applied using the following criteria:

- a. The book value of investments in consolidated subsidiaries is eliminated against the relevant shareholders' equity while the assets and liabilities are consolidated on a line-by-line basis.
- b. Intercompany payables and receivables and transactions, as well as intra-group profits and losses not yet realized, are eliminated.
- c. Any excess of the cost of acquisition over the value of equity at the date of acquisition is recognized as goodwill.
- d. Minority interests in the equity of consolidated subsidiaries are shown separately under equity, while minority interests in the net income of such companies are shown separately in the consolidated income statement.

The financial statements of foreign subsidiaries expressed in currencies other than Euro are translated into Euro as follows:

- Assets and liabilities, at year-end exchange rates;
- Shareholders' equity at historical exchange rates;
- Income and expense items at the average exchange rates for the year;
- The goodwill resulting from the acquisition of a foreign company is recognized in the currency of the country in question and translated at year-end exchange rates.

Translation differences arising from this process are shown in the consolidated statement of comprehensive income.

## BALANCE SHEET

**Property, plant and equipment** - Property, plant and equipment is stated at purchase cost less accumulated depreciation and any recognized impairment loss. Reviews are performed when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on *Impairment*). Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

**Leasing** - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments, and depreciated over their estimated useful life. The corresponding liability to the lessor is included in the balance sheet as a financial liability. Lease payments are apportioned between finance charges and reduction of the financial liability. Finance charges are charged directly in the income statement.

All other leases are classified as operating leases and the rentals payable are charged to income as per the terms of the relevant lease.

**Intangible assets** - An intangible asset is recognized only if it can be identified, if it is probable that it will generate future economic benefits and its cost can be measured reliably. Intangible assets are valued at purchase cost, net of amortization calculated on a straight line basis and on the basis of their estimated useful life which, however, cannot exceed 20 years. Patents, licenses and know-how are amortized as from the year of the first sale of relevant products. Amortization of distribution and license rights is calculated over the duration of the contract.

**Goodwill** - Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Transaction costs associated with the aggregation of companies are not considered acquisition costs and are recognized as expenses in the year they are incurred. Goodwill is recognized as an asset and reviewed annually in order to determine any impairment loss.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of remaining goodwill is included in the determination of the profit or loss on disposal.

**Impairment** - At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized as income immediately. Losses resulting from the impairment of goodwill cannot be reversed.



**Investments in associates** - An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

**Other investments** - Other investments are those described by IAS 39 as available-for-sale financial assets. They comprise equity instruments and are measured at fair value. If their market value is not available and their fair value cannot be reasonably determined, these investments are valued at cost and adjusted for loss of value (impairment) if required. The impairment cost is recognized in the income statement.

**Receivables (included in non-current assets)** - Receivables are stated at their nominal value and reduced by estimated irrecoverable amounts if and when necessary.

**Inventories** - Inventories are stated at the lower of cost or market, where the market value of raw materials and subsidiaries is their substitution cost while that related to finished goods and work-in-process is their net realizable value. Inventories of raw materials, supplies and promotional material are valued at their average acquisition cost including costs incurred in bringing the inventories to their location and condition at year end. Inventories of work-in-process and finished goods are valued at their average manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production.

Inventories are written-down if market value is lower than cost as described above or in the case of obsolescence resulting from slow moving stocks.

**Trade receivables** - Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

**Cash and cash equivalents** - Cash in banks on demand and highly liquid investments.

**Non-current assets held for sale and discontinued operations** - Comprise those components of an entity, whose operations and cash flows can be distinguished operationally and for financial reporting purposes, that either have been disposed of or that satisfy the criteria to be classified as held for sale.

A non-current asset (or disposal group) classified as held for sale is measured at the lower of fair value less costs to sell it and its carrying amount.

Non-current assets or disposal groups that are classified as held for sale are not depreciated.

**Equity** - Equity instruments issued by the Company are recorded at the proceeds received. Proposed dividend is recognized as a liability at the time of adoption of the dividend resolution at the annual shareholders' meeting. The cost and selling prices of treasury shares are recognized directly in equity and therefore gains and losses on sales are not recognized in the income statement.

**Loans** - Interest-bearing loans are recorded at the proceeds received, net of direct issue costs. Subsequently, loans are measured using the amortised cost method as prescribed by IAS 39. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

If the loans are covered using derivative instruments qualifying as fair value hedges, in accordance with IAS 39 these loans are measured at fair value as are their related derivative instruments.

**Staff leaving indemnities** - Employee benefits presented on the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liability recognised in the balance sheet for post-employment benefit plans is the present value of the defined benefit obligation, as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method.

**Trade payables** - Include payables arising from supply agreements and are stated at their nominal value.

**Other payables** - Include payables arising in the normal course of business (towards employees and third parties) and are stated at their nominal value.

**Bank overdrafts and loans** - Bank overdrafts and loans are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**Derivative financial instruments** - The Group uses derivative financial instruments to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivatives are measured at fair value at the end of each reporting period.

Hedging relationships are of two types, "fair value hedge" or "cash flow hedge". A "fair value hedge" is a hedge of the exposure to changes in the fair value of an asset or liability that is already recognized in the balance sheet. A "cash flow hedge" is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability or to a forecasted transaction.

The gain or loss from the change in fair value of a hedging instrument qualifying as a "fair value hedge" is recognized immediately in net profit or loss. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which also is recognized immediately in net profit or loss.

The gain or loss from the change in fair value of a hedging instrument qualifying as a "cash flow hedge" is recognized in the consolidated statement of comprehensive income.

The gain or loss from the change in fair value of a derivative financial instrument which does not qualify as a hedging instrument is recognized immediately in net profit or loss.

**Provisions** - Provisions are recognized when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

**Foreign currencies** - Transactions in currencies other than the Euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period. Non-monetary assets and liabilities recorded at the rates of exchange prevailing on the dates of the transactions are not retranslated on the balance sheet date.

On consolidation, the assets and liabilities of the Group's foreign currency operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in the consolidated statement of comprehensive income and included in the Group's translation reserve. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

### Income statement

**Revenues** - Revenues are recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and that the amount of revenue can be measured reliably. Revenue arising from the sale of goods is recognized when the enterprise has transferred the significant risks and rewards of ownership. These are stated net of discounts, rebates and returns. Revenues include income from royalties due on licensed out products and up-front payments received under licensing agreements.

**Cost of Sales** - Represents the cost of goods sold and includes the cost of raw materials, supplies and consumables, finished goods, and direct and indirect production expenses.

**Selling expenses** - Include all expenses incurred in connection with the products sold during the year, such as payroll and other costs for sales and marketing personnel, promotional expenses and all distribution costs. Promotional expenses for the launch of new products are recognized in the income statement in proportion to the revenues obtained during the launch period.

**Research and development expenses** - All research costs are expensed in the income statement in the year in which they are incurred in accordance with IAS 38. IAS 38 prescribes that development costs must be capitalized when technical and commercial feasibility is achieved. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines under IAS 38 are not met so that development costs are expensed as incurred. Research and development costs include amounts due under collaboration agreements with third parties.

**Non-reimbursable government grants** - Government grants towards investment in plant are recognized as income over the periods necessary to match them with the related costs and are stated in the balance sheet as deferred income. Research grants are booked on an accrual basis and are recognized in the income statement as other revenue.

**Transactions involving share based payments** - As prescribed by IFRS 2 stock option plans for the benefit of group employees are considered part of their remuneration, the cost of which is the fair value of the stock options at the date they are granted. This cost is recognized in the profit and loss linearly distributed over the vesting period and booked directly to equity.

**Financial items** - Include interest income and expense, foreign exchange gains and losses, both realized and unrealized, and differences arising from the valuation of securities.

**Taxation** - Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year and tax rates in force at the date of the balance sheet are applied.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all

taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Earnings per share** - Earnings per share is the net profit for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the number of shares for the effects of all dilutive potential ordinary shares.

## 3. REVENUE

Net revenue for the years 2013 and 2012 is € 941.6 million and € 828.3 million respectively and can be broken down as follows:

€ (thousands)	2013	2012	Change 2013/2012
Net sales	929,695	810,551	119,144
Royalties	4,287	4,045	242
Up-front payments	2,840	8,568	(5,728)
Other revenue	4,808	5,153	(345)
<b>Total revenue</b>	<b>941,630</b>	<b>828,317</b>	<b>113,313</b>

Please refer to the Review of Operations for the analysis of net sales.

Revenue from up-front payments refers to the licensing out of corporate products and in 2013 are mainly relative to agreements for the licensing of pitavastatin (€ 1.0 million), of silodosin (€ 0.5 million), of fenticonazole (€ 0.4 million) and of lercanidipine (€ 0.4 million).

Other revenue includes commissions of € 1.8 million received by FIC Médical for promotion services rendered to third parties in the countries belonging to the Commonwealth of Independent States (C.I.S.).

## 4. OPERATING EXPENSES

Total operating expenses for the years 2013 and 2012 are € 746.2 million and € 661.4 million respectively and are analyzed by function as follows:

€ (thousands)	2013	2012	Change 2013/2012
Cost of sales	327,329	293,557	33,772
Selling expenses	275,188	250,566	24,622
Research and development expenses	74,725	63,407	11,318
General and administrative expenses	54,093	45,486	8,607
Other income (expense), net	14,874	8,337	6,537
<b>Total operating expenses</b>	<b>746,209</b>	<b>661,353</b>	<b>84,856</b>

Labor cost in 2013 is € 220.8 million, an increase of 7.3% compared to 2012, and includes charges of € 1.7 million related to stock option plans determined in accordance with IFRS 2.

Depreciation and amortization charges are € 34.7 million. Depreciation of property, plant and equipment is € 9.7 million, up by € 0.9 million as compared to 2012, and amortization of intangibles is € 25.0 million, an increase of € 9.1 million compared to the preceding year due to the amortization of the product portfolios acquired in the U.S.A. and in Russia and other C.I.S. countries.

The following table summarizes the most significant components of other income (expense) which comprises mainly non-recurring events, operations and matters which are not often repeated in the ordinary course of business.

€ (thousands)	2013	2012	Change 2013/2012
Amounts due to the Italian healthcare system	(1,064)	(2,406)	1,342
Personnel restructuring charges	(11,438)	(9,849)	(1,589)
Costs associated with acquisitions	(1,205)	(2,345)	1,140
Write-downs	(1,171)	(2,045)	874
Reversal of a provision	0	7,250	(7,250)
Others	4	1,058	(1,054)
<b>Total other income (expense), net</b>	<b>(14,874)</b>	<b>(8,337)</b>	<b>(6,537)</b>

The amounts due to the public healthcare system in Italy refer to the pay back to be paid to the Italian medicines agency (AIFA) in substitution for the 5% price reduction on selected products. This mechanism which was already applied during preceding years, was extended to 2013. The amount due is calculated on the sales of the products in 2012 and is spread equally over the period. The reduction of the cost compared to the preceding year is due to a change in the selection of products subject to the pay back mechanism.

Personnel restructuring charges are to be attributed mainly to the restructuring of the sales force in France.

Costs associated with the acquisitions in 2013 refer to intermediation expenses, consultancy fees and taxes on transactions related to the acquisition of the Spanish company Laboratorios Casen Fleet (€ 0.7 million) and to the acquisition of the Tunisian company Opalia Pharma (€ 0.5 million).

## 5. FINANCIAL INCOME AND EXPENSE

In 2013 and 2012 financial items recorded a net expense of € 14.6 million and € 6.6 million respectively which are comprised as follows:

€ (thousands)	2013	2012	Change 2013/2012
Exchange gains (losses)	(3,885)	679	(4,564)
Interest expense on loans	(7,930)	(6,413)	(1,517)
Net interest income (expense) on s/t financial position	(2,300)	(369)	(1,931)
Interest cost in respect of defined benefit plans	(510)	(523)	13
<b>Total financial income (expense), net</b>	<b>(14,625)</b>	<b>(6,626)</b>	<b>(7,999)</b>

The net exchange loss, due to recent devaluations of the currencies in countries where the Group operates, are to be attributed mainly to financial operations with the Turkish subsidiary.

The increase of interest expense on loans is to be attributed mainly to new loans received during the year, in particular for the funding of the acquisition of a portfolio of products in the U.S.A. (see Note 20).

The change in the short-term net financial position is mainly due to the decrease in the average amount of resources invested and to the use of short-term lines of credit.

The change in fair value of hedging derivatives is negative by € 3.6 million and refers to the measurement of the cross-currency interest rate swap covering the series of long term senior unsecured notes privately placed in 2004 with the objective of eliminating the exchange risk linked to the *tranches* denominated in U.S. dollars and in pounds sterling. This amount is equivalent to the change in the fair value of the underlying debt as compared to its nominal value with a combined zero effect on the income statement as the transaction is perfectly hedged.

## 6. PROVISION FOR INCOME TAXES

The provision for income taxes amounts to € 47.1 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies.

The current standard corporate income tax rate in Italy can be reconciled with the tax rate effectively incurred on consolidated pre-tax income, as follows:

€ (thousands)	2013 %	2012 %
Standard income tax rate on pre-tax income of the parent company	27.5	27.5
Dividends from foreign subsidiaries	0.4	0.6
Consolidation effect	(2.9)	(4.9)
Other differences, net	0.2	0.4
<b>Effective tax rate on income</b>	<b>25.2</b>	<b>23.6</b>
IRAP	2.5	2.5
IRAP reimbursement request	(1.6)	0.0
<b>Effective tax rate, including IRAP</b>	<b>26.1</b>	<b>26.1</b>

IRAP is levied only on the Italian companies and is computed applying a 4.10% rate to a broader taxable base calculated before the deduction of labour cost and interest.

## 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, amounts to € 81.3 million and € 60.0 million at 31 December 2013 and 2012 respectively. The composition and variation of property, plant and equipment are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
<b>Cost</b>					
Balance at 31.12.12	43,566	174,249	50,450	7,680	275,945
Additions	552	1,949	3,119	8,548	14,168
Disposals	(6)	(519)	(719)	(101)	(1,345)
Changes in reporting entities	12,942	15,309	3,946	1,678	33,875
Other changes	416	1,654	262	(5,093)	(2,761)
<b>Balance at 31.12.13</b>	<b>57,470</b>	<b>192,642</b>	<b>57,058</b>	<b>12,712</b>	<b>319,882</b>
<b>Accumulated depreciation</b>					
Balance at 31.12.12	27,781	149,353	38,839	0	215,973
Depreciation for the year	1,496	5,210	2,973	0	9,679
Disposals	(2)	(450)	(503)	0	(955)
Changes in reporting entities	3,816	9,119	2,270	0	15,205
Other changes	(8)	(928)	(372)	0	(1,308)
<b>Balance at 31.12.13</b>	<b>33,083</b>	<b>162,304</b>	<b>43,207</b>	<b>0</b>	<b>238,594</b>
<b>Carrying amount at</b>					
<b>31 December 2013</b>	<b>24,387</b>	<b>30,338</b>	<b>13,851</b>	<b>12,712</b>	<b>81,288</b>
31 December 2012	15,785	24,896	11,611	7,680	59,972

Additions during 2013 of € 14.2 million refer mainly to investments made by the Parent in the Milan production plant and headquarters for an amount of € 2.6 million and in the production plant in Campoverde di Aprilia (Italy) for an amount of € 4.3, and by the Turkish subsidiary Recordati Ilaç for an amount of € 3.6 million, of which € 2.8 million for initial activities relative to the construction of a new production plant.

Changes in reporting entities arise from the consolidation of the companies acquired in Spain and in Tunisia with an effect of € 10.2 million and € 8.5 million respectively.

At 31 December 2013 land and/or buildings held under financial leases amount to € 0.3 million and are held by the newly acquired company in Tunisia Opalia Pharma.

## 8. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 31 December 2013 and 2012 amounted to € 295.5 million and € 231.5 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
<b>Cost</b>					
Balance at 31.12.12	229,580	145,737	15,998	2,484	393,799
Additions	75,516	434	240	759	76,949
Write-downs	0	(1,171)	0	0	(1,171)
Disposals	(16)	(7)	(26)	(61)	(110)
Changes in reporting entities	27,398	136	633	13	28,180
Other changes	(11,653)	970	(234)	(1,513)	(12,430)
<b>Balance at 31.12.13</b>	<b>320,825</b>	<b>146,099</b>	<b>16,611</b>	<b>1,682</b>	<b>485,217</b>
<b>Accumulated amortization</b>					
Balance at 31.12.12	71,661	75,613	15,055	0	162,329
Amortization for the year	14,456	10,108	466	0	25,030
Disposals	(7)	2	(11)	0	(16)
Changes in reporting entities	3,295	51	380	0	3,726
Other changes	(844)	(191)	(315)	0	(1,350)
<b>Balance at 31.12.13</b>	<b>88,561</b>	<b>85,583</b>	<b>15,575</b>	<b>0</b>	<b>189,719</b>
<b>Carrying amount at</b>					
<b>31 December 2013</b>	<b>232,264</b>	<b>60,516</b>	<b>1,036</b>	<b>1,682</b>	<b>295,498</b>
31 December 2012	157,919	70,124	943	2,484	231,470

All intangible assets have a finite useful life and are amortized over a period not exceeding 20 years.

Additions during the year refer mainly to the acquisition in January of all rights to a portfolio of products for the treatment of rare and other diseases sold mainly in the U.S.A. (€ 73.5 million).

During July the subsidiary Herbacos Recordati s.r.o. acquired all rights to a product line of food supplements sold under the Avilut® brand for an amount of € 1.9 million.

The intangible assets of the newly acquired Spanish company Laboratorios Casen Fleet for an overall value of € 24.3 million are reported on the line "Changes in reporting entities". Of this value € 20.0 million results from the allocation of part of the difference between the amount paid for the company and the book value of the assets to CitraFleet®, the main product in the company's portfolio. The amount allocated represents the estimated fair value of the product. The useful life of the product is estimated to be of 20 years based on knowledge of the market in which the company operates and taking into consideration its historical sales trend.

Changes in reporting entities also includes intangible assets arising from the consolidation of the newly acquired Tunisian company Opalia Pharma for an amount of € 0.2 million.



## 9. GOODWILL

Goodwill at 31 December 2013 and 2012 amounted to € 468.8 million and € 413.2 million respectively and changed as follows:

€ (thousands)	Goodwill
<b>Cost</b>	
Balance at 31.12.12	450,877
Goodwill arising from the acquisition of Laboratorios Casen Fleet S.L.U.	58,125
Goodwill arising from the acquisition of Opalia Pharma S.A.	23,552
Exchange rate adjustments	(26,083)
<b>Balance at 31.12.13</b>	<b>506,471</b>
<b>Accumulated amortization</b>	
Balance at 31.12.12	37,664
Changes during the year	0
<b>Balance at 31.12.13</b>	<b>37,664</b>
<b>Carrying amount at</b>	
<b>31 December 2013</b>	<b>468,807</b>
31 December 2012	413,213

As prescribed by IFRS 3 the allocation of the price paid for the acquisitions of Laboratorios Casen Fleet S.L.U. and Opalia Pharma S.A. during 2013 was effected.

The measurement of the fair value of the assets and liabilities of Laboratorios Casen Fleet S.L.U. at the date of acquisition resulted in the identification of intangible assets, mainly related to CitraFleet®, the carrying book value of which was below their fair value. Therefore, an amount of € 20.0 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to the aforesaid intangible assets to bring their value in line with their fair value (see Note 8), an amount of € 6.0 million to the relative deferred tax liabilities and an amount of € 58.1 million was allocated to goodwill. The allocation made is not yet definite, as allowed by IFRS 3.

In the case of Opalia Pharma S.A. the entire difference between the amount paid and the book value of the assets and liabilities acquired was allocated to goodwill. The measurement of the fair value of the company's assets and liabilities at the date of acquisition did not result in the identification of any item to which allocate the amount paid the company. We believe that the value of the acquisition resides in its strategic nature as it allows the Group to enter a new market and more generally be present in a new geographical area with interesting development prospects. However, also in this case, the allocation is not yet definite.

As prescribed by IFRS 3 the allocation of the price paid for the acquisition of Farma-Projekt, the Polish company acquired in August 2012, is now definite. The measurement of the fair value of the company's assets and liabilities at the date of acquisition did not result in the identification of any item to which allocate the amount paid the company and therefore the provisional allocation reported in the 2012 accounts is confirmed. The entire difference between the amount paid and the fair value of the acquired assets and liabilities equivalent to € 16.1 million was allocated to goodwill since the value of the acquisition resides in its strategic nature as it allows the Group to reinforce its presence in the Central and Eastern European market.

The allocation of the price paid for the acquisition of the Russian company Accent in November 2012 is also now definite. The measurement of the

fair value of the company's assets and liabilities at the date of acquisition provisionally included in the 2012 accounts is confirmed. Some intangible assets the carrying book value of which was below their fair value were identified. Therefore, an amount of € 49.6 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to the aforesaid intangible assets to bring their value in line with their fair value, an amount of € 9.9 million to the relative deferred tax liabilities and an amount of € 27.0 million was allocated to goodwill.

The exchange rate adjustments are related to the goodwill associated with the acquisitions made in countries having currencies different from the euro: goodwill was stated in local currency and is translated into euros for the preparation of the consolidated financial accounts using the year-end exchange rates. An overall decrease of € 26.1 million resulted, to be attributed mainly to the acquisitions in Turkey (€ 21.6 million), in Russia (€ 3.0 million) and in the Czech Republic (€ 1.2 million).

Net goodwill at 31 December 2013, amounting to € 468.8 million, relates to the following acquisitions, which represent the same number of cash generating units:

- France (Doms Adrian and the companies belonging to the Bouchara group): € 45.8 million;
- Commonwealth of Independent States (FIC, FIC Médical and Accent): € 36.2 million;
- Germany (Merckle Recordati): € 48.8 million;
- Portugal (companies belonging to the Jaba group): € 32.8 million;
- Orphan drug business (the Orphan Europe group): € 110.6 million;
- Turkey (Yeni Ilaç and Dr. F. Frik Ilaç) : € 84.0 million;
- Czech Republic (Herbacos-Bofarma): € 12.9 million;
- Romania (ArtMed International): € 0.2 million;
- Poland (Farma-Projekt): € 15.8 million;
- Spain (Laboratorios Casen Fleet): € 58.1 million;
- Tunisia (Opalia Pharma): € 23.6 million.

As reported in the preceding note 2 - *Summary of significant accounting policies* and as required by IFRS 3, goodwill is not amortized systematically but is subject to impairment tests to determine its recoverable value. Goodwill is allocated to the individual cash generating units identified on the basis of the business segments and the markets on which the companies acquired operate. A cash generating unit to which goodwill has been allocated shall be tested for impairment annually, and when there is any indication that it may be impaired, by comparing the carrying amount of the unit, including goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognize an impairment loss.

The recoverable amount was determined by calculating the value in use of the individual cash generating units.

The main hypotheses used for calculating the value in use concern the discount rate, the expected operating cash flows during the period assumed for the calculation and the growth rate.

The average weighted cost of capital reflects current market valuations of the cost of money and the specific risk associated with the cash generating units. It was estimated at 9.65% before tax, with the exception of the cash generating unit resulting from the acquisitions in Turkey, estimated at 12.77% in order to take into account the peculiarities of this country.

Operating cash flow forecasts for the explicit period assumed for the calculation were taken from the 2014 budget approved by the Board of Directors of the Parent on 16 January 2014 and from reasonable hypotheses

in line with the 2013-2015 business plan approved by the Board of Directors of the Parent Company on 6 February 2013.

The growth rates used for the period subsequent to the explicit forecast period were estimated on a prudent basis: 2.0% for all markets with the exception of Turkey and of the Commonwealth of Independent States for which an estimated growth rate of 5.0% in local currency was used.

The value in use, calculated according to the procedures described for each cash generating unit, was examined and approved by the Board of Directors. In all cases it was greater than the book value recognised in the financial statements at 31 December 2013 and therefore no loss in the value of goodwill was recognised. In particular, the value in use of most of the cash generating units resulted significantly greater than their book value, while the value in use of the units in Portugal and in Turkey, resulted slightly greater than their book value.

## 10. OTHER INVESTMENTS

Investments in equity instruments of non-consolidated companies are as follows:

€ (thousands)	Balance sheet value		Percentage of equity owned	
	31.12.13	31.12.12	31.12.13	31.12.12
Erytech Pharma S.A., France	4,284	5,000	7.8%	n.a.
PureTech Ventures LLC, U.S.A.	1,472	1,472	11.2%	11.3%
Maxygen Inc., U.S.A.	-	51	-	n.s.
Technogen Liquidating Trust, U.S.A.	-	94	-	n.s.
Tecnofarmaci S.p.A., Italy	87	87	4.2%	4.2%
Consorzio C4T, Italy	77	78	n.s.	n.s.
Alavita Inc., U.S.A.	-	63	-	n.s.
Codexis Inc., U.S.A.	5	9	n.s.	n.s.
Fluidigm Corp., U.S.A.	10	10	n.s.	n.s.
Others	3	61	n.s.	n.s.
<b>Total equity investments</b>	<b>5,938</b>	<b>6,925</b>		

Erytech Pharma S.A. is a late development stage French biopharmaceutical company focused on orphan oncology and rare diseases. The original investment of € 5.0 million consisted of a non interest bearing loan which was converted into 431,034 shares in May 2013. The value of the investment was reduced by e 0.7 million to take into account its fair value. The after-tax difference was booked to equity and recognized in the Statement of Comprehensive Income.

The United States company PureTech Ventures LLC specialises in investments in start-up companies in the field of new therapies, medical devices and new research technologies.

The liquidation of the U.S. companies Maxygen Inc., Technogen Liquidating Trust and Alavita Inc. gave rise to a net capital loss of € 0.2 million.

## 11. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 31 December 2013 are € 4.3 million and refer mainly to guarantee deposits on rental and service contracts.

## 12. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2013 and 2012 amount to € 25.2 million and € 22.8 million respectively, an increase of € 2.4 million. The main deferred tax assets and their change in 2013 are analyzed below.

€ (thousands)	2013	2012
Balance at 1 January	22,837	22,494
Additions	6,628	6,289
Utilizations	(5,180)	(6,295)
Change in reporting entities	920	349
<b>Balance at 31 December</b>	<b>25,205</b>	<b>22,837</b>

€ (thousands)	Revaluation of intangible assets	Profit and loss temporary differences	Other	Total
Balance at 31.12.2012	1,921	10,599	10,317	22,837
Additions	0	4,885	1,743	6,628
Utilization	(1,719)	(3,435)	(26)	(5,180)
Change in reporting entities	0	801	119	920
<b>Balance at 31.12.2013</b>	<b>202</b>	<b>12,850</b>	<b>12,153</b>	<b>25,205</b>

"Other" deferred tax assets refers mainly to temporary differences arising from the elimination of unrealized gains on intercompany transactions.

## 13. INVENTORIES

Inventories at 31 December 2012 and 2011 amount to € 126.4 million and € 108.3 million respectively, net of their respective obsolescence provisions of € 3.8 million and € 3.2 million. Composition of inventories is as follows:

€ (thousands)	31.12.2013	31.12.2012	Change 2013/2012
Raw materials and supplies	41,679	31,716	9,963
Intermediates and work-in-process	23,987	17,188	6,799
Finished goods	74,764	77,484	(2,720)
<b>Total inventories</b>	<b>140,430</b>	<b>126,388</b>	<b>14,042</b>

The increase in inventories is mainly due to the consolidation of the new companies acquired (€ 10.4 million overall at the date of acquisition) and to the inventories of the products acquired from Lundbeck in the U.S.A. the value of which at 31 December 2013 is of € 6.4 million.

## 14. TRADE RECEIVABLES

Trade accounts receivable at 31 December 2013 and 2012 amount to € 179.8 million and € 155.4 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2013 is € 9.6 million (€ 10.8 million at 31 December 2012) and is considered to be sufficient to cover potential losses of certain receivables which, due to the nature of the customers in question or the destination markets, may be difficult to collect. Average days of sales outstanding are 63, an improvement over those at 31 December 2012. Trade receivables on the acquisition balance sheet of Laboratorios Casen Fleet and Opalia Pharma are € 11.2 million and e 2.4 million respectively.

## 15. OTHER RECEIVABLES

Other receivables amount to € 25.0 million (€ 25.0 million at 31 December 2012) and their breakdown is as follows:

€ (thousands)	31.12.2013	31.12.2012	Change 2013/2012
Tax receivable	20,225	18,588	1,637
Balances due from employees and agents	2,023	2,682	(659)
Other	2,731	3,713	(982)
<b>Total other receivables</b>	<b>24,979</b>	<b>24,983</b>	<b>(4)</b>

Tax receivable comprises value added tax (VAT) receivable (€ 12.6 million) and advance payments of income tax exceeding those required. Receivables from employees and agents comprise advances on expense accounts and other credits. Under "Other" are included advances paid to suppliers and other parties and to computed credits under licensing-in agreements.

## 16. OTHER CURRENT ASSETS

At 31 December 2013 other current assets amount to € 5.4 million (€ 2.2 million at 31 December 2012) and relate mainly to prepaid expenses.

## 17. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

A break down is shown in the following table.

€ (thousands)	31.12.2013	31.12.2012	Change 2013/2012
Short term time deposits	1,922	1,221	701
Deposits in bank current accounts	50,315	37,154	13,161
Cash on hand	34	43	(9)
<b>Total short term financial investments, cash and cash equivalents</b>	<b>52,271</b>	<b>38,418</b>	<b>13,853</b>

Short term time deposits have maturities of six months or less.

At 31 December 2013 cash and cash equivalents are denominated in euro (40.1 million), in U.S. dollars (4.0 million, mainly in the U.S. subsidiary Recordati Rare Diseases), in pounds sterling (2.0 million), in Russian rubles (84.0 million) and in Turkish lira (3.2 million in the Turkish subsidiary Recordati İlaç).

The consolidation effect arising from the consolidation of Laboratorios Casen Fleet and Opalia Pharma is of € 7.7 million and € 0.4 million respectively.

## 18. SHAREHOLDERS' EQUITY

**Share capital** – At 31 December 2013 the issued and fully paid share capital consists of 209,125,156 ordinary shares with a par value of € 0.125 each for a total of € 26,140,644.50 and remains unchanged compared to the preceding year.

As at 31 December 2013 the Company has two stock option plans in favor of certain group employees in place, the 2006-2009 plan, under which options granted on one occasion are still outstanding, and 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 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. The stock options granted under the 2006-2009 plan are vested over a period of four years and those not exercised within the fifth year of the date of grant expire. The stock options granted under the 2010-2013 plan are vested over a period of five years and those not exercised within the eighth year of the date of grant expire. Options cannot be exercised if the employee leaves the company before they are vested.

Stock options outstanding at 31 December 2013 are analyzed in the following table.

€ (thousands)	Strike price (€)	Options outstanding at 1.1.2013	Options granted during 2013	Options exercised during 2013	Options cancelled or expired	Options outstanding at 31.12.2013
<b>Date of grant</b>						
29 October 2008	4.0730	1,187,500	-	(1,108,750)	(78,750)	-
11 February 2009	3.8940	75,000	-	(75,000)	-	-
27 October 2009	4.8700	2,407,500	-	(1,122,500)	(102,500)	1,182,500
9 February 2011	6.7505	3,760,000	-	(652,500)	(157,500)	2,950,000
8 May 2012	5.3070	4,510,000	-	(120,000)	(210,000)	4,180,000
17 April 2013	7.1600	-	270,000	-	-	270,000
30 October 2013	8.9300	-	360,000	-	-	360,000
<b>Total</b>		<b>11,940,000</b>	<b>630,000</b>	<b>(3,078,750)</b>	<b>(548,750)</b>	<b>8,942,500</b>

**Additional paid-in capital** - At 31 December 2013 additional paid-in capital is € 83.7 million, unchanged compared to the preceding year.

**Treasury stock** - At 31 December 2013, 6,510,110 shares are held as treasury stock and decrease by 1,995,680 shares compared to those held at 31 December 2012. The change is due to the sale of 3,078,750 shares, for an amount realized of € 15.3 million, to service the exercise of options granted to company employees under the stock option plans and to the purchase of 1,083,070 shares for an amount of € 8.8 million. The total cost incurred for the purchase of current treasury stock is € 37.8 million and the average purchase price per share is € 5.80.

**Hedging reserve** - In accordance with IAS 39 the € 2.3 million liability arising from the measurement at fair value at 31 December 2013 of interest rate swaps qualifying as a cash flow hedge is recognized directly in equity as a hedging reserve.

**Other reserves** - These amount to € 25.8 million at 31 December 2013 and include the statutory reserve of the parent company in the amount of € 5.2 million, reserves for grants received for a total of € 15.4 million and reserves for amounts booked directly to equity in application of international accounting and reporting standards. The application of IFRS 2 and IAS 19 resulted in positive recordings of € 4.0 million and € 1.6 million respectively. The recognition of the loss associated with the investment in Erytech Pharma determined a negative effect of € 0.4 million.

**Retained earnings and net income for the year** - These amount to € 559.9 million at 31 December 2013 and increase by € 58.2 million as compared to 31 December 2012. Net income for the year is € 133.7 million, an increase of 12.8% compared to the € 118.5 million 2012 net income.

The shareholders' equity of the Italian companies includes untaxed reserves of € 101.1 million, net of € 16.6 million withholding tax already paid, and their distribution is subject to taxation under fiscal law. In accordance with IAS 12 deferred taxes are not recognized on these reserves until their distribution is resolved.

**Interim dividend** - During the year the Board of Directors of Recordati S.p.A. resolved to distribute an interim dividend for 2013 of € 0.22 per share, for a total amount of € 44.5 million.

latter has however been 100% consolidated by applying the anticipated acquisition method as allowed by IAS 32. Consequently the amount estimated for the acquisition of the remaining 33% (€ 8.3 million) was recognized as a liability since the transfer of this quota is covered by contractual agreements which provide for reciprocal put and call options between the parties which have a high probability of being exercised. Subsequent variations of this estimate will be recognized in a shareholders' equity reserve. This accounting method is not detrimental to the rights of the minority shareholders during the period until all capital shares are transferred.

## 19. MINORITY INTEREST

All consolidated companies are 100% owned except for the Italian subsidiary of Orphan Europe which is 99% owned and the recently acquired Tunisian company Opalia Pharma which is 67% owned. The

## 20. LOANS

At 31 December 2013 and 2012, medium and long-term loans include:

€ (thousands)	31.12.2013	31.12.2012
<b>Loans granted to Recordati S.p.A.:</b>		
Loan granted by Centrobanca, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2012 through 2022	*61,167	67,961
Loan granted by Banca Nazionale del Lavoro, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2015 through 2018	*49,406	-
Loan granted by UniCredit, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2014 through 2019	*49,384	-
Loans granted by the Ministry of Economic Development at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0.825% before that. Fully repaid in 2013.	0	139
<b>Loans granted to other Group companies:</b>		
Guaranteed senior notes issued by Recordati S.A. (Luxembourg) privately placed with international institutional investors in 2004:		
€ 15 million at a fixed interest rate of 4.52% repaid in 2011		
\$ 40 million at a fixed interest rate of 5.50% due 2014		
€ 26 million at a fixed interest rate of 5.02% due 2014		
£ 5 million at a fixed interest rate of 6.09% due 2014		
£ 5 million at a fixed interest rate of 6.09% due 2014	*65,597	65,535
Guaranteed senior notes issued by Recordati Rare Diseases Inc. (U.S.) privately placed with international institutional investors in 2013:		
\$ 40 million at a fixed interest rate of 4.55% due 2023 (10 year bullet)		
\$ 30 million at a fixed interest rate of 4.70% due 2025 (12 year bullet)	*50,230	-
Loan granted by Vakifbank to Dr. F.frik Ilaç at variable interest rate due 2014	844	2,123
Various loans granted to Opalia Pharma S.A. due within 2019	2,372	-
Various interest-free loans granted to Laboratorios Casen Fleet S.L.U. due within 2021	276	-
Loan granted to Farma-Projekt sp. z o.o. to be reimbursed short-term	2	2
Loans granted to Recordati España S.L. repaid in 2013	0	127
<b>Total amortized cost of loans</b>	<b>279,278</b>	<b>135,887</b>
Portion due within one year	82,490	8,147
Change in the fair value of the portion due within one year	(2,210)	0
<b>Total loans in current liabilities</b>	<b>80,280</b>	<b>8,147</b>
Portion due after one year	196,788	127,740
Change in the fair value of the portion due after one year	-	1,371
<b>Total loans in non-current liabilities</b>	<b>196,788</b>	<b>129,111</b>

\* Net of direct issue costs for a total of € 1.9 million amortized using the effective interest method (Centrobanca € 0.2 million, Banca Nazionale del Lavoro € 0.6 million, UniCredit € 0.6 million, private placement by Recordati Rare Diseases € 0.5 million).

The average effective interest rate at 31 December 2013, applying the rates resulting from the interest rate swaps, is 3.82%.



At 31 December 2013, the repayment schedule of long-term debt due after 31 December 2014 is as follows:

€ (thousands)	
2015	28,253
2016	28,034
2017	27,957
2018	27,341
2019 and subsequent years	85,203
<b>Total</b>	<b>196,788</b>

On 26 November 2013 the Parent Company undersigned a loan agreement with UniCredit for € 50.0 million, received net of expenses and commission amounting to € 0.6 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 190 basis points and a duration of 6 years with semi-annual repayments of capital from May 2014 through November 2019. The loan was simultaneously covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges on the debt from variable to a fixed rate of 2.834%. The measurement at fair value of the swap at 31 December 2013 was neutral. 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 were amply fulfilled.

On 30 September 2013 the Parent Company undersigned a loan agreement with Banca Nazionale del Lavoro for € 50.0 million, received net of expenses and commission amounting to € 0.6 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 200 basis points and a duration of 5 years with semi-annual repayments of capital from March 2015 through September 2018. The loan was simultaneously covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges on the debt from variable to a fixed rate of 2.9925%. The measurement at fair value of the swap at 31 December 2013 generated a liability of € 0.2 million recognized directly in equity and under current liabilities as 'Fair value of hedging derivatives (cash flow hedge)' (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

- the 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 were amply fulfilled.

On 13 June 2013 senior guaranteed notes issued by Recordati Rare Diseases Inc. were privately placed with U.S. investors to fund the acquisition of a portfolio of products for the treatment of rare and other diseases sold mainly in the United States of America. The loan comprises two series of notes for a total of \$ 70 million, of which \$ 40 million ten year bullet and 4.55% coupon and \$ 30 million twelve year bullet and 4.70% coupon. The converted value at the date of funding is € 52.9 million, net of expenses of € 0.6 million. The note purchase agreement covering the senior guaranteed notes issued by Recordati Rare Diseases Inc. includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

The other main long-term loans outstanding are:

a) A loan agreement with Centrobanca undersigned by the Parent company on 30 November 2010 to fund a three year research and investment program. The loan, for which Centrobanca received funding from the European Investment Bank, amounts to € 75.0 million of which € 30.0 million were cashed in during 2010 and € 45.0 million in the first quarter of 2011, net of the € 0.3 million expenses. The main terms and conditions provide for a variable interest rate and a duration of 12 years with semi-annual repayments of capital from June 2012 through December 2022. 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 2.775%. The measurement at fair value of the hedging instrument at 31 December 2013 generated a negative amount 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 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

- the ratio of consolidated net debt to consolidated 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.

b) A series of guaranteed senior notes issued at the end of 2004 by Recordati S.A. (Luxembourg) comprising *tranches* in various currencies at fixed interest rates. The tranches denominated in currencies other than the Euro have been covered with a cross-currency interest rate swap effectively converting the whole debt into Euro at a variable interest rate equivalent to the Euribor 6 months rate plus a variable spread. The tranches denominated in Euro have been covered with an interest rate swap effectively converting the interest charges on the debt from fixed to variable at the same abovementioned conditions. The measurement at fair value of the swaps at 31 December 2013 generated a liability of € 2.2 million, an amount equivalent to the change in the fair value of the underlying debt. This amount is recognized in the balance sheet as a variation of debt and under current liabilities as 'Fair value of hedging derivatives (*fair value hedge*)'.

The total amount of the notes was simultaneously covered with a further interest rate swap, qualifying as a cash flow hedge, to fix a range (which at 31 December 2013 is between 4.24% and 4.85%) within which the interest rate can fluctuate in order to optimize the cost of financing for the duration of the notes. The € 2.0 million fair value of the cash flow hedge is recognized directly in equity and stated as a current liability (see Note 17).

The derivative instruments and the hedged items are linked and the Group does not intend to terminate or modify them independently from each other.

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

- consolidated net worth at any time must not be less than the sum of € 170,0 million plus 25% of consolidated net earnings for each fiscal year starting with fiscal year 2004;
- the ratio of consolidated net debt as of the last day of any fiscal quarter to consolidated EBITDA for the period of four fiscal quarters then ended must be less than 3.00 to 1.00;
- the ratio of consolidated EBIT to consolidated net interest expense for any period of four fiscal quarters must exceed 3.00 to 1.00.

At each quarter end starting 31 December 2004 the above conditions were amply fulfilled.

## 21. STAFF LEAVING INDEMNITIES

This provision at 31 December 2013 and 2012 is € 17.0 million and € 17.9 million respectively and reflects the Group's obligation towards its employees determined in accordance with IAS 19. The roll forward of this fund is as follows:

€ (thousands)	2013	2012
Balance at 1 January	17,862	16,692
Additions	328	708
Utilization	(1,229)	(1,690)
Change in fair value	(263)	2,152
<b>Balance at 31 December</b>	<b>16,698</b>	<b>17,862</b>

The main part of this liability is to be attributed to the staff leaving indemnity fund (TFR, *trattamento fine rapporto*) in the Italian companies. The value of this fund as measured in accordance with IAS 19 amounts to € 12.4 million. The remaining part of this provision comprises employee benefit plans in the French subsidiary Laboratoires Bouchara Recordati (€ 2.7 million), in the German subsidiary Recordati Pharma (€ 0.5 million) and in Orphan Europe (€ 0.6 million). The fair value calculation made using actuarial parameters updated at 31 December 2013 determined an adjustment of € 0.3 million compared to the value of the funds at 31 December 2012 which is recognized in the statement of comprehensive income net of the tax effect.

## 22. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2013 and 2012 are € 21.1 million and € 15.9 million respectively, and changed as follows:

€ (thousands)	2013	2012
Balance at 1 January	15,872	6,049
Additions	818	568
Utilization	(2,025)	(663)
Changes in reporting entities	6,407	9,918
<b>Balance at 31 December</b>	<b>21,072</b>	<b>15,872</b>

The increase of € 5.2 million compared to the preceding year is almost entirely to be attributed to the acquisition of the company Laboratorios Casen Fleet and is included under the line "Changes in reporting entities". Of this amount € 6.0 million are the deferred tax liabilities on the € 20.0 million allocated to the intangible assets acquired.

At 31 December 2013 no deferred tax liabilities were calculated on subsidiaries' undistributed earnings because no significant additional tax would have to be paid by the group in the event of these dividend distributions as they are essentially exempt from dual income taxation.

## 23. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2013 are € 4.0 million and comprise the following:

- the € 1.2 million outstanding portion of the price paid for the acquisition of the Polish company Farma-Projekt, calculated according to the agreements and payable in 2015 and in 2016;
- the € 2.8 million due for the acquisition of a further 10% of the share capital of Opalia Pharma which, based on the put and call options in place contractually, could occur not before 2015.

## 24. TRADE PAYABLES

Trade accounts payable, which are entirely of a commercial nature and include allocations for invoices to be received, at 31 December 2013 and 2012 amount to € 107.2 million and € 106.9 million respectively. The consolidation of the two companies acquired accounts for € 7.8 million.

## 25. OTHER PAYABLES

Other accounts payable at 31 December 2013 and 2012 amount to € 71.2 million and € 54.0 million respectively. Their composition is as follows:

€ (thousands)	31.12.2013	31.12.2012	Change 2013/2012
Personnel	24,085	18,326	5,759
Social security	13,647	12,323	1,324
Agents	831	972	(141)
Balance due for the acquisition of equity	9,427	2,614	6,813
Other	23,203	19,749	3,454
<b>Total other payables</b>	<b>71,193</b>	<b>53,984</b>	<b>17,209</b>

The balance due for the acquisition of equity comprises:

- € 0.6 million due in 2014 for the acquisition of Farma-Projekt;
- € 2.7 million price adjustment relative to the acquisition of Laboratorios Casen Fleet;
- € 6.1 million due for the acquisition of a further 23% of the share capital of Opalia Pharma which, based on the put and call options in place contractually, should be paid in 2014.

During the year the balance due for the acquisition of Dr. F. Frik Ilaç for an amount of € 1.4 million was paid.

The line "Other" includes € 6.8 million due by Recordati Rare diseases to the U.S. healthcare insurance schemes, € 2.3 million to be paid to the "Krankenkassen" (German healthcare schemes) by Recordati Pharma GmbH and € 2.1 million which results from a mandatory discount of 1.83% on the retail selling price of reimbursed medicines to be paid by Recordati S.p.A. and Innova Pharma S.p.A. to the Italian regional healthcare systems.

The consolidation effect following the acquisition of Laboratorios Casen Fleet and Opalia Pharma is of € 2.1 million.

## 26. TAX LIABILITIES

Tax liabilities at 31 December 2013 and 2012 amount to € 16.0 million and € 9.8 million respectively and include tax provisions computed by the companies on the basis of estimated taxable income, net of tax advances already paid, and withholding taxes payable.

## 27. PROVISIONS

Provisions in place at 31 December 2012 amount to € 20.5 million overall and include tax provisions and other provisions for future contingencies which are uncertain as to timing and value. The following tables contain their composition and changes.

€ (thousands)	31.12.2013	31.12.2012	Change 2013/2012
Tax	4,833	4,695	138
Other	24,621	15,849	8,772
<b>Total provisions</b>	<b>29,454</b>	<b>20,544</b>	<b>8,910</b>

Changes in provisions are as follows:

€ (thousands)	2013	2012
Balance at 1 January	20,544	21,813
Additions	9,276	10,373
Changes in reporting entities	2,697	0
Utilization	(3,063)	(11,642)
<b>Balance at 31 December</b>	<b>29,454</b>	<b>20,544</b>

The additions during the year are related mainly to sales returns (€ 4.2 million of which € 1.9 million relative to the new companies acquired) and to personnel controversies (€ 1.7 million).

## 28. FAIR VALUE OF HEDGING DERIVATIVES

The interest rate swaps covering the cash flows related to medium and long-term loans measured at fair value at 31 December 2013 give rise to a € 2.3 million liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans. The liability refers to an interest rate swap defining a collar which limits the fluctuation of the interest rates payable on the guaranteed senior notes issued by Recordati S.A. Chemical & Pharmaceutical Company (€ 2.0 million), to the interest rate swaps covering the loans granted by Centrobanca (€ 0.1 million) and by Banca Nazionale del Lavoro (€ 0.2 million).

## 29. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans at 31 December 2013 are € 34.0 million and comprise mainly overdrafts and temporary use of lines of credit. In March the Parent Company obtained a revolving line of credit for a maximum of € 30 million for a duration of 36 months. At 31 December 2013 € 15.0 million were drawn down. This short-term financing instrument allows financial flexibility as it combines the commitment of the line with the variability of drawdowns as specific financial needs arise. The agreement contains financial covenants which are in line with those included in the existing loan agreements.

The consolidation of Laboratorios Casen Fleet and Opalia Pharma accounts for € 6.3 million and € 5.5 million respectively.

### 30. ACQUISITION OF A SUBSIDIARY

During the year the Group acquired 100% of the shares of Laboratorios Casen Fleet S.L.U. in Spain and 67% of the shares of the Tunisian company Opalia Pharma S.A..

The following table summarizes the effects of the consolidation of the newly acquired company, already commented in the preceding notes.

#### LABORATORIOS CASEN FLEET S.L.U.

€ (thousands)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
<b>Non-current assets</b>			
Property, plant and equipment	10,184	0	10,184
Intangible assets	4,299	20,000	24,299
Long-term receivables	85	0	85
Deferred tax assets	805	0	805
<b>Current assets</b>			
Inventories	3,968	0	3,968
Trade receivables	11,194	0	11,194
Other receivables	75	0	75
Tax receivable	329	0	329
Other current assets	60	0	60
Short-term financial investments, cash and cash equivalents	7,680	0	7,680
<b>Non-current liabilities</b>			
Loans – due after one year	(269)	0	(269)
Deferred tax liabilities	(407)	(6,000)	(6,407)
<b>Current liabilities</b>			
Trade payables	(4,013)	0	(4,013)
Other payables	(1,874)	0	(1,874)
Tax liabilities	(2,695)	0	(2,695)
Other current liabilities	(452)	0	(452)
Provisions	(2,550)	0	(2,550)
Bank overdrafts and short-term loans	(6,324)	0	(6,324)
	<b>20,095</b>	<b>14,000</b>	<b>34,095</b>
Goodwill			58,125
<b>Cost of the acquisition</b>			<b>92,220</b>

The allocation of the difference between the cost of acquisition of Laboratorios Casen Fleet and the carrying value of the assets and liabilities acquired was attributed € 20.0 million to CitraFleet®, the company's main product. The remainder, net of the € 6.0 million tax effect on the adjustment to fair value of the abovementioned asset, for an amount of € 58.1 million was allocated to goodwill. As allowed by IFRS 3, the allocation is, however, not yet definite.



## OPALIA PHARMA S.A.

€ (thousands)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
<b>Non-current assets</b>			
Property, plant and equipment	8,486	0	8,486
Intangible assets	155	0	155
Long-term receivables	14	0	14
Deferred tax assets	115	0	115
<b>Current assets</b>			
Inventories	6,476	0	6,476
Trade receivables	2,364	0	2,364
Other receivables	47	0	47
Tax receivable	1,731	0	1,731
Other current assets	743	0	743
Short-term financial investments, cash and cash equivalents	449	0	449
<b>Non-current liabilities</b>			
Loans – due after one year			
Deferred tax liabilities	(1,779)	0	(1,779)
<b>Current liabilities</b>			
Trade payables	(3,833)	0	(3,833)
Other payables	(258)	0	(258)
Tax liabilities	(267)	0	(267)
Provisions	(147)	0	(147)
Loans – due within one year	(798)	0	(798)
Bank overdrafts and short-term loans	(5,545)	0	(5,545)
	<b>7,953</b>	<b>0</b>	<b>7,953</b>
Goodwill			23,552
<b>Cost of the acquisition</b>			<b>31,505</b>

Regarding the company Opalia Pharma the entire difference between the cost of acquisition and the carrying value of the assets and liabilities acquired was allocated to goodwill. The measurement of the fair value of the company's assets and liabilities at the date of acquisition did not result in the identification of any item to which allocate the cost of the company. We believe that the value of the acquisition resides in its strategic nature as it allows the Group to gain access to new markets with high growth prospects. As allowed by IFRS 3, the allocation is, however, not yet definite.

## 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IFRS 7 hereunder are stated the balance sheet values and fair values at 31 December 2013 of financial assets and liabilities:

€ (thousands)	Book value	Fair value
<b>Financial assets</b>		
Short-term financial investments, cash and cash equivalents	52,271	52,271
Trade receivables	179,775	179,775
Equity investments	5,939	5,939
Other receivables	24,979	24,979
<b>Financial liabilities</b>		
Borrowings	63,387	63,387
- loans at fixed interest rates covered with interest rate swaps	844	844
- loans at variable interest rates	52,880	53,018
- loans at fixed interest rates	159,957	159,541
- loans at variable interest rates covered with interest rate swaps	107,156	107,156
Trade payables	87,144	87,144
Other payables	2,270	2,270
Hedging derivatives ( <i>cash flow hedge</i> )	2,210	2,210
Bank overdrafts and short-term loans	34,024	34,024

## 32. DISCLOSURE OF FINANACIAL RISKS

The Group constantly monitors the financial risks to which it is exposed in order to take immediate mitigating action when necessary. The objective of group financial policy is to achieve a balanced and prudent financial structure in order to fund growth, both organic and through business expansion.

As prescribed by IFRS 7 the main financial risks to which the Group is exposed are hereby disclosed.

**Credit Risk** – The Group closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. At 31 December 2013 the credit exposure is not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. In particular, at 31 December 2013, total trade receivables of € 189.4 million include € 12.6 million of receivables overdue by more than 90 days. Of these, € 3.6 million are receivables from Italian public hospitals which, despite their very long payment times, do not represent a significant risk situation. An allowance for doubtful accounts of € 9.6 million, which is considered to be sufficient to cover potential losses on collection, is in place.

**Interest Rate Risk** – The Group raises funds using debt and invests excess cash in money market and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Group's net financial charges. The Group's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or variable interest loans covered by derivative financial instruments, which are used to hedge risk and are never of a speculative nature, to minimize such fluctuations, as described in note 20. As a result of this policy and considering the current amount of net debt, it is believed that the change in current interest rates would not have a significant impact on net financial expenses.

**Foreign Currency Risk** – The Group is exposed to foreign currency exchange rate fluctuations which can affect its operating results and the value of its equity. In particular, the group is exposed to exchange rate fluctuations on its trade balances denominated in currencies other than the euro. As at 31 December 2013 group positions in these currencies are the following:  
 net receivables of 49.1 million in Turkish lira;  
 net receivables of 212.7 million in Russian rubles;  
 net receivables of 10.3 million in Romanian ron;  
 net receivables of 4.8 million in Polish zloty;  
 net receivables of 4.1 million in U.S. dollars;  
 net receivables of 5.1 million in Tunisian dinars;  
 net payables of 14.9 million in pounds sterling;  
 net payables of 373.6 million in Japanese yen.

Some of the group companies are located outside the European Monetary Union and their income statements and balance sheets are converted from their local currencies into euro. At 31 December 2013 the net equity values of these companies are denominated mainly in U.S. dollars (33.1 million), in pounds sterling (17.5 million), in Swiss francs (2.3 million), in Turkish lira (44.4 million), in Czech crowns (299.4 million), in Romanian ron (2.5 million), in Russian rubles (1,823.1 million), in Polish zloty (3.2 million) and in Tunisian dinars (13.8 million). The effect of exchange rate variations on the conversion of these values is recognized in the consolidated statement of comprehensive income and booked to the translation reserve in shareholders' equity which, at 31 December 2013, is negative by € 42.9 million.

**Liquidity Risk** – The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for the its ongoing business

and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. At 31 December 2013 the group has at its disposal a supply of liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's financial assets and its loans are set out in notes 17, 20 and 29 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of loans at their contractual due dates.

## 33. OPERATING SEGMENTS

The financial information reported by line of business and by geographical area, in compliance with IFRS 8 – *Operating segments*, is prepared using the same accounting principles and reporting standards used for the preparation and disclosure of the Group consolidated financial statements.

Based on the characteristics of their business, operational and strategic models two main business segments can be identified, the pharmaceutical segment and the orphan drugs segment. The following table shows financial information for these two business segments as at 31 December 2013 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
<b>2013</b>				
Revenues	813,700	127,930	-	941,630
Expenses	(660,535)	(85,674)	-	(746,209)
<b>Operating income</b>	<b>153,165</b>	<b>42,256</b>	<b>-</b>	<b>195,421</b>
<b>2012</b>				
Revenues	752,394	75,923	-	828,317
Expenses	(606,044)	(55,309)	-	(661,353)
<b>Operating income</b>	<b>146,350</b>	<b>20,614</b>	<b>-</b>	<b>166,964</b>

\* Includes the pharmaceutical chemicals operations

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated**	Consolidated accounts
<b>31 December 2013</b>				
Non-current assets	690,832	184,222	5,939	880,993
Inventories	125,247	15,183	-	140,430
Trade receivables	151,122	28,653	-	179,775
Other current assets	26,873	3,469	-	30,342
Short-term investments, cash and cash equivalents	-	-	52,271	52,271
<b>Total assets</b>	<b>994,074</b>	<b>231,527</b>	<b>58,210</b>	<b>1,283,811</b>
Non-current liabilities	41,254	688	196,656	238,598
Current liabilities	193,764	30,845	118,784	343,393
<b>Total liabilities</b>	<b>235,018</b>	<b>31,533</b>	<b>315,440</b>	<b>581,991</b>
<b>Net capital employed</b>	<b>759,056</b>	<b>199,994</b>		
<b>31 December 2012</b>				
Non-current assets	615,189	116,091	6,925	738,205
Inventories	118,753	7,635	-	126,388
Trade receivables	138,648	16,711	-	155,359
Other current assets	22,658	4,489	1,371	28,518
Short-term investments, cash and cash equivalents	-	-	38,418	38,418
<b>Total assets</b>	<b>895,248</b>	<b>144,926</b>	<b>46,714</b>	<b>1,086,888</b>
Non-current liabilities	34,921	641	129,111	164,673
Current liabilities	177,581	14,120	69,117	260,818
<b>Total liabilities</b>	<b>212,502</b>	<b>14,761</b>	<b>198,228</b>	<b>425,491</b>
<b>Net capital employed</b>	<b>682,746</b>	<b>130,165</b>		

\* Includes the pharmaceutical chemicals operations.

\*\* Non-allocated amounts include: other equity investments, short-term investments, cash and cash equivalents, loans, hedging instruments, bank overdrafts and short-term loans.

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

The following table presents net revenues by geographic area:

€ (thousands)	2013	2012	Change 2013/2012
Europe	789,654	728,116	61,538
of which Italy	228,900	219,898	9,002
Australasia	46,309	40,614	5,695
America	74,274	30,366	43,908
Africa	31,393	29,221	2,172
<b>Total revenue</b>	<b>941,630</b>	<b>828,317</b>	<b>113,313</b>

The Group's production facilities are located almost exclusively in Europe and therefore non-current assets and Group investments are located for the most part in this area.

## 34. NET FINANCIAL POSITION

The following table summarizes the Company's net financial position:

€ (thousands)	31.12.2013	31.12.2012	Change 2013/2012
Deposits in bank current accounts and cash on hand	50,349	37,197	13,152
Short-term time deposits	1,922	1,221	701
Short-term investments	0	0	0
<b>Liquid assets</b>	<b>52,271</b>	<b>38,418</b>	<b>13,853</b>
Bank overdrafts and short-term loans	(34,024)	(55,987)	21,963
Loans - due within one year	(16,893)	(8,147)	(8,746)
Loan notes issued <sup>(1)</sup>	(65,597)	0	(65,597)
<b>Short term borrowings</b>	<b>(116,514)</b>	<b>(64,134)</b>	<b>(52,380)</b>
<b>Net current financial position</b>	<b>(64,243)</b>	<b>(25,716)</b>	<b>(38,527)</b>
Loans - due after one year	(146,558)	(62,205)	(84,353)
Loan notes issued <sup>(1)</sup>	(50,230)	(65,535)	15,305
<b>Non-current loans</b>	<b>(196,788)</b>	<b>(127,740)</b>	<b>(69,048)</b>
<b>Net financial position</b>	<b>(261,031)</b>	<b>(153,456)</b>	<b>(107,575)</b>

(1) Includes change in fair value (fair value hedge).

### 35. RECONCILIATION BETWEEN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY AND NET INCOME AND GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND NET INCOME

The reconciliation between the parent company's shareholders' equity and net income and the Group consolidated shareholders' equity and net income is as follows:

€ (thousands)	Shareholders' equity		Net income for the year	
	31.12.2013	31.12.2012	2013	2012
Recordati S.p.A.	355,692	336,357	73,573	85,032
Consolidation adjustments:				
Margin in inventories	(36,321)	(30,439)	(5,882)	(4,344)
Related deferred tax	11,495	9,599	1,896	1,395
Other adjustments	1,631	(125)	1,191	(685)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already booked by Recordati S.p.A.	299,208	247,591	-	
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	112,900	102,074	112,900	102,074
Dividends received from consolidated subsidiaries			(50,000)	(64,988)
Translation adjustments	(42,853)	(3,713)		
<b>Consolidated financial statements</b>	<b>701,752</b>	<b>661,344</b>	<b>133,678</b>	<b>118,484</b>

### 36. LITIGATION AND CONTINGENT LIABILITIES

The parent company and some subsidiaries are party to certain legal actions, the outcomes of which are not expected to result in any significant liability.

On 29 September 2006 the Company received a notice of tax assessment from the Internal Revenue Service stating certain additional taxes for the fiscal year 2003 in the amount of: corporate tax of € 2.3 million, IRAP of € 0.2 million and VAT of € 0.1 million and additional tax liabilities of € 2.6 million. The Company believed no amount was due as it considered the assessment flawed both from a legitimacy as well as a substantive point of view, and was supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first degree judgement before the Provincial Tax Commission was concluded partially in the Company's favour with decision n. 539/33/07 dated 11 October 2007, filed on 16 October 2007. An appeal was filed against that judgment with the Regional Tax Commission of Milan firstly by the Milan office of the Tax Authorities with notice served on 8 November 2008 and secondly by the Company with notice served on 7 January 2009. With a decision dated June 10, 2009 n. 139/32/09, filed on November 27, 2009 the Regional Tax Commission of Milan rejected the interlocutory appeal presented by the Company and accepted the principal appeal of the *Agenzia delle Entrate di Milano* (Inland Revenue of Milan). On the basis of that decision, the claims included in the above mentioned tax assessment for the year 2003 have been essentially fully confirmed and the Company has paid all amounts due. On 26 May 2010 the Company appealed that decision before the *Corte Suprema di Cassazione* (Supreme Court of Cassation).



ATTACHMENT 1.

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
<b>RECORDATI S.p.A.</b> <i>Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals</i>	Italy	26,140,644.50	Euro	Line-by-line
<b>RECOFARMA S.R.L.</b> <i>Dormant, holds pharmaceutical marketing rights</i>	Italy	1,258,400.00	Euro	Line-by-line
<b>INNOVA PHARMA S.P.A.</b> <i>Marketing and sales of pharmaceuticals</i>	Italy	1,920,000.00	Euro	Line-by-line
<b>RECORDATI ESPAÑA S.L.</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Spain	238,966,000.00	Euro	Line-by-line
<b>RECORDATI S.A. Chemical and Pharmaceutical Company</b> <i>Holding company</i>	Luxembourg	82,500,000.00	Euro	Line-by-line
<b>BOUCHARA RECORDATI S.A.S.</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	France	4,600,000.00	Euro	Line-by-line
<b>RECORDATI PORTUGUESA LDA</b> <i>Dormant</i>	Portugal	24,940.00	Euro	Line-by-line
<b>FARMARECORD LTDA</b> <i>Dormant, holds pharmaceutical marketing rights in Brazil</i>	Brazil	166.00	BRL	Line-by-line
<b>RECORDATI RARE DISEASES INC.</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	U.S.A.	11,979,138.00	USD	Line-by-line
<b>RECORDATI IRELAND LTD</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Ireland	200,000.00	Euro	Line-by-line
<b>RECORDATI S.A.</b> <i>Provision of services, holds pharmaceutical marketing rights</i>	Switzerland	2,000,000.00	CHF	Line-by-line
<b>LABORATOIRES BOUCHARA RECORDATI S.A.S.</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	France	14,000,000.00	Euro	Line-by-line
<b>RECORDATI PHARMA GmbH</b> <i>Marketing and sales of pharmaceuticals</i>	Germany	600,000.00	Euro	Line-by-line
<b>RECORDATI PHARMACEUTICALS LTD</b> <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	15,000,000.00	GBP	Line-by-line
<b>RECORDATI HELLAS PHARMACEUTICALS S.A.</b> <i>Marketing and sales of pharmaceuticals</i>	Greece	13,900,000.00	Euro	Line-by-line
<b>JABA RECORDATI S.A.</b> <i>Marketing and sales of pharmaceuticals</i>	Portugal	2,000,000.00	Euro	Line-by-line
<b>JABAFARMA PRODUTOS FARMACÊUTICOS S.A.</b> <i>Marketing of pharmaceuticals</i>	Portugal	50,000.00	Euro	Line-by-line
<b>BONAFARMA PRODUTOS FARMACÊUTICOS S.A.</b> <i>Marketing of pharmaceuticals</i>	Portugal	50,000.00	Euro	Line-by-line
<b>RECORDATI ORPHAN DRUGS S.A.S.</b> <i>Holding company</i>	France	57,000,000.00	Euro	Line-by-line
<b>ORPHAN EUROPE SWITZERLAND GmbH</b> <i>Marketing and sales of pharmaceuticals</i>	Switzerland	20,000.00	CHF	Line-by-line
<b>ORPHAN EUROPE MIDDLE EAST FZ LLC</b> <i>Marketing and sales of pharmaceuticals</i>	United Arab Emirates	100,000.00	AED	Line-by-line
<b>ORPHAN EUROPE NORDIC A.B.</b> <i>Marketing and sales of pharmaceuticals</i>	Sweden	100,000.00	SEK	Line-by-line
<b>ORPHAN EUROPE PORTUGAL LDA</b> <i>Marketing and sales of pharmaceuticals</i>	Portugal	5,000.00	Euro	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
<b>ORPHAN EUROPE S.A.R.L.</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	France	320,000.00	Euro	Line-by-line
<b>ORPHAN EUROPE UNITED KINGDOM LTD</b> <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	50,000.00	GBP	Line-by-line
<b>ORPHAN EUROPE GERMANY GmbH</b> <i>Marketing and sales of pharmaceuticals</i>	Germany	25,600.00	Euro	Line-by-line
<b>ORPHAN EUROPE SPAIN S.L.</b> <i>Marketing and sales of pharmaceuticals</i>	Spain	1,775,065.49	Euro	Line-by-line
<b>ORPHAN EUROPE ITALY S.R.L.</b> <i>Marketing and sales of pharmaceuticals</i>	Italy	40,000.00	Euro	Line-by-line
<b>ORPHAN EUROPE BENELUX BVBA</b> <i>Marketing and sales of pharmaceuticals</i>	Belgium	18,600.00	Euro	Line-by-line
<b>FIC MEDICAL S.A.R.L.</b> <i>Marketing and sales of pharmaceuticals</i>	France	173,700.00	Euro	Line-by-line
<b>HERBACOS RECORDATI s.r.o.</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Czech Republic	25,600,000.00	CZK	Line-by-line
<b>RECORDATI SK s.r.o.</b> <i>Marketing and sales of pharmaceuticals</i>	Slovakia	33,193.92	Euro	Line-by-line
<b>RUSFIC LLC</b> <i>Marketing and sales of pharmaceuticals</i>	Russian Federation	3,560,000.00	RUB	Line-by-line
<b>RECOFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S.</b> <i>Marketing of pharmaceuticals</i>	Turkey	10,000.00	TRY	Line-by-line
<b>RECORDATI ROMÂNIA S.R.L.</b> <i>Marketing and sales of pharmaceuticals</i>	Romania	5,000,000.00	RON	Line-by-line
<b>RECORDATI İLAÇ Sanayi Ve Ticaret A.S.</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Turkey	80,875,367.00	TRY	Line-by-line
<b>RECORDATI SERVICES Sp. z o.o.*</b> <i>Marketing and sales of pharmaceuticals</i>	Poland	440,000.00	PLN	Line-by-line
<b>FARMA-PROJEKT Sp. z o.o.**</b> <i>Marketing and sales of pharmaceuticals</i>	Poland	3,400,000.00	PLN	Line-by-line
<b>ACCENT LLC.***</b> <i>Holds pharmaceutical marketing rights</i>	Russian Federation	20,000.00	RUB	Line-by-line
<b>RECORDATI UKRAINE LLC****</b> <i>Marketing of pharmaceuticals</i>	Ukraine	1,031,896.30	UAH	Line-by-line
<b>LABORATORIOS CASEN FLEET S.L.U.*****</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Spain	4,279,150.05	Euro	Line-by-line
<b>LABORATORIOS CASEN FLEET Portugal Unipessoal Lda*****</b> <i>Marketing and sales of pharmaceuticals</i>	Portugal	100,000.00	Euro	Line-by-line
<b>SGAM AI KANTARA CO II S.A.R.L.*****</b> <i>Holding company</i>	Luxembourg	12,500.00	Euro	Line-by-line
<b>OPALIA PHARMA S.A.*****</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Tunisia	6,800,000.00	TND	Line-by-line

\* Recordati Polska Sp. z o.o. renamed Recordati Services Sp. z o.o. during 2013

\*\* Acquired in 2012, P&L consolidated from 1 September 2012.

\*\*\* Acquired in 2012, P&L consolidated from 16 November 2012.

\*\*\*\* Established in 2013.

\*\*\*\*\* Acquired in 2013, P&L consolidated from 1 November 2013.

Consolidated Companies	PERCENTAGE OF OWNERSHIP											Total
	Recordati S.p.A. (Parent)	Recordati S.A. (Lux)	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Recordati España S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	Herbacos Recordati s.r.o.	Recordati İlaç A.S	Lab. Casen Fleet S.L.U.	SGAM Al Kantara CO II S.A.R.L.	
RECOFARMA S.R.L.	100.00%											100.00%
INNOVA PHARMA S.P.A.	100.00%											100.00%
RECORDATI ESPAÑA S.L.	68.447%	31.553%										100.00%
RECORDATI S.A. Chemical and Pharmaceutical Company	100.00%											100.00%
BOUCHARA RECORDATI S.A.S.	99.94%	0.06%										100.00%
RECORDATI PORTUGUESA LDA	98.00%	2.00%										100.00%
FARMARECORD LTDA		100.00%										100.00%
RECORDATI RARE DISEASES Inc.		100.00%										100.00%
RECORDATI IRELAND LTD		100.00%										100.00%
RECORDATI S.A.		100.00%										100.00%
LABORATOIRES BOUCHARA RECORDATI S.A.S.				100.00%								100.00%
RECORDATI PHARMA GmbH		55.00%			45.00%							100.00%
RECORDATI PHARMACEUTICALS LTD	3.33%	96.67%										100.00%
RECORDATI HELLAS PHARMACEUTICALS S.A.	0.68%	99.32%										100.00%
JABA RECORDATI S.A.					100.00%							100.00%
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.					100.00%							100.00%
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.					100.00%							100.00%
RECORDATI ORPHAN DRUGS S.A.S		90.00%	10.00%									100.00%
ORPHAN EUROPE SWITZERLAND GmbH						100.00%						100.00%
ORPHAN EUROPE MIDDLE EAST FZ LLC						100.00%						100.00%
ORPHAN EUROPE NORDIC A.B.						100.00%						100.00%
ORPHAN EUROPE PORTUGAL LDA						100.00%						100.00%
ORPHAN EUROPE S.A.R.L.						100.00%						100.00%
ORPHAN EUROPE UNITED KINGDOM LTD							100.00%					100.00%
ORPHAN EUROPE GERMANY GmbH							100.00%					100.00%
ORPHAN EUROPE SPAIN S.L.							100.00%					100.00%
ORPHAN EUROPE ITALY S.R.L.							99.00%					99.00%
ORPHAN EUROPE BENELUX BVBA							99.46%	0.54%				100.00%
FIC MEDICAL S.A.R.L.				100.00%								100.00%
HERBACOS RECORDATI s.r.o.	0.08%	99.92%										100.00%
RECORDATI SK s.r.o.								100.00%				100.00%
RUSFIC LLC				100.00%								100.00%
RECOFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S.									100.00%			100.00%

Consolidated Companies	PERCENTAGE OF OWNERSHIP											Total
	Recordati S.p.A. (Parent)	Recordati S.A. (Lux)	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Recordati España S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.S.	Lab. Casen Fleet S.L.U.	SGAM AI Kantara CO II S.A.R.L.	
RECORDATI ROMÂNIA S.R.L.		100.00%										100.00%
RECORDATI ILAÇ Sanayi Ve Ticaret A.S.					100.00%							100.00%
RECORDATI SERVICES Sp. z o.o.*	100.00%											100.00%
FARMA-PROJEKT Sp. z o.o.**	100.00%											100.00%
ACCENT LLC***		100.00%										100.00%
RECORDATI UKRAINE LLC****		0.01%		99.99%								100.00%
LABORATORIOS CASEN FLEET S.L.U.*****					100.00%							100.00%
LABORATORIOS CASEN FLEET Portugal Unipessoal Lda*****									100.00%			100.00%
SGAM AI KANTARA CO II SARL*****		100.00%										100.00%
OPALIA PHARMA S.A.*****		33.00%									34.00%	67.00%

\* Recordati Polska Sp. z o.o. renamed Recordati Services Sp. z o.o. during 2013

\*\* Acquired in 2012, P&L consolidated from 1 September 2012.

\*\*\* Acquired in 2012, P&L consolidated from 16 November 2012.

\*\*\*\* Established in 2013.

\*\*\*\*\* Acquired in 2013, P&L consolidated from 1 November 2013.



ATTACHMENT 2.

Type of service	Provider of the service	Recipient	Fees Amounts in €
Accounting audit	Auditor of Parent Company	Parent Company	88,500
Accounting audit	Auditor of Parent Company	Subsidiaries	8,100
Accounting audit	Network of auditor of Parent Company	Subsidiaries	368,102
Due diligence	Network of auditor of Parent Company	Parent Company	57,000
Due diligence	Network of auditor of Parent Company	Subsidiaries	132,500
Tax compliance	Network of auditor of Parent Company	Subsidiaries	149,776
Signature on returns and attestations	Auditor of Parent Company	Parent Company	33,600
Signature on returns and attestations	Network of auditor of Parent Company	Subsidiaries	7,250
Other services	Network of auditor of Parent Company	Subsidiaries	3,000

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

1. The undersigned, Giovanni Recordati, in his capacity as the Chief Executive Officer of the Company, and Fritz Squindo, as the Manager responsible for the preparation of the Company's financial statements, pursuant to the provisions of Article 154-bis, clauses 3 and 4, of Legislative Decree no. 58 of 1998, hereby attest:

- the adequacy with respect to the Company structure,
- and the effective application,

of the administrative and accounting procedures applied in the preparation of the Company's consolidated financial statements at and for the year ended 31 December 2013.

2. The undersigned moreover attest that:

2.1. the consolidated financial statements at 31 December 2013:

- have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19 July 2002;
- correspond to the amounts shown in the Company's accounts, books and records; and
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

2.2. The report on operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

Milan, 6 March 2014

Signed by  
**Giovanni Recordati**  
*Chief Executive Officer*

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

# AUDITORS' REPORT



**KPMG S.p.A.**  
**Revisione e organizzazione contabile**  
Via Vittor Pisani, 25  
20124 MILANO MI

Telefono +39 02 6763.1  
Telefax +39 02 67632445  
e-mail it-fmauditaly@kpmg.it  
PEC kpmgsps@pec.kpmg.it

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

## Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of  
Recordati Industria Chimica e Farmaceutica S.p.A.

- 1 We have audited the consolidated financial statements of the Recordati Group as at and for the year ended 31 December 2013, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 13 March 2013 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

- 3 In our opinion, the consolidated financial statements of the Recordati Group as at and for the year ended 31 December 2013 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Recordati Group as at 31 December 2013, the results of its operations and its cash flows for the year then ended.

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

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

Società per azioni  
Capitale sociale  
Euro 8.565.850,00 i.v.  
Registro Imprese Milano e  
Codice Fiscale N. 08709950159  
R.E.A. Milano N. 512067  
Partita IVA 02709600159  
VAT number IT00709950159  
Sede legale: Via Vittor Pisani, 25  
20124 Milano MI ITALIA



*Recordati Group*  
*Report of the auditors*  
*31 December 2013*

- 4 The directors of Recordati Industria Chimica e Farmaceutica S.p.A. are responsible for the preparation of a directors' report on the financial statements and a report on the corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structure are consistent with the consolidated financial statements of the Recordati Group as at and for the year ended 31 December 2013.

Milan, 14 March 2014

KPMG S.p.A.

(signed on the original)

Marco Ferrarini  
Director of Audit

# CORPORATE GOVERNANCE REPORT AND OWNERSHIP STRUCTURE

## FINANCIAL YEAR 2013

pursuant to article 123 *bis* of the Consolidated Finance Act and article 89 *bis* of Consob Issuers' Regulations

Approved 6<sup>th</sup> March 2014 by the Board of Directors

Website: [www.recordati.com](http://www.recordati.com)

### GLOSSARY

**CG Code:** the Corporate Governance Code for listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., the Italian Banking Association, Ania (national insurance association), Assogestioni (national association of asset management companies), Assonime (association of joint stock companies) and Confindustria (Confederation of Italian Industry).

**CC:** the Italian Civil Code.

**Board:** the Board of Directors of the Recordati S.p.A.

**Issuer:** Recordati S.p.A.

**Year:** the financial year to which this Report relates (2013).

**Consob Issuers' Regulations:** regulations governing issuers as established by Consob regulation no. 11971 of 1999 (as subsequently amended).

**Consob Markets Regulations:** regulations governing markets as established by Consob regulation no. 16191 of 2007 (as subsequently amended).

**Consob related-party regulations:** the regulations issued by the Consob with Resolution No. 17221 of 12th March 2010 (as subsequently amended) concerning transactions with related parties.

**Report:** the corporate governance report and the ownership structure that issuers are required to prepare pursuant to article 123 *bis* of the TUF.

**TUF:** Legislative Decree No. 58 dated 24th February 1998, (*Testo Unico della Finanza*) the TUF.

## 1. PROFILE OF THE ISSUER AND GENERAL INFORMATION

Recordati (Reuters RECI.MI, Bloomberg REC IM) was founded in 1926 and is listed on the Italian Borsa (ISIN IT 0003828271).

The Company and the Group that it leads perform research and development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals. They perform their activities in the principal countries of the European Union, in Russia and in other Central and Eastern European countries, in Turkey and in the United States of America.

As at 31st December 2013, the Group was composed of 43 subsidiaries (of which three Italian), in addition to the Parent Company, Recordati S.p.A..

The primary objective of Recordati's corporate governance system is the creation of value for shareholders, without, however, losing sight of the social importance of the activity performed and of all the stakeholders involved.

The corporate governance structure of the Company is based on a conventional organisational model and therefore consists of the following corporate bodies: (i) the Shareholders' Meeting, (ii) the Board of Directors, (iii) the Board of Statutory Auditors. Accounting control is delegated, in compliance with the relative legislation in force, to a firm of auditors registered in the special roll maintained by the Consob.

The Board of Directors has formed two committees from among its members with consultative and proposal-making functions: the Remuneration Committee and the Audit and Risk Committee, both consisting exclusively of independent directors.

Recordati adheres to and complies with the Corporate Governance Code for listed companies (the December 2011 edition) with the additions and necessary amendments resulting from the characteristics of the Group as mentioned in this Report.

Unless otherwise indicated, the information contained in this report relates to the date of its approval by the Board of Directors (6th March 2014).

## 2. OWNERSHIP STRUCTURE (pursuant to Art. 123-*bis*, paragraph 1 of the TUF)

**a) Structure of the share capital and rights attaching to shares (pursuant to Art. 123 *bis*, paragraph 1, letter a) of the Consolidated Finance Act)**

The subscribed and paid up share capital amounts to € 26,140,644.5 and is represented by 209,125,156 ordinary shares each with a par value of € 0.125 as reported in the table at the end of this section. The shares are listed on the Mercato Telematico Azionario (electronic stock exchange) operated by Borsa Italiana and issued under a dematerialisation regime.

The rights attaching to the shares are set out in the By-Laws. More



specifically, each share entitles the holder to a proportional part of the profits allocated for distribution; Art. 28 of the By-Laws provides that the net profits on the balance sheet are to be distributed as follows: (a) 5% (five percent) to the legal reserve fund up to the amount established by the law; (b) the remainder, unless the Shareholders' Meeting, as proposed by the Board, resolves to allocate funds for extraordinary reserves or for other purposes, or to postpone part or all of the distribution to all shares to successive years, to be distributed to all shares. The Board of Directors may resolve to distribute interim dividends, within the limits and according to the procedures established by law. Dividends not collected within five years following the day on which they became payable shall revert to the Company and are recognised in the extraordinary reserve.

As reported in the table below, there are no other categories of shares, nor other financial instruments that assign the right to subscribe to new share issues, with the exception of the conditions indicated below in the context of stock option plans.

The document entitled "Information on Recordati S.p.A.'s stock option plans" disclosed to markets on 17th September 2007 and the information documents prepared in accordance with Art. 84-bis of the Consob Issuers' Regulations relating to each outstanding stock option plan, available on the Company website at the address [http://www.recordati.it/rec\\_it/investors/regulATED\\_information/stock\\_options](http://www.recordati.it/rec_it/investors/regulATED_information/stock_options), may be consulted for information on existing stock option plans and shares issued at the service of those plans.

## STRUCTURE OF THE SHARE CAPITAL

	No. Shares	% of share capital	Listed/unlisted
Ordinary shares	209,125,156	100	listed
Shares with limited voting rights	0	0	
Shares with no voting rights	0	0	

## OTHER FINANCIAL INSTRUMENTS

(conferring the right to subscribe new share issues)

Listed/unlisted	No. of instruments outstanding	Type of shares at the service of the conversion/exercise	No. of shares at the service of the conversion/exercise
Convertible bonds	-	0	-
Warrants	-	0	-

### b) Restrictions on transfer of securities (pursuant to Art. 123-bis, paragraph 1, letter b) of the TUF)

The shares of the Company are freely transferable.

### c) Significant holdings in share capital (pursuant to Art. 123-bis, paragraph 1, letter c) of the TUF)

On the basis of information received, in accordance with article 120 of Legislative Decree No. 58/1998, as at 5th March 2014, the following parties held shares, either directly or indirectly, amounting to more than 2% of the share capital ("significant holdings").

## SIGNIFICANT SHAREHOLDINGS

Declarant	Shareholder	Percentage (%) of ordinary share capital	Percentage (%) of voting share capital
FIMEI S.p.A.	FIMEI S.p.A.	51.644%	51.644%
TORRE S.S.	TORRE S.S.	3.198%	3.198%
FMR LLC*	Discretionary management of investments of which 3.376% on behalf of Fidelity Low Price	3.496%	3.496%
SCHRODER INVESTMENT MANAGEMENT LTD**	SCHRODER INVESTMENT MANAGEMENT LTD	2.002%	2.002%

\* Last update received with a communication pursuant to Art. 120 of Legislative Decree No. 58/98 on 3rd May 2012

\*\* Last update received with a communication pursuant to Art. 120 of Legislative Decree No. 58/98 on 19th June 2011

As at 5th March 2014, Recordati S.p.A. also held 3.003% of treasury stock without voting rights in accordance with the law.

Significant shareholdings may be consulted on the Consob website ([www.consob.it](http://www.consob.it)).

### d) Securities with special rights

(pursuant to Art. 123-bis, paragraph 1, letter d) of the TUF)

No securities with special rights of control have been issued.

### e) Shareholding by employees: exercise of voting rights (pursuant to Art. 123-bis, paragraph 1, letter e) of the TUF)

No shareholding system exists for employees which involves the exercise of voting rights which is different from that provided for shareholders in general.

### f) Restrictions on voting rights (pursuant to Art. 123-bis, paragraph 1, letter f) of the TUF)

Each ordinary share gives the right to vote without any restrictions.

### g) Shareholders' agreements (pursuant to Art. 123-bis, paragraph 1, letter g) of the TUF)

The Company has no knowledge of the existence of shareholders' agreements pursuant to TUF Art. 122.

### h) Change of control clauses (pursuant to Art. 123 bis, paragraph 1, letter h) of the TUF) and by-law provisions concerning public tender offers to purchase (pursuant to Art. 104, paragraph 1-ter and 104-bis, paragraph 1)

The Company and some of its subsidiaries are, in relation to their business operations, parties to some licensing agreements that include a clause, which is a normal provision in international agreements, authorising the Licensor to dissolve the contracts in the event of change of direct or indirect control of the Licensee.

In addition, bonds have been issued in the United States by the Luxembourg subsidiary, Recordati S.A. Chemical and Pharmaceutical Company (in 2004) and by the American subsidiary Recordati Rare Diseases Inc (in 2013) – for totals of €26 million, US\$110 million and £5 million - both privately placed with international investors and guaranteed by the Company and major loan agreements have also been signed by the Company – for a total of €191 million. As is normal in financial operations of this type, they include a clause, which authorises the creditors to obtain immediate repayment if the control of the Company changes.

The By-Laws of the company do not allow exceptions to the provisions concerning takeovers on the passivity rule pursuant to Art. 104, paragraphs 1 ter of the Consolidated Finance Act nor do they allow the application of neutralisation rules pursuant to Art. 104-bis, paragraphs 1 of the Consolidated Finance Act.

#### **i) Authorisation for increase of share capital and acquisition of treasury shares (pursuant to Art. 123-bis, paragraph 1, letter m) of the TUF)**

The Board of Directors was authorised to increase share capital, pursuant to CC Art. 2443, by a Shareholders' Meeting of 19<sup>th</sup> April 2012.

The increase in the share capital may be performed in one or more tranches, gratuitously or by payment, for a total maximum nominal amount of € 50,000,000 within a period of no more than five years from the date of the resolution, by issuing ordinary shares and/or warrants for the subscription to such shares, to assign or to offer as an option to shareholders, with the right pursuant to the joint provisions of CC Art. 2441, last paragraph and TUF Art. 134, second paragraph, to offer subscription to the shares to Recordati S.p.A. employees or to subsidiaries of the Company in relation to the stock option plans decided by the Shareholders' Meeting (and therefore with the possibility to exclude the option rights to one fourth of the new issue). The Board of Directors may also decide that the issue should be performed with a share premium, setting the amount and also specifying that if the issue decided is not fully subscribed within the time limits set from time to time, the share capital shall be increased by an amount equal to the subscriptions received by the time limit set.

To-date, the Board has not yet acted on this mandate, not even partially.

That same Shareholders' Meeting authorised Directors, in accordance with Art. 2420-ter of the C.C. to decide the issue in one or more tranches, for a total maximum nominal amount of € 80,000,000, of bonds convertible to ordinary shares, or valid warrants to subscribe to such shares, to offer in option to shareholders within a period of no more than five years from the date of resolution, in observance of applicable law and regulations concerning the issuing of bonds, and at the same time, deciding an increase of share capital for the amount that corresponds to the nominal value of the shares to be attributed in conversion.

To- date, the Board has not yet acted on this mandate not even partially.

The By-Laws do not authorise the Board to issue financial instruments of participation.

\*

In ordinary session on 17th April 2013 a Shareholders' Meeting renewed the authorisation to purchase and assign treasury shares, pursuant to CC articles 2357 *et seq.*, until approval of the financial statements at 31st December 2013, scheduled for 17th April 2014. In particular, the maximum number of shares that may be acquired, after accounting for the number of treasury shares already held in the Company's portfolio, is 20,000,000, which corresponds to a total potential payment of not more than € 150,000,000, at a minimum price not less than the nominal value of Recordati shares (€ 0,125) and a maximum price not greater than the average of official Borsa prices during the five sessions prior to the acquisition, plus 5%. Purchases must be made on regulated markets, in observance of Art. 144*bis*, paragraph one, letter b), of the Consob Issuers' Regulations and according to standard practices recommended by the Consob in accordance with TUF article 180.

At year-end, the Company held 6,510,110 treasury shares in portfolio, which represent 3.11% of the share capital.

On the basis of that shareholders' resolution, on 9th May 2013, a programme was commenced to purchase treasury stock to be used at the service of stock option plans already adopted by the Company and for those which

may be adopted in the future, designed for employees of the companies in the Recordati Group. As part of the implementation of that programme, the Company purchased 1,083,070 ordinary shares for a total payout of € 8,809,761.

In consideration of the expiry of the current authorisation which will occur when the Shareholders' Meeting is held to approve the 2013 Annual Report, the Board resolved to submit a proposal to the Shareholders' Meeting convened to approve the 2013 annual report to renew the authorisation to purchase and assign treasury stock in order to maintain the necessary operational flexibility over an appropriate time horizon. The Directors Report on the relative item on the agenda, which will be made available within the legal time limits on the Company website and elsewhere, may be consulted for further information.

#### **l) Management and co-ordination (pursuant to Art. 2497 *et seq* of the CC)**

Although controlled by Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A., the Company is not subject to management and co-ordination by the same, pursuant to CC articles 2497 *et seq.*

Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A. is a mere financial holding company with no operations of any kind; no procedures exist to furnish authorisations or instructions to the Company in its relations with the Parent Company and therefore the Company sets its own strategic and operating policies in full autonomy.

The fully controlled Italian subsidiaries have acknowledged management and co-ordination by the Company and have fulfilled legal disclosure requirements in this respect.

\*\*\*

#### **m) Other information**

The information required by Art. 123 *bis*, paragraph one, letter i) of the TUF ("*agreements between the Company and directors, members of the board of directors or the supervisory board, which provide for the payment of indemnities in the event of resignation, dismissal without just cause or if the contract of employment is interrupted following a public tender offer*") is given in the Report on Remuneration published in accordance with Art. 123-ter of the TUF.

The information required by Art. 123 *bis*, paragraph one, letter l) of the TUF ("*regulations for the appointment and replacement of directors and for amendments to the By-Laws, if different from those applicable by law in the absence of alternative provision*") are given in the section of the report on the Board of Directors (section 4.1).

### **3. COMPLIANCE (pursuant to Art. 123-*bis*, paragraph 2, letter a) of the TUF)**

As stated in section 1, in accordance with the procedures contained in this report, the Company adheres to the CG Code, which may be consulted on the website of Borsa Italiana at the address [www.borsaitaliana.it](http://www.borsaitaliana.it). Where the Company has decided not to follow some of those principles or criteria of application, the reasons have been given in the corresponding section of this report.

Neither the Company nor its strategic subsidiaries are subject to foreign laws that influence the corporate governance structure of the Company itself.

## 4. BOARD OF DIRECTORS

### 4.1 APPOINTMENT AND SUBSTITUTION

(pursuant to Art. 123-bis, paragraph 1, letter l) of the TUF)

The appointment and replacement of Directors is regulated by articles 15, 16 and 18 of the By-Laws, the text of which, last amended by the Board of Directors on 8th May 2012 in order to make compulsory amendments to comply with legislation on the balance between genders on corporate bodies, is reproduced for your information in full below:

*Art. 15) The Board of Directors shall be appointed from lists of candidates presented by shareholders, in compliance with the existing legislation in force on gender balance, according to the procedures as indicated below, in which the candidates are identified by progressive numbers.*

*The lists, signed by the shareholders who present them, must be deposited at the registered office of the Company at least twentyfive days prior to the date of the first convention of the Shareholders' Meeting, available to anyone who requests to see them and they will also be subject to other forms of publicity in accordance with laws and regulations in force at the time.*

*Every shareholder, shareholders who participate in a significant shareholders' agreement pursuant to TUF Art. 122, the parent company, subsidiaries and companies subject to joint control pursuant to TUF Art. 93, may not present or contribute to the presentation of more than one list, not even by means of another person or trustee, nor may they vote for different lists, and each candidate may be listed in only one list or will be disqualified. The subscriptions and votes expressed in violation of this prohibition will not be attributed to any list.*

*Only shareholders individually or jointly possessing a total number of shares with voting rights representing at least 2.5% of capital stock with voting rights at ordinary meetings, or representing a lesser percentage as established by binding legislative or regulatory provisions which shall be specified in the notice of meeting, shall have the right to submit lists.*

*The following items must be filed for each list within the respective deadlines set out above and as provided by applicable regulations: (i) statements by each candidate to the effect that each accepts candidacy and declares, assuming full responsibility, that there are no reasons preventing the candidate from being elected or rendering him unsuitable for the office, and that the candidate meets any specific requirements for the relevant office; (ii) a curriculum vitae detailing each candidate's personal and professional characteristics and indicating that the candidate may be considered independent.*

*The specific certification demonstrating title to the necessary number of shares for the presentation of the list, issued by a legally authorised intermediary must also be deposited within the time limits set by the relative regulations at the time when the lists is deposited at the Company.*

*Lists containing a number of candidates equal to or greater than three must be composed of candidates belonging to both genders, so that a percentage equal to that required by the legislation in force at the time concerning gender balance for the composition of the Board of Directors belongs to the less represented gender.*

*Lists that are presented but are not in accordance with the provisions as above will be considered as not presented.*

*The Board of Directors will be elected as follows:*

- a) all of the Directors to be appointed, except one, will be selected from the list that obtained the greatest number of votes, following the progressive order in which they are listed on the list;*
- b) the remaining director shall be the candidate placed at the number one position on the minority list, which shall not be connected in any way, even indirectly, with those who submitted or voted for the list indicated in letter a) above, which obtains the second highest number of votes. For this purpose, lists that did not obtain a percentage of votes equal to at least half of that required for presentation of the lists as at the fourth paragraph of this article will not be considered.*

*For the purposes of the appointment of directors as indicated at point b) above, in the event of a tie between lists, the list presented by shareholders possessing the larger shareholding, or subordinately the larger number of shareholders, shall prevail.*

*If the candidates elected by the method as above do not include an adequate number of independent Directors with the characteristics as established for statutory auditors at TUF Art. 148, third paragraph, equal to the minimum number established by the law in relation to the total number of Directors, the last non-independent candidate, according to the progressive numbering, of the list that obtained the greatest number of votes as at letter a) of the paragraph above, will be substituted by the first independent candidate, according to the progressive numbering, of the non-elected candidates on the same list, or if not possible, by the first independent candidate, according to the progressive numbering, of the non-elected candidates of the other lists, according to the number of votes obtained by each. This procedure of substitution will be followed until the board of directors is composed of a number of members who have the qualifications as at TUF Art. 148, third paragraph, equal at least to the minimum legal number. If this procedure does not produce the latter result, the substitution will be effected by resolution of the Shareholders' Meeting by relative majority, after presentation of candidates who possess the qualifications as cited above.*

*Furthermore, if with the candidates elected according to the above procedures the composition of the Board of Directors in compliance with the legislation in force at the time concerning gender balance is not ensured, the candidate of the gender most represented elected as last in order on the list which obtained with the largest number of votes shall be replaced by the first candidate of the less represented gender not elected in order on the same list. That replacement procedure shall be followed until the composition of the Board of Directors in compliance with the legislation in force at the time concerning gender balance is ensured. Finally, if this procedure does not produce the result just indicated, then the replacement shall be made by a resolution of the Shareholders' Meeting by relative majority, after presentation of candidates belonging to the less represented gender.*

*If only one list is presented, all of the Directors will be selected from the same list. If no list is presented the Shareholders' Meeting will decide by legal majority, without following the procedure as above. All of the foregoing is subject to compliance with the legislation in force at the time concerning gender balance.*

*Any different or additional compulsory provisions of the law or regulations will form an exception to these provisions.*

*Article 16) - The fees to be paid to the Board of Directors shall be established by the Shareholders' Meeting for the entire period of their term, or for each financial year, and may take the form of profit-sharing.*

*Article 18) - Unless already provided for by the Shareholders' Meeting, the Board shall appoint a Chairman and may appoint a Vice-Chairman from among its members. The Board shall also appoint one or more Managing Directors from among its members. The Chairman shall have all the powers vested in him by law; in the case of his absence or inability to attend for any reason, the said powers shall be exercised by the Vice-Chairman, or in his absence, by the most senior Director.*

*Finally, the Board shall appoint a Secretary, who need not be a member of the Board.*

*It is also underlined that, on the basis of the By-Laws in force, the right to submit slates is only held by shareholders who, individually or together with other shareholders submitting slates, hold voting shares representing at least 2.5% of the voting capital in an Ordinary Meeting, or representing a lower percentage established by mandatory laws or regulations. In this respect, in accordance with articles 144-quater and 144-septies of the Issuers' Regulations adopted by Consob Resolution No. 18775 of 29th January 2014 with regard to the capitalisation of the Company in the last quarter of 2013,*

the percentage of the share capital required to present lists of candidates to the Board of Directors of the Company is currently 1%.

On the basis of Art. 147-ter, paragraph one of the TUF, the By-Laws also state that for the purposes of the distribution of votes among directors to be elected, no account is taken of slates that have not obtained a percentage of votes equal to at least half of that required for the presentation of slates.

In order to ensure the election of at least one minority director, the By-Laws state that all the directors to be elected except for one shall be drawn from the slate which obtained the greatest number of votes in the order in which they are listed on that slate. The remaining director is the candidate placed in the number one position on the minority slate, which shall not be connected in any way, even indirectly, with the shareholders who submitted or voted for the majority slate and which obtained the majority of votes from the shareholders. In the case of a tied vote between slates, the minority director shall be drawn from the slate presented by the shareholders in possession of the greater number of shares or, secondarily, with the greatest number of shareholders.

As concerns the mechanism adopted to ensure that a minimum number of independent directors are elected in compliance with Art. 147-ter, paragraph four of the TUF, the By-Laws state that if the number of independent directors is not reached, the non-independent candidate elected in last place on the majority list shall be replaced by the first independent candidate in progressive order not elected on that slate, or, if there is none, by the first independent candidate in progressive order not elected on the other slates, according to the number of votes obtained by each.

Finally if this procedure does not lead to the aforementioned result, the directors shall be replaced by a resolution passed by relative majority of the Shareholders' Meeting upon presentation of candidates satisfying the above requirements of independence.

If only one slate is presented, the By-Laws also state that all of the Directors to be elected shall be selected from that slate. If no slate is presented the Shareholders' Meeting shall decide by legal majority, without following the procedures just described.

The By-Laws do not lay down any additional requirements for the independence of Directors with respect to those contained in Art. 148, paragraph 3, of Legislative Decree No. 58/1998, because the Company adheres to the CG and the Board of Directors verifies possession of the requirements of independence in accordance with the CG and consequently when a Shareholders' Meeting appoints Directors, the Board of Directors invites candidates to the position of Director contained on lists to declare also these requirements, as adopted by the Company.

The table at the end of this section may be consulted for details of those directors currently in office who meet the requirements for independence in accordance with the TUF and those that are independent in accordance with the CC. Section 4.6 may also be consulted on this regards.

With regard to the new regulations on gender balance in corporate bodies (Law No. 120/2011, new articles 147-ter and 148 of the Consolidated Finance Act, new Art. 144-undecies of the Issuers Regulations), which apply to the renewal of corporate bodies subsequent to 18th August 2012, the Company made the necessary amendments to the By-Laws on 8th May 2012 in order to comply with the new regulations.

In particular, the Board of Directors shall be appointed in compliance with the existing legislation in force on gender balance (and in any case on the basis of lists of candidates presented by shareholders). Furthermore, the By-Laws set out the procedures to follow to ensure that the composition of the Board of Directors complies with the existing legislation in force concerning gender balance: the candidate of the gender most represented elected as last in order on the list which obtained with the largest number of votes shall be replaced by the first candidate of the less represented gender

not elected in order on the same list. That replacement procedure shall be followed until the composition of the Board of Directors in compliance with the legislation in force at the time concerning gender balance is ensured. Finally, if this procedure does not produce the result just indicated, then the replacement shall be made by a resolution of the Shareholders' Meeting by relative majority, after presentation of candidates belonging to the less represented gender.

The term of office of the current Board of Directors expires when the Shareholders' Meeting is held to approve the 2013 Annual Report. In consideration of this, the Board has invited shareholders who either alone or together with others represent at least 1% of the ordinary shares to deposit lists of candidates, who are identified by progressive numbers and in possession of the requirements specified by law and by the CG Code. They should also take account of gender balance, specifying that since this is the first application of these regulations, a proportion equal to at least one fifth of the directors is reserved to the least represented gender (with the figure rounded up to the next whole number, if the number is a fraction).

The Issuer reports that it is not governed by any further laws and regulations concerning the composition of the Board of Directors.

#### 4.2 COMPOSITION

##### (pursuant to Art. 123-bis, paragraph 2, letter d) of the TUF)

The By-Laws currently in force state that the Company is managed by a Board of Directors consisting of a number of members varying between six and sixteen.

When the Board of Directors currently in office was appointed (13th April 2011), the Shareholders' Meeting set the number of directors elected at ten. Nevertheless, on 17th April 2013, on the basis of a proposal submitted by the Board of Directors, a Shareholders' Meeting increased the number of Directors elected to eleven, who will remain in office until the date of the Shareholders' Meeting convened to approve the 2013 Annual report, including the Director appointed on 17th April 2013. This proposal was formulated by the Board of Directors, following considerations made when addressing compliance with the Corporate Governance Code for listed companies (2011 edition), on the basis of a recommendation from the Audit and Risk Committee, in order to allow Dr. Fritz Squindo, formerly General Manager for the Co-ordination of Operations and also Financial Reporting Officer responsible for preparing corporate accounting documents, to take a place on the Board. The Directors's Report on the item on the agenda of the Shareholders' Meeting held on 17th April 2013 may be consulted on the company website [www.recordati.it](http://www.recordati.it) (in the section Investor Relations, Shareholders' Meetings, financial year 2013) for further information.

The members of the Board of Directors in office at the end of the Year are given below. As already reported, when the current Board of Directors was appointed in the Ordinary General Meeting held on 13th April 2011, one list only of candidates was submitted to the office of Director by the shareholder FIMEI S.p.A. which, together with the additional relative documentation deposited in accordance with the law and the applicable regulations, may be consulted on the website [www.recordati.it](http://www.recordati.it), (in the section Investor Relations, Shareholders' Meetings, financial year 2011): therefore all the Directors appointed, except for Dr. Squindo, were taken from the list presented by the majority shareholder.



A summary of the composition of the Board of Directors as at 31<sup>st</sup> December 2013 and details of the type of Director is given as follows:

Giovanni Recordati	Chairman and CEO	Executive	-	Date first appointed to the BoD: Shareholders' Meeting of 13.12.1976
Alberto Recordati	Vice-Chairman	Executive	-	Date first appointed to the BoD: BoD meeting of 19.03.1986
Silvano Corbella	Director	Non-executive	Independent	Date first appointed to the BoD: Shareholders' Meeting of 13.04.2011
Mario Garraffo	Director	Non-executive	Independent	Date first appointed to the BoD: Shareholders' Meeting of 29.04.1999
Germano Giuliani	Director	Non-executive	Independent	Date first appointed to the BoD: Shareholders' Meeting of 13.04.2011
Umberto Mortari	Director	Non-executive	Independent	Date first appointed to the BoD: Shareholders' Meeting of 13.04.2011
Carlo Pedersoli	Director	Non-executive	Independent	Date first appointed to the BoD: BoD meeting of 01.03.2001
Andrea Recordati	Director	Executive	-	Date first appointed to the BoD: Shareholders' Meeting of 29.04.1998
Fritz Squindo	Director	Executive	-	Date first appointed to the BoD: BoD meeting of 14.03.2013
Marco Vitale	Director	Non-executive	Independent	Date first appointed to the BoD: Shareholders' Meeting of 13.04.1997
Walter Wenninger	Director	Non-executive	Independent	Date first appointed to the BoD: Shareholders' Meeting of 11.04.2008

All the candidates listed above were elected with 147,899,536 shares in favour out of 150,192,650 shares voting (98.473%) in the Shareholders' Meeting of 13<sup>th</sup> April 2011. The voting share capital represented 71.82% of the share capital of the Issuer.

In the Shareholders' Meeting held on 17th April 2013, Dr. Squindo was elected with 151,242,494 shares in favour out of 159,982,844 shares voting (94.537%). The voting share capital represented 76.501% of the share capital of the Issuer.

The personal and professional characteristics of each Director are documented in Attachment 1 to this Report along with the offices held by Directors in other listed companies.

For an assessment of the independence of the Directors in office, the table at the end of this section and the information specifically given in Section 4.6 may be consulted for further details.

#### Succession Planning

In compliance with Principle 5.C.2. of the CG Code, the Board of Directors considered the situation when complying with amendments to that Code made in December 2011 and decided that it was not necessary to adopt an official succession plan for executive directors.



Office	Members	In office since	In Office until	Board of Directors							Internal Control Committee		Remuneration Committee	
				Slate (M/m)*	Exec.	Non Exec.	Indep. according to CG Code	Indep. according to TUF	% ***	Number of other positions ****	*** **	% ***	*** **	% ***
Chairman and CEO	GIOVANNI RECORDATI	13.4.2011	Approval of 2013 AR	M	X				7/8	0				
Vice Chairman	ALBERTO RECORDATI	13.4.2011	Approval of 2013 AR	M	X				10/10	0				
Director	SILVANO CORBELLA	13.4.2011	Approval of 2013 AR	M		X	X	X	8/10	0			X	6/6
Director	MARIO GARRAFFO	13.4.2011	Approval of 2013 AR	M		X	X (**)	X	9/10	2	X		4/5	
Director	GERMANO GIULIANI	13.4.2011	Approval of 2013 AR	M		X	X	X	8/10	1			X	4/5
Director	UMBERTO MORTARI	13.4.2011	Approval of 2013 AR	M		X	X	X	10/10	0			X	5/5
Director	CARLO PEDERSOLI	13.4.2011	Approval of 2013 AR	M		X	X (**)	X	8/10	0	X		6/6	
Director	ANDREA RECORDATI	13.4.2011	Approval of 2013 AR	M	X				9/10	0				
Director	FRITZ SQUINDO	17.04.2013	Approval of 2013 AR	-	X				6/6					
Director and Lead independent director	MARCO VITALE	13.4.2011	Approval of 2013 AR	M		X	X (**)	X (**)	8/10	0	X		5/5	
Director	WALTER WENNINGER	13.4.2011	Approval of 2013 AR	M		X	X	X	9/10	0				

\* M/m are given in this column where "M" indicates a member elected from the majority slate and "m" from a minority slate. Dr. Squindo was appointed on the basis of the proposal submitted by the Board of Directors.

(\*\*) The Board has qualified Prof. Marco Vitale, Dr. Mario Garraffo and Avv. Pedersoli as independent, even though they have been directors of the Company for more than nine years during the past twelve, and in the case of Prof. Vitale even though he has been appointed as a professional consultant to the Company with an annual fee of € 50,000.00 (a non-significant amount), considering that by their specific expertise and professional commitment to constant control and stimulation of the Board, they have demonstrated that they have maintained their characteristics of independence and freedom of judgement in evaluating the operations carried out by management.

(\*\*\*) This column contains the percentage attendance of directors at the relative board and committee meetings (number of presences/number of meetings held during the actual period of office of the person concerned).

(\*\*\*\*) This column gives the number of appointments as a director or statutory auditor held by the person concerned in other companies listed on regulated markets, including foreign markets, in financial, banking or insurance companies or in large companies, as in the list contained in Attachment 1 of this document. which may be consulted.

(\*\*\*\*\*) An "X" in this column indicates that the Director is a member of the committee.

#### INDICATE THE QUORUM REQUIRED FOR THE PRESENTATION OF SLATES WHEN DIRECTORS WERE LAST APPOINTED: 2%

Number of meetings held during the year in question:	Board meetings:	Audit and Risk Committee	Remuneration committee:
	10	5	5

#### Maximum number of offices held in other companies

The Board of Directors has not set any general criterion for the maximum number of positions as director or statutory auditor in other companies that are considered compatible with performing duties as a director of the Company. It has done this because it feels that it is best to allow individual directors to assess this compatibility themselves.

#### Induction Programme

In the course of meetings of the Board of Directors, the Chairman and Chief Executive Officer shall give information required to present the performance

of the Company and the Group, which includes constant updates on the most important changes in legislation and regulations in the sector and their impact on the Company. During the year detailed information was given on the recently and newly acquired companies and on activities to integrate them in the Recordati Group. No additional specific initiatives were necessary to increase the Directors' knowledge of the company and its dynamics, considering, moreover, that all members of the Board have an in-depth knowledge of Company and the Group, either because of the many years in office or great experience acquired working in the sector.

#### 4.3 ROLE OF THE BOARD OF DIRECTORS (pursuant to Art. 123-bis, paragraph 2, letter d) of the TUF)

During the year the Board of Directors met 10 times, with sessions that lasted an average of approximately two hours, on the following dates: 6<sup>th</sup> February 2013, 12<sup>th</sup> February 2013, 7<sup>th</sup> March 2013, 14<sup>th</sup> March 2013, 17<sup>th</sup> April 2013, 9<sup>th</sup> May 2013, 4<sup>th</sup> July 2013, 25<sup>th</sup> July 2013, 25<sup>th</sup> September 2013 and 30<sup>th</sup> October. As regards the current year, ten meetings are scheduled and the Board has already met on 16<sup>th</sup> January 2014 and 11<sup>th</sup> February 2014.

The promptness and completeness with which information is provided before board meetings is ensured by the Chairman with the distribution of documents relating to the items on the agenda to members a few days immediately preceding the date set for the meetings. On rare occasions it has not been possible to provide information concerning some items on the agenda until the time of the board meeting itself for reasons of confidentiality and urgency. When implementing amendments to the CG Code made in December 2011, the Board of Directors generally considered notice of three days to be appropriate and that time limit has normally been complied with in the meetings that followed.

During the course of the year and in the meetings already held in 2014 various persons attended board meetings in order to provide additional information on the items on the agenda. These included the Chief of Group Administration, Operational Control and Reporting, the Chief of Corporate Development, the Chief of Group Legal and Corporate Affairs (who also acted as the Secretary to the Board), the Chief of Drug Discovery and Development and the Chief of Group Auditing (who reports to the Board on updates to the CG Code).

In accordance with Art. 22 of the By-Laws, the Board is the corporate body endowed with the broadest powers to handle ordinary and extraordinary management of the Company and it has the right to conclude all acts that it deems appropriate in order to conduct business and to achieve the corporate purposes, excluding only those reserved by the law exclusively for the Shareholders' Meeting. In accordance with CC. Art. 2365, paragraph 2, the Board of Directors is also authorised to decide on the following matters:

- mergers in the cases established by CC articles 2505 and 2505 bis;
- establishment or suppression of secondary offices;
- specification of the Directors who are entitled to represent the Company;
- reduction of share capital in the event of withdrawal of a shareholder;
- alignment of the By-Laws to provisions of the law and regulations;
- transfer of the registered office from one municipality to another in national territory.

The Board is also entitled to appoint and dismiss, following an obligatory opinion from the Board of Statutory Auditors, the Financial Reporting Officer, pursuant to TUF Art. 154-bis.

The Board is also responsible, in compliance with the CG Code, for the following:

- examination and approval of strategic, industrial and financial plans of the Company and the Recordati Group (and monitoring implementation of these), the corporate governance system and the structure of the Group;
- evaluation of whether the organisational, administrative and financial structures of the Company and its strategic subsidiaries, as defined herein and as configured by the responsible organs, are adequate, with particular reference to the system of internal control and risk management;
- attribution and cancellation of mandates to CEOs and the Executive Committee, defining the extent, means and intervals (at least quarterly), with which the delegates must refer to the Board about the activities carried out in exercising their mandates;
- establishment, after examination of the proposals from the Remuneration Committee, and heard the opinion of the Board of Statutory Auditors, of the remuneration of CEOs and other Directors with special mandates, as well as the division, for the individual members, of the total allotment for compensation of the Board, if the Shareholders' Meeting has not already decided the matter;
- evaluation of business trends, in accordance with the law and the By-Laws, especially in the light of information provided by the delegated bodies and periodic comparison of results with budget provisions;
- examination and approval prior to strategic economic or financial operations of the Company and its subsidiaries, with particular attention to situations in which one or more Directors have an interest, whether

personal or on behalf of third parties, and in general, to operations with related parties in accordance with the Regulations for Related-Party Transactions approved by the Board of Directors itself on 24th November 2010; establish guidelines to identify significant operations;

- conduct, once a year, an evaluation of the size and functionality of the Board of Directors and its committees and possibly indicate the type of professional figures whose presence on the Board would be useful;
- communication, in the Corporate Governance Report, of the means of application of the CG Code and in particular, of the number of Board and Executive Committee meetings held during the year and the relative percentage of participation of each Director;
- subject to the opinion of the Audit and Risk Committee, the definition of the guidelines for the internal control and risk management system, so that the principal risks to which the issuer and its subsidiaries are exposed are correctly identified and adequately measured, managed and monitored. It also determines the degree to which risks are compatible with management of the Company that is consistent with its strategic objectives;
- the selection of one or more Directors who are given responsibility for the creation and maintenance of an effective internal control and risk management system (Director/s responsible for the internal control system);
- the selection of an Audit and Risk Committee, which by conducting appropriate fact-finding activity, has the task of supporting the Board of Directors in its assessments of the internal control and risk management system and also those relating to the approval of periodic financial reports;
- subject to the opinion of the Audit and Risk Committee, the assessment, at least annually, of the adequacy of the internal control and risk management system with respect to the nature of the company and its risk appetite and also of its effectiveness;
- subject to the opinion of the Audit and Risk Committee, the approval, at least annually, of the working plan drawn up by the Chief of the Internal Audit Function, after, amongst other things, consultation with the Board of Statutory Auditors and the Director with Responsibility for the internal control and risk management system;
- subject to the opinion of the Audit and Risk Committee, a description of the main characteristics of the internal control and risk management system in the Corporate Governance Report and a report on its assessment of its adequacy;
- after consultation with the Board of Statutory Auditors, and assessment of the results furnished by the external statutory auditor in its letter of recommendations (if provided) and in its report on basic issues arising from its external statutory audit;
- on the basis of a proposal submitted by the Director with Responsibility for the internal control and risk management system, subject to the approval of the Audit and Risk Committee and after consultation with the Board of Statutory Auditors, the appointment and removal of the Chief of the Internal Audit Function ensuring that he or she has adequate resources and sets their remuneration consistent with company policies;
- the appointment and removal of members of the Company's Supervisory Committee formed and functioning in accordance with Legislative Decree No. 231/2001;
- the adoption of an Organisation and Control Model drawn up in accordance with Legislative Decree No. 231/2001 and the approval of amendments to it for compliance with changes in legislation and regulations as they come into force from time to time.

On the date of the approval of this Report, the Board took the following actions in relation to the above:

- it studied and approved the 2014 budget of the Group;
- it monitored the implementation of the 2013-2015 Three-Year Business Plan, by comparing, amongst other things, actual with budgeted results taken from the approved budget, carried out as generally established practice when quarterly accounting reports are approved;

- it examined the "Catalogue of Risks" for 2013, as updated compared to that examined for 2012: with assistance from the consulting company Deloitte S.p.A., the Group developed its own model to map, manage and monitor risks in the Company and Group. This is updated constantly to better identify risks connected with the achievement of the strategic objectives of the 2013-2015 Three-Year Business Plan and, in general, to identify and manage the main internal and external risks of the Group as efficiently as possible. This model is based on international principles of enterprise risk management (ERM);
- as part of the update of the Catalogue of Risks relating to 2013, it assessed whether the degree and nature of the risks as identified in the Group Catalogue of Risks presented to the Board are compatible with the Group's strategic objectives contained in the 2013-2015 Three-Year Business Plan;
- with the opinion in favour of the Audit and Risk Committee, it held that the guidelines for the Recordati Group Internal Control and Risk Management System, approved in the first months of 2013, in order to implement, amongst other things, amendments introduced by the CG Code were still adequate and did not require further amendments;
- after consultation with the Board of Statutory Auditors and the Director with Responsibility for the Internal Control and Risk Management System, it approved the work plan drawn up by the Chief of the Internal Audit Function for 2014;
- it approved the most important company directives;
- it confirmed the following as the subsidiaries with strategic importance, based principally on criteria of size (revenues) or in consideration of the particular market on which the subsidiary operates (such as the orphan drugs market): Laboratoires Bouchara Recordati S.a.s, Recordati Ireland Ltd., Jaba-Recordati S.A., Recordati Pharma GmbH, Innova Pharma S.p.A., Orphan Europe SARL, Recordati Ilac; the Board has additionally identified as subsidiaries with strategic importance from 2014 the following subsidiaries: Recordati Rare Diseases Inc, located in USA and Rusfic Ilc, located in Russia.
- it issued a positive evaluation of the adequacy of organisational, administrative and general accounting structures of the Company and its strategic subsidiaries put in place by the Chairman and CEO, with particular reference to the internal control system and management of conflicts of interest, on the basis of the information provided to the Board in specific reports and other documentation (such as organisation charts) presented by the Chief of Group Audit, the Audit and Risk Committee, the Supervisory Committee pursuant to Legislative Decree No. 231/2001 and by the Chairman and CEO himself; more specifically, in 2013 the Chairman and CEO redefined the organisational structure of the Company with the appointment, in particular, of *Dr. Andrea Recordati* as Chief Operating Officer, who was given responsibility for the management of the commercial and production activities of the Group. These changes were illustrated to, assessed and agreed upon by the Board of Directors. Furthermore, on the basis of a proposal submitted by the Audit and Risk Committee, the Board of Directors appointed *Dr. Squindo* as the Director with responsibility for the internal control and risk management system;
- it assess the general performance of operations, firstly by approving accounting reports each quarter. Furthermore, in each meeting, and independently of the time elapsed since the previous meeting, the Chairman and CEO provides a report on activities carried out and the main transactions performed by the Company and its subsidiaries, even if not subject to prior approval by the Board of Directors;
- it studied and approved strategic operations of the Company and its subsidiaries in advance, when such operations were strategically significant in relation to the economic and financial welfare of the Company (with particular reference to participation in other undertakings and special drugs).

In this respect, on 24th November 2010 the Board adopted "Regulations for related-party transactions" – available on the Company website – which establishes general criteria for the identification of related-party

transactions. Section 12 of this report may be consulted for a description of those criteria and for further information on regulations governing transactions with related parties.

Consequently on that same date the Board of Directors amended the "Regulations for significant transactions with related parties or when a Director has an interest in the transaction", adopted in 2008, restricting it to significant transactions or transactions in which a Director bears and interest. On the basis of the current Regulations for significant transactions with related parties or when a Director has an interest in the transaction", the following types of transactions are considered to be strategic, operating, capital or financial for the Company, reserved to the exclusive decision of the Board of Directors, except for transactions performed with or between other companies belonging to the Recordati Group (unless atypical or unusual and/or to be concluded under non-standard conditions):

- a) assumption of financial liability of more than Euro 50 million for any single operation;
- b) transfer of real estate for amounts of more than Euro 25 million, where the industrial operations of the Company or its subsidiaries are conducted at the time of the transfer;
- c) acquisition or transfer of industrial property rights of the Company or its subsidiaries for amounts of more than Euro 25 million for any single operation;
- d) acquisition, transfer or any other provision in relation to holdings in other companies, likewise the acquisition or transfer of companies or company branches, for amounts of more than Euro 25 million for any single operation;
- e) acquisition or transfer of special drugs or products in general, for amounts of more than Euro 25 million for any single operation;
- f) granting of real or personal guarantees for amounts of more than Euro 25 million for any single operation;
- g) investments and disinvestment, other than those specified at the letters above, for amounts of more than Euro 15 million for any single operation.

On the basis of the procedures as above, the Board is also responsible for studying and approving both transactions in which one or more Directors have an interest, whether personal or on behalf of third parties.

The Board carried out a periodic review of the Related Party Transactions Regulations, three years having passed since it came into force and, having taken note of the opinion given by the Audit and Risk Committee, it considered that those regulations were still adequate, not requiring substantial modifications, but only modifications of a formal character.

As it does every year, the Board of Directors carried out an assessment of the functioning of the Board itself and its committees and of their size and composition, with account also taken of factors such as professionalism, experience, including management experience, and the gender of its members, as well as their length of service in the role. This evaluation was conducted by asking each Director to compile a questionnaire prepared by the Group Legal and Corporate Affairs Department of the Company, which took account of the compliance by the Company with the amendments made to the CG Code in December 2011, with the procedures set by the Board on 20th December 2012. The results of that questionnaire were discussed in the Board meeting of 11th February 2014, partly in order to acquire indications which would allow the Board of Directors to express an opinion on possible suggestions to be provided to the controlling shareholder concerning the adequate composition of the next Board of Directors to be appointed when the 2013 Annual report is approved. The result of that assessment was positive, with some ideas for improvement. No need was found to formulate any particular suggestions concerning the adequate composition of the next Board of Directors to be appointed when the 2013 Annual Report is approved.

The Shareholders' Meeting of 13.04.2011 authorised a general and anticipatory exception to the prohibition on competition pursuant to Art. 2390 of the CC. Following their appointment as Directors of the Company, *Dr. Mortari* and *Dr. Giuliani* announced in a Board Meeting, as already mentioned in their *curricula vitae* deposited when slates for election by a Shareholders' Meeting were presented, that they occupied positions in the companies *Visufarma S.p.A.* and *Giuliani S.p.A.* respectively, both operating in the pharmaceuticals sector and therefore potentially in competition with the Company. The Board considered, in accordance with the Corporate Governance Code for listed companies, that at that time no difficulties existed in relation to positions filled by the said Directors in the companies mentioned.

#### 4.4 EXECUTIVE OFFICERS AND BODIES

##### Chairman and Chief Executive Officer

In accordance with article 23 of the By-Laws, representation of the Company shall be attributed to the Chairman of the Board of Directors or, in the event of his absence or inability to attend for any reason, to the Vice-Chairman, with sole signing authority for implementation of all resolutions of the Board unless otherwise resolved. The Chairman or, in the event of his absence or impediment for any reason, the Vice-Chairman, shall represent the Company before the law, with the power to take legal action and institute judicial and administrative proceedings at all levels of jurisdiction, including with respect to revocation and cassation proceedings, and appointing lawyers and attorneys for lawsuits.

In accordance with article 24 of the By-Laws, the Board of Directors may delegate all or part of its powers and functions not only to the Chairman, but also to the Vice-Chairman and one or more executive directors and it may grant special mandates to individual Directors or managers of the Company, including the power of attorney, determining their functions and powers under the law. In accordance with article 25 of the By-Laws, the Board may also delegate all or part of its powers to an Executive Committee.

On 13th April 2011 the Board of Directors appointed *Ing. Giovanni Recordati* not only to the position of Chairman of the Board of Directors but also to that of Chief Executive Officer with the purpose of improving the efficiency of the management of the Company.

In his role as Chief Executive Officer, *Ing. Giovanni Recordati* has been authorised, within the limits permitted by law, to exercise the broadest powers for the ordinary and extraordinary management of the Company, expressly including the power to appoint directors and his agents, persons with specific duties, experts and agents of the Company in general for specific actions or types of action, with the sole, exclusive and mandatory exclusion of the following operations reserved to the Board of Directors, except for operations performed with or between other companies of the *Recordati Group*:

- a) assumption of financial liability of more than € 50 million for any single operation;
- b) transfer of real estate for amounts of more than € 25 million, where the industrial operations of the Company or its subsidiaries are conducted at the time of the transfer;
- c) the purchase or sale of intellectual property of the Company or its subsidiaries for amounts exceeding € 25 million for each transaction;
- d) acquisition, transfer or any other provision in relation to holdings in other companies, likewise the acquisition or transfer of companies or company branches, for amounts of more than € 25 million for any single operation;
- e) the purchase and sale of proprietary medicinal products and generic products, for amounts exceeding € 25 million each;
- f) the grant of real or personal guarantees for amounts of more than € 25 million for any single operation;
- g) investments and disinvestment, other than those specified at the letters above, for amounts of more than € 15 million for any single operation.

The Chairman and Chief Executive Officer also: (i) convenes the Board meetings and ensures that the members of the Board and the Board of Statutory Auditors are provided, with advance notice of three days before the Board Meeting, except for exceptional cases of urgency and particular confidentiality, with the documentation and information necessary to enable them to express an informed opinion about the matters submitted to their examination and approval, (ii) co-ordinates the activities of the Board and conducts the proceedings of Board meetings; (iii) continuously provides information about the frequent variations of the law and the regulations that govern the sector and their impact on the Company, in order to develop the awareness of all Directors in relation to the situation and dynamics of the Company.

The Chairman and Chief Executive Officer does not hold interlocking directorships pursuant to Implementation Criterion 2.C.5. of the CG Code.

##### Executive Committee

No Executive Committee has been formed as an internal committee of the Board of Directors.

##### Reporting to the Board

The Chairman and Chief Executive Office reported to the Board in individual Board meetings on the activities performed in exercising the powers conferred on him by the Board. In fact as already mentioned, in each meeting, and independently of the time elapsed since the previous meeting, the Chairman and CEO provides a report on activities carried out and the main transactions performed by the Company and its subsidiaries, even if not subject to prior approval by the Board of Directors;

#### 4.5 OTHER EXECUTIVE DIRECTORS

In addition to the Chairman and CEO, the other Directors that qualify as executives are *Dr. Alberto Recordati*, *Dr. Andrea Recordati* and *Dr. Fritz Squindo*. *Dr. Alberto Recordati*, Vice-Chairman of the Board of Directors, co-ordinates R&D and "Group Licensing-in" activities and he is also a director of one company of the Group.

The organisational structure of the Company was redefined in 2013 with the appointment in particular of *Dr. Andrea Recordati* as Chief Operating Officer, who was given responsibility for the management of the commercial and production activities of the Group.

*Dr. Andrea Recordati*, (formerly Chief of the "International Pharmaceutical Division" and also co-ordinator of "licensing-out" activities before 2013) also occupies the post of Managing Director in some strategic subsidiaries.

In the new organisational structure, *Dr. Squindo*, formerly General Manager for the co-ordination of operations and Chief Financial Officer (as well as financial reporting officer), maintained his responsibilities for Administration, Finance and Control, Human Resources, Information Technology and Investor Relations and Corporate Communications functions and he also took responsibility for the Purchasing function. *Dr. Squindo* is also a director in other companies in the Group.

#### 4.6 INDEPENDENT DIRECTORS

Following the appointment by a Shareholder' Meeting on 13th April 2011 of seven Directors, *Dr. Silvano Corbella*, *Dr. Mario Garraffo*, *Dr. Germano Giuliani*, *Dr. Umberto Mortari*, *Avv. Carlo Pedersoli*, *Prof. Marco Vitale* and *Dr. Walter Wenninger*, having taken account of the declarations issued by these directors, the Board of Directors, confirmed their possession of the requirements of independence pursuant to Art. 148, paragraph 3 of the TUF and the requirements of independence set forth in the CG Code, except for that which was reported in the notes to the table on page 14 and for that which is specified below.

The requirements of independence for directors are ascertained annually and they were last ascertained on 11th February 2014 when the Board repeated that assessment for each of the non-executive directors, as reported below, in accordance, amongst other things, with the CG Code.



On that occasion the Board confirmed its previous assessment concerning the relationship between the Company and *Prof. Vitale*, attributable to a professional engagement worth € 50,000.00 annually, considering the relationship cited as not significant for the purposes of independence in consideration of the small quantitative nature of the engagement. Furthermore, the Board of Directors decided not to include the requirement relating to a Director holding office for more than nine of the last twelve years among those pursuant to the CG on the basis of which the assessment of the independence of Directors is performed. This is because, with precise reference to *Prof. Vitale*, *Dr. Garraffo* and *Avv. Pedersoli*, the Board considered that because of their specific expertise and professionalism and for their constant work in supervising and stimulating the Board they have demonstrated that they have maintained their characteristics of independence and freedom of judgement in assessing the work of management intact. Furthermore, the Board of Directors noted that the continuation of a Director in office for more than nine years should not in itself be considered a negative requirement for qualification as independent if the other requirements of the CG are satisfied. This is because great experience of the specific affairs of the issuer, the stature and professionalism of the persons considered, the absence of interests and significant relations with the Company constitute a value to be considered positively and such as to consider their capacity to judge freely and without bias to be untarnished.

The Board of Statutory Auditors verified that the criteria and procedures of evaluation adopted by the Board to evaluate the independence of its members were implemented correctly.

The independent directors, at and before the beginning of meetings of the Board of Directors, verified each time the absence of any specific matters that might be significant in relation to their roles as independent Directors.

#### 4.7 LEAD INDEPENDENT DIRECTOR

Considering the existence of the situation in which the same person holds the offices of Chairman and CEO, in compliance with the CG Code, the Board has designated independent Director *Prof. Vitale* to be the lead independent director, to guide the independent Directors, with particular reference to the independent Directors, in order to improve the activities and functioning of the Board. The lead independent director collaborates with the Chairman in order to ensure that the Directors receive complete and timely information, and is also authorised to convene special meetings of the independent Directors only, at his own discretion or at the request of other Directors.

### 5. CONFIDENTIALITY OF CORPORATE INFORMATION

Following amendments to TUF introduced by Law No. 62/2005 (EC Law 2004) on matters of market abuse, in 2006 the Board of Directors approved the proposal of the Chairman and CEO for “Internal regulations for handling confidential information” (to substitute an internal procedure for the management and external communication of information and confidential documents, adopted in 2001 in accordance with the Corporate Governance Code in force at the time).

These regulations govern the internal management and external communication of information about Recordati S.p.A. and its subsidiaries, with particular reference to confidential and significant information (meaning information that could become confidential, but does not yet have the characteristics of specificity as defined at TUF Art. 181), and the institution of a specific register of the persons who have access to the information as above, a “Register of persons who have access to confidential information”, in accordance with Art. 115 *bis* of the TUF. In particular these regulations establish the obligations of confidentiality of all persons who have access to significant and confidential information; identify the persons responsible for evaluating the significance of the same information; establishes the rules for access to the same information by persons outside of the Company;

establishes some principles and rules for the management of documents and correspondence containing significant or confidential information; establishes the methods of communicating confidential information, and other information about the Company.

In implementing these regulations, a procedure for “Management of the register persons who have access to confidential information” has been adopted, which establishes the method of keeping and updating the same.

The Company also keeps the register in question on behalf of the other companies of the Group (Group Register), having been authorised to do so by the subsidiaries and the holding company.

In 2006 the Board also decided the adoption of an “internal dealing” procedure to discipline communications about transactions in Recordati S.p.A. shares or other related financial instruments issued by “significant persons”, in order to implement the provisions at TUF Art. 114, paragraph 7 (and the provisions of the regulations for application of the same).

Initially some executives holding management positions, insofar as they had regular access to confidential information, were considered (together with directors, statutory auditors, the general manager and the parent company FIMEI S.p.A.) “significant persons” for the purposes of this procedure, even if they did not hold the power to make management decisions which might affect the future development and prospects of the Company.

Further to a review of the identification criteria of “significant persons” made in 2008, having taken account of the current organisational and decision-making structure of the Company and of the Group, the list of “significant persons”, the appointment of *Dr. Fritz Squindo* as Director, no executives are included in the “significant persons” classification.

### 6. INTERNAL COMMITTEES OF THE BOARD

The Board of Directors has formed a Remuneration Committee and an Audit and Risk Committee from among its members, both with consultative and proposal-making functions and consisting exclusively of independent directors.

### 7. APPOINTMENTS COMMITTEE

Finally, when implementing amendments made to the CG Code in December 2011, the Board did not consider it necessary to form an Appointments Committee, but expressly reserved the duties assigned to the latter by the CG Code to itself sitting in plenary session. This is mainly because until now no difficulty has been encountered in making appointment proposals, partly due to the presence of a shareholder who holds legal control of the Company and also because it is therefore considered preferable to reserve the functions that the CG Code attributes to an Appointments Committee, and which the Board already performed, to the Board sitting in plenary session – it will be recalled that the Board is composed of seven independent members out of a total of eleven.

### 8. REMUNERATION COMMITTEE

Please consult the relevant part of the Report on Remuneration published in accordance with Art. 123-*ter* of the TUF for information on this section.

### 9. DIRECTORS' REMUNERATION

Please consult the relevant part of the Report on Remuneration published in accordance with Art. 123-*ter* of the TUF for information on this section.



## 10. AUDIT AND RISK COMMITTEE

The Board has formed an Audit and Risk Committee comprising the following non-executive and independent (within the meaning described above) directors: *Prof. Marco Vitale*, Chairman, *Dr. Mario Garraffo* and *Avv. Carlo Pedersoli*.

This Committee is responsible for analysing problems and defining important policies for the auditing of company activities, providing consultancy and making proposals to the Board of Directors with regard to the preparation, analysis and functioning of the internal control system and to risk management.

The Committee met five times during the year (average session lasting 1 hour approx.) on: 7<sup>th</sup> February 2013, 1<sup>st</sup> March 2013, 15<sup>th</sup> April 2013, 24<sup>th</sup> July 2013 and 6<sup>th</sup> November 2013. The Committee met on 4<sup>th</sup> February 2014 and 3<sup>rd</sup> March 2014 in the current year.

The percentage attendance of Committee members at meetings is shown in the table contained at the end of section 4.2 of this Report.

Two of the three members of the Committee have experience in accounting and financial matters.

The entire Board of Statutory Auditors has been constantly invited to participate in the Committee's work.

Invited by the Chairman of the Committee and with regard to individual items on the agenda, various non-members have participated in some meetings, in particular the Chairman and Chief Executive Officer, the General Manager for the Co-ordination of Operations, the Chief of Group Audit, the Supervisory Committee pursuant to Legislative Decree 231/01, representatives of the Audit Firm and the heads of the prevention and protection services for production sites in Italy, on matters concerning safety at the workplace.

The Group Legal and Corporate Affairs Department is always involved for the minuting of meetings.

### Duties assigned to the Audit and Risk Committee

The functions of the Audit and Risk Committee are to advise and submit proposals to the Board of Directors: by conducting appropriate fact-finding activity, it provides support to the Board of Directors in its assessments of the internal control and risk management system and also those relating to the approval of periodic financial reports. More specifically, it expresses opinions on the following:

- a) on the guidelines for the internal control and risk management system, so that the principal risks to which the Company and its subsidiaries are exposed are correctly identified and adequately measured, managed and monitored, and on the determination of criteria to assess whether such risks are compatible with management of the Company that is consistent with its strategic objectives;
- b) on the selection of one or more Directors who are given responsibility for the creation and maintenance of an effective internal control and risk management system;
- c) an assessment, at least annually, of the adequacy of the internal control and risk management system with respect to the nature of the company and its risk appetite and also its effectiveness;
- d) the approval, at least annually, of the work plan drawn up by the Chief of the Group Audit Function;
- e) the description of the main characteristics of the internal control and risk management system and on the assessment of its adequacy in the Corporate Governance Report;
- f) the assessment of the results furnished by the external statutory auditor in its letter of suggestions (if provided) and in its report on basic issues arising from its external statutory audit;
- g) the appointment and removal of the Chief of the Group Audit Function (formerly the Internal Control Officer in accordance with Art. 150 of

Legislative Decree No. 58/1998), on the assignment of adequate resources to the latter to fulfil his/her duties and on the remuneration set for him/her consistent with Company policy.

Furthermore, in its work to support the Board of Directors, the Audit and Risk Committee:

- shall assess, together with the Financial Reporting Officer appointed to prepare the corporate accounting documents and after consultation with the external statutory auditors and the Board of Statutory Auditors, the correct use of accounting policies and their consistency in the preparation of the consolidated financial statements, prior to approval of the consolidated financial statements by the Board of Directors;
- shall express opinions on specific aspects concerning the identification of the main corporate risks;
- shall examine periodic reports for the assessment of the internal control and risk management system and those of particular importance prepared by the Group Audit Function;
- shall monitor the independence, adequacy and effectiveness of the Group Audit Function;
- shall require the Group Audit Function to investigate specific operational areas, reporting promptly to the Chairman of the Board of Statutory Auditors;
- shall report to the Board, at least semi-annually, when annual and interim financial reports are approved, on its activities and also on the adequacy of the internal control and risk management system;
- shall make proposals to the Board of Directors regarding changes to be made to the Organisational Model established pursuant to Legislative Decree 231/01 adopted by the Company;
- shall make proposals to the Board of Directors regarding the appointment of members of the Supervisory Committee created pursuant to Legislative Decree No. 231/01 and regarding the allocation of an annual budget to that body;
- shall express an opinion on the appointment of the Financial Reporting Officer appointed to prepare the corporate accounting documents;
- shall express an opinion on the Regulations for Related-Party Transactions which the Company must adopt in compliance with Consob Regulation No. 17221 of 12<sup>th</sup> March 2010 and also on any subsequent amendments to those regulations;
- shall express an opinion, either binding or non-binding, on Related-Party Transactions of Major Importance and on Related-Party Transactions of minor importance in compliance with the aforementioned regulations governing related-party transactions adopted by the Company, unless they consist of Related-Party Transactions which concern remuneration;
- shall assist the Board of Directors on the implementation of recommendations contained in the Corporate Governance Code for listed companies in relation to the internal control and risk management system.

The Committee's activities in the aforementioned meetings mainly concerned the following: assessment of the adequacy of accounting policies; suggestion of the opportunity to replace *Ing. Giovanni Recordati* with *Dr. Fritz Squindo* as Director who is given responsibility for the creation and maintenance of an effective internal control and risk management system, further to *Dr. Squindo's* cooption in the Board of Directors; examination of the reports of the Supervisory Committee pursuant to Legislative Decree No. 231/01 and of the Chief of Group Audit; examination of the programme of work prepared by the Chief of Group Audit; examination of the reports furnished by the managers of the Group Prevention and Protection Service on Safety at the Workplace and examination of the results of inspections for conformity with the protocols within the Organisational Model pursuant to Legislative Decree No. 231/2001 on the safety matters; the submission of a proposal to the Board concerning the spending budget of the Supervisory Committee for the operating expenses of the committee itself concerning the application of the organisation, management and control model pursuant to Legislative Decree 231/01; examination of action to comply with the Organisational

Model pursuant to Legislative Decree No. 231/2001 in accordance with Art. 25 *undecies* (environmental crimes); examination of the adequacy of the guidelines for the internal control and risk management system; examination of the organisational structure of the Group Audit function; periodic review of the Related-party Transactions Regulations and the Provision to Implement those Regulations. The Committee also reported to the Board on the activities undertaken and on the adequacy of the internal control system, at the time of approval of the 2012 Annual Report and the 2013 Interim Financial Report.

Meetings of the Committee were properly minuted.

The Committee had the opportunity to access company information and access the units necessary to perform its duties; it did not make use of external advisors.

The committee did not incur any expenses in the performance of its duties during the Year.

## 11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

As already mentioned in point 4.3, the Board of Directors has examined the update of the "Catalogue of Risks" for 2013, drawn up with assistance from the consulting company Deloitte S.p.A., in order to take account of any changes in the identification of risks connected with the achievement of the strategic objectives of the new 2013-2015 Three-Year Business Plan and, in general, to obtain an up-to-date and formal picture of the main internal and external risks of the Recordati Group and of the various tools and processes in place to manage those risks. In this respect a procedure is in place to ensure periodic updating of the Catalogue of Risks already identified.

On the basis, amongst other things, of that examination, the Board has assessed whether the degree and nature of the risks, as identified in the Group Catalogue of Risks presented to the Board in a meeting of 7<sup>th</sup> March 2014, are compatible with the Group's strategic objectives contained in the 2013-2015 Three-Year Business Plan.

Furthermore, with the opinion in favour of the Audit and Risk Committee, the Board considered that the guidelines for the internal control and risk management system of the Company and the Recordati Group, approved at the beginning of 2013, were still adequate, so that the principal risks to which the Company and its subsidiaries are exposed are correctly identified and adequately measured, managed and monitored.

The internal control and risk management system consists of a structured and organic set of procedures and organisational units designed to prevent or limit the consequences of unexpected results, to enable corporate objectives to be achieved and to ensure both compliance with the law and regulations and proper and transparent reporting internally and to markets. The internal control and risk management system permeates the whole Company, involving a variety of staff with specific roles and responsibilities.

The Board positively assessed the adequacy, effectiveness and actual functioning of the internal control and risk management system on the basis of information provided in meetings in the form of reports presented by the Internal Audit Committee and by the Supervisory Committee pursuant to Legislative Decree 231/01.

The heads of each department are responsible for designing and managing the internal control system and for monitoring its effective functioning on the basis of the guidelines approved by the Board of Directors.

The structural components of the internal control and risk management

system consist of: the Code of Ethics, which defines the principles and underlying values of the Company's ethical code and the rules of conduct that are based on those principles; the system of powers and delegations with general and specific authorisations and the internal delegation of powers, according to the responsibilities assigned; corporate operating procedures; IT systems to support both management and production activities and also accounting and financial processes. With regard to compliance, the Issuer has had an organisational model in place pursuant to Legislative Decree No. 231/2001 since April 2003 which is continuously updated and also a control model pursuant to Law No. 262/2005 for financial reporting (further information is given below on the "Risk management and internal control systems in relation to financial reporting").

The control instruments described above are monitored by management and also independently by the Group Audit Function by means of auditing activities set out in the annual audit plan. The results of auditing activities are reported to the Chairman and Chief Executive Officer and to management and also periodically to the Chairmen of the Audit and Risk Committee and the Board of Statutory Auditors.

### 11.a) Principal characteristics of the risk and internal control and risk management system in relation to the financial reporting process.

The internal control and risk management system, as just defined, covers financial reporting which forms an integral part of it, the preparation of which is governed by organisational procedures and instructions which ensure compliance with the general principles of control laid down by the Issuer (e.g. a proper separation of functions, a proper system of authorisations and powers, checks and balances, accountability, etc.). It is based on the main established reference models (e.g. CoSO Report) being subject at the same time to verification and periodic update by means of a review of the risks to which the Company is exposed for the purposes of decreasing the impact of such risks on the Company's business.

The financial reporting process of the Issuer was subjected to a series of procedural and organisational initiatives with action taken to create an internal controls system for administrative and accounting activities designed to guarantee the reliability, accuracy, completeness and promptness of financial reporting and to regularly produce management, operating and financial reports to the board and to the statutory and external auditors.

A description is given below, in accordance with the regulations in force, of the characteristics of the system adopted, with particular reference to (a) the stages of the risk and internal control management system in relation to the financial reporting process and (b) the roles and functions involved.

#### (a) The stages of the risk and internal control management system in relation to the financial reporting process and

The Issuer has implemented a model for the administrative and accounting control of the system (hereinafter also the "262 Control Model) for some time now in order to ensure the effectiveness of that system. It has also assigned responsibility for verifying proper application of that model and for monitoring the functioning and adequacy of the Internal Control System in relation to the model to the Manager appointed to prepare corporate accounting documents.

The 262 Control Model control model consists of a set of corporate rules and procedures designed to enable objectives of reliability, accuracy, completeness and promptness in financial reporting to be achieved by identification and management of the main risks attaching to the preparation and disclosure of financial information.

The 262 Control Model consists of

- administrative and accounting risk assessment;
- administrative and accounting manuals and procedures,

which are closely related one to the other and subject to continuous update and periodic assessment.

More specifically administrative and accounting risk assessment is a continuous process of identifying and assessing risks attaching to accounting and financial information and it is performed by the Manager appointed to prepare corporate accounting documents with the support of the Group Internal Audit Function. This process is performed annually by means of:

- the identification, by means of quantitative (size) and qualitative (importance) criteria, of items in the financial statements and in financial information which may be highly sensitive and significant or involve risks of error or omission, with reference to the financial statements of the Parent or to the consolidated financial statements of the Group;
- the identification of the relative processes and accounting information input for each significant item of the financial statements and of financial information and of the relative controls to manage the risks identified.

If control activities are not found to be adequately documented or regulated in relation to risk areas identified following periodic risk assessment, it is the responsibility of the function responsible for the process, to provide adequate support documentation, with the support of the Financial Reporting Officer and, if necessary, the Internal Audit Function, to enable the existing controls in the area subjected to analysis to be assessed.

When risks were identified as a result of annual risk assessment activities, the Company and the Group put procedures, protocols and documents in place to control administrative and accounting activities.

The body of the administrative and accounting manuals and procedures is comprised of the following principal documents:

- the Group Accounting and Reporting Manual, designed to ensure the application of uniform criteria in the Group with regard to the recognition, classification and measurement in the accounts of operating and financial events;
- a system of internal certification by the management and administrative chiefs (CEO and Financial Controller) of the subsidiaries of the Recordati Group with regard to the accuracy, reliability and completeness of accounting information and its compliance with Group accounting policies and local regulations. This system, set out in the Group Accounting and Reporting Manual, is designed, amongst other things, to support the signing of certifications and attestations required by law of the Financial Reporting Officer and of the Chief Executive Officer;
- administrative and accounting procedures and protocols for closing accounts at the end of accounting periods and preparing annual financial statements and reporting packages which define control responsibilities, activities and rules to follow for the administration and accounts of the Parent Company and its subsidiaries;
- procedures for preparation of the consolidated financial statements which regulate the operations and controls to be performed for the preparation of the consolidated financial statements, describing, amongst other things, the activities to be performed in the consolidation IT system adopted by the Group and used in its subsidiaries and which define the responsibilities of the various functions for the proper functioning of that system;
- calendar of end of period activities: a document which is updated and distributed monthly, which gives deadlines for the process of closing accounts and preparing financial statements, reporting packages and the consolidated financial statements;
- operational procedures which define the activities, responsibilities and management operations in terms of authorisation, implementation, control, official approval and recognition in the accounts for those accounting and reporting areas considered significant, in co-ordination with annual accounting and administrative risk assessment. Those responsible for the functions and for the subsidiaries involved in the process of preparing and managing accounting and financial information

are responsible for the proper functioning and update of the administrative and accounting internal control system in relation to all the processes and accounting reporting under their control and they must constantly monitor those administrative and accounting procedures in order to ensure that they are properly applied and appropriate to the existing processes;

- tables of administrative and accounting controls, which describe the control activities implemented in each administrative and accounting process in relation to the risk identified and the related control objectives and which summarise the results of control testing activities performed by the Internal Audit Function. The controls described by those tables represent the application of control principles described in administrative and accounting control procedures. These tables are therefore used as a tool for the identification of the key controls in place, specific to each significant process, and for the identification of tests to be performed to assess the adequacy of the administrative and accounting internal audit system. These tables are constantly updated by the Internal Audit Function.

The Financial Reporting Officer appointed to prepare corporate accounting documents assesses and testifies to the adequacy of the 262 Control Model, which is the administrative and accounting internal control system just described and to the proper functioning of the procedures in place at least twice annually, when the interim half year and annual financial statements (consolidated financial statements of the Group and separate financial statements of the Parent Company) are approved. He is supported by the testing activity performed by the Group Internal Audit Function designed to assess the adequacy of the design and proper implementation and operational effectiveness of the controls in place.

Independent testing is performed continuously throughout the year on the basis of the annual audit plan drawn up by the Chief of Group Audit. The results of testing activities, assessments of possible areas for improvement and the relative corrective actions are officially published in an annual report addressed to the Chief of Group Audit, the Financial Reporting Officer and the CEO.

The Financial Reporting Officer appointed to prepare corporate accounting documents is also responsible for monitoring the administrative and accounting internal control system on the basis of information received from the chiefs of corporate functions and reports on the activities performed by the Internal Audit Function, in order to ensure that the body of procedures is updated and that the controls identified by means of the administrative and accounting procedures are actually implemented.

#### **(b) Roles and functions involved in the system for the management of risks and internal control in relation to the financial reporting process**

The roles involved with specific reference to financial reporting processes are: the Board of Directors, CEO, the Chief of Group Audit, the Audit and Risk Committee and the Financial Reporting Officer.

The Financial Reporting Officer in conjunction with the CEO is responsible for putting adequate administrative and accounting procedures in place for the preparation of the separate Parent Company and consolidated financial statements.

With regard to the latter, Legislative Decree No. 39/2010 ("Consolidated Legal Audit Act"), which implements EC Directive No. 2006/43/EC concerning the legal audit of annual accounts and entered into force on 7<sup>th</sup> April 2010, assigned functions to the Board of Statutory Auditors in its role of "Internal Audit and Accounting Audit Committee", specifying that it should supervise the financial reporting process and the effectiveness of internal control, internal audit, if applicable and risk management systems. Further information is given in Section 14 on the Board of Statutory Auditors.

### 11.1 DIRECTOR WITH RESPONSIBILITY FOR THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

On 13<sup>th</sup> April 2011 the Board of Directors identified the Chairman and Chief Executive Officer, *Ing. Giovanni Recordati*, as the Executive Director responsible for monitoring the functionality of the internal control system. Following further considerations made following adherence to the amendments to the CG Code of December 2011, on 14<sup>th</sup> March 2013, the Board appointed *Dr. Fritz Squindo*, co-opted onto the Board Directors on that date and formerly General Manager for the co-ordination of operations, as the Director with responsibility for the internal control and risk management system, to replace *Ing. Giovanni Recordati*, Chairman and Chief Executive Officer.

The Director responsible for supervising the functionality of the internal control and risk management system (*Ing. Giovanni Recordati* from 1st January 2013 and *Dr. Squindo* from 14<sup>th</sup> March 2013):

- has identified, with the help of the Chief of Group Audit, the principal business risks, taking account of the characteristics of the activities undertaken by the Company and by its subsidiaries and has reported on this to the Board. In detail, he has completed the update of the Recordati Catalogue of Risks for 2013 (again with the assistance of the outside company Deloitte S.p.A.) and he has reported on this in detail to the Audit and Risk Committee and the Board;
- has implemented the guidelines defined by the Board and, with the assistance of the Chief of Group Audit and other competent functions within the Company, has designed, constructed and managed the internal control and risk management system, while constantly checking its adequacy and effectiveness;
- has brought the system, again with the help of the Chief of Group Audit and other competent functions within the Company, into line with changes in operating conditions and in the legislative and regulatory framework.

The Executive Director responsible for monitoring the functionality of the internal control system:

- may request the Group Audit Function to investigate specific operational areas and compliance with internal rules and procedures in carrying out company operations, reporting promptly to the Board of Directors, to the Chairman of the Audit and Risk Committee and to the Chairman of the Board of Statutory Auditors;
- shall report promptly to the Audit and Risk Committee (or to the Board of Directors) with regard to problems and difficulties found in carrying out their activities or of which they have nevertheless learnt, so that the Committee (or the Board) make undertake appropriate initiatives.
- shall submit a proposal to the Board of Directors for the appointment and removal of the Chief of the Group Audit Function and also on the remuneration for him, consistent with Company policy.

### 11.2 CHIEF OF THE GROUP AUDIT FUNCTION

When implementing amendments made to the CG Code in December 2011, on 20<sup>th</sup> December 2012, with specific reference to the Chief of the Group Audit Function, the Board of Directors acknowledged that it was the responsibility of the Board of Directors to appoint and remove the chief of that function on the basis of a proposal submitted by the Director Responsible for the internal control and risk management system, and also to ensure that he has adequate resources to carry out the relative functions and to set the remuneration consistent with Company policies.

It is therefore underlined that the Group Audit Function, headed by *Dr. Minora*, has no connection with any operational area and reports hierarchically from 20<sup>th</sup> December 2012 to the Board of Directors.

The Board therefore delegated responsibility to the Chairman and Chief Executive Officer for the ordinary management of the employment relationship with the Chief of the Group Audit Function and confirmed the Chief of the Group Audit Function as the Internal Control Officer pursuant to Art. 150 of Legislative Decree No. 58/1998.

When he was appointed, the Board, having consulted with the Audit and Risk Committee, assessed the appropriateness of the remuneration paid to the Chief of Group Audit as an employee of the Company with respect to the Company's policies.

The duties of the Chief of Group Audit are as follows:

- to oversee, both on a continuous basis and in relation to specific needs and in observance of international standards, the functioning and the adequacy of the internal control and risk management system, by carrying out an audit plan approved by the Board of Directors, based on a structured process to analyse and set priorities in relation to the main risks;
- has no responsibility for any operational area and reports to the Board of Directors;
- has direct access to all information useful for performing his/her duties;
- to prepare periodic reports containing adequate information on his activities, on the procedures employed to manage risks and on compliance with the plans drawn up to mitigate them. These periodic reports contain an assessment of the appropriateness of the internal control and risk management system;
- he promptly prepares reports on events of particular importance;
- he submits periodic reports to the Board of Statutory Auditors, the Audit and Risk Committee, the Board of Directors and the Director with responsibility for the internal control and risk management system;
- as part of the audit plan, he oversees the reliability of IT systems, including those responsible for bookkeeping.

Furthermore, the Chief of Group Audit:

- explains the proposed annual work programme to the Audit and Risk Committee in order to implement any recommendations that Committee intended to make;
- assists the Executive Director responsible for overseeing the functionality of the internal control and risk management system with the design, management and monitoring of the internal control and risk management system and with the identification of the various risk factors;
- schedules and carries out, consistent with the annual work plan, direct and specific audit activities at Recordati S.p.A. and in all the subsidiaries, with particular regard to companies of strategic importance, in order to detect any failings there may be in the internal control and risk management system, in the various risk areas.
- checks that the rules and procedures for auditing and risk management processes are observed and that all individuals involved act in accordance with the predetermined objectives;
- carries out checks on his own initiative or on the request of the Board of Directors, the Audit and Risk Committee, the Executive Director responsible for monitoring the functionality of the internal control and risk management system or the Board of Statutory Auditors.

In detail, during the course of the year and in meetings of the Board of Directors already held in 2014, the Chief of Group Audit:

- explained the annual work programme and the organisational structure of his function to the Audit and Risk Committee and to the Board of Directors;
- had direct access to all the necessary information to carry out his role;
- carried out direct and specific auditing tasks, in a manner consistent with the annual work plan;
- reported to the Executive Director responsible for monitoring the functionality of the internal control system on the results of the auditing activities undertaken during the Year;
- reported on his actions and on the results of the activities undertaken to the Audit and Risk Committee and to the Board of Statutory Auditors of the Company.

The Chief of Group Audit had an operating budget which was used to carry out the audits and checks performed during the Year.



### 11.3 ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001.

The Company has adopted and effectively implemented a model which represents an organisational and operational tool aimed at preventing the Company's employees and colleagues from committing the crimes specified in Legislative Decree 231/01.

The duties of monitoring the adequacy, updating and effectiveness of the Model have been transferred by the Company to a Supervisory Board having collective form, comprising two external members and one Company employee.

When the new CG Code was examined in the meeting held on 20th December 2012, the Board of Directors, assisted by the Audit and Risk Committee, also assessed whether to assign the functions of the Supervisory Committee (pursuant to Legislative Decree No. 231/2001 in accordance with Law No. 183/2011, the 2012 "Stability" Law), and decided in favour of Recordati continuing to maintain a Supervisory Committee as a highly specialised unit, dedicated entirely to the supervision of ethical, preventative, organisational and management procedures adopted to prevent incurring liability within the meaning of Legislative Decree No. 231/2001 and therefore with specific expertise on compliance with a particular area of law which applies to the Company. These functions were not therefore assigned to the Board of Statutory Auditors.

The organisation, management and control model is constantly updated and monitored with particular attention paid to preventing crimes and to risk assessment, following the new regulatory changes.

The Model consists of a general part and a specific part, arranged into different sections. The general part includes, *inter alia*, the Code of Ethics, the Disciplinary System and the By-Laws of the Supervisory Board. The specific part includes, *inter alia*, a "map" of the areas where the risk of crime is more marked and a significant number of "protocols" through which measures are put in place to prevent the commission of offences in the areas identified in the map. A similar model has been adopted for the subsidiaries Innova Pharma S.p.A. and Orphan Europe Italia S.r.l.

A presentation of the Model adopted by the Company is available on the Company's website at [http://www.recordati.it/rec\\_it/cg/compliance\\_programs/](http://www.recordati.it/rec_it/cg/compliance_programs/).

The Supervisory Committee, which is of a collegial nature, is composed of the Audit Chief and two external professionals, one in the role of Chairman. It has its own internal regulations and operates on the basis of a specific programme. It reports to the Board of Directors, directly or through the the Audit and Risk Committee or the Board of Statutory Auditors.

For subsidiaries of strategic importance located abroad, policies with a function similar to those of the Organisational Model pursuant to Legislative Decree 231/01 adopted by the Company have been implemented and are being implemented, where considered necessary.

### 11.4 AUDIT FIRM

KPMG S.p.A. is the firm of external auditors appointed to audit the Company. The appointment was formally made by a Shareholders' Meeting on 13<sup>th</sup> April 2011 for the years 2011-2019, as proposed by the Board of Statutory Auditors.

### 11.5 THE FINANCIAL REPORTING OFFICER

On 3<sup>rd</sup> May 2007, the Board of Directors, having noted the favourable opinion of the Board of Statutory Auditors and of the Internal Audit Committee, appointed Fritz Squindo, General Manager for the co-ordination of operations, as the Financial Reporting Officer.

During that meeting, it was confirmed that he satisfied the requirements of respectability and professionalism laid down in the applicable legislation and in the Company's By-Laws, which stipulate, in Art. 25, that the Financial Reporting Officer must not only satisfy the requirements of respectability laid down by law for those performing administrative and managerial duties but also the requirements of professionalism characterised by specific competence in administrative and accounting matters. This competence, to be verified by the Board of Directors, must be acquired through working experience in a position of adequate responsibility over a suitable period of time.

The Financial Reporting Officer is given duties and powers to perform that assignment, which include the provisions of the operational guidelines for that manager approved by the Board of Directors on 3 May 2007.

### 11.6 CO-ORDINATION BETWEEN THOSE INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

On the one hand, the Company has specified the roles and responsibilities of those involved in the internal control and risk management system in detail, in the guidelines for the internal control and risk management system of Recordati S.p.A. and of the Recordati Group and on the other hand it encourages meetings between the different roles involved in order to exchange information and to co-ordinate.

In this respect, as already reported, the entire Board of Statutory Auditors in particular is constantly invited to participate in the proceedings of the Audit and Risk Committee and also the Chairman and Chief Executive Officer, the Director Responsible for the internal control and risk management system, the Chief of Group Audit, the Supervisory Committee pursuant to Legislative Decree No. 231/01, and representatives of the external audit firm have participated in various meetings on invitation of the Chairman of the Committee and on individual items on the agenda.

The Board of Statutory Auditors of the Company and the Supervisory Committee pursuant to Legislative Decree No. 231/01 have organised and held joint meetings during the year for the same purposes of co-ordination on matters of common interest.

### 11.7 REGULATIONS FOR CONTROLLED FOREIGN COMPANIES LOCATED IN NON-EU COUNTRIES

In relation to the provisions of articles 36 and 39 of the Markets Regulations concerning the conditions for the listing of the parent companies of companies formed and regulated under the laws of countries that do not belong to the EU and which are of significant importance for the purposes of consolidated financial statements, since 31<sup>st</sup> December 2013 the regulatory provisions of Art. 36 of the Markets Regulations have applied to the Turkish subsidiary Recordati İlaç Sanayi Ve Ticaret Anonim Şirketi and to the American subsidiary Recordati Rare Diseases Inc.

With reference to those companies, the Company:

- a) publicly discloses its financial statements used for preparing consolidated financial statements;
- b) ensures that Turkish and US company regularly deliver information to the external auditor of the Parent Company needed to audit the annual and interim accounts of the Parent Company itself.

Finally the Company possesses continuous knowledge of the composition of the corporate bodies of the controlled companies with information on the company officers and on the By-Laws of the companies.



## 12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

Subject to the opinion in favour of the Audit and Risk Committee, identified as the Committee Responsible pursuant to Art. 4 paragraph 3 of Consob Regulation No. 17221 of 12th March 2010, in a meeting held on 24th November 2010, the Board adopted "Regulations for related-party transactions" in accordance with Art. 2391-bis of the Italian Civil Code and with the Regulations just mentioned to replace that part relating to related-party transactions contained in the "Procedure for significant transactions with related parties or when a Director has an interest in the transaction" adopted in 2008, which remains in force for the regulation of significant transactions or those where a Director bears an interest in the transaction.

The Regulations for Related-Party Transactions (the full text is available on the Company website at [www.recordati.it](http://www.recordati.it) in the "Corporate Governance" section), in force since 1st January 2011, defines the guidelines and the criteria for the identification of related-party transactions and it gives details of the roles, responsibilities and operating procedures designed to ensure adequate reporting transparency and the relative proper conduct in form and substance for those transactions. The Company has also issued internal rules in order to ensure that the Regulations are fully implemented.

The Board has therefore carried out a periodic review of the Related Party Transactions Regulations, three years having passed since it came into force and, having taken note of the opinion given by the Audit and Risk Committee, it considered that those regulations were still adequate, not requiring substantial modifications, but only modifications of a formal character.

The following was performed on the basis of those Regulations:

- the Audit and Risk Committee was identified as the Committee Responsible for issuing a reasoned opinion on both transactions of Major Importance and transactions of Minor Importance, except for related-party transactions concerning remuneration, for which the Committee Responsible would be the Remuneration Committee. As already reported both committees are composed exclusively of independent Directors;
- a related-party transaction is defined as any transfer of resources, services or obligations (i.e. any contractual commitment) between Recordati – either directly or through its subsidiaries – and one or more Recordati Related Parties, independently of whether any consideration has been agreed upon;
- a Recordati related-party is defined as:
  - (a) the parent of Recordati and its shareholders;
  - (b) any other party which, either directly or indirectly, including through subsidiaries, trust companies or intermediaries and/or jointly with other parties (also defined as related parties):
    - (i) exercises Control over Recordati, is controlled by it or is subject to Common Control;
    - (ii) holds an interest in the share capital of Recordati such that it is able to exert Significant Influence over it;
    - (c) an associate company of Recordati;
    - (d) a joint venture in which Recordati SpA is a venturer;
    - (e) an executive with strategic responsibilities of Recordati or its parent;
    - (f) a close member of the family of one of the parties referred to in letters (a), (b) or (e);
    - (g) an entity in which one of the parties referred to in letters (e) or (f) exercises Control, Joint Control or Significant Influence or holds, either directly or indirectly, a significant proportion, and in any case not less than 20%, of the voting rights;
    - (h) a collective or individual, Italian or foreign, supplementary pension fund, formed for the benefit of Recordati employees, or any other entity related to it, to the extent by which that fund has been formed or promoted by Recordati, or in the circumstance that Recordati may influence its decision-making processes.

- Executives with Strategic Responsibilities are defined as those persons who have power over and responsibility, either directly or indirectly, for the planning, management and control of the activities of the Company, including the directors (executive and non-executive) of the company itself, full members of the Board of Statutory Auditors, the general managers, the manager appointed to prepare corporate accounting documents (the "Financial Reporting Officer") and all those additional persons identified from time to time such by the Board of Directors, and proposed by the Chief Executive of the Company;
- Transactions of Major Importance are defined as those related-party transactions for which at least one of the relevance indicators contained in the aforementioned Attachment No. 3 of the Consob Regulations and which are applicable according to the characteristics of each related-party transaction (i.e. value of the transaction in relation to shareholders' equity or, if greater, to capitalisation; total assets of the entity involved in the transaction compared to the total assets of the Company; total liabilities of the entity acquired compared to the total assets of the Company) exceeds 5%;
- Transactions of Minor Importance are defined as those related-party transactions which are not transactions of Major Importance and not transactions of negligible amount i.e. transactions for an individual amount of less than 150,000 euro.

The Regulations do not apply to:

- Transactions of Negligible Amount unless they are more than one Transaction of Negligible Amount performed as part of a single plan, the total value of which exceeds the sum of 150,000 euro;
- intercompany transactions provided that no Significant Interests of other related parties of the Company exist in the subsidiaries of Recordati or in associate companies of Recordati which are counterparties to the transaction. It is considered that the existence of "Significant Interests" of other related parties could be determined by:
  - the existence of a significant amount receivable by the Chief Executive Officer of the Parent from a subsidiary;
  - one or more directors or other executives with strategic responsibilities shared between companies who benefit from share based incentive schemes (or in any case variable remuneration) dependent on the results of subsidiaries or associate companies with which the transaction is performed;
  - an interest held in a subsidiary or associate company (even indirectly) by the party that controls the parent.
- shareholders' resolutions pursuant to Art. 2389, paragraph one of the Italian Civil Code, concerning the remuneration due to members of the Board of Directors and resolutions concerning the remuneration of Directors appointed to special positions which forms part of the total amount determined in advance by shareholders in accordance with Art. 2389, paragraph three of the Italian Civil Code;
- shareholders' resolutions pursuant to Art. 2402 of the Italian Civil Code, concerning the remuneration due to members of the Board of Statutory Auditors;
- remuneration schemes based on financial instruments approved by shareholders in accordance with Art. 114-bis of the TUF and the relative transactions to implement them;
- decisions (other than those referred to under the preceding letter c) concerning the remuneration of Directors, Directors appointed to special positions and other executives with strategic responsibilities, when (i) the Company has adopted a remuneration policy (the formulation of which involved a committee formed exclusively of non-executive directors, the majority of which are independent) (ii) the Company has submitted a report which illustrates the remuneration policy to a Shareholders' Meeting for approval or a consultative vote, and (iii) the remuneration actually assigned is consistent with that policy;
- decisions, to be taken when a professional arrangement is established with Recordati, concerning the remuneration of executives with strategic

responsibilities, other than Directors and members of the Board of Statutory Auditors;

- transactions which fall within the ordinary performance of operating activities and the related financial activities concluded under conditions equivalent to market conditions or standards (i.e. conditions similar to those normally practiced with non-related parties for transactions of an analogous nature, magnitude and risk or based on regulated tariffs or on compulsory prices or those practiced for parties with which the Company is obliged by law to negotiate a determined consideration). The "ordinary performance" is identified by considering the contents, recurrence, function or purpose and timing of the transaction and also the nature of the counterparty, even if it is a related-party. Operating Activities are defined as the main revenue generating activities and all other normal activities of the Company that are not classifiable as investment or financial activities pursuant to International Financial Reporting standard seven adopted by EC Regulation No. 1126 of 2008, as subsequently amended from time to time. Should the exemption contained in this point apply, the Company is nevertheless required, without prejudice to Art. 114, paragraph 1 of the TUF, to comply with the provisions of Art. 13, paragraph 3, letter c), points i) and ii) of the Consob Regulation No. 17221 of 12th March 2010;
- demerger transactions in the strict sense of the proportional type, share issues with option rights reserved to shareholders and to any holders of financial instruments (therefore issuances which are performed without excluding their option rights) and transactions for the purchase/sale of treasury stock if performed, other conditions remaining the same, to the benefit of both related parties and all others holding rights;
- transactions to be performed on the basis of instructions for the purposes of stability issued by the supervisory authority, without prejudice to disclosure obligations under Consob Regulations.

The regulations for significant transactions or where a Director holds an interest regulate transactions in which a director holds an interest either on his own behalf or on behalf of third parties, even potential or indirect, and it expressly reserves them to the approval of the Board of Directors. In these cases that Director must promptly inform the Board and the Board of Statutory Auditors respectively of his interest in a timely and thorough manner - specifying the nature, terms, origin and extent of that interest - and must stay away from the meeting during the respective negotiations unless the Board considers his participation in the discussion and resolution to be necessary, depending on the specific circumstances, including, inter alia, the need to maintain the required quorums. A similar disclosure obligation exists for any Auditor who holds an interest, including a potential or indirect interest, in relation to the aforesaid matters or transactions.

### 13. APPOINTMENT OF STATUTORY AUDITORS

The appointment of Statutory Auditors is regulated by article 26 of the By-Laws, the text of which, last amended by the Board of Directors on 8th May 2012 in order to make compulsory amendments to comply with legislation on the balance between genders on corporate bodies, is reproduced below:

*"Art. 26) The Shareholders' Meeting shall appoint the Board of Statutory Auditors, comprising three statutory auditors and two alternate auditors, who may be re-elected, and shall determine their remuneration. Their powers, duties and term of office shall be as established by law.*

*Auditors shall satisfy the requirements laid down in current laws and regulations. As regards requirements of professionalism, the matters and sectors of activity strictly connected with that of the company are the research, production and sale of chemical and pharmaceutical products.*

*The minority shareholders shall elect one Statutory Auditor and one Alternate Auditor.*

*Unless otherwise provided for in laws or regulations, the Board of Statutory Auditors shall be appointed according to the procedures set out in the following paragraphs on the basis of lists submitted by Shareholders in which candidate are listed by means of a progressive number and in compliance with the existing legislation in force concerning gender balance.*

*The list must specify whether each candidate is nominated for the position of Statutory Auditor or for the position of Alternate Auditor.*

*Only Shareholders individually or jointly possessing a total number of shares with voting rights representing at least 2.5% of capital stock with voting rights or representing a lesser percentage as established or provided by binding legal or regulatory provisions which shall be specified in the notice of meeting shall have the right to present lists.*

*Each shareholder, including shareholders who have signed a shareholders' agreement pursuant to Art. 122 of Legislative Decree No. 58/1998, the holding entity, subsidiaries, and jointly controlled entities are not permitted to submit or help to submit more than one list or vote for different lists, including through an intermediary or trust company. Each candidate may only be present on one list failing which he will be ineligible. Votes cast in violation of the above prohibition shall not be attributed to any list.*

*Submitted lists shall be deposited at the Company's registered office at least twentyfive days before the date scheduled for the Shareholders' Meeting at first call without prejudice to any further forms of disclosure required by any rules or regulations from time to time in force.*

*Without prejudice to all other rules prescribed by the rules and regulations in force the following documents shall be submitted together with each list by the deadline specified above:*

- a) information on the identity of the shareholders who have submitted the lists, indicating the total percentage of capital stock held;*
- b) a declaration by shareholders other than those who hold, including jointly, a controlling interest or relative majority, attesting to the absence of any forms of association with such shareholders, as provided by applicable regulations;*
- c) a thorough report of the personal characteristics of candidates and a declaration from the said candidates attesting that they possess the requirements established by law, together with their acceptance of the candidature.*

*Lists containing a total number of candidates equal to or greater than three must be composed of candidates belonging to both genders, so that a percentage of candidates to the position of Statutory Auditor and candidates to the position of Alternate Auditor equal to that required by the legislation in force at the time concerning gender balance for the composition of the Board of Statutory Auditors belongs to the less represented gender in a given list.*

*Lists not satisfying the requirements specified above shall be considered as not having been submitted.*

*Auditors shall be elected as follows:*

- 1. from the list which obtained the highest number of votes at the Shareholders' Meeting, two statutory auditors and one alternate auditor shall be elected, based on the progressive order with which they are listed in the sections of the list;*
- 2. from the second list which obtained the highest number of votes at the Shareholders' Meeting and which, in accordance with regulations in force, has no connection, not even indirectly, with those who submitted and voted for the list which obtained the highest number of votes, one statutory auditor, who shall chair the Board of Statutory Auditors, and one alternate auditor shall be elected, based on the progressive order with which they are listed in the list.*

*In the event of a tie between lists for the appointment of the Auditors indicated in point 2 of the foregoing paragraph, the list submitted by shareholders owning the largest shareholding or, alternatively, the list submitted by the largest number of shareholders shall prevail.*

*If by following the above procedures, the composition of the full members of the Board of Statutory Auditors in compliance with the legislation in force at the time concerning gender balance is not ensured, the necessary replacements shall be made from the candidates to the position of full Statutory Auditor on the list that obtained the majority of votes on the basis of the order of the names on the list.*

*Should a single list or no list be submitted, all candidates for that position named on the aforesaid list or those voted by a Shareholders' Meeting (as long as they receive a relative majority of the votes cast in the Shareholders' Meeting) shall be elected as Statutory and Alternate Auditors and provided the existing legislation in force on gender balance are complied with.*

*Should they no longer satisfy the requirements laid down by law and in the by-laws, the auditor shall leave office.*

*Should it become necessary to replace a statutory auditor, the alternate auditor belonging to the same list as the outgoing auditor shall take the latter's place or, failing this, should the minority auditor leave office, he shall be replaced by the next candidate on the list from which the outgoing auditor was elected, or, alternatively, by the first candidate on the minority list that obtained the second highest number of votes.*

*It is understood that the Board of Statutory Auditors shall continue to be chaired by the minority auditor and the composition of the Board of Statutory Auditors must comply with the existing legislation in force on gender balance.*

*The procedure outlined below shall be followed when the Shareholders' Meeting is required to appoint statutory and/or alternate auditors to complete the board: if it is necessary to replace auditors elected on the basis of the majority list, the replacements shall be appointed by relative majority vote without list voting; if, however, it is necessary to replace auditors elected on the basis of the minority list, the Shareholders' Meeting shall replace them by a relative majority vote by choosing them from the candidates on the list from which the outgoing auditor was elected or on the list that obtained the second highest number of votes.*

*Should the application of the above procedures not result in the replacement of the auditors designated by minority shareholders for whatever reason, the Shareholders' Meeting shall hold a relative majority vote, following the presentation of candidatures by shareholders that, individually or together with others, possess shareholdings with voting rights that represent at least the percentage indicated above in relation to the procedure for the presentation of lists. However, votes registered by shareholders who hold the relative majority of voting rights that may be exercised in the meeting as identified in disclosures made in accordance with applicable regulations, whether directly, indirectly, or jointly with other shareholders who have signed a shareholders' agreement as indicated in article 122 of Italian Legislative Decree No. 58/1998, shall not be considered in establishing the outcome of said vote.*

*The replacement procedures set forth in the above paragraphs must in any event ensure compliance with the legislation in force at the time concerning gender balance.*

*Members of the Board of Statutory Auditors may participate in meetings remotely by means of audio-visual connection, video conferencing or telephone link-up systems.*

*In the above case:*

*- the following must always be established:*

- a) the identity of all members attending at each connection point shall be verified;*
- b) each member attending shall be permitted to express a personal opinion verbally, to view, receive or send any documentation and to participate simultaneously in the discussion of the points at issue and pass resolutions;*

*- meetings of the Board of Statutory Auditors shall be considered to be held at the place where both the Chairman and Secretary are located.*

*The legal audit of the Company's accounts shall be performed by the Audit Firm on the basis of applicable regulations\*.*

It is underlined that the right to submit lists is only held by shareholders who, individually or together with other shareholders submitting lists, hold voting shares representing at least 2.5% of the voting capital in the Ordinary Meeting, or representing any lower percentage established by mandatory laws or regulations. In accordance with articles 144-quater and 144-septies of the Issuers' Regulations adopted by Consob Resolution No 11971 of 14.4.1999 and Consob Resolution No. 18775 of 29th January 2014 with regard to the capitalisation of the Company in the last quarter of 2013, the percentage of the share capital required to present lists of candidates to the Board of Statutory Auditors of the Company is currently 1%.

The minority lists shall elect one Statutory Auditor and one Alternate Auditor. As regards the appointment mechanism adopted for choosing the candidates on the various lists submitted, note that, again according to the above transcribed Art. 26 of the By-Laws, two statutory auditors and one alternate auditor are elected from the list which obtained the highest number of votes in the Shareholders' Meeting, based on the progressive order with which they are listed in the sections of the list; from the second list which obtained the highest number of votes after the first list and which has no connection, not even indirectly, with the shareholders who submitted or voted for the list which obtained the highest number of votes, one statutory auditor, who will chair the Board of Statutory Auditors, and one alternate auditor are elected, based on the progressive order with which they are listed in the list.

With regard to the new legislation on gender balance in corporate bodies (new articles 147-ter and 148 of the Consolidated Finance Act, new Art. 144-undecies of the Issuers Regulations, as amended by Law No. 120/2011), which apply to the renewal of corporate bodies subsequent to 18th August 2012, the Company made the necessary amendments to the By-Laws on 8th May 2012 in order to comply with the new regulations.

In particular, the Board of Statutory Auditors shall be appointed in compliance with the existing legislation in force on gender balance (and in any case on the basis of lists of candidates presented by shareholders). Furthermore the By-Laws set out the procedures to follow to ensure that the composition of the Board of Statutory Auditors complies with the existing legislation in force concerning gender balance: the text of the above article 26 reproduced in full may be consulted in this respect.

The term of office of the current Board of Statutory Auditors expires when the Shareholders' Meeting is held to approve the 2013 Annual Report. In consideration of this, the Board, in its Report to the Shareholders approved on 6th March 2014, invited shareholders who either alone or together with others represent at least 1% of the ordinary shares to deposit lists of candidates, ordered consecutively, who are in possession of the requirements specified by law and by the CG Code. They should also take account of gender balance, specifying that since this is the first application of these regulations, a proportion equal to at least one fifth of the statutory auditors is reserved to the least represented gender (with the figure rounded up to the next whole number, if the number is a fraction).

## 14. STATUTORY AUDITORS

The composition of the Board of Statutory Auditors in office on the closing date of the Year is shown below. The Board was appointed by the Ordinary Shareholders' Meeting of 13th April 2011 and its term of office will expire at the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2013.

One single slate of candidates was presented for the office of Statutory Auditor in the ordinary Shareholders' Meeting of 13th April 2011 by the shareholder FIMEI S.p.A. The slate presented by FIMEI S.p.A. contained the following candidates to the Board of Statutory Auditors for the years 2011-2012-2013:

1. Dr. Marco Nava	Statutory Auditor
2. Dr. Marco Rigotti	Statutory Auditor
3. Dr. Achille Severgnini	Statutory Auditor
4. Dr. Marco Antonio Viganò	Alternate Auditor
5. Dr. Antonio Mele	Alternate Auditor

All the candidates listed above were elected with 149,910,627 shares in favour out of 150,192,650 shares voting (99.812%). The voting share capital represented 71.684% of the share capital of the Issuer.

*Curricula vitae* providing information on the personal and professional characteristics of each candidate were attached to the slate presented by



FIMEI, accompanied by a list of the management and supervisory positions occupied in other companies and which are significant in accordance with the law and also by declarations made by each candidate that they accept their candidature and that there are no grounds for ineligibility or incompatibility and that they satisfy the requirements prescribed by law and in the By-Laws for the office of Statutory Auditor. The above documentation may be consulted on the website [www.recordati.it](http://www.recordati.it) (in the section Investor Relations, Shareholders' Meetings, financial year 2011).

The personal and professional characteristics of each auditor are in any case contained in Attachment 1 of this Report.

### Board of Statutory Auditors

Office	Members	In office since	In Office until	(M/m)	Indep. according to CG	Indep. according to TUF	** (%)	Number of other offices***
Chairman	MARCO NAVA	13.4.2011	Approval of 2013 AR	M	X	X	7/7	0
Statutory auditor	MARCO RIGOTTI	13.4.2011	Approval of 2013 AR	M	X	X	6/7	2
Statutory auditor	ACHILLE SEVERGNINI	13.4.2011	Approval of 2013 AR	M	X	X	7/7	0
Alternate auditor	ANTONIO MELE	13.4.2011	Approval of 2013 AR	M	X	X	-	1
Alternate auditor	MARCO ANTONIO VIGANÒ	13.4.2011	Approval of 2013 AR	M	X	X	-	0

\* M/m are given in this column where "M" indicates a member elected from the majority slate and "m" from a minority slate.

\*\* This column contains the percentage attendance of Auditors at the relative board meetings of Statutory Auditors (number of presences/number of meetings held during the actual period office of the person concerned).

\*\*\* This column gives the number of positions held in share issuing companies listed on regulated markets. Full details of these positions are given in the section of this Corporate Governance Report containing the curricula vitae of the Statutory Auditors together with a full list of all positions as a Director or Full Auditor (or full member of other supervisory bodies) held by the person concerned as at 31st December 2013.

### INDICATE THE QUORUM REQUIRED FOR THE PRESENTATION OF LISTS WHEN OFFICERS WERE LAST APPOINTED: 2%

#### Number of meetings held during 2013: 7

During the Year the Board of Statutory Auditors met seven times, with meetings lasting approximately two hours and a half on average, on the following dates: 27th February 2013, 8th March 2013, 22nd May 2013, 24th June 2014, 24th July 2013, 30th October 2013 and 3th December 2013. As regards the current year, eight meetings are scheduled and the Board of Statutory Auditors has already met on 28th February 2014. The percentage attendance of Auditors in these meetings is shown in the table above.

The Board of Statutory Auditors conducted an internal verification of its independence after its appointment. It was found from the outcome of that verification that all the Statutory Auditors in office possessed the requirements for independence according to Art. 148 of the TUF and also with regard to the criteria contained in the CG Code. That assessment was repeated with a positive outcome on 28th February 2014.

In the procedure prepared by the Company governing significant transactions, or in which a Director holds an interest, it was specified that, as is the case for the Directors, any auditor who holds a personal or third party interest in a specific transaction of the Company must inform the other Auditors and the Board in a timely and thorough manner about the nature, terms, origin and extent of his interest.

The Board of Statutory Auditors has checked the independence of the audit firm KPMG S.p.A., checking both compliance with legislative provisions and the nature and extent of services other than financial auditing provided to a number of subsidiaries by the same audit firm and by the entities belonging to the latter's network. For information concerning services other than those of auditing the accounts provided by the audit firm to the Company and its subsidiaries, reference may be made to the relative attachment "Disclosure of auditors' fees for accounting audits and other services" to the consolidated financial statements at 31st December 2013 and the draft separate financial statements of Recordati S.p.A. at 31st December 2013.

The Board of Statutory Auditors, in the performance of its activities, liaised with the Head of the Group Auditing Unit and with the Audit and Risk Committee through the constant presence in Committee meetings, in which the Head of the Group Auditing Unit also usually participates. The Board of Statutory Auditors has also collaborated with the Supervisory Committee.

As already reported in Section 11, Legislative Decree No. 39/2010 ("Consolidated Legal Audit Act"), which implements EC Directive No. 2006/43/EC concerning the legal audit of annual accounts and entered into force on 7th April 2010, assigned functions to the Board of Statutory Auditors in its role of "Internal Audit and Accounting Audit Committee". In detail Art. 19 of that decree establishes that that committee supervises the following:

- the financial reporting process;
- the effectiveness of internal control, internal audit, if applicable, and risk management systems;
- the legal audit of annual and consolidated accounts;
- the independence of the legal auditor or legal audit firm, with regard in particular to the provision of non-auditing services to the entity subject to a legal accounting audit.

Also for audit purposes pursuant to article 19, letter b) of the aforementioned Decree, the Board of Statutory Auditors examined the model to map, manage and monitor risks in the Company and the Group, named the "Catalogue of risks", for 2013 developed by the Group with assistance from the consulting company Deloitte S.p.A.

No specific initiatives were necessary to increase the Statutory Auditors' knowledge of the company and its dynamics, considering, moreover, that all members of the Board of Statutory Auditors have an in-depth knowledge of Company and the Group, having been members of the supervisory body since 2008.

## 15. RELATIONS WITH SHAREHOLDERS

The Company has created a specific section on its website called "Investors", which is easily identifiable and accessible and which contains important information about the Company for its shareholders so that they can exercise their rights in an informed manner. The Company has also created a special section on its website entitled "Regulated information" in which regulated information pursuant to Art. 113-ter of the TUF that is regulated is published as required by article 65 bis of the Issuers' Regulations. Following Consob Communication No. DME/12027454 of 5th April 2012, the storage of "Regulated information" will continue to be carried out on the *Borsa Italiana* website on a transition basis, with links to the websites of the issuer companies.

As part of the Company's organisational structure, Marianne Tatschke has been identified as Investor Relations Manager. In addition, the tasks of the Group Legal and Corporate Affairs Department also include the task of looking after relations with shareholders in general.

The Investor Relations function of the Company is also responsible for relations with financial analysts who cover the Company and with institutional investors. That function organises periodic “conference call” meetings designed to provide periodic operational and financial information and the documentation presented in those meetings is disclosed to the public at the same time on the Company website and it is filed with Borsa Italiana.

## 16. SHAREHOLDERS' MEETINGS

On 26<sup>th</sup> October 2010 the Board of Directors amended the By-Laws in order to make compulsory amendments to comply with Legislative Decree No. 27/2010 for the “Implementation of directive 2007/36/ EC, concerning the exercise of some rights by company shareholders” and as a consequence of Consob Resolution No. 17592 of 14th December 2010.

The Shareholders' Meeting of 13th April 2011 had therefore approved amendments of an optional nature, recommended by the Board of Directors, to the By-Laws in accordance with Legislative Decree No. 27/2010. In this respect the Directors' Report on the item disclosed to the public for that Shareholders' Meeting may be consulted on the Company website [www.recordati.it](http://www.recordati.it) (in the section Investor Relations, Shareholders' Meetings, financial year 2011).

In accordance with Art. 9 of the By-Laws in force, Shareholders' Meetings are convened in the manner and within the legal time limits on the Company website and, where necessary due to mandatory provisions or decided by the directors, in the Official Gazette and in at least one of the following national newspapers: “*Il Corriere della Sera*”, “*La Repubblica*”, “*La Stampa*”, “*Il Giornale*”, “*Milano Finanza*”, as well as according to other procedures provided for by the legislation and regulations currently in force.

Article 3 of Legislative Decree No. 91 of 18.6.2012 (the “Corrective Decree”) has established that Shareholders' Meetings are convened by a notice published on the Company website by the thirtieth day prior to the date of the Shareholders' Meeting and also using other procedures and within the time limit set by the Consob with regulations issued in accordance with article 113-ter, paragraph 3 of Consolidated Finance Act, inclusive of the publication of extracts in daily newspapers. These provisions apply to Shareholders' Meetings for which the notice to convene is published after 1st January 2013.

Following amendments made by the Shareholders' Meeting of 13th April 2011 to the By-Laws, Art. 9 states that “notice to convene may also contain the date of meetings convened subsequent to the first. The Board of Directors may decide, if it considers it appropriate, to convene Ordinary and Extraordinary Shareholders' Meetings to be held following one single Notice of Meeting. In the case of a single call the legal majorities for that purpose apply.”

Furthermore, that same Art. 9 of the By-Laws also states that: “Ordinary Shareholders' Meetings are called to approve the financial statements within one hundred and twenty days of the end of the company's financial year. Where permitted by the law, a Shareholders' Meeting may be convened within one hundred and eighty days from the end of the financial year. Directors shall indicate the reasons for the delay in the report required by Article 2428 of the Italian Civil Code.

Other than on the initiative of the Board of Directors, a Shareholders' Meeting may be called pursuant to the law by the Board of Statutory Auditors or by only two of its members, or upon the request of shareholders representing at least 5% of the capital stock.”

In accordance with Art. 12 of the By-Laws in force, resolutions of ordinary and extraordinary meetings, on the first and successive calls, as well as

for single calls, are valid if made in the presence of the required number of persons and the majorities required by law. Therefore an ordinary Shareholders' Meeting is validly constituted in first call with the attendance of shareholders accounting for at least half of the share capital with voting rights at the meeting itself and resolutions are passed by an absolute majority of those participating, including abstentions.

An ordinary Shareholders' Meeting is validly constituted in second call no matter what proportion of the share capital is represented and resolutions are passed by an absolute majority of those participating, including abstentions. An Extraordinary Shareholders' Meeting is validly constituted in first call with the attendance of shareholders accounting for at least half of the share capital and resolutions are passed with the vote in favour of shareholders representing at least two thirds of the share capital.

An extraordinary Shareholders' Meeting is validly constituted in second call with the attendance of shareholders accounting for at least a third of the share capital and resolutions are passed with the vote in favour of shareholders accounting for at least two thirds of the share capital present at the meeting.

In the case of a single call: an Ordinary Shareholders' Meeting passes resolutions with an absolute majority, whatever the percentage of the capital stock represented and an Extraordinary Shareholders' Meeting is validly constituted when at least one fifth of the capital stock is represented and it passes resolutions with the vote in favour of at least two thirds of the share capital represented in the Shareholders' Meeting.

Following amendments made to regulations concerning the right to participate in Shareholders' Meetings and voting rights, on the basis of Art. 83-sexies of the TUF, legitimate authorisation to participate in Shareholders' Meetings and to exercise voting rights is certified by a communication to the issuer, performed by the intermediary, in compliance with its accounting entries, certifying the party entitled to vote on the basis of information relating to the end of the accounting day of the seventh trading day prior to the date set for the Shareholders' Meeting in first call or second call. Nevertheless the legitimate right to participate and vote remains, should the communications be received by the Company later than the aforementioned time limit, provided they are received before the commencement of the proceedings of each single session of the Shareholders' Meetings.

In accordance with Art. 10 of the By-Laws, those holding the right to vote may be represented by a written proxy, where no incompatibilities and limitations exist pursuant to the legislation and regulations in force. The Company may be notified of the proxy for participation in the Shareholders' Meeting by sending the document to the email address indicated in the Notice of Meeting.

Furthermore, Art. 135-undecies of the TUF, inserted by Legislative Decree No. 27/2010 introduced a “*Designated representative of a listed company*” “*unless the By-Laws stipulate otherwise, listed companies designate a representative for each Shareholders' Meeting to which shareholders may grant an authorisation, by the end of the second day of market trading prior to the date set for the Shareholders' Meeting in first or second call, with voting instructions on all or some of the motions on the agenda. The proxy is valid solely for proposals in relation to which voting instructions have been given.*” At present Recordati's By-Laws contain no provisions in this respect, and this new provision is therefore considered applicable to future Shareholders' Meetings of the Company, until different provisions are introduced to the Company By-Laws.

The Board believes that there are no conditions that require the adoption of particular initiatives regarding attendance of Meetings and the exercise of voting rights by shareholders such as, for example, postal voting.

In accordance with Art. 127-ter of the TUF, shareholders may submit questions on the items on the agenda even before the Shareholders' Meeting. Answers are given to questions received prior to the Shareholders'



Meeting, subject to verification of the relevance and the legitimacy of the asker, at the latest during the meeting itself and the Company has the right to give a single answer to questions having the same content.

Legislative Decree No. 91 of 18th June 2012 (the "Corrective Decree") significantly amended article 127-ter of the Consolidated Finance Act, expressly allowing the Company to set a time limit within which questions formulated prior to a Shareholders' Meeting must be received if they are to be considered. The time limit is at the discretion of the Company, but may not be greater than three days prior to the date of the Shareholders' Meeting (in first or single call) or five days prior to the Shareholders' Meeting with, however, the obligation of the Company to furnish a reply at least two days prior to the Shareholders' Meeting, which may be by publication on the Company website. The "Corrective Decree" then specifies the cases where a reply is not obligatory: when the information required is already available in the format "answer and reply" in the relevant section of the website and also when the reply has already been published on the website.

When implementing amendments made to the CG Code made in December 2011, the Board felt it would be advisable to draw up regulations for proceedings in Shareholders' Meetings, even though no particular difficulties had been encountered in past meetings. The objective is to further ensure that the proceedings in Shareholders' Meetings are well-organised and practical and to ensure that each shareholder is able to speak on the items on the agenda.

The Shareholders' Meeting held on 17th April 2013 approved the text of the Shareholders' Regulations proposed by the Board of Directors, which is available on the Company website at [www.recordati.it](http://www.recordati.it), in the corporate governance section.

The Board of Directors, through the Chairman and Chief Executive Officer, reported, in the Shareholders' Meeting held on 17th April 2013, on activities undertaken and those planned, and responded to questions posed by a number of shareholders. The volume containing a copy of the draft separate financial statements and consolidated financial statements, with the accompanying reports and the Directors' Reports on the proposals concerning items placed on the agenda was handed out at the entrance and also sent to shareholders who had taken part in recent meetings in order to ensure adequate disclosure of the necessary information so that they could take the decisions for which they are responsible with full knowledge of the facts. The above documentation has been made available and it may be consulted on the Company website [www.recordati.it](http://www.recordati.it) in the section: Investors, Shareholders' Meetings, 2013.

During the year, there were no changes in the market capitalisation of the Company's shares or in the composition of its corporate structure sufficient to require consideration of a proposal to the Shareholders' Meeting for changes to the By-Laws concerning the percentages established for the exercise of the actions and prerogatives provided for the protection of minorities.

## 17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (pursuant to Art. 123-bis, paragraph 2, letter a) of the TUF)

The Issuer does not apply any additional corporate governance practices, other than those described in the preceding sections of this Report.

## 18. CHANGES OCCURRING SINCE THE END OF THE YEAR

No changes in the structure of the corporate governance of the company have occurred since the end of the Year.

Milan, 6<sup>th</sup> March 2014

*On behalf of the Board of Directors  
The Chairman and CEO  
Giovanni Recordati*

## ATTACHMENT 1

### PROFESSIONAL OVERVIEW OF THE DIRECTORS

#### GIOVANNI RECORDATI

Giovanni Recordati holds a degree in chemical engineering from the Politecnico di Milano and a master's degree in Management Sciences from Imperial College London.

He joined Recordati in 1974 as a researcher. In 1980, he was appointed as Central Production Manager and, in 1984, as Deputy General Manager for Operations and Research. In 1990, he was appointed Chief Executive Officer with responsibility for managing the operational activities of the Group's Italian and foreign companies. He has been a member of the Board of Directors since 1977. Presently he is Chairman, Chief Executive Officer and General Manager of Recordati S.p.A..

#### ALBERTO RECORDATI

Alberto Recordati graduated from University of London King's College in 1977 with a degree in biochemistry and in 1984 successfully completed a research PhD within the Biochemistry Department of Charing Cross Hospital Medical School part of that same university.

He joined Recordati in 1984 as a researcher in the biochemistry laboratories. In 1987 he was appointed Head of the Planning and Product Development Office. From 1990 to 1992, he worked for the US subsidiary Pharmetrix Corp as research project coordinator. In 1992 he was appointed Industrial Manager for Biochemicals with responsibility for biochemical/microbiological research and for the Cassina dè Pecchi biochemical/fermentation production site. In 1995, he became Head of the Chemical Research and Technologies Division. In 1999, he was appointed director in charge of the fine chemicals sector and in 2004 Deputy Chairman of Recordati S.p.A. He has held responsibility for co-ordinating the "Drug Discovery" and "Drug Development" activities of the Company since 2008 and also for licensing-in activities since 2011.

#### SILVANO CORBELLA

Silvano Corbella was born in Novara, April 18th 1965. After he received the degree in Business Administration at Bocconi University in Milan, he began the academic career, teaching at Bocconi University, SDA Bocconi, Libero Istituto Universitario Carlo Cattaneo in Castellanza and Cattolica University in Cremona. In 1994 he joined the University of Verona as Assistant Professor. At the same time, and until 2008, he taught at SDA Bocconi, where for nearly a decade he was also tenured of the Financial Accounting course at the Master in Business Administration. At the beginning of 2011, after various career steps, he became Full Professor at the University of Verona, where he has been teaching Accounting and carrying out his research activity for 20 years.

He is Chartered Accountant and Auditor and holds various assignments: he is Chairman and/or Supervisory Body member of both listed and unlisted companies and of an American Merchant Bank branch. Moreover, he is member of several Boards of Statutory Auditors. Finally, he was appointed by Banca d'Italia as a member of "Comitato di Sorveglianza" in two banks under compulsory administration. In relation to his professional activity, he provided capital evaluations for different purposes, also with regard to listed companies, and financial economic opinions; he has been an accounting expert of Arbitral Board and of civil and penal proceedings.

He is author of several articles and five monographs on topics related to internal audit system, financial statement and stock options. With regard to these topics, he is a regular speaker at conferences and workshops.

Prof. Silvano Corbella is chairman of the Board of Statutory Auditor of the following companies:

1. Everel Group S.p.A
2. Effe TV S.r.l.

Member of the Board of Statutory Auditor of the following companies:

3. Leonardo & Co S.p.A.
4. Growermetal S.r.l.
5. Virginio Cattaneo S.p.A.
6. Procos S.p.A.
7. Librerie Feltrinelli S.r.l.
8. Gian Giacomo Feltrinelli Editore S.r.l.
9. Ivri Direzione S.p.A.
10. I.V.R.I. Istituti di Vigilanza Riuniti S.p.A. (Milan)

### MARIO GARRAFFO

Mario Garraffo graduated in 1960 with a degree in Economics from the "Bocconi" University in Milano.

From 1960 to 1970, he was Controller and Development Director of La Centrale Finanziaria Generale, a holding company principally involved in the public utilities area (communications and energy). From 1970 to 1980, he was Investment Director at the IFI group; from 1980 to 1985 he was Chief Executive Officer of IFIL - Finanziaria di Partecipazioni and from 1985 to 1993 President of IFINT (now EXOR).

In 1993, he was appointed Chief Executive Officer of Lazard Italia until the acquisition of Vitale, Borghesi & Co. in 1998. Thereafter, he was appointed Chief Executive Officer of UNIM, a post which he held until the year 2000, when he was appointed as Chairman of General Electric Italia until 2004. He was then a Senior Advisor for General Electric Europe from 2004 until 2007. He is an independent director and a member of the Audit and Risk Committee of the Recordati S.p.A.. He has been a Trustee of the Johns Hopkins University of Baltimore and a Trustee of the Johns Hopkins School for Advanced International Studies (SAIS) in Bologna.

From 1995 to 2006 he was President of the Università Bocconi Alumni Association and member of the Board of Directors of the Donna Javotte Bocconi Foundation (founding entity of the Università Bocconi).

Dr. Garraffo holds the following additional positions:

- Chairman IVG SGR SPA
- Director GE INTERBANCA SPA

### MARIO GERMANO GIULIANI

Mario Germano Giuliani was born in London on February 26th 1972 and he holds a degree in Economy and Commerce from the Catholic University of Sacred Heart in Milan, Italy.

He starts his career in the pharmaceutical industry in 1996 in Giuliani SpA where he works in marketing, sales, finance and control.

In 1998 and 1999, Mr. Giuliani was an investment professional with Vector Fund Management, a private equity firm focused on healthcare and life sciences with approximately \$250 million under management.

After his experience in the US, Mr. Giuliani re-joins Giuliani SpA as chief financial officer until 2001. In 2001 he becomes chief executive officer and in 2003 president.

In 2012 he joins the Board of Directors of HBM Healthcare Investments, a company listed on SIX Swiss Exchange.

### UMBERTO MORTARI

Umberto Mortari was born in Milan on October 27th, 1946. He was awarded a degree in Law at the "La Sapienza" University of Rome. He attended different Business and Management Programs at INSEAD and at the Business Schools of Harvard University and Michigan University.

In June 2001 he was awarded by the University of Chieti "G.D'Annunzio" an HC degree in Medicine and in September 2005, by the University of Pavia, an HC degree in Pharmacy.

He joined Merck Sharp & Dohme (Italia) S.p.A. in 1972, where he held various positions in the areas of Marketing, Sales and Business Planning Research.

In 1981 he was appointed Marketing Director, in 1986 Director of Pharmaceutical Division, in 1987 member of the Board of Directors and Managing Director in 1991.

Since January 1992 to December 2007 he became President, Managing Director and Vice President of Merck Europe. He has held the following positions in other companies of Merck Italia Group: President and Managing Director of Neopharmed in Milan; President and

Managing Director of the Istituto Gentili in Pisa; member of the Board of Directors of the Istituto di Ricerche Biomolecolari-Pietro Angeletti in Pomezia and President of the MSD Foundation.

Member of FARMINDUSTRIA Board, where he was Vice President for eight years.

He was also President of the Center of Clinical Physiology and Hypertension of the University of Milan; Vice President of the Forum for Biomedical Research of CENSIS and member of the Board of the Italian Society of Pharmaceuticals Sciences.

Currently he is member of Visufarma S.p.A. Board of Directors.

### CARLO PEDERSOLI

Carlo Pedersoli was admitted to the Milan bar in 1980.

A partner in the Pedersoli e Associati law firm, he is a civil lawyer who deals predominantly in company and commercial law for national and international clients operating both in the financial/banking sector and in the industrial sector. He has spoken at conferences on company and commercial law, analysing the topic of financial statements, validity of shareholders' resolutions and responsibility of auditors.

He is part of the Board of Directors and of the Audit and Risk Committee of Recordati S.p.A. and of the Board of Directors of Fondazione TogetherToGo Onlus.

He has also been a Director of the companies Riello S.p.A., Sigla Engineering S.p.A., Nextam Partners SGR S.p.A., Welfare Italia Servizi S.r.l. and Chairman of the company Sistemi Tecnologici Holding S.p.A., the holding company of Sistemi Tecnologici S.p.A. which is in turn the holding company of Sirti S.p.A..

## ANDREA RECORDATI

Andrea Recordati gained a Bachelor of Arts in medieval and modern history from the University of London Royal Holloway and Bedford New College. Between September 1995 and March 1998, he participated in the SmithKline Beecham Management Access Program, in the United Kingdom, starting off as Assistant Product Manager in Consumer Healthcare and then, for one year, occupying the role of medical representative in Essex before becoming Project Manager responsible for the development and implementation of an innovative SmithKline Beecham marketing initiative.

He joined Recordati in 1998 as Project Leader for a project aimed at improving Sales Force productivity and better use of marketing investments. In April 1998, he joined the Board of Directors of the Company.

In 1999, he was given responsibility for Pharmaceutical Business Development.

In March 2002, the Lercanidipine Business Unit was set up and he was appointed head of that unit. Since November 2002, he has been responsible for setting up the subsidiary Recordati Ireland and its industrial plant and, subsequently, for setting up the UK subsidiary. In September 2006, he was appointed Sole Director of the German subsidiary Recordati Pharma GmbH. In August 2007, the Northern and Central Europe Subsidiaries Division was set up and he was appointed head of that division. That division was enlarged in 2010 to include all western European companies. In February 2011 he was appointed General Manager of the International Pharmaceuticals Division. On 29 July 2013 he was appointed Chief Operating Officer, being responsible for all the commercial and production activities of the Group. He sits on several boards of directors within the Group.

## MARCO VITALE

Marco Vitale business economist. He has taught for several years business economy at Pavia University (where he also studied at the famous Ghislieri College); Bocconi University, Milan; Libero Istituto Universitario Carlo Cattaneo (for which he was vice-president, President of the Scientific Committee, and responsible for management area and which he contributed to create). He has been chairman of Istud (Foundation for the business culture and management), which he also contributed to relaunch, and has been coordinator for management area of ISTAO, post-degree management school founded by the economist Prof. Giorgio Fuà.

Former partner of Arthur Andersen & Co., he is founding partner and president of Vitale–Novello & Co. S.r.l., top management consulting firm. In this context he is consultant and member of the board of directors for many important companies.

He has been president from 1984 till 2003 of A.I.F.I. (Italian Venture Capital and Private Equity Association) and promoter and first president of Arca Group, the mutual fund company of popular banks.

He has been Vice-president, member of the board and of the Executive Committee of Banca Popolare di Milano from 2001 till 2009 and was Chairman of Bipiemme Gestioni S.G.R., the Asset Management Company of the BPM Group.

President of the Rino Snaidero Scientific Foundation; member of the Board of Olivetti Foundation; member of the Board of FAI Foundation. He is a member of UCID Brescia.

He has been President from March 2010 till June 2013 of Fondo Italiano di Investimenti SGR SpA, constituted by the Treasury Ministry, Confindustria, ABI, Banca Intesa, Unicredit, Monte Paschi, Crediop and some popular banks, with a capital of 1.2 billion Euro, with the aim of sustaining development projects and internationalization of small to medium-sized companies.

He has been appointed to several important public tasks.

He contributes to important leading newspapers and business magazines.

He published several books including:

Società, bilanci e borse valori in un mercato mobiliare evoluto (Etas-Kompass); La riforma delle società per azioni (Giuffrè); La lunga marcia verso il capitalismo democratico (Ed. Il Sole-24 Ore); Liberare l'economia: le privatizzazioni come terapia alla crisi italiana (Ed. Marsilio); Le Encicliche sociali, il rapporto fra la Chiesa e l'economia (Ed. Il Sole-24 ore); Sviluppo e Spirito d'Impresa (Ed. Il Veltro); America. Punto e a capo (Scheiwiller); Il Mito Alfa (Egea editore, Bocconi); Lezioni di Impresa, da tempi e luoghi diversi – I proverbi di Calatafimi (Piccola Biblioteca Inaz, 2008); Gli angeli nella città (ESD Edizioni); Passaggio al Futuro, Oltre la Crisi attraverso la Crisi (Ed. Egea, Bocconi); Corruzione (ESD Bologna 2010); Responsabilità nell'impresa (Piccola Biblioteca d'Impresa Inaz, 2010); Spiritualità nell'impresa (Piccola Biblioteca d'Impresa Inaz, 2011); Viaggio nello sport italiano (ESD Edizioni, 2011).

He was editor in Italy and USA of the bilingual version of the essay of Carlo Cattaneo: "Intelligence as a principle of public economy".

Good mountain - climber, he has covered great part of Italy by bicycle, a good way to observe the Italian economy as it really is and not as people say to be.

Prof. Vitale holds the following additional positions:

- Director ERMENEGILDO ZEGNA HOLDITALIA SpA.
- Director Snaidero SpA.
- Director LUVE SpA
- Director SMEG SpA
- Director Banca Passadore SpA

## FRITZ SQUINDO

Fritz Squindo was born in Gressoney St. Jean (Aosta, Italy) on May 19th, 1956 and graduated "cum laude" in Economics at the Bocconi University in Milan, Italy. He started his career in 1981 in Telettra S.p.A., a telecommunications company within the Fiat Group, where he was employed in the finance department. In 1986 he joined Sanofi S.p.A., the Italian subsidiary of the French pharmaceutical group Sanofi, where he was first Head of Finance and, as from 1990, Head of Management Accounting. In 1992 he joined Recordati S.p.A. as Head of the Management Accounting department. In 1995 he was appointed Chief Financial Officer and in 2008 also became Managing Director. Since 2013 Mr. Squindo is a member of the Board of Directors of Recordati S.p.A. and is also part of the managing bodies of several Recordati Group companies.

## WALTER WENNINGER

Walter Wenninger has worked for more than 30 years in the international healthcare industry in Germany, Europe and USA.

He has been a member of the Board of Management at Bayer AG, Germany, responsible for life science and health care and Chairman of the Board of Bayer Corp. Pittsburg, USA.

He has been a member of the Board of Trustees of the German Cancer Research Centre, Heidelberg, of the German Cardiac Research Foundation, Frankfurt and a member of the Executive Committee of the Robert-Koch-Foundation in Germany.

He currently occupies various positions on the boards of directors of European biopharmaceutical companies.

Wenninger holds positions in the following companies:

- Chairman of the Board of Directors of Evotec AG, Hamburg, Germany
- Chairman of the Board of Directors of Noxon Pharma AG, Berlin, Germany.
- Chairman of the Board of Directors of Santaris Pharma, Horsholm, Denmark.
- Member of the Novo A/S Advisory Group, Hellerup, Denmark.

## CURRICULA VITAE OF THE MEMBERS OF THE BOARD OF STATUTORY AUDITORS

### STATUTORY AUDITORS

#### MARCO NAVA

Marco Nava graduated in Economics and Commerce and in Jurisprudence at the Università Cattolica del Sacro Cuore of Milan. He started his career as an accountant in 1988. He has been registered as an auditor since the first publication of the register (1995).

He performs his principal activity as an accountant with his own offices in a partnership of accountants and lawyers.

He is a statutory auditor and external auditor for companies operating in various sectors.

Marco Nava holds positions in the following companies:

- Chief Executive Officer Nava Viganò Revisori Associati Srl.
- Sole director Tazat Srl.
- Chairman of the Board of Statutory Auditors Cavenaghi SpA.
- Chairman of the Board of Statutory Auditors Dott. G. Cavenaghi SpA.
- Chairman of the Board of Statutory Auditors Fratelli Re SpA.
- Chairman of the Board of Statutory Auditors Générale de Santé Italia SpA.
- Chairman of the Board of Statutory Auditors Logica Consulting & Solutions srl (since 01.01.2014).
- Chairman of the Board of Statutory Auditors Max Moda SpA.
- Chairman of the Board of Statutory Auditors Prodotti naturali SpA.
- Chairman of the Board of Statutory Auditors Promunidi srl.
- Chairman of the Board of Statutory Auditors Recordati SpA.
- Chairman of the Board of Statutory Auditors RBR Valvole SpA.
- Chairman of the Board of Statutory Auditors SL Diagnostic Services Italy srl.
- Chairman of the Board of Statutory Auditors Synlab Italia srl.
- External Auditor Associazione Italiana Medicina Nucleare (AIMN).
- External Auditor Società Italiana di Biochimica Clinica (SIBIOC).
- Statutory Auditor Beaumanoir Italy srl.
- Statutory Auditor Campo SpA.
- Statutory Auditor Chili SpA.
- Statutory Auditor Elcrom srl.
- Statutory Auditor Fimei SpA.
- Statutory Auditor Giuseppe & Fratelli Bonaiti SpA.
- Statutory Auditor Innova Pharma SpA.
- Statutory Auditor J Colors SpA.
- Statutory Auditor Junionfin SpA.
- Statutory Auditor Marionnaud Parfumeries Italia SpA.
- Statutory Auditor National Instruments Italy srl.
- Statutory Auditor Recofarma srl.
- Statutory Auditor S.I.S.A. Società Italiana Spalmature ed Affini SpA.
- Statutory Auditor Twister Communications SpA.
- Statutory Auditor Yazaki Europe Limited Italia srl.
- Statutory Auditor Avio San Michele srl.



## MARCO RIGOTTI

Marco Rigotti was born in Milan on 16th June 1967. He graduated in Corporate Economics at the Bocconi University of Milan in 1992, and registered with the Albo dei Dottori Commercialisti (association of chartered accountants) of Milan in 1993 and in the register of auditors in 1999. He left the Consob in 1998 where he performed studies into insider trading and share price manipulation. He practices as an accountant in Milan and performs research at the A. Sraffa Department of Legal Studies at the Bocconi University where he is a lecturer in commercial law. He is the author of numerous academic publications on company law and financial markets.

Dr. Marco Rigotti occupies the following management and supervisory positions in other companies:

- Chairman of the Board of Statutory Auditors of AUTOGRILL S.p.A.
- Chairman of the Board of Statutory Auditors of WORLD DUTY FREE S.p.A.
- Chairman or Director of Various Company of Meridiana Group:
- Meridiana Fly S.p.A. (Chairman)
- Air Italy Holding srl. (Chairman)
- Air Italy S.p.A. (Chairman)
- Meridiana Maintenance S.p.A. (Chairman)
- Meridiana S.p.A. (Director)
- Geasar S.p.A. (Director)

## ACHILLE SEVERGNINI

Achille Severgnini was graduated in Business Administration at "Libero Istituto Universitario Carlo Cattaneo" in Castellanza in 1998. Registered as an Accountant of Dottori Commercialisti in Milan in 2002 and since 2002 had his career at Milan, as a partner of Studio Severgnini - Commercialisti Associati.

He is a director, statutory auditor and external auditor for the following companies:

- Statutory Auditor of Artes s.r.l.
- Statutory Auditor of Bacamul S.p.A.
- Director of Finsev S.p.A.
- Director of Giuliani Group S.p.A.
- Director of Giuliani S.p.A.
- Statutory Auditor of Immobiliare Vitagliano S.p.A.
- Chairman of the Board of Statutory Auditors of Immobiliare Apollo XIV S.p.A.
- Statutory Auditor of Immobiliare Arkimede S.p.A. in liquidation.
- Statutory Auditor of Technit Industrial Corporation S.p.A.
- Statutory Auditor of Tenova S.p.A.
- Auditor of Centro Velico Caprera
- Auditor of Società Italiana di Pediatria

## ALTERNATE AUDITORS

### ANTONIO MELE

Antonio Mele was born in Galatina (LE) on the 5th of June 1968 and he graduated with highest honors in Economics and Banking in 1991, he is a Chartered Accountant registered in Milan since 2007 and member of the Auditors Register since 1999.

Antonio started his career in Consob as supervisory inspector.

After leaving Consob in 1999, he joined Sanpaolo IMI Group (now Intesa Sanpaolo), working in various roles in Banca IMI, the Group investment bank; in 2002 he became CFO and in 2005 he was appointed Head of the Operations (including all the support functions: finance and administration, middle office, back office, legal, etc...).

In 2007 Antonio left the Group starting an independent consultancy activity focused on banking and financial sector (financial reporting, governance, operations, legal and compliance).

Antonio is collaborating with leading investment banks in structuring various capital market transactions.

Antonio currently serves as:

- Statutory Auditor of MERIDIANA Fly S.p.A.
- Statutory Auditor of MERIDIANA S.p.A.
- Statutory Auditor of SHINE SIM S.p.A.
- Statutory Auditor of TASNCH HOLDING S.p.A.
- Statutory Auditor of VALUE INVESTMENTS S.p.A.
- Statutory Auditor of BANCA ITB S.p.A.
- Statutory Auditor of POLARIS REAL ESTATE SGR S.p.A.
- Statutory Auditor of TAS S.p.A.

## MARCO ANTONIO VIGANO'

Marco Antonio Viganò graduated in Corporate Economics, specialising in freelance professionals, at the Bocconi University of Milan in 1984. He passed state examinations and qualified to practice as an accountant in 1986 when he registered with the *Albo dei Dottori Commercialisti* (association of chartered accountants) of Milan.

He has been registered as an auditor since the first publication of the register (1995). An expert in commercial and tax law, he practices as an accountant and advises companies, groups and organisations operating in a variety of economic sectors.

He has been a lecturer at the *Scuola di Formazione del Praticantato* for accounting students and accountant and auditor for the *Università Cattolica del Sacro Cuore* of Milano.

Marco Antonio Viganò holds positions in the following companies:

- Sole Director Chem Investment Consulting Srl.
- Sole Director QE Qualità Europa Srl.
- Director R.B.R. Valvole SpA.
- Chairman of the Board of Statutory Auditors Beaumanoir Italy Srl.
- Chairman of the Board of Statutory Auditors Elcrom srl.
- Chairman of the Board of Statutory Auditors J Colors SpA.
- Chairman of the Board of Statutory Auditors Junionfin SpA.
- Chairman of the Board of Statutory Auditors Marionnaud Parfumeries Italia SpA.
- Chairman of the Board of Statutory Auditors Twister Communication Group SpA.
- Chairman of the Board of Statutory Auditors Vibro-mac Srl.
- Chairman of the Board of Statutory Auditors Xilografia Nuova Srl
- Chairman of the Board of Directors Masseria Giancamisa Soc. Agr. Srl.
- Chairman of the Board of Directors Nava Viganò Revisori Associati Srl.
- Auditor Assovernici.
- Auditor Ilas.
- Auditor Progetto DDD Onlus.
- Statutory Auditor of Auditor Fratelli Re SpA.
- Statutory Auditor of Generale de Santé Italia SpA.
- Statutory Auditor of Immobiliare Parabiago SpA.
- Statutory Auditor of Immobiliare Risanamento SpA.
- Statutory Auditor of Vi.Ma. SpA.
- Statutory Auditor of Tecmec srl.

This booklet is a summary of the 2013 Report of Board of Directors of Recordati SpA, which has been publicly filed in accordance with Italian law.

All mentions and descriptions of Recordati prescription products are intended solely to inform the reader of the general nature of the Company's activities with the sole objective of presenting the Annual Report. They are not intended to promote the use, or to indicate the advisability of using, Recordati prescription products, in compliance with existing law.

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**BOARD OF DIRECTORS  
(elected by the Shareholders'  
Meeting of April 17, 2014)**

**Giovanni Recordati**  
Chairman and Chief Executive Officer

**Alberto Recordati**  
Vice Chairman

**Andrea Recordati**  
Chief Operating Officer

**Rosalba Casiraghi**  
Business consultant  
and external auditor

**Michaela Castelli**  
Of Counsel studio NCTM

**Paolo Fresia**  
Advisory Services Associate,  
Business for Social Responsibility

**Mario Garraffo**  
Former Senior Adviser  
GE Europe

**Carlo Pedersoli**  
Partner  
Pedersoli e Associati Law Firm

**Fritz Squindo**  
Chief Financial Officer  
General Manager for the  
Coordination of Group Operations

**Marco Vitale**  
Economist and Business Consultant

**AUDIT AND RISK COMMITTEE**

**Marco Vitale**  
President

**Mario Garraffo**  
**Carlo Pedersoli**

**REMUNERATION COMMITTEE**

**Mario Garraffo**  
President

**Rosalba Casiraghi**  
**Michaela Castelli**

**STATUTORY AUDITORS**

**Marco Nava**  
President

**Livia Amidani Aliberti**  
**Marco Rigotti**  
Auditors

**Patrizia Oriundi Paleologo**  
**Marco Antonio Viganò**  
Alternate auditors

**EXTERNAL AUDITORS**

**KPMG S.p.A.**

**MANAGEMENT**

**Giovanni Recordati**  
Chairman  
and Chief Executive Officer

**Alberto Recordati**  
Vice Chairman

**Andrea Recordati**  
Chief Operating Officer

**Enrico Baroncia**  
Pharmaceuticals, Italy

**Walter Bevilacqua**  
Corporate Development

**Luca Bolliger**  
Licensing

**Corrado Castellucci**  
Orphan Drugs

**Daria Ghidoni**  
Group Legal Affairs

**Antoine Grouès**  
International Licensees Sales

**Antonio Magni**  
Manufacturing and Logistics

**Luisa Mainoli**  
Group Finance

**Bernard Millet**  
Western Europe Subsidiaries

**Giovanni Minora**  
Group Audit

**Diego Provvedini**  
Drug Discovery and Development

**Arnaldo Restelli**  
South Eastern Europe and  
North Africa Subsidiaries

**Paolo Romagnoli**  
Pharmaceutical Chemicals

**Fritz Squindo**  
Chief Financial Officer  
General Manager for the  
Coordination of Group Operations

**Marianne Tatschke**  
Investor Relations  
& Corporate Communications

**Witold Urban**  
Central Eastern Europe Subsidiaries

# RECORDATI

Industria Chimica e Farmaceutica S.p.A.

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