



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

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

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

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. (the "Company"), which comprise the statement of financial position as at 31 December 2017, the income statement and the statements of other comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Recordati Industria Chimica e Farmaceutica S.p.A. as at 31 December 2017 and of its financial performance and cash flows for the year then ended 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the separate financial statements" section of our report. We are independent of Recordati Industria Chimica e Farmaceutica S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of equity investments

Notes to the separate financial statements: paragraphs 2 "Summary of significant accounting policies" and 15 "Investments"

Key audit matter	Audit procedures addressing the key audit matter
<p>The separate financial statements at 31 December 2017 include investments of €774.4 million.</p> <p>Annually or more frequently, if necessary, the directors check the recoverable amount of the equity investments by comparing their carrying amount to their value in use, calculated using a method that discounts expected cash flows.</p> <p>The key assumptions used to calculate value in use relate to the operating cash flows' forecasts over the calculation period and the discount and growth rates of those flows.</p> <p>The directors have forecast the operating cash flows for the explicit projection period (2018-20) used for impairment testing on the basis of the 2018 budget approved by the board of directors, and of the reasonable assumptions use to update the 2017-19 business plan, which was approved by the board of directors on 9 February 2017.</p> <p>Impairment testing entails a high level of judgement by the directors, especially forecasting the operating cash flows, which takes into account the general economic performance and that of Company's sector. Accordingly, the recoverability of the equity investments' carrying amount was a key audit matter.</p>	<p>Our audit procedures, which also involved our own valuation specialists, included:</p> <ul style="list-style-type: none">— understanding the process adopted for impairment testing approved by the Company's board of directors;— understanding the process adopted to prepare the 2018-20 business plan from which the expected cash flows used for impairment testing have been derived;— analysing the reasonableness of the assumptions used by the directors to determine the recoverable amount of equity investments, including the operating cash flows of the 2018-20 plan used by the Company. Our analyses included comparing the key assumptions used to the historical data and external information, where available;— analysing the reasonableness of the assumptions underlying the valuation model used by the Company to calculate the recoverable amount of equity investments;— assessing the appropriateness of the disclosures provided in the notes.



Measurement of provisions for taxes

Notes to the separate financial statements: paragraphs 2 "Summary of significant accounting policies", 32 "Provisions" and 40 "Litigation and contingent liabilities"

Key audit matter	Audit procedures addressing the key audit matter
<p>The separate financial statements at 31 December 2017 include provisions for taxes of €25.7 million.</p> <p>When the risk of losing a dispute relating to an obligation arising from a past event is probable and the amount of the liability can be reliably estimated, the Company makes a provision.</p> <p>The Company and its subsidiaries are involved in tax disputes. Specifically, the tax police carried out a general direct tax audit. The audit, started in December 2015, originally related to the tax years from 2009 to 2014 and was subsequently extended to 2015. It covered the Recordati group companies based in Ireland and Luxembourg and aimed at checking their operating environment, to assess whether they are only formally based abroad but are actually managed/administrated from Italy.</p> <p>The Company provided for €22.1 million in relation to this dispute.</p> <p>Due to the complexity and subjectivity of the risks inherent in the above dispute, we believe that the measurement of provisions for taxes is a key audit matter.</p>	<p>Our audit procedures, which also involved our own tax specialists, included:</p> <ul style="list-style-type: none">— analysing the internal procedures and processes and checking the operating effectiveness of the controls over the measurement of provisions for taxes;— analysing documents and discussing the method used to calculate the provisions for taxes with the relevant internal departments, including in the light of the progress of the existing dispute compared to the previous year;— sending written requests for confirmation to the external advisors assisting the directors with the existing dispute and the remeasurement of the provisions for taxes ;— assessing the appropriateness of the disclosures provided in the notes.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Recordati Industria Chimica e Farmaceutica S.p.A. (the "Company") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view 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 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.



The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 13 April 2011, the shareholders of Recordati Industria Chimica e Farmaceutica S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2011 to 31 December 2019.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of Recordati Industria Chimica e Farmaceutica S.p.A. are responsible for the preparation of the Company's directors' report and report on corporate governance and ownership structure at 31 December 2017 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Company's separate financial statements at 31 December 2017 and their compliance with the applicable law and to express a statement on any material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. at 31 December 2017 and have been prepared in compliance with the applicable law.



Recordati Industria Chimica e Farmaceutica S.p.A.

Independent auditors' report

31 December 2017

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 27 March 2018

KPMG S.p.A.

(signed on the original)

Claudio Mariani
Director of Audit

**PROPOSED ANNUAL REPORT
AS AT AND FOR THE PERIOD ENDED
31ST DECEMBER 2017**

RECORDATI INDUSTRIA CHIMICA E FARMACEUTICA S.p.A.

Registered Office: 1 Via Matteo Civitali, Milan

Fully paid up share capital: € 26,140,644.50

Fiscal code and Milan Company Registration No. 00748210150

The Company prepares the consolidated financial statements for the Recordati group.

BOARD OF DIRECTORS

ALBERTO RECORDATI

Chairman

ANDREA RECORDATI

Vice Chairman, Chief Executive Officer and General Manager

FRITZ SQUINDO

ROSALBA CASIRAGHI

Independent

MICHAELA CASTELLI

Independent

PAOLO FRESIA

Independent

MARIO GARRAFFO

Independent

MARCO VITALE

Independent

ELISA CORGHI

Independent

BOARD OF STATUTORY AUDITORS

ANTONIO SANTI

Chairman

MARCO NAVA

LIVIA AMIDANI ALIBERTI

Statutory Auditors

PATRIZIA PALEOLOGO ORIUNDI

ANDREA BALELLI

Alternate Auditors

Review of operations

To Our Shareholders,

The Annual Report of the Company for the year ended 31st December 2017, which we submit to you for your approval, reports net income of € 212,505,744.

The review of operations in the consolidated annual report attached to this report may be consulted for information on operations and growth strategies.

In order to facilitate comprehension a reclassified income statement is given below showing revenue (1) and expense by function:

€ (thousands)	2017	% of revenue	2016	% of revenue	Change 2017/2016	%
Revenue (1)	371,131	100.0	321,535	100.0	49,596	15.4
Cost of sales	(149,756)	(40.3)	(138,757)	(43.2)	(10,999)	7.9
Gross profit	221,375	59.7	182,778	56.8	38,597	21.1
Selling expenses	(56,831)	(15.3)	(52,174)	(16.2)	(4,657)	8.9
R&D expenses	(30,167)	(8.1)	(24,645)	(7.7)	(5,522)	22.4
G&A expenses	(30,304)	(8.2)	(28,403)	(8.8)	(1,901)	6.7
Other income (expense), net	(2,611)	(0.7)	(2,960)	(0.9)	349	(11.8)
Operating income	101,462	27.4	74,596	23.2	26,866	36.0
Financial (expense)/income, net	(11,812)	(3.2)	(4,670)	(1.5)	(7,142)	152.9
Revaluation of investments	0	0	10,643	3.3	(10,643)	(100.0)
Dividends	160,050	43.1	53,021	16.5	107,029	201.9
Pretax income	249,700	67.3	133,590	41.5	116,110	86.9
Taxes	(37,194)	(10.0)	(23,488)	(7.3)	(13,706)	58.4
Net income	212,506	57.3	110,102	34.2	102,404	93.0

(1) The revenue reported in the reclassified income statement includes other income of € 123 thousand, relating in particular to training grants and rents, which in the statutory balance sheet are classified under Note 4 as Other revenue and income.

Revenue was up € 49.6 million on the same period in the previous year due above all to greater sales abroad. Sales of metoprolol based products in particular made by the Company in the second half totalled € 34.5 million (a description of the acquisition of the rights for “metoprolol” is given in the section Other Information).

Good growth was recorded in Italy in sales of the following prescription products: Urorec® (silodosin), a specialty indicated for the treatment of the symptoms of benign prostatic hypertrophy (BPH); and Cardicor® (bisoprolol), a drug belonging to the beta blocker class indicated for the treatment of chronic cardiac insufficiency.

Sales of pharmaceutical chemicals, consisting of the active ingredients produced at the Campoverde di Aprilia plant, amounting to € 40.9 million, were up 1.9% compared with 2016.

Selling expenses were up €4.7 million on the previous year attributable in particular to royalties paid and distribution costs resulting from the acquisition of metoprolol.

R&D costs totalled € 30.2 million accounting for 8.1% of revenue.

General and administrative expenses were up € 1.9 million on 2016 due to the expansion of central management units needed for the integration, monitoring and co-ordination of foreign subsidiaries as the Group implemented its international growth strategy.

Operating income of € 101.5 million was up 36.0% on the year before amounting to 27.4% of revenue.

Financial charges came to €11.8 million, up €7.1 million on the previous year, of which €4.0 million due to the negative balance on gains and losses resulting from exchange rate differences, related in particular to the performance of the United States dollar and the Tunisian dinar.

Net income came to € 212.5 million, up € 102.4 million on the previous year, due in particular to higher dividends.

A brief summary is given below of the net financial position, while further details are given in item 41 of the notes to the financial statements.

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Cash and cash equivalents and current receivables	274,111	206,672	67,439
Current debt	(337,091)	(360,213)	23,122
Net current financial position	(62,980)	(153,541)	90,561
Loans and receivables due after one year	10,105	16,396	(6,291)
Borrowings – due after one year ⁽¹⁾	(605,820)	(264,214)	(341,606)
Net financial position	(658,695)	(401,359)	(257,336)

(1) Including the recognition at fair value of derivative instruments to hedge foreign exchange rate risk (cash flow hedges).

The net financial position as at 31st December 2017 was a debt of € 658.7 million compared with a debt of € 401.4 million as at 31st December 2016.

Dividends were distributed during the year totalling € 159.6 million, of which € 72.1 million for the balance on the 2016 dividend and € 87.5 million as an interim dividend relating to 2017. Amounts were recognised attributable to the Company for the acquisition of European marketing rights on “metoprolol” for a net amount of €179.7 million and the brands Transipeg®, Transipeglib® and Colopeg® were purchased from Bayer for the French market for a pay-out of €27.8 million.

On 31st May 2017 the Company issued bonds for € 125.0 million, privately and fully placed through the Pricoa Capital Group.

Expenditure on property, plant and equipment came to € 9.0 million and related to investments made at the Milan headquarters (€ 4.4 million) for production and pharmaceutical research in particular, and also at the Campoverde plant (€ 4.6 million).

R&D

Urology and Andrology

The company is focusing its research on the identification of new pharmaceuticals for the treatment of urination disorders.

Rec 0438 is a product for intravesical administration and it is used for patients with neurological hyperactive bladder who must make daily recourse to self-catheterization to empty the bladder. The objective of this treatment is to reduce hyperactivity of the bladder and episodes of incontinence, which have a substantial impact on the quality of patients' lives. Once trials on healthy volunteers were completed, in 2017 trials were also completed on adult patients with post-traumatic lesions of the spine. The data acquired confirmed that this pharmaceutical was well tolerated locally and is not absorbed at the level of systemic circulation. A second trial at European level was therefore planned for patients with spinal lesions to assess the tolerance of repeated administrations of the pharmaceutical, carried out on patients both in hospital and in their homes. This trial will also constitute a "Proof of Concept", because the effectiveness of the pharmaceutical in reducing hyperactive bladder of neurological origin will also be assessed by carrying out a urodynamic test. If positive this trial will open up the way to the development of a pharmaceutical for paediatric spina bifida patients with secondary neurological hyperactive bladder.

Psychiatry

Reagila® (cariprazine)

Cariprazine is a potent dopamine D₃/D₂ receptor partial agonist with preferential binding to D₃ receptors and partial agonist at serotonin 5-HT_{1A} receptors. An agreement was signed in 2016 with Gedeon Richter to market this novel antipsychotic in Western Europe, Algeria, Tunisia and Turkey and to carry out a programme of paediatric trials in Europe.

Cariprazine received approval in 2017 from the European Medicines Agency (EMA) by means of a centralised procedure for the treatment of schizophrenia.

Schizophrenia is a mental disease characterised by serious behavioural disorders and disturbances of perception (hallucinations) and cognition (delirium). Delirium and hallucinations are also known as positive or productive symptoms and they are accompanied by negative symptoms such as apathy, with loss of affection and imagination, responsible for the loss of contact with reality by patients and their isolation within a world that is incomprehensible to others.

Assessment of the regulatory documentation is currently in progress by Swissmedic, in order to obtain authorisation for marketing also in Switzerland.

Other areas of treatment

Lomexin® (fenticonazole)

Fenticonazole is an antimycotic active ingredient for topical use, a product of Recordati research.

An *in vitro* trial was conducted in 2017 to test its antimycotic and antibacterial activities on strains of microorganisms isolated from patients. The resulting data will allow the potential of the pharmaceutical to be assessed in the treatment not only of mycotic infections, but also of mixed vagina infections. This data is of particular interest because approximately 20-30% of women with bacterial vaginitis are also co-infected with *Candida*. Development of a new vaginal soft capsule has also been commenced, with a different composition of the excipients, designed to improve patient compliance.

OTHER INFORMATION

An agreement was concluded in May with AstraZeneca for the acquisition of the European marketing rights for the products Seloken®/Seloken® ZOK (metoprolol succinate) and the fixed combination Logimax® (metoprolol succinate and felodipine). The deal was closed on 30th June (and on 10th July for the part regarding Rumania). Additionally, royalties will be due to AstraZeneca for the use of the product brands for an agreed period. Metoprolol succinate is a beta-blocker indicated mainly for the treatment of various disorders including hypertension, angina pectoris and disturbances of cardiac rhythm and maintenance treatment following myocardial infarct and functional cardiac disturbances with palpitations. It is a pharmaceutical that is widely used in all European countries which will allow Group companies to expand their product portfolios, especially in Poland, France and Germany.

The Company has considerable experience in marketing pharmaceuticals for cardiovascular diseases and has a large portfolio of pharmaceuticals for the treatment of hypertension and related disorders.

During the transition period, while waiting for the transfer of marketing authorisations in various countries, AstraZeneca has managed the distribution and sale of products on the market on behalf the Company on the basis of a transitional service agreement signed by both parties.

The impact of “metoprolol” on various items in the financial statements is described in the comments and in particular in the following notes to the income statement: No. 3 Revenue, No. 5 Costs for raw materials and goods, No. 7 Depreciation and amortisation and No. 8 Other operating expenses.

Treasury stock consisting of 3,028,000 shares was sold during the year for € 30,267 thousand, following the exercise of stock option rights by Group employees under the 2010-2013 and 2014-2018 stock option plans. The Company held treasury stock consisting of 863,262 shares as at 31st December 2017 accounting for 0.41% of the share capital.

The section “Principal risks and uncertainties” in the review of operations in the consolidated annual report attached to this report may be consulted for an analysis and description of the principal risks and uncertainties to which the Company is exposed pursuant to paragraphs 1 and 2 of article 2428 of the Italian Civil Code.

The information required under paragraph three, point 6-*bis* of Art. 2428 of the Italian Civil Code concerning the Company’s objectives and policies in respect of financial risk management is fully reported in the notes to the financial statements.

In compliance with the requirements contained in Art. 4, paragraph 7 of the Regulation on related-party transactions adopted with Consob Resolution 17221 of 12th March 2010 and subsequent amendments and also in Art. 2391-*bs*, paragraph 1 of the Italian Code, the Company reports that it has adopted “Regulations for related-party transactions”, the full text of which is available on the Company website at www.recordati.it (in the “Corporate Governance” section).

The Company has a secondary headquarters at 4 Via Mediana Cisterna, Campoverde di Aprilia (Latina).

Shares held by directors, statutory auditors, general managers and other key management personnel are reported in the Remuneration Report published in accordance with Art. 123-*ter* of the Consolidated Finance Law.

In compliance with Art. 37, paragraph 2 of the Markets Regulations adopted with Consob deliberation No. 16191 of 29th October 2007 as subsequently amended, we report that, although Recordati S.p.A. is controlled by Fimei S.p.A., it is not subject to management and co-ordination by that company within the meaning of articles 2497 et seq of the Italian Civil Code. This is because Fimei S.p.A. is a mere financial holding company with no operations of any kind and it does not exert any influence or conduct any activities which might affect the management decisions and organisation of Recordati S.p.A..

The Corporate Governance Report pursuant to article 123 *bis* of Legislative Decree No. 58/98, which contains

information pursuant to article 89 *bis* of the Issuers' Regulations, may be consulted on the Company website at www.recordati.it, in the section "Corporate Governance".

RELATED-PARTY TRANSACTIONS

As at 31st December 2017, intercompany accounts with Group companies and the parent company Fimei S.p.A. consisted of payables of € 355,967 thousand and receivables of € 115,127 thousand. The most significant items are as follows:

- receivables of € 17,520 thousand for loans granted to Group companies;
- payables of € 65,464 thousand for loans received from Group companies;
- trade receivables of € 37,545 thousand from subsidiaries;
- trade payables to subsidiaries of € 7,638 thousand;
- receivables from subsidiaries for the management of the centralised cash pooling treasury system amounting to € 60,062 thousand;
- payables to subsidiaries for the management of the centralised cash pooling treasury system amounting to € 280,386 thousand;

Sales and services to Group companies in 2017 amounted to € 137,997 thousand.

Dividends were received during the year from Bouchara Recordati S.a.s. amounting to € 60,000 thousand and from Recordati Ireland Ltd amounting to € 100,050 thousand.

Tax payables include those to the parent company Fimei S.p.A. amounting to € 2,479 thousand, which relate to the following:

- receivables for tax refunds requested relating to an application for an IRES (corporate income tax) tax refund because it had not made an expense based deduction from IRAP (regional tax on production) relating to personnel expense for employees for the years 2007 until 2011 in accordance with Art. 2, paragraph 1-quarter of Decree Law 201 of 2011;
- tax liabilities for current taxation relating to taxes for the year calculated on the basis of estimated taxable income. That liability was transferred by the Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.

The following summary is set out in the table below in compliance with Consob Resolution No. 15519 of 27th July 2006:

Percentage of transactions with related parties € (thousands)	Total	Related parties Amount	%
Percentage of transactions or positions in the balance sheet with related parties			
Trade receivables and other	90,806	37,545	41.35
Long-term financial assets	10,105	10,009	99.05
Short-term financial assets	67,573	67,573	100.00
Trade payables and other	85,172	10,117	11.88
Long-term financial liabilities	602,712	58,367	9.68
Short-term financial liabilities	334,707	287,483	85.89
Percentage of transactions or positions in the income statement with related parties			
Revenue	373,041	138,070	37.01
Income from investments	160,050	160,050	100.00
Costs of purchases and service provision	176,397	22,191	12.58
Financial income/(expense), net	(11,812)	(1,535)	13.00

Transactions and positions with related parties as a percentage of cash flows is basically the same as that for the income statement items because the transactions are conducted under normal market conditions.

SIGNIFICANT TRANSACTIONS, EXCEPTION TO DISCLOSURE OBLIGATIONS

The Company decided to take advantage, with effect from 20th December 2012, of the right not to comply with obligations to publish the reports required when significant extraordinary operations are performed consisting of mergers, demergers, share capital increases through contributions in kind, acquisitions and disposals, in accordance with Art. 70, paragraph 8 and with Art. 71, paragraph 1-*bis* of the Issuers' Regulations issued by Consob with Resolution No. 11971/1999 and subsequent amendments.

Cross-Border merger of Recordati SA Chemical and Pharmaceutical Company into Recordati S.p.A.

The terms of cross-border merger for the merger into Recordati S.p.A. (the "Acquiring Company") of the Luxembourg company Recordati S.A. Chemical and Pharmaceutical Company (the "Company Acquired"), which is wholly owned by it, was filed with the Company Registrar on 12th June 2017.

As already reported, the resolution passed by Recordati S.p.A.'s Board of Directors which approved the cross-border merger by acquisition of Recordati S.A. Chemical and Pharmaceutical Company was filed with the Milan Company Registrar on 7th April 2017, while the common draft terms of cross-border merger had been approved on 1st March 2017 by the Board of Directors of the Acquiring Company and on 27th February 2017 by the Board of Directors of the Company Acquired, each within the scope of their responsibilities and in co-operation with each other.

The merger was of the cross-border type because the two companies concerned belonged to two different member states of the European Union and it was carried out by the cancellation of all the shares issued by the Acquired Company and with no increase in the share capital of the Acquiring Company, because Recordati S.p.A. owned the entire share capital of Recordati S.A. Chemical and Pharmaceutical Company.

Furthermore, since this was a merger by acquisition in which the Acquiring Company was the direct owner of the entire share capital of the Company Acquired, "simplified" merger rules were applied in accordance with article 2505 of the Italian Civil Code, article 18 of Legislative Decree No. 108/2008, and article 278 *et seq* of the Luxembourg Law.

From an accounting viewpoint, the merger was carried out on the basis of the financial positions of the companies participating in the merger at 31st December 2016, as represented by the proposed separate company financial statements at and for the period ended 31 December 2016.

The elimination of the carrying amount of the investment in the Acquired Company (€ 217,586 thousand), against the equity of the latter (€ 247,399 thousand), generated a gain on the merger of € 29,813 thousand recognized in "Other Reserves" within the equity of the Acquiring Company.

The transactions of the Acquired Company have been recognized, also for income tax purposes, in the financial statements of the Acquiring Company from 1st January 2017. We underline that during the period of the financial year 2017 prior to the approval of the merger, the Acquired Company reported a loss of € 379 thousand. As a result of the merger, that loss was therefore recognized in the income statement of the Acquiring Company.

For greater ease of understanding the information below is reported in the pages that follow:

- the financial position of the Acquiring Company resulting after recognition of entries relating to the merger by acquisition of the Acquired Company calculated on the basis of the original financial positions of the two Companies as at 31st December 2016;

- details of movements that occurred in the financial statements of the Acquired Company during the course of 2017 before the merger contract was filed.

ACCOUNTING ENTRIES RELATING TO THE CROSS-BORDER MERGER BY ACQUISITION OF RECORDATI SA CHEMICAL AND PHARMACEUTICAL COMPANY INTO RECORDATI S.P.A.

BALANCE SHEET ASSETS	31/12/2016 RECORDATI S.P.A.	31/12/2016 RECORDATI S.A. LUX	Initial adjustments 01/01/17	Merger adjustments 01/01/17	01/01/2017 RECORDATI S.P.A.
NON-CURRENT ASSETS					
Property, plant and equipment	44,850,587	-	-	-	44,850,587
Intangible assets	25,516,643	-	-	-	25,516,643
Investments	621,143,621	355,031,276	9,918,583	(217,586,090)	768,507,390
	<i>Investments in "Recordati S.A. Lux"</i>	221,342,638	(3,756,548)	(217,586,090)	-
	<i>Investments in "Other Companies"</i>	399,800,983	13,675,131	-	768,507,390
Loans and receivables	16,396,325	-	-	-	16,396,325
Deferred tax assets	3,721,972	-	-	-	3,721,972
Total Non-Current Assets	711,629,148	355,031,276	9,918,583	(217,586,090)	858,992,917
CURRENT ASSETS					
Inventories	54,944,368	-	-	-	54,944,368
Trade receivables	53,100,706	65,309	-	(468)	53,165,547
Other receivables	10,556,382	190,920	-	-	10,747,302
Other current assets	539,034	-	-	-	539,034
Fair value of hedging derivatives	12,497,477	-	-	-	12,497,477
Other short-term receivables	119,856,750	12,955,621	1,352,376	(81,898,184)	52,266,563
Short-term financial investments, cash and cash equivalents	86,814,873	90,445	-	-	86,905,318
Total Current Assets	338,309,590	13,302,295	1,352,376	(81,898,652)	271,065,609
TOTAL ASSETS	1,049,938,738	368,333,571	11,270,959	(299,484,742)	1,130,058,526
BALANCE SHEET LIABILITIES					
EQUITY					
Share capital	26,140,645	82,500,000	-	(82,500,000)	26,140,645
Additional paid-in capital	83,718,523	-	-	-	83,718,523
Treasury stock	(76,761,059)	-	-	-	(76,761,059)
Statutory reserve	5,228,129	8,250,000	-	(8,250,000)	5,228,129
Other reserves	237,931,918	145,002,980	6,438,782	(115,190,368)	274,183,312
	<i>Other reserves</i>	237,931,918	6,438,782	(145,002,980)	244,370,700
	<i>Merger gain</i>	-	-	29,812,612	29,812,612
Revaluation reserve	2,602,229	-	-	-	2,602,229
Interim dividend	(72,245,319)	-	-	-	(72,245,319)
Net income for the previous year	-	59,188	-	(59,188)	-
Net income for the year	110,102,226	11,586,534	-	(11,586,534)	110,102,226
Total equity	316,717,292	247,398,702	6,438,782	(217,586,090)	352,968,686
NON-CURRENT LIABILITIES					
Loans	276,711,756	-	-	-	276,711,756
Personnel leaving indemnities	11,236,914	-	-	-	11,236,914
Other non-current liabilities	-	-	2,514,640	-	2,514,640
Deferred tax liabilities	-	-	2,317,537	-	2,317,537
Total Non-Current Liabilities	287,948,670	-	4,832,177	-	292,780,847
CURRENT LIABILITIES					
Trade payables	44,515,223	47,081	-	(468)	44,561,836
Other current payables	19,567,259	654,702	-	-	20,221,961
Tax liabilities	4,396,667	-	-	-	4,396,667
Other current liabilities	788	-	-	-	788
Provisions	12,958,448	-	-	-	12,958,448
Fair value of hedging derivatives (cash flow hedges)	3,621,403	-	-	-	3,621,403
Loans - due within one year	36,818,182	-	-	-	36,818,182
Bank overdrafts and short-term loans	1,777,678	-	-	-	1,777,678
Other short-term borrowings	321,617,128	120,233,086	-	(81,898,184)	359,952,030
Total Current Liabilities	445,272,776	120,934,869	-	(81,898,652)	484,308,993
TOTAL LIABILITIES	1,049,938,738	368,333,571	11,270,959	(299,484,742)	1,130,058,526

MOVEMENTS IN 2017 IN THE FINANCIAL STATEMENTS OF RECORDATI S.A. CHEMICAL AND PHARMACEUTICAL COMPANY PRIOR TO ITS CROSS-BORDER MERGER BY ACQUISITION INTO RECORDATI S.P.A.

RECORDATI S.A. LUX BALANCE SHEET ASSETS	Movements 01/01/17 - 12/06/17
NON-CURRENT ASSETS	
Investments	804,063
Total Non-Current Assets	804,063
CURRENT ASSETS	
Other loans and receivables	67,044
Other short-term receivables	(400,676)
Short-term financial investments, cash and cash equivalents	(6,832)
Total Current Assets	(340,464)
TOTAL ASSETS	463,599
RECORDATI S.A. LUX BALANCE SHEET LIABILITIES	Movements 01/01/17 - 12/06/17
EQUITY	
Net loss for the period	(379,285)
Total equity	(379,285)
NON-CURRENT LIABILITIES	
Total Non-Current Liabilities	-
CURRENT LIABILITIES	
Trade payables	20,335
Other short-term borrowings	822,549
Total Current Liabilities	842,884
TOTAL LIABILITIES	463,599
RECORDATI S.A. LUX INCOME STATEMENT	Movements 01/01/17 - 12/06/17
REVENUE	
Other revenues and income	76
Total Revenue	76
Other operating expenses	(105,626)
Operating income	(105,550)
Income from investments	86,000
Financial expense, net	(359,735)
Pre-tax loss	(379,285)
NET LOSS	(379,285)

BUSINESS OUTLOOK

The implementation of company policies, operations at the beginning of the current year, the potential of our products, the financial strength of the company and the managerial capacities of our personnel lead us to forecast a positive result again in 2018.

Milan, 15th March 2018

on behalf of the Board of Directors
The Vice Chairman and Chief Executive Officer
Andrea Recordati

RECORDATI S.p.A.

INCOME STATEMENTS FOR THE YEARS ENDED
31ST DECEMBER 2017 AND 31ST DECEMBER 2016

Income statement

Amounts in euro	Notes	2017	2016
Revenue	3	371,007,812	320,706,360
Other income:	4	2,033,524	2,406,223
Total income		373,041,336	323,112,583
Raw materials costs	5	(105,404,864)	(92,531,130)
Personnel costs	6	(79,795,958)	(80,893,025)
Depreciation and amortisation	7	(14,590,233)	(9,426,053)
Other operating expenses	8	(78,225,666)	(67,061,983)
Changes in inventories	9	6,437,179	1,395,412
Operating income		101,461,794	74,595,804
Revaluations of investments		0	10,779,000
Impairment of investments		0	(135,908)
Income from investments	10	160,050,000	53,021,231
Financial income (expense), net	11	(11,812,244)	(4,669,901)
Pre-tax income		249,699,550	133,590,226
Taxes	12	(37,193,806)	(23,488,000)
Net income for the year		212,505,744	110,102,226

Earnings per share (in euro)

Basic	1.026	0.534
Diluted	1.016	0.526

Basic earnings per share is calculated on average shares outstanding in the relative periods, consisting of 207,030,319 shares in 2017 and 206,117,418 in 2016. The figures are calculated net of average treasury stock held, which amounted to 2,094,837 shares in 2017 and 3,007,738 shares in 2016.

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

RECORDATI S.p.A.

BALANCE SHEETS as at 31ST DECEMBER 2017 and as at 31ST DECEMBER 2016

Assets

Amounts in euro	Notes	31 st December 2017	31 st December 2016
Non-current assets			
Property, plant and equipment	13	46,960,970	44,850,587
Intangible assets	14	239,514,582	25,516,643
Investments	15	774,357,367	621,143,621
Loans and receivables	16	10,104,582	16,396,325
Deferred tax assets	17	27,233,306	3,721,972
Total non-current assets		1,098,170,807	711,629,148
Current assets			
Inventories	18	61,381,547	54,944,368
Trade receivables	19	82,250,366	53,100,706
Other receivables	20	8,556,027	10,556,382
Other current assets	21	652,671	539,034
Fair value of hedging derivatives (cash flow hedges)	22	3,824,811	12,497,477
Other short-term receivables	23	67,573,180	119,856,750
Short-term financial investments, cash and cash equivalents	24	206,537,934	86,814,873
Total current assets		430,776,536	338,309,590
Total assets		1,528,947,343	1,049,938,738

RECORDATI S.p.A.

BALANCE SHEETS as at 31ST DECEMBER 2017 and as at 31ST DECEMBER 2016

Equity and Liabilities

Amounts in euro	Notes	31 st December 2017	31 st December 2016
Equity			
Share capital	25	26,140,645	26,140,645
Additional paid-in capital	25	83,718,523	83,718,523
Treasury stock	25	(17,029,155)	(76,761,059)
Statutory reserve	25	5,228,129	5,228,129
Other reserves	25	218,802,826	237,931,918
Revaluation reserve	25	2,602,229	2,602,229
Interim dividend	25	(87,469,996)	(72,245,319)
Net income for the year	25	212,505,744	110,102,226
Total shareholders' equity		444,498,945	316,717,292
Non-current liabilities			
Loans	26	602,712,138	276,711,756
Personnel leaving indemnities	27	10,860,373	11,236,914
Other non-current liabilities	28	2,514,640	0
Total non-current liabilities		616,087,151	287,948,670
Current liabilities			
Trade payables	29	55,763,611	44,515,223
Other current payables	30	20,992,064	19,567,259
Tax liabilities	31	8,416,591	4,396,667
Other current liabilities		0	788
Provisions	32	36,538,425	12,958,448
Fair value of hedging derivatives (cash flow hedges)	33	9,559,347	3,621,403
Loans – due within one year	34	47,224,432	36,818,182
Bank overdrafts and short-term loans	35	2,384,170	1,777,678
Other short-term borrowings	36	287,482,607	321,617,128
Total current liabilities		468,361,247	445,272,776
Total equity and liabilities		1,528,947,343	1,049,938,738

RECORDATI S.p.A.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31ST DECEMBER 2017 AND 31ST DECEMBER 2016

€ (thousands)	2017	2016
Net income for the year	212,506	110,102
Gains/(losses) on cash flow hedges	1,553	(4,130)
Valuation of the personnel leaving indemnity fund pursuant to IAS 19	(74)	(200)
Income (expense) for the year recognised directly in equity	1,479	(4,330)
Comprehensive income for the year	213,985	105,772

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Statutory reserve	Other reserves			Revaluation reserves	Interim dividend	Net (loss)/income for the period	Total
					Sundry reserves	Fair Value hedging instrument reserve	IAS compliance reserve				
Balance as at 31st December 2015	26,141	83,718	(35,061)	5,228	147,599	(3,289)	98,723	2,602	(61,605)	125,515	389,571
Allocation of 2015 net income as per shareholders' resolution of 13.4.2016:											
to reserves					2,425					(2,425)	0
dividends to shareholders									61,605	(123,090)	(61,485)
Repurchase of treasury stock			(71,605)								(71,605)
Sales of treasury stock			29,905		(7,187)						22,718
Dividends expired					5						5
Interim dividends									(72,245)		(72,245)
Comprehensive income for the period						(4,130)	(200)			110,102	105,772
IAS compliance as at 31 st December 2016											
Stock options							3,986				3,986
Balance as at 31st December 2016	26,141	83,718	(76,761)	5,228	142,842	(7,419)	102,509	2,602	(72,245)	110,102	316,717
Allocation of 2016 net income as per shareholders' resolution of 11.4.2017:											
dividends to shareholders									72,245	(110,102)	(37,857)
to reserves					(34,280)						(34,280)
Gain on merger					29,813						29,813
Sales of treasury stock			59,732		(29,465)						30,267
Dividends expired					5						5
Interim dividends									(87,470)		(87,470)
Comprehensive income for the period						1,553	(74)			212,506	213,985
IAS compliance as at 31 st December 2017											
Stock options							3,961				3,961
Reserve for adjustments to financial instruments							8,593				8,593
Recordati SA Lux IAS reserve							765				765
Balances as at 31st December 2017	26,141	83,718	(17,029)	5,228	108,915	(5,866)	115,754	2,602	(87,470)	212,506	444,499

RECORDATI S.p.A.

 CASH FLOW STATEMENT FOR THE YEARS ENDED 31ST DECEMBER 2017 AND 31ST DECEMBER 2016

€ (thousands)	2017	2016
Operating activities		
Net income for the year	212,506	110,102
Income from investments	(160,050)	(53,021)
Depreciation of property, plant and equipment	6,748	6,339
Amortization of intangible assets	7,842	3,087
Write-up/write-down of investments	0	(10,643)
(Increase)/decrease in deferred tax liabilities	(26,349)	950
Increase/(decrease) in personnel leaving indemnities	(377)	65
Other provisions	23,580	(1,357)
Dividends received	160,050	53,021
Trade receivables	(29,085)	4,812
Other receivables and other current assets	2,078	(4,127)
Inventories	(6,437)	(1,395)
Trade payables	11,202	4,566
Other payables and other current liabilities	769	(1,115)
Tax liabilities	4,020	(2,511)
Net cash from operating activities	206,497	108,773
Investing activities		
Net (investments)/disposals in property, plant and equipment	(8,858)	(7,670)
Net (investments)/disposals in intangible assets	(221,840)	(1,556)
Net (increase)/decrease in equity investments	(943)	(120,790)
Net (increase)/decrease in other non-current assets	6,292	6,035
Net cash used in investing activities	(225,349)	(123,981)
Financing activities		
Loans – due after one year	389,518	113,292
Dividends distributed	(159,607)	(133,730)
(Purchase)/sale of treasury stock	30,267	(48,887)
Effect on shareholders' equity of application of IAS/IFRS	1,934	1,493
Repayment of loans	(36,457)	(32,752)
Net cash from/(used in) financing activities	225,655	(100,584)
Effects of extraordinary operation		
Net (increase)/decrease in equity investments	(137,445)	0
Current assets and liabilities	445	0
Shareholders' equity	31,165	0
Net cash from/(used in) financing activities	(105,835)	0
Change in short-term financial position	100,968	(115,792)
Short-term financial position at beginning of year *	(116,723)	(931)
Short-term financial position at end-of-year *	(15,755)	(116,723)

* Includes the total of other short term loans, short-term financial investments and cash and cash equivalents, bank overdrafts and other short-term borrowings excluding the current portion of medium and long-term loans.

RECORDATI S.p.A.

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2017

1. GENERAL

The separate annual financial statements comprise the income statement, the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and these notes to the financial statements. In compliance with Legislative Decree No. 38 of 28th February 2005, – in implementation of the options provided for by Art. 5 of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19th July 2002 concerning International Accounting Standards – the separate company financial statements have been prepared applying the international accounting standards (IAS/IFRS) issued or revised by the International Accounting Standards Board and homologated by the European Union and also the regulations issued in implementation of Art. 9 of Legislative Decree No. 38/2005. The “IAS/IFRS” are intended as including all the interpretations of the International Financial Reporting Interpretation Committee (“IFRIC”), previously named the Standing Interpretations Committee (“SIC”).

The presentation adopted by the Company for the income statement in the separate annual financial statements classifies revenues and expenses by nature. The distinction between the principle of current and non-current was adopted for the presentation of assets and liabilities in the balance sheet.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on a historical cost basis, except for hedging derivatives (and the relative underlying hedged financial liability) for which their fair value has been applied and except for defined benefit plans for which the actuarial valuation was performed as prescribed by IAS 19.

Two new accounting standards are applicable as of 1st January 2018 for which early application was permitted. The accounting standard IFRS 9 “Financial instruments” introduces new requirements for the classification, measurement and impairment of financial assets and liabilities and new rules for hedge accounting.

The accounting standard IFRS 15 “Revenue from contracts with customers” sets five steps for the recognition of revenue to be applied to all contracts stipulated with customers, except for those that fall within the scope of the IAS/IFRS standards.

The Company did not exercise the option for early adoption of the new standards and in 2017 it completed studies to identify the areas affected by their application and to determine the relative effects. No significant impacts on the income statement and balance sheet were found.

Furthermore, the new accounting standard IFRS 16 “Leases” will be applicable with effect from 1st January 2019. This eliminates the classification of leases as operating or finance for the purposes of the preparation of financial statements by companies that operate as lessees. Essentially, for all contracts with a lease term of longer than 12 months (unless the underlying asset has a low value), it will be necessary to recognise an asset representing the right-of-use, a liability representing the obligation to make payments in accordance with the contract and the effects in the income statement of the depreciation of the asset and recognition of the interest expenses on the financial liability. The impacts resulting from the application of the new standard are currently being assessed.

The principal accounting policies adopted are set out below.

Balance Sheet

Property, plant and equipment - Property, plant and equipment is stated at historical cost less accumulated depreciation and any recognised impairment loss. Subsequent costs are only capitalized when it is probable that the future economic benefits will flow to the Company. The costs for ordinary maintenance and repairs are recognized through profit and loss at the time at which they are incurred.

The carrying amount of property, plant and equipment is subject to impairment testing to measure any loss in value 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:

Industrial buildings	2.5% - 5.5%
Plant & machinery	10% - 17.5%
Other equipment	12% - 40%

The depreciation of an asset begins when it is installed and is ready for use or, in the case of self-constructed assets, when the assets have been completed and are ready for use.

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 it is recognized through profit or loss for the period.

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 from the year of the first sale of the relative products. Amortization of distribution and license rights is generally calculated over the duration of the contract.

Impairment - At each balance sheet date, the Company 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the greater of net selling price and value in use. In measuring value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of the 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 (or 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 (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not 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.

Investments in subsidiaries – Investments in subsidiaries are recognized at cost of acquisition adjusted for impairment.

Positive differences arising at the time of purchase between the acquisition cost and the quota of the equity at present values held in the subsidiary attributable to the Company are therefore included in the carrying amount of the investment.

Investments in subsidiaries are subject to impairment testing annually or more frequently if necessary in order to test for possible loss of value. Where evidence exists that the value of these investments has been impaired, this is recognized through profit or loss as an impairment loss. Where an impairment loss subsequently reverses or reduces, this is recognized in the income statement as a reversal of impairment within the limits of the cost of acquisition.

According to IFRS 2, stock option plans for the employees of subsidiaries constitute an increase in the value of the relative investments. That increase in value consists of the fair value of the options on the grant date and it is recognised as an increase in the investments at constant rates over the period between the grant and the vesting date, with the balancing entry recognized directly in equity.

Receivables (included in non-current assets) - Receivables are stated at their nominal value and reduced for impairment losses.

Inventories - Inventories are stated at the lower of cost or market value, 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 and supplies are valued at their average weighted 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 measured at their average weighted manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production, exclusive of general expenses.

Inventories are written-down if the 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.

Equity - Equity instruments issued by the Company are recorded at the amount of the proceeds received.

The 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 amortized cost method as prescribed by IAS 39. The amortized cost is the amount of the liability on initial recognition net of capital repayments and transaction costs amortized using the effective interest rate method.

If the loans are hedged 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.

Personnel leaving indemnities - Employee benefits presented in the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liabilities recognized in the balance sheet for post-employment benefit plans represent the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method. All actuarial gains and losses are recognized directly in the schedule of gains and losses stated in equity. Until 31st December 2006 the staff leaving indemnities of Italian companies were considered defined benefit plans. The regulations governing those indemnities were amended by Law 296 of 27th December 2006 (2007 Finance Act) and subsequent amendments made in early 2007. In view of those changes and for companies with at least 50 employees in particular, those indemnities are only to be treated as defined benefit plans for the amounts that matured prior to 1st January 2007 (and not yet paid at the balance sheet date), while subsequent to that date they are treated as a defined

contribution plan.

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 Company 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 derivative instrument qualifying as a "fair value hedge" is recognized immediately through 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 through 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 directly in equity.

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 through 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 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 translated on the balance sheet date.

Income statement

The expenses are presented in the income statement "by nature". The choice of this method of presentation is based on the nature of the Company as both a holding and an operating company. The objective is to both optimise and simplify general accounting practices and all the relative compliance activity required by Italian tax regulations.

Revenue - Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the Company 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.

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 also prescribes that development costs must be capitalized if technical and commercial feasibility of the asset for development or sale have been established. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines for capitalization under IAS 38 are not met so that development costs are expensed as incurred during the year.

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. Non-reimbursable government grants, including those for research, are booked to the income statement on an accrual basis within the item "other revenue".

Share based payment transactions – According to IFRS 2, stock option plans for employees constitute a part of the remuneration of the beneficiaries, the cost of which is given by the fair value of the options on the grant date. It is recognized through profit and loss at constant rates over the period between the grant and the vesting date, with the balancing entry recognized directly in equity.

Financial items – These 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 through profit or loss, 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 Company intends to settle its current tax assets and liabilities on a net basis.

Earnings per share - Earnings per share is the net income 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 average weighted number of outstanding shares for the effects of all the potential dilutive ordinary shares.

3. REVENUE

Revenue came to € 371,008 thousand in 2017 (€ 320,706 thousand in 2016) and was composed as follows:

€ (thousands)	2017	2016	Change 2017/2016
Net sales	359,041	314,270	44,771
Royalties and up-front payments	575	889	(314)
Revenue from services	11,392	5,547	5,845
Total revenue	371,008	320,706	50,302

Net sales revenue is as follows:

€ (thousands)	2017		2016	
	Italy	Abroad	Italy	Abroad
Pharmaceuticals	185,242	132,065	183,561	90,357
Pharmaceutical chemicals	2,765	37,944	2,708	37,144
Others	389	636	325	175
Total revenue for net sales	188,396	170,645	186,594	127,676

Revenue from pharmaceuticals in Italy was € 185,242 thousand, up € 1,681 thousand on the same period of the previous year. Prescription pharmaceuticals saw growth in sales of Urorec® and Cardicor®.

The review of operations may be consulted for further information on products.

Sales in the pharmaceutical sector were up € 41,708 thousand compared with the previous year, attributable in particular to sales of metoprolol based products made by the Company in the second half amounting to € 33.0 million and also to higher sales of lercanidipine and tribenoside. Sales abroad in the chemical sector increased by 2.2% compared with the year before, due in particular to sales of manidipine and other principal active ingredients.

Net sales revenues included € 126,327 thousand (€ 111,238 thousand in 2016) for sales of products to subsidiaries:

€ (thousands)	2017	2016	Change 2017/2016
Recordati Ireland Ltd.	90,134	80,513	9,621
Innova Pharma S.p.A.	20,959	20,873	86
Laboratoires Bouchara Recordati S.a.s.	296	144	152
Casen Recordati S.L.	413	104	309
Jaba Recordati S.A.	2,674	2,615	59
Recordati Pharma GmbH	3,257	2,901	356
Recordati İlaç	539	497	42
Orphan Europe S.a.r.l.	1,437	2,959	(1,522)
Opalia Pharma S.A.	21	34	(13)
Recordati Hellas Pharmaceuticals S.A.	1,259	580	679
Herbacos Recordati s.r.o.	4,220	18	4,202
Recordati Romania S.r.l.	1,118	0	1,118
Total	126,327	111,238	15,089

All commercial transactions with subsidiaries took place under normal market conditions.

Revenues for royalties, up-front payments and services are composed as follows:

€ (thousands)	2017	2016	Change 2017/2016
Services and royalties to subsidiaries:			
Orphan Europe Italy S.r.l.	40	40	0
Innova Pharma S.p.A.	883	925	(42)
Recordati Ireland Ltd.	2,125	1,099	1,026
Laboratoires Bouchara Recordati S.a.s.	765	667	98
Recordati Pharma GmbH	327	226	101
Casen Recordati S.L.	347	267	80
Jaba Recordati S.A.	315	304	11
Recordati Ilaç	359	292	67
Recordati Hellas Pharmaceuticals S.A.	96	55	41
Herbacos Recordati sro	19	16	3
Recordati Romania S.r.l.	6	4	2
Orphan Europe Sarl	1,238	564	674
Recordati Rare Diseases Inc.	1,457	713	744
Rusfic LLC	52	26	26
Recordati Polska Sp zoo	22	14	8
Italchimici S.p.A.	3,619	635	2,984
Total services and royalties to subsidiaries	11,670	5,847	5,823
Services and royalties to third parties			
Royalties and up-front payments	297	589	(292)
Total services and royalties to third parties	297	589	(292)
Total revenue from services and royalties	11,967	6,436	5,531

The revenue from services to subsidiaries related principally to the “Group Service Agreement” for services performed on behalf of subsidiaries during the year.

Revenue from Recordati Ireland Ltd included valuable consideration of € 871 thousand, proportionate to the sales price, in relation to the successful conclusion of the acquisition of marketing rights for metoprolol in some European countries from AstraZeneca.

The increase compared with 2016 in the amounts charged to Orphan Europe Sarl and to Recordati Rare Diseases Inc. is attributable to R&D work carried out on behalf of those subsidiaries

The increase in income from Italchimici S.p.A. is in relation to the continuation on an annual basis of the service (started in June 2016) and above all to the increase in co-promotion activities (started in September 2016).

Proceeds from Laboratoires Bouchara Recordati S.a.s. include royalties amounting to € 278 thousand. Services and royalties to third parties, which amounted to € 297 thousand, related in particular to contractual charges made to partners for commissions and royalties on sales of Entact®.

4. OTHER REVENUE AND INCOME

Other revenue and income came to € 2,034 thousand in 2017, compared with € 2,406 thousand in 2016. It includes employees charges for the use of hired cars, other indemnities, non-recurring income, exceptional receivables and gains on the sale of non-current assets.

There were also the charges passed on to licensees for the “1.83% discount” and the “5% pay back” due on request from AIFA (Italian Medicines Agency) from the holder of the AIC (marketing authorisation).

We report the payment of a training grant amounting to € 74 thousand from Fondimpresa.

The item also included € 1 thousand for government grants for plant, € 55 thousand for income from property investments and € 17 thousand for charging for services provided to the subsidiary Fimeì S.p.A..

Details of grants received for investments recognized in the income statement are given below for the last five years.

€ (thousands)	
2013	15
2014	14
2015	12
2016	6
2017	1
Total	48

Income from property investments includes the rent of properties to the subsidiary Fimeì S.p.A. amounting to € 8 thousand, the rent of premises at the Milan site to Innova Pharma S.p.A. amounting to € 12 thousand and the rent of part of the offices in via Marostica in Milan to Orphan Europe Italy S.r.l. for € 35 thousand.

5. RAW MATERIALS COSTS

These are composed as follows:

€ (thousands)	2017	2016	Change 2017/2016
Raw materials and goods:			
from licensing-in agreements	38,478	37,248	1,230
from other	52,284	41,130	11,154
	90,762	78,378	12,384
Goods for resale	1,123	1,280	(157)
Packaging materials	7,553	7,215	338
Others and consumables	5,967	5,658	309
Total	105,405	92,531	12,874

The change in purchases of raw materials, goods and other materials correlates with the changes in the sales mix for each product.

The increase in purchases from licensing-in agreements includes €1,429 thousand for the purchase of the available stock of Cefitbuten following the acquisition of the Isocef[®] brand.

Other costs include purchases of metoprolol for € 8,719 thousand and those from Recordati Ireland Ltd for € 10,361 thousand, from Innova Pharma S.p.A. for € 5,038 thousand and from Casen Recordati S.L. for € 2,722 thousand.

6. PERSONNEL COSTS

Personnel costs were composed as follows:

€ (thousands)	2017	2016	Change 2017/2016
Wages and salaries	55,926	54,864	1,062
Social security costs	17,542	17,075	467
Salary resulting from stock option plans	2,003	2,044	(41)
Other costs	4,325	6,910	(2,585)
Total personnel costs	79,796	80,893	(1,097)

The expense for stock option plans is a result of the application of IFRS 2, which requires the valuation of those options as a component of the wages of the beneficiaries and recognition of the cost determined in that manner in the income statement.

Other costs include the portions of the leaving indemnity charges for the year destined to pension funds in accordance with the legislation introduced by Law 296 of 27th December 2006.

Average labour force figures for the Company are as follows:

	2017	2016	Change 2017/2016
Executives	67	64	3
Office workers	570	565	5
Manual workers	371	355	16
Total	1,008	984	24

7. DEPRECIATION AND AMORTIZATION

This is composed as follows:

Amortisation of intangible assets

€ (thousands)	2017	2016	Change 2017/2016
Patent rights and marketing authorizations	5,074	417	4,657
Distribution, license, trademark and similar rights	2,768	2,670	98
Total	7,842	3,087	4,755

The increase in the depreciation of intangible assets compared with the previous year includes € 4,493 thousand attributable to the acquisition of the rights on metoprolol.

Depreciation of property, plant and equipment:

€ (thousands)	2017	2016	Change 2017/2016
Industrial buildings	1,137	1,106	31
General plant	513	493	20
Accelerated depreciation machinery	2,526	2,326	200
Normal depreciation machinery	1,189	1,050	139
Miscellaneous laboratory equipment	846	757	89
Office furnishings and machines	48	41	7
Electronic equipment	466	542	(76)
Vehicles for internal transport	23	24	(1)
Total	6,748	6,339	409

8. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

€ (thousands)	2017	2016	Change 2017/2016
Pay back and discount of 1.83%	8,374	7,046	1,328
Meetings and scientific publications, market surveys and expenses for medical and scientific communications and advertising	9,609	11,073	(1,464)
Clinical and pharmacological trials and professional advice	5,549	3,250	2,299
Commissions on sales paid to agents and logistics commissions	6,248	5,080	1,168
Transport and storage	2,266	2,292	(26)
Utilities and similar (motor fuel, gas, water, etc.)	4,458	5,054	(596)
Destruction of industrial waste and cleaning	1,842	1,876	(34)
Innova co-promotion service	1,976	2,619	(643)
Italchimici co-promotion service	262	0	262
Maintenance	3,923	3,825	98
Insurance premiums	673	681	(8)
Directors' fees	708	664	44
Statutory auditors' fees	124	126	(2)
Sundry personnel costs	3,290	3,059	231
Legal, judiciary and notary expenses	399	319	80
Sundry services and expenses charged back to subsidiaries	5,823	3,569	2,254
Postal and telecommunications expenses	398	353	45
External processing	7,983	6,432	1,551
Royalties payable	3,115	66	3,049
Rent of premises	340	341	(1)
Car hire expenses	2,426	2,416	10
Membership fees	210	313	(103)
Prior year expenses	67	5	62
Sundry taxation	1,780	1,659	121
Provisions for agent customer indemnities	133	96	37
Company and product acquisition costs	522	2,272	(1,750)
Service expenses and charges made by subsidiaries	1,458	276	1,182
Costs of the "Buzzi Hospital renovation"	2,000	0	2,000
Other operating expenses	2,270	2,300	(30)
Total	78,226	67,062	11,164

The 1.83% payback and discount expense totalling € 8,374 thousand includes the contribution due to AIFA (Italian Medicines Agency), which replaces the 5% price reduction on some selected products. This procedure, already allowed and used in previous years, remained in force until September for Zanipril®, Coripren® and Atover® and came to an end following the transition to generic status of the main formulation of the lercanidipine+enalapril based products. The amount is calculated on sales of products made in 2016.

Commissions paid to agents included commissions to Recordati Rare Diseases for sales in the United States of America of pharmaceutical chemicals amounting to € 83 thousand.

Logistics commissions were up on 2016 due to charges relating to the metoprolol transitional service agreement.

Expenses for sundry services included the auditors' fees.

Details of that remuneration are provided in attachment 6 in compliance with Art. 149-*duodecies* of the Consob Issuers' Regulations.

Sundry services included, amongst other things, R&D costs incurred on behalf of Orphan Europe Sarl and Recordati Rare Diseases Inc. and then charged back to subsidiaries and also service expenses relating to metoprolol incurred during the transition period.

Expenses for the Innova Pharma S.p.A. and Italcimici S.p.A. co-promotion service related to services carried out by the sales network of those companies on behalf of the Parent Company.

Details are given in the relevant parts of the Remuneration Report (published in accordance with Art. 123-*ter* of the Consolidated Finance Law) of the following: the remuneration of directors, statutory auditors, general managers and other key management personnel; the shares held in the Company by those persons; the stock option rights granted to them.

No use was made of finance lease assets in 2017

External processing included work performed by Laboratoires Bouchara Recordati S.a.s. amounting to € 291 thousand.

The increase in royalties paid compared with 2016 relates directly to the sales of metoprolol.

The intercompany services include services received from the subsidiaries Herbacos Recordati s.r.o. (€ 228 thousand), Recordati A.G. (€ 255 thousand) and Recordati Polska Sp. z.o.o. (€ 974 thousand), mainly in relation to activities carried out by subsidies for metoprolol.

The item "sundry taxation" amounting to € 1,780 thousand (€ 1,659 thousand in 2016) relates to the following:

€ (thousands)	2017	2016	Change 2017/2016
Contribution under Decree Law No. 269/2003	242	262	(20)
Government license tax	632	525	107
Municipal property and service taxes	313	313	0
Stamp duties and similar	15	15	0
Non-deductible taxes	81	111	(30)
Sundry taxes	497	433	64
Total	1,780	1,659	121

In compliance with Decree Law 269 of 30th September 2003 converted into Law 326 of 24th November 2003, a contribution was paid in April amounting to 5% of the expenses incurred in the previous year for advertising activities, self certified by the Company within the legal time limits.

Taxes for government licenses are attributable to the maintenance and changes to registrations for ethical and self-medication products and to the registrations of new products. Sundry taxes include Tari (refuse tax), convention and congress registration taxes and Campoverde duties.

The costs for the project to renovate the Buzzi Hospital relate to the obligation undertaken by the Company (as reported in note 32) as a charitable initiative in memory of *Ing.* Giovanni Recordati. These will be concluded with the renovation of the paediatric inpatient and the outpatients area.

9. CHANGES IN INVENTORIES

Details of changes in inventories are as follows:

€ (thousands)	2017	2016	Change 2017/2016
Raw materials, ancillary materials, consumables and supplies	4,138	159	3,979
Intermediates and work-in-process	2,304	(1,463)	3,767
Finished products and goods	(5)	2,699	(2,704)
Total	6,437	1,395	5,042

10. INCOME FROM INVESTMENTS

Income from investments came to € 160,050 thousand (€ 53,021 thousand in 2016) and related to subsidiaries.

This income consisted of dividends declared and distributed by Bouchara Recordati S.A.S. (€ 60,000 thousand) and Recordati Ireland Ltd. (€ 100,050 thousand).

11. FINANCIAL INCOME (EXPENSE), NET

Net financial income (expense) showed net expense of € 11,812 thousand in 2017 (€ 4,670 thousand in 2016). The main items are summarised in the table below.

€ (thousands)	2017	2016	Change 2017/2016
Foreign exchange gains (losses)	(3,966)	12	(3,978)
Loss on the derecognition of investments	(47)	0	(47)
Interest income from subsidiaries	1,071	1,832	(761)
Interest expense payable to subsidiaries	(2,605)	(823)	(1,782)
Interest expense on loans	(1,325)	(1,178)	(147)
Interest expense on bond debt	(4,290)	(2,923)	(1,367)
Net interest on short-term financial positions	488	(620)	1,108
Bank charges	(1,014)	(790)	(224)
Interest cost in respect of defined benefit plans (IAS 19)	(124)	(180)	56
Total	(11,812)	(4,670)	(7,142)

The balance on foreign exchange differences represented a loss of € 3,966 thousand in 2017, compared with a gain of € 12 thousand in 2016. More specifically, the loss for the year consisted of € 3,517 thousand on transactions concluded during the year and a loss of € 449 thousand resulting from the translation as at 31st December 2017 of assets and liabilities in foreign currency. Art. 2426, point 8-*bis* is therefore applicable to that income, by which, if a net gain arises from the foreign exchange translation performed at the end of the year, that amount is allocated to a special reserve that is not distributable until the gain is actually realized.

Interest income from subsidiaries is as follows:

€ (thousands)	2017	2016	Change 2017/2016
Italchimici S.p.A.	141	53	88
Recordati S.A. – Luxembourg	0	73	(73)
Recordati AG	2	3	(1)
Orphan Europe Sarl	45	121	(76)
Fic Médical S.a.r.l.	1	1	0
Recordati Polska Sp. z.o.o.	7	9	(2)
Casen Recordati S.L.	578	758	(180)
Rusfic LLC	112	731	(619)
Opalia Pharma S.A.	141	83	58
Recordati Rare Diseases - Mexico	7	0	7
Recordati Ireland Ltd.	16	0	16
Laboratoires Bouchara Recordati Sas	1	0	1
Recordati Romania S.r.l.	20	0	20
Total	1,071	1,832	(761)

Interest income relates to loans granted to subsidiaries during the year (€ 755 thousand) and to the centralised cash pooling treasury system in operation at the Parent Company since 2007 on the basis of which monthly interest receivable and payable is recognised at market rates (€ 316 thousand).

The following short-term loans were outstanding as at 31st December: to Recordati Polska z.o.o. (PLN 1,500,000), to Opalia Pharma S.A. (TND 1,000,000), to Recordati Rumania S.r.l. (RON 3,000,000) and to Recordati Rare Diseases SA de C.V. (MXN 3,000,000); two long-term loans were outstanding to Casen Recordati S.L. (€ 15,000 thousand) and to Opalia Pharma S.A. (TND 3,000,000)

Interest expense paid to subsidiaries is as follows:

€ (thousands)	2017	2016	Change 2017/2016
Casen Recordati S.L.	50	35	15
Laboratoires Bouchara Recordati Sas	14	25	(11)
Innova Pharma S.p.A.	44	47	(3)
Recordati S.A. – Luxembourg	0	3	(3)
Jaba Recordati S.A.	6	2	4
Recordati Ireland Ltd.	93	100	(7)
Orphan Europe Spain S.L.	6	5	1
Orphan Europe Sarl	60	4	56
Recordati Pharma GmbH	32	21	11
Recordati Rare Diseases Inc.	2,055	407	1,648
Recordati AG	0	2	(2)
Recordati Hellas Pharmaceuticals S.A.	5	0	5
Orphan Europe Germany GmbH	6	5	1
Herbacos Recordati s.r.o.	1	15	(14)
Orphan Europe Italy S.r.l.	15	14	1
Orphan Europe Benelux BVBA	2	1	1
Bouchara Recordati s.a.s.	48	69	(21)
Orphan Europe Nordic A.B.	2	1	1
Orphan Europe Switzerland GmbH	0	1	(1)
Rusfic LLC	44	0	44
Orphan Europe Middle East FZ LLC	5	13	(8)
Recordati Pharmaceuticals Ltd.	54	0	54
Recordati Orphan Drugs	63	53	10
Total	2,605	823	1,782

Interest expense relates to loans granted by subsidiaries during the year (€ 2,156 thousand) and to the centralized cash pooling treasury system amounting to € 449 thousand.

As at 31st December a short-term loan of € 7,000 thousand was outstanding from the company Orphan Europe Middle East FZ LLC together with a long term loan from Recordati Rare Diseases Inc. amounting to USD 70,000,000.

12. TAXES

Taxes recognized in the income statement are composed as follows:

€ (thousands)	2017	2016	Change 2017/2016
Current taxation:			
IRES (corporate income tax)	24,489	19,257	5,232
IRAP (regional tax on production)	4,248	3,106	1,142
Substitute tax for relief on goodwill	12,640	0	12,640
Provisions for risks resulting from tax inspections	22,143	0	22,143
Total current taxation	63,520	22,363	41,157
Deferred taxation:			
Movement in deferred tax assets/liabilities, net	(25,287)	(328)	(24,959)
Use of prior years deferred tax assets/liabilities	(1,039)	1,309	(2,348)
Deferred tax asset rate adjustment	0	144	(144)
Total deferred tax liabilities	(26,326)	1,125	(27,451)
Total	37,194	23,488	13,706

Provisions for taxes were made on the basis of estimated taxable income.

The provision for deferred tax (assets)/liabilities of € 25,287 thousand is composed as follows:

	2017		2016	
	Temporary differences	Tax Effect	Temporary differences	Tax Effect
DEFERRED TAX ASSETS				
- Relief on goodwill	(78,997)	(22,198)	0	0
- Puretech valuation	(7,992)	(2,317)	0	0
- Provisions	(2,246)	(539)	(749)	(180)
- Costs relating to future years	(756)	(181)	(619)	(148)
- Write-down of inventories	(216)	(52)	0	0
TOTAL	(90,207)	(25,287)	(1,368)	(328)
DEFERRED TAX ASSETS/LIABILITIES, NET				
		(25,287)		(328)

The use of deferred tax assets was positive by € 1,039 thousand and related to provisions of € 144 thousand, costs relating to future years of € 149 thousand and release of the provision for deferred taxes in relation to the revaluations made in prior years amounting to € 1,332 thousand.

The reconciliation between the current tax rate for income tax levied on the Company and the actual tax rate incurred is as follows.

	2017	2016
	%	%
Tax rate applicable for IRES (corporate income tax)	24	27,5
Dividends from subsidiaries	(14,6)	(10,4)
Contributions to congresses	0,2	0,4
Economic Growth legislation (ACE – allowance for corporate equity)	0	(0,5)
Effect of reversal of investment write-down	0	(2,2)
Other differences, net	0	0,5
Tax rate applicable for IRES (corporate income tax)	9,6	15,3
IRAP (regional tax on production)	1,7	2,3
Provisions for risks resulting from tax inspections	8,9	0
Relief on goodwill	(3,8)	0
Adjustment of deferred taxes on equity investments	(1,5)	0
Tax rate on pre-tax income	14,9	17,6

IRAP (regional tax on production) as a percentage of pre-tax profit was 1.7% because the tax is calculated on a different tax basis which includes interest and some extraordinary items.

The Company took advantage of the option granted by the tax legislation to obtain tax relief on the mismatches between the higher book values for goodwill resulting from extraordinary operations and the corresponding amounts recognised for tax purposes. The legislation allows the payment of a substitute IRES and IRAP tax at a rate of 16% and the subsequent deductibility of the amounts subject to relief in the amount of one fifth for each year starting from the second year following that in which the substitute tax is paid.

Exercising the tax relief option resulted in a total payment of € 12.6 million for the substitute tax and the recognition of deferred tax assets on the future tax benefits amounting to € 22.2 million.

Provisions for risks resulting from tax inspections amount to € 22.1 million and they relate to risks resulting from inspections into two Group companies which began in 2015 and are still in progress (see note No. 40).

13. PROPERTY, PLANT AND EQUIPMENT

Property plant and equipment, net of accumulated depreciation, as at 31st December 2017 and 2016 amounted to € 46,961 thousand and € 44,851 thousand respectively. Changes in this item are given below.

€ (thousands)	Land and buildings	Plant and machinery	Other fixtures	Construction in progress	Total property, plant and equipment
Cost of acquisition					
Balance as at 31.12.16	38,387	155,491	35,854	6,549	236,281
Additions	645	1,890	543	5,877	8,955
Disposals	(84)	(678)	(716)	0	(1,478)
Reclassifications	528	4,103	1,361	(6,001)	(9)
Balance as at 31.12.17	39,476	160,806	37,042	6,425	243,749
Accumulated depreciation					
Balance as at 31.12.16	28,973	131,671	30,786	0	191,430
Depreciation	1,137	4,228	1,383	0	6,748
Disposals	(64)	(612)	(714)	0	(1,390)
Balance as at 31.12.17	30,046	135,287	31,455	0	196,788
Carrying amount					
as at 31st December 2017	9,430	25,519	5,587	6,425	46,961
as at 31 st December 2016	9,414	23,820	5,068	6,549	44,851

Additions in 2017 amounted to € 8,955 thousand and related to investments of € 4,395 thousand in the Milan plant and headquarters and to work done on the Campoverde di Aprilia plant amounting to € 4,560 thousand.

Depreciation for the year amounted to € 6,748 thousand and was calculated on all depreciable assets using rates which are held to be representative of the estimated useful life of the assets.

14. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, as at 31st December 2017 and 2016 December amounted to € 239,515 thousand and € 25,517 thousand respectively. Changes in this item are given below.

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Assets under construction and advances	Total intangible assets
Cost of acquisition					
Balance as at 31.12.16	30,575	41,468	13,234	2,099	87,376
Additions	181,705	17	0	40,109	221,831
Reclassifications	0	752	0	(743)	9
Balance as at 31.12.17	212,280	42,237	13,234	41,465	309,216
Accumulated amortization					
Balance as at 31.12.16	26,964	21,661	13,234	0	61,859
Amortization	5,074	2,768	0	0	7,842
Balance as at 31.12.17	32,038	24,429	13,234	0	69,701
Carrying amount					
as at 31st December 2017	180,242	17,808	0	41,465	239,515
as at 31 st December 2016	3,611	19,807	0	2,099	25,517

The additions to intangible assets amounting to € 221,831 thousand relate mainly to the acquisition of the rights on metoprolol from AstraZeneca, and of the Transipeg®, Transipeglib® and Colopeg® brands for the French market from Bayer Consumer Health.

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

15. INVESTMENTS

Investments amounted to € 774,357 thousand as at 31st December 2017, up € 153,213 thousand compared with 2016, as reported in the table in Attachment 1. The percentage of ownership and the number of shares or quotas possessed are reported in Attachment 2.

A comparison between the carrying amount of investments in subsidiaries and their valuation using the equity method, in accordance with Art. 2426 of the Italian Civil Code, is reported in Attachment 3.

IAS 27 - Separate financial statements - requires recognition of investments in subsidiaries according to the cost method or, as an alternative, using the fair value in accordance with IAS 39. Recordati S.p.A. has adopted the cost criterion and therefore, where there are indications that part or all of the cost cannot be recovered, the carrying amount must be reduced to the relative recoverable amount, in compliance with IAS 36 (Impairment of assets). Where that impairment subsequently reverses or reduces, the carrying amount is increased to the amount of the new estimate of the recoverable amount which, however, cannot exceed the original cost. For the calculation of reversals for investments in companies that are not listed and that is where no reliable market value (fair value less costs to sell) can be determined, the recoverable amount has been defined as the value in use, intended as the present value of the estimated cash flows from it based on the expected results of the investments and the estimated amount of a hypothetical "ultimate disposal". The expected results forecast in the business plans of each investment were taken into consideration in the calculation of the value in use, increased by their "terminal value" appropriately adjusted to take account of risks and uncertainties intrinsic to the assumptions on which the plans were based. Those results and the "terminal value" were discounted to present values by applying the current cost of capital of the companies in compliance with the method recommended in IAS 36.

Furthermore, we report that an impairment test was carried out at consolidated level on the Group as the unit both to verify the recoverability of the equity investments recognised in the separate financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. and also to verify the recoverability of the goodwill arising in the consolidated financial statements of the Recordati group. It is therefore considered that the impairment test carried out at consolidated level also provides indications concerning possible impairment at the level of the separate financial statements and therefore for the purposes of testing the carrying amounts of equity investments for impairment.

According to IFRS 2, stock option plans for the employees of subsidiaries constitute an increase in the value of the relative investments. That increase in value consists of the fair value of the options on the grant date and it is recognised as an increase in the investments at constant rates over the period between the grant and the vesting date, with the balancing entry recognized directly in equity. The cost of the stock options granted to employees of foreign companies was recognised as an increase in the value of the relative investments amounting to € 1,958 thousand.

A detailed summary of both directly and indirectly controlled subsidiaries is given in Attachment 4 with the sales revenue and net income for each company.

All the investments reported regard share capital with voting rights.

The relative part of the consolidated report may be consulted for further information on investments.

The company Tecnofarmaci S.c.p.A. was liquidated during the year with the consequent receipt of the proceeds more or less in line with the book value and it was decided to cease being shareholder of the Consortium C4T S.c.a r.l..

16. LOANS AND RECEIVABLES (non-current)

Non-current loans and receivables as at 31st December 2017 amounted to € 10,105 thousand (€ 16,396 thousand as at 31st December 2016) and related almost entirely to long-term loans granted to Casen Recordati S.L. (€ 9,000 thousand due in 2020) and to Opalia Pharma S.A- (TND 3,000,000 equivalent to € 1,009 thousand due in 2019).

These loans were granted under normal market conditions.

17. DEFERRED TAX ASSETS

These amounted to € 27,233 thousand as at 31st December 2017 (€ 3,722 thousand as at 31st December 2016), an increase of € 23,511 thousand.

The main deferred tax assets and changes in them are analyzed in the two tables below:

€ (thousands)	2017	2016
Balance as at 1 st January	3,722	3,689
Increases	26,619	1,645
Uses	(3,108)	(1,309)
Adjustment for change in the tax rate	0	(303)
Balance as at 31st December	27,233	3,722

€ (thousands)	Balance as at 1 st January	Provision	Use	Balance as at 31/12
Relief on goodwill	0	22,198	0	22,198
Valuation of derivatives instruments	2,343	0	(490)	1,853
Provisions for risks	2,247	539	(144)	2,642
Write-down of inventories	54	52	0	106
IAS Valuation of investment	(1,332)	1,332	0	0
Valuation of former Lux investment	0	2,317	(2,347)	(30)
Other	410	181	(127)	464
Total	3,722	26,619	(3,108)	27,233

During the year the Company took advantage of the option granted by the tax legislation to obtain tax relief on the mismatches between the higher book values for goodwill resulting from extraordinary operations and the corresponding amounts recognised for tax purposes. The legislation allows the payment of a substitute IRES (corporate income tax) and IRAP (regional production tax) tax at a rate of 16% and the subsequent deductibility of the amounts subject to relief in the amount of one fifth for each year starting from the second year following that in which the substitute tax is paid.

The amounts on which tax relief is obtained relate to goodwill calculated according to tax rules arising from the acquisitions of Italcimici S.p.A. and Pro Farma AG (now Recordati AG), both carried out in 2016. The benefit arising from the future tax deductibility of the amounts subject to tax relief resulted in the recognition of deferred tax assets amounting to € 22.2 million.

The provisions for prior year taxes amount to € 22.1 million and relate to the risk resulting from tax inspections into two Group companies which began in 2015 and are still in progress (see note No. 40).

18. INVENTORIES

Inventories as at 31st December 2017 and 2016 amounted to € 61,382 thousand and € 54,944 thousand, as shown in the following table:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Raw materials, ancillary materials, consumables and supplies	15,628	11,490	4,138
Intermediates and work-in-process	14,397	12,093	2,304
Finished goods	30,097	31,361	(1,264)
AstraZeneca metoprolol stock	1,260	0	1,260
Total	61,382	54,944	6,438

Inventories increased by €6.4 million compared with the previous year as follows: €2.5 million relating to the acquisition of the Isocef® brand; € 1.3 million in relation to the acquisition of metoprolol; € 1.2 million for an increase in the security stocks of some active ingredient products at the Campoverde di Aprilia plant in order to meet expected future requirements.

19. TRADE RECEIVABLES

Trade receivables as at 31st December 2017 and 2016 amounted to € 82,250 thousand and € 53,101 thousand respectively as shown below:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Trade receivables from subsidiaries	37,004	18,820	18,184
Trade receivables from others:			
Italy	28,210	28,460	(250)
Abroad	18,145	7,014	11,131
	83,359	54,294	29,065
less:			
Allowance for doubtful accounts	(1,109)	(1,193)	84
Total trade receivables	82,250	53,101	29,149

€ 8,921 thousand of the increase in foreign trade receivables is attributable to sales of metoprolol. Exposure calculated on receivables from others, excluding metoprolol during the transition period, stood at 61 days outstanding as at 31st December 2017, in line with a year earlier.

The adjustment of receivables in non-euro currencies resulted in the recognition of negative exchange rate differences of € 70 thousand. The receivables are recognized inclusive of those adjustments.

Trade receivables from Group companies arose from the supply of goods and services and are composed as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Innova Pharma S.p.A.	4,390	4,293	97
Recordati Ireland Ltd.	18,029	9,110	8,919
Laboratoires Bouchara Recordati S.a.s.	698	422	276
Jaba Recordati S.A.	1,069	913	156
Recordati Pharma GmbH	474	834	(360)
Casen Recordati S.L.	231	162	69
Recordati İlaç	291	224	67
Orphan Europe Italy S.r.l.	23	23	0
Recordati Hellas Pharmaceuticals S.A	597	80	517
Herbacos Recordati S.A.	2,818	10	2,808
Orphan Europe Sarl	1,821	2,004	(183)
Recordati Romania S.r.l.	623	3	620
Recordati Polska S.p. z.o.o.	10	9	1
Recordati Rare Diseases Inc.	1,497	0	1,497
Opalia Pharma S.A.	263	50	213
Rusfic LLC	60	30	30
Italchimici S.p.A.	4,068	653	3,415
Bouchara Recordati S.a.s.	42	0	42
Total	37,004	18,820	18,184

The changes compared to the previous year are considered transitory and are related to automated netting procedures for outstanding intercompany positions, by which intercompany items are automatically offset against each other each month and the relative balances settled.

Changes in the allowance for doubtful accounts are as follows:

€ (thousands)	2017	2016
Balance as at 1 st January	1,193	1,229
Utilization for losses on receivables	(84)	(138)
Addition for the year	0	102
Balance as at 31st December	1,109	1,193

The allowance is considered appropriate in relation to potential risks of insolvency.

The composition of the principal receivables in foreign currency is as follows:

	31.12.2017		31.12.2016	
	Currency	€(000)	Currency	€(000)
Receivables in US\$	15,513,165	13,072	4,810,374	4,466

20. OTHER RECEIVABLES

Other receivables amounted to € 8,556 thousand (€ 10,556 thousand as at 31st December 2016). The composition is given in the table below.

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Tax income	2,175	1,426	749
From parent companies	0	19	(19)
From subsidiaries	541	744	(203)
Advances to employees and agents	392	6,556	(6,164)
Others	5,448	1,811	3,637
Total other receivables	8,556	10,556	(2,000)

Tax receivables as at 31st December 2017 amounted to € 2,175 thousand (€ 1,426 thousand in 2016). They were composed as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Refund requested from tax authorities	43	43	0
VAT	1,823	1,326	497
Receivables for foreign VAT tax authorities	51	48	3
Tax receivables pursuant to Recordati S.A.	258	0	258
Sundry items	0	9	(9)
Total tax receivables	2,175	1,426	749

The VAT credit consisted of the balance for December 2017 and the VAT refund applied for on 18th October 2007 in relation to VAT on motor vehicles.

Receivables from subsidiaries stood at € 541 thousand (€ 744 thousand in 2016) and related to VAT transferred under Group procedures from the company Innova Pharma S.p.A.

Advances to employees and agents as at 31st December 2017 and 2016 came to € 392 thousand and € 6,556 thousand respectively. They consisted of advances to employees, expense accounts for medical representatives and loans granted to employees who exercised stock option rights amounting to € 216 thousand for the purchase of 37,500 shares resulting from the options granted on 9th February 2011 and 8th May 2012.

Receivables from others amounted to € 5,448 thousand as at 31st December 2017 (€1,811 thousand as at 31st December 2016) and they included € 4,009 thousand for the provision made for sales of metoprolol in December as well as receivables from suppliers for advances and outstanding refunds.

21. OTHER CURRENT ASSETS

Other current assets amounted to € 652 thousand (€ 539 thousand as at 31st December 2016) and related mainly to prepaid expenses. These were advance instalments on periodic services covering two financial years.

22. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGES) (current assets)

These amounted to € 3,825 thousand (€ 12,497 thousand as at 31st December 2016).

The market value (fair value) as at 31st December 2017 of the currency swaps entered into by the Company to hedge a bond issued for \$ 75 million issued on 30th September 2014 totalled € 3,752 thousand. That value represents the potential benefit resulting from a lower value in euro of the future cash flows in United States dollars in terms of principal and interest, due to an appreciation of the foreign currency with respect to the time of finalising the loan and acquiring the hedge instruments. More specifically, the fair value of the derivative to hedge the \$ 50 million tranche of the loan granted by Mediobanca was positive by € 2,595 thousand, while that of the instrument to hedge the \$ 25 million tranche of the loan granted by Unicredit was positive by € 1,157 thousand.

The interest rate swaps to hedge medium to long-term loans measured at fair value as at 31st December 2017 gave rise to an asset of € 73 thousand. The fair value measurement relates to interest rate swaps entered into to hedge interest rates on loans granted by Intesa Sanpaolo (€ 33 thousand) and UBI Banca (€ 40 thousand).

23. OTHER SHORT-TERM RECEIVABLES

Other short-term receivables all consist of amounts due from subsidiaries as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Casen Recordati S.L.	6,018	6,025	(7)
Orphan Europe Sarl	27	8,974	(8,947)
Recordati S.A. – Luxembourg	0	70,225	(70,225)
FIC Médical S.a.s.	88	1	87
Recordati Ireland Ltd.	37,232	1	37,231
Recordati Polska sp. z.o.o.	362	342	20
Rusfic LLC	711	4,050	(3,339)
Opalia Pharma S.A.	343	417	(74)
Recordati Romania S.r.l.	655	0	655
Recordati Rare Diseases SA de C.V.	134	0	134
Italchimici S.p.A.	22,003	28,888	(6,885)
Pro Farma AG	0	933	(933)
Total	67,573	119,856	(52,283)

These receivables are attributable to a cash pooling treasury system in operation at the Parent Company and to loans granted to Casen Recordati S.L., Recordati Polska sp. z.o.o., Opalia Pharma S.A., Recordati Rumania S.r.l. and Recordati Rare Diseases SA de C.V.. Interest is paid on these receivables at market rates.

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

These are composed as shown in the following table.

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Deposits in bank current accounts	206,535	86,812	119,723
Cash on hand	3	3	0
Total	206,538	86,815	119,723

Cash and cash equivalents as at 31st December 2017, consisted of current accounts and short-term bank deposits.

25. SHAREHOLDERS' EQUITY

A summary of the changes in the shareholders' equity accounts is reported in the relative statement. Following the entry into force of Legislative Decree 6/2003, which amended the Italian Civil Code, the table contained in Attachment 5 was introduced, which gives the composition of reserves on the basis of availability for use and distribution.

Share capital - The share capital as at 31st December 2017 amounting to € 26,140,644, is fully paid up and consists of 209,125,156 ordinary shares with a par value of € 0.125 each. It remained unchanged over the course of 2017.

As at 31st December 2017 the Company had two stock option plans in place in favour of certain Group employees, the 2010-2013 plan with options granted on 9th February 2011, 8th May 2012, 17th April 2013 and 30th October 2013 and the 2014-2018 plan with options granted on 29th July 2014 and 13th April 2016. The exercise price of the options is the average of the Company's listed share price during the 30 days prior to the grant date. The options vest over a period of five years and options 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.

Details of stock options outstanding at 31st December 2017 are given in the table below:

	Strike price (€)	Options outstanding as at 1.1.2017	Options granted during 2017	Options exercised during 2017	Options cancelled and expired	Options outstanding as at 31.12.2017
Grant date						
9 th February 2011	6.7505	597,500	-	(426,000)	-	171,500
8 th May 2012	5.3070	1,425,000	-	(858,500)	-	566,500
17 th April 2013	7.1600	120,000	-	(72,500)	(10,000)	37,500
30 th October 2013	8.9300	155,000	-	(90,000)	-	65,000
29 th July 2014	12.2900	4,530,000	-	(1,365,000)	(174,000)	2,991,000
13 th April 2016	21.9300	3,973,000	-	(216,000)	(234,000)	3,523,000
Total		10,800,500	-	(3,028,000)	(418,000)	7,354,500

Additional paid-in capital

Additional paid-in capital as at 31st December 2017 amounted to € 83,718 thousand and was unchanged compared with 31st December 2016.

The adoption of international accounting standards resulted in the elimination of revaluation reserves amounting to € 68,644 thousand. The tax obligation on these (untaxed – taxation suspended) was transferred to the additional paid-in capital reserve.

Treasury stock

As at 31st December 2017 this amounted to € 17,029 thousand, consisting of 863,262 treasury shares held in portfolio.

The change during the year was € 59,732 thousand and was due to the transfer of 3,028,000 shares for € 59,732 thousand for use in the 2010-2013 and 2014-2018 stock option plans.

Statutory reserve

This amounted to € 5,228 thousand and was unchanged compared with 31st December 2016, because the limit set by Art. 2430 of the Italian Civil Code had been reached.

Other reserves

Other reserves totalled € 218,803 thousand. Details are given in the table below.

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Gain on merger	29,813	0	29,813
Extraordinary reserve	57,663	121,403	(63,740)
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	99	0
Extraordinary VAT concession reserve	517	517	0
Research and investment grants	17,191	17,191	0
Non-distributable reserve for investments in southern Italy	3,632	3,632	0
International accounting standards reserve	115,754	102,509	13,245
Total	224,669	245,351	(20,682)
Fair value derivative instruments	(5,866)	(7,419)	1,553
Total other reserves	218,803	237,932	(19,129)

- Gain on merger*

Following the merger by acquisition of the former subsidiary, Recordati S.A. Chemical and Pharmaceutical Company into Recordati S.p.A., as already reported previously, a merger gain was recognised in “other reserves” within equity, amounting to € 29,813 thousand.
- Extraordinary reserve*

This amounted as at 31st December 2017 and 31st December 2016 to € 57,663 thousand and € 121,403 thousand respectively. The overall decrease of € 63,740 thousand arose from the following operations:

 - the distribution of a dividend equal to the profit for year and an amount of € 34,280 thousand from the extraordinary reserve in accordance with a shareholders resolution dated 11th April 2017;
 - the allocation of dividends not paid and expired amounting to € 5 thousand;
 - the difference between the amount paid by Group employees who exercised options as part of stock option plans and the carrying amount of the treasury stock recognised in the balance sheet amounting to € 29,465 thousand, which was charged as a decrease to the extraordinary reserve in accordance with international accounting standards.
- Reserve under Art. 13, paragraph 6 of Legislative Decree 124/1993*

This amounted to € 99 thousand as at 31st December 2017 and remained unchanged compared with the previous year.
- Extraordinary VAT concession reserve*

This reserve (Laws 675/1977, 526/1982, 130/1983 and 64/1986), amounting to € 517 thousand, relates to special VAT allowances on investments and is unchanged compared with the previous year.
- Research and investment grants*

These amount to € 17,191 thousand and are unchanged compared with the previous year. The grants are subject to taxation if they are used for purposes other than to cover losses, which, however, is not planned by the Company. The assets corresponding to the grants received from the Ministry of Industry and Commerce (formerly Asmez) have been mainly fully depreciated.

- *Non-distributable reserve for investments in southern Italy*
This amounted to € 3,632 thousand and is unchanged compared with the previous year.
- *International accounting standards reserve*
This amounted to € 115,754 thousand (€ 102,509 thousand as at 31st December 2016) and is composed as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Reversal of fixed asset revaluations	40,479	40,479	0
Revaluation of investments	43,054	43,054	0
Inventories	463	463	0
Personnel leaving indemnities	(754)	(680)	(74)
Stock options	14,463	12,460	2,003
Adjustment to investments for stock options	8,691	6,733	1,958
Reserve to adjust entries for the merged company	765	0	765
Financial instrument adjustment reserve	8,593	0	8,593
Total	115,754	102,509	13,245

Changes that occurred in the items in 2017 included the following:

- *Personnel leaving indemnities*
the valuation of the personnel leaving indemnities provision in accordance with IAS 19 generated a reserve as at 31st December 2017 amounting to € 754 thousand;
- *Stock options*
the amount of € 14,463 thousand relates to the personnel expense for stock options issued and granted after 7th November 2002 and not yet exercised, valued in accordance with IFRS 2. The amount of € 8,691 thousand relates to the cost for the stock options of employees of subsidiaries, the valuation of which, in agreement with IFRS 2, was recognised as an increase in the value of the investments in the companies in which those employees work;
- *Reserve to adjust entries for the merged company*
That reserve, amounting to € 765 thousand, originated as a result of the following two transactions:
 - an increase in the value of the investment in the 90% controlled subsidiary Opalia Pharma S.A., in order to take account of the option to purchase the remaining 10% from non-controlling shareholders, with a consequent decrease in equity reserves and an increase in other non-current liabilities;
 - a decrease in interest payable to the merged company Recordati S.A. Chemical and Pharmaceutical Company, following the alignment of the intercompany balances between the two companies, with a consequent increase in equity reserves.
- *Financial instrument adjustment reserve*
That reserve, amounting to € 8,593 thousand, is a result almost entirely of the adjustment as at the value date, net of tax, of the value of the investment in PureTech Health p.l.c., recognised following the merger by acquisition already mentioned of Recordati S.A. Chemical and Pharmaceutical Company. To a residual extent the item includes the adjustment to the value of the investments in Codexis (€ 14 thousand) and Fluidigm (€ 2 thousand).

- *Reserve for fair value movements in derivative instruments*

In accordance with the provisions of IAS 39, this reserve is comprised of the following: the balancing entry of the amounts for the assets resulting from measurement at market value of cross currency swaps of a cash flow nature, the balancing entry of the amount recognised through profit or loss to offset movements in the exchange rate at the end of the year relating to a hedged loan in foreign currency and the liabilities resulting from the measurement at the market value of interest rate swap transactions also of a cash flow hedge nature.

The amount as at 31st December 2017, net of tax, was negative by € 5,866 thousand.

- *Revaluation reserve*

This amounted to € 2.602 thousand (unchanged compared with 2016) and consisted of revaluation balances within the meaning of Law 413/1991.

Untaxed (taxation suspended) reserves as at 31st December 2017 amounted to € 87,826 thousand and consisted of € 15,964 thousand of reserves for grants received net of the taxed portion, € 517 thousand of the VAT concession reserve and € 99 thousand of the reserve formed pursuant to the Law regulating pension funds and € 71,246 thousand of the revaluation reserves net of the substitute taxes. Revaluation reserves amounting to € 68,644 thousand were eliminated in compliance with international accounting standards and the non-taxability was transferred to the additional paid-in capital reserve. No deferred tax provisions were recognized in respect of those reserves, because, in accordance with IAS 12, these deferred tax provisions are recognized in the year in which the distribution is declared.

26. LOANS

The composition of medium to long-term loans at 31st December 2017 and 2016 is shown below:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Bond subscribed in dollars by the investor Pricoa Capital Group (Prudential)	62,536	71,151	(8,615)
Loan granted by Unicredit at a floating interest rate repayable in semi-annual instalments by 2020	25,000	35,000	(10,000)
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual instalments by 2020	18,750	26,250	(7,500)
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2018	12,500	25,000	(12,500)
Loan granted by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual instalments by 2022	34,091	40,909	(6,818)
Loan granted by BNL at a floating interest rate repayable in six monthly instalments by 2020	25,000	25,000	0
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2021	25,000	25,000	0
Loan granted by Recordati Rare Diseases at a fixed interest rate repayable in semi-annual instalments by 2025	58,367	66,407	(8,040)
Bond subscribed in euro by the investor Pricoa Capital Group (Prudential)	125,000	0	125,000
Loan granted by Mediobanca at a floating interest rate repayable in annual instalments by 2024	75,000	0	75,000
Loan granted by UBI Banca at a floating interest rate repayable in a single instalment in 2022	50,000	0	50,000
Loan granted by Unicredit at a floating interest rate repayable in a single instalment in 2021	50,000	0	50,000
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2025	75,000	0	75,000
Loan granted by Banca Passadore at a floating interest rate repayable in annual instalments by 2022	15,000	0	15,000
Total amortized cost of loans	651,244	314,717	336,527
Portion due within one year	(47,224)	(36,818)	(10,406)
Portion due after one year	604,020	277,899	326,121
Expenses relating to loans	(1,308)	(1,187)	(121)
Total	602,712	276,712	326,000

As at 31st December 2017 medium to long-term loans, inclusive also of the current portions (see note 34), amounted to € 649,936 thousand. The net increase of € 336,406 thousand compared with 31st December 2016 was the result of new loans for € 389,518 thousand, repayment instalments for the period amounting to € 36,457 thousand and the effect of foreign currency translations (a decrease of € 16,655 thousand).

The repayment schedules for the portions of the medium and long-term loans due after 31st December 2018 are as follows:

€ (thousands)	
2019	66,366
2020	62,300
2021	91,235
2022	90,331
2023	32,091
2024 and after	260,389
Total	602,712

On 30th September 2014 the Company subscribed a bond for a total of \$ €75 million, divided into two tranches: \$ €50 million at a fixed rate of 4.28% per annum, repayable semi-annually from 30 March 2022 and maturing on 30th September 2026; and \$ €25 million at a fixed rate of 4.51% per annum, repayable semi-annually from 30th March 2023 and maturing on 30th September 2029.

The translation of the debt as at 31st December 2017 determined a reduction in the liability of € 8,614 thousand compared with 31st December 2016, due to the depreciation of the United States dollar against the euro.

The loan was hedged at the same time by two currency rate swap transactions, which involved transformation of the debt into a total of € 56.0 million, at a fixed interest rate of 2.895% per annum for the tranche maturing in 12 years and at a fixed interest rate of 3.15% per annum for that maturing in 15 years.

The measurement of the hedging instruments at fair value as at 31st December 2017, was positive on aggregate by € 3,752 thousand and was recognized directly as an increase in equity and an increase in the asset item "Fair value of hedging derivatives – cash flow hedges" (see note 22).

The bond loan is subject to covenants and failure to comply with them may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were amply fulfilled.

In May 2015, the Company signed a loan agreement with Unicredit for € 50 million, granted net of fees and commissions of € 0.4 million. The main terms and conditions of the loan are a floating interest rate equal to the six-month Euribor plus a spread of 80 basis points and a life of five years with semi-annual repayments of the principal from November 2015 and until May 2020. The remaining debt as at 31st December 2017 was € 25 million. The loan is partially hedged by an interest rate swap (a cash flow hedge), with which a portion of the debt is transformed to a fixed interest rate of 1,734%. The measurement at fair value of the derivative instrument as at 31st December for the hedge of € 16.7 million was negative by € 242 thousand and this was recognized directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 33).

The loan contract with Unicredit contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were amply fulfilled.

In 2015 the Company renegotiated a loan agreement with ING Bank for € 30.0 million, originally signed by the Company on 8th January 2014 with a change made solely to the interest rate.

The new terms and conditions are for a floating interest rate equal to the six-month Euribor plus a spread of 85 basis points (compared with 190 basis points under the previous agreement), while the semi-annual repayments of the principal from July 2016 and until January 2020 remain unchanged. The loan was fully hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 1,913% after the renegotiation described above. The measurement at fair value of the derivative instrument as at 31st December 2017 gave a negative result of € 367 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 33).

The loan agreement with ING Bank contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were amply fulfilled.

On 30th September 2013, the Company signed a loan agreement with Banca Nazionale del Lavoro for € 50.0 million, disbursed net of expenses and commissions of € 0.6 million. The main terms and conditions were a floating interest rate equal to the six-month Euribor plus a spread (which, following a renegotiation between the parties, was reduced from 200 basis points to 70 basis points from 1st April 2015 and to 50 basis points from 29th March 2017) and a life of 5 years with semi-annual repayments of the principal by September 2018 commencing from March 2015. The loan was fully hedged with an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate which now stands at 1.4925% following the recent renegotiation. The measurement at fair value of the derivative instrument as at 31st December 2017 gave a negative result of € 119 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 33).

The loan agreement with Banca Nazionale del Lavoro contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were amply fulfilled.

On 30th November 2010, the Company signed a loan contract with Centrobanca (now UBI Banca), for a three-year programme of investments in Research & Development. The loan, which Centrobanca (now UBI Banca) funded through a loan from the European Investment Bank, amounted to € 75.0 million of which € 30.0 million, net of expenses of € 0.3 million, was disbursed in 2010 and € 45.0 million in the first quarter of 2011. The main terms and conditions were a floating interest rate and a life of 12 years with

repayment in semi-annual instalments of the principal from June 2012 and through December 2022. The remaining debt as at 31st December 2017 was € 34 million. In June 2012 the loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 2.575%.

The measurement at fair value of the derivative instrument as at 31st December 2017 gave a negative result of € 1,331 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 33).

The loan agreement with Centrobanca (now UBI Banca) contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

On 23rd December 2016, the Company signed a loan agreement with Banca Nazionale del Lavoro for € 25.0 million, disbursed net of fees and commissions of € 0.1 million. The main terms and conditions were a floating interest rate equal to the 6-month Euribor plus a spread of 40 basis points and a life of 4 years, with semi-annual repayments of the principal by September 2020 commencing from March 2019. The loan was fully hedged at the same time with an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 0.41%. The measurement at fair value of the derivative instrument as at 31st December 2017 gave a negative result of € 82 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 33).

The loan agreement with Banca Nazionale del Lavoro contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00;

Those conditions were amply fulfilled.

On 23rd December 2016, the Company signed a loan agreement with Intesa Sanpaolo for € 25.0 million, disbursed net of fees and commissions of € 0.1 million. The main terms and conditions are a floating interest rate equal to the 6-month Euribor plus a spread of 60 basis points and a life of 5 years, with semi-annual repayments of the principal by December 2021 commencing from June 2019.

The loan was fully hedged at the same time with an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 0.68%. The measurement at fair value of the derivative instrument as at 31st December 2017 gave a negative result of € 44 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 33).

The loan agreement with Intesa Sanpaolo contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00;

Those conditions were amply fulfilled.

On 8th November 2016, the Company signed a loan agreement with the subsidiary Recordati Rare Diseases

for a total loan of \$ €70.0 million divided into two tranches \$ €30 million at a fixed rate of 3.35% per annum, repayable in a single instalment due on 13th June 2023 and \$ €40 million at a fixed rate of 3.50% per annum, repayable in a single instalment due on 13th June 2025. The loan was fully hedged with two cross currency swap transactions, which involved transformation of the debt into a total of € 62.9 million, at a fixed interest rate of 1.56% per annum for the tranche maturing in 7 years and at a fixed interest rate of 1.76% per annum for that maturing in 9 years. The measurement at fair value of the hedging instruments as at 31st December 2017 gave an aggregate negative result of € 6,860 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 33).

In May 2017, the Company issued a bond for a total of € 125,000 thousand, at a fixed rate of 2.07% per annum, repayable annually from 31st May 2025 and maturing on 31st May 2032.

The bond loan is subject to covenants and failure to comply with them may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those conditions were amply fulfilled.

On 28th July 2017, the Company signed a loan agreement with Mediobanca for € 75.0 million. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread of 95 basis points and a life of 7 years with annual repayments of the principal commencing in July 2018 and continuing until July 2024. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 1.29%. The measurement at fair value of the derivative instrument as at 31st December 2017 gave a negative result of € 419 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 33).

The loan agreement with Mediobanca contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00;

Those conditions were amply fulfilled.

On 7th December 2017, the Company signed a loan agreement with UBI Banca for € 50.0 million, disbursed net of up-front fees and commissions of 0.10%. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread of 50 basis points, with semi-annual repayments of the interest and repayment of the principal in a single instalment on 7th September 2022. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 0.714%. The measurement at fair value of the derivative instrument as at 31st December 2017 gave a positive result of €40 thousand and this was recognized directly as an increase in equity and an increase in the asset item “Fair value of hedging derivatives – cash flow hedges” (see note 22).

The loan contract with UBI Banca contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00;

Those conditions were amply fulfilled.

On 29th September 2017, the Company signed a loan agreement with Unicredit for € 50.0 million, disbursed net of up-front fees and commissions of 0.15%. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread of 55 basis points, with semi-annual repayments of the interest and repayment of the principal in a single instalment on 29th September 2021. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 0.698%. The measurement at fair value of the hedging instruments as at 31st December 2017 gave an aggregate negative result of € 95 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 33).

The loan contract with UniCredit contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00;

Those conditions were amply fulfilled.

On 18th October 2017 the Company signed a loan agreement with Intesa Sanpaolo for € 75.0 million, disbursed net of fees and commissions of € 0.2 million. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread of 95 basis points and a life of 8 years with semi-annual repayments of the principal by October 2025 commencing from June 2019. The loan was fully hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 1.305%. The measurement at fair value of the derivative instrument as at 31st December 2017 gave a positive result of €32 thousand and this was recognized directly as an increase in equity and an increase in the asset item “Fair value of hedging derivatives – cash flow hedges” (see note 22).

The loan contract with Intesa Sanpaolo contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00;

Those conditions were amply fulfilled.

On 10th November 2017, the Company signed a loan agreement with Banca Passadore for € 15.0 million, disbursed net of expenses and commissions of € 7 thousand. The main terms and conditions of the loan are a floating interest rate equal to the 3-month Euribor plus a spread of 65 basis points and a life of 5 years with annual repayments of the principal from November 2020 and until November 2022.

The loan contract with UBI Passadore contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

- 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 EBIT to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00;

Those conditions were amply fulfilled.

27. PERSONNEL LEAVING INDEMNITIES AND OTHER BENEFITS

The balance as at 31st December 2017 was € 10,860 thousand (€ 11,237 thousand as at 31st December 2016). Changes in the item were as follows:

€ (thousands)	2017	2016
Balance as at 1 st January	11,237	11,172
Additions during the year	125	180
Use for the year	(547)	(352)
Change in fair value of the personnel leaving indemnity fund (IAS 19)	45	237
Balance as at 31st December	10,860	11,237

The valuation of the personnel leaving indemnity fund in accordance with IAS 19 generated a liability as at 31st December 2017 of € 10,860 thousand. The calculations made, which used actuarial parameters updated as at 31st December 2017, found a greater liability and resulted in the recognition of an adjustment of € 45 thousand to the fund compared with the figure as at 31st December 2016 which was stated, net of tax, in the statement of comprehensive income recognised as equity, as required by the relative accounting standard.

28. OTHER NON-CURRENT LIABILITIES

The balance as at 31st December 2017 stood at € 2,515 thousand (€ 0 thousand as at 31st December 2016) and relates to the long-term debt for the acquisition of the investment in Opalia Pharma held by the former subsidiary Recordati S.A. Chemical and Pharmaceutical Company, now merged by acquisition into the Company.

29. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include end-of-year provisions for invoices to be received, amounted as at 31st December 2017 and 2016 to € 55,764 thousand and € 44,515 thousand respectively.

Balances as at 31st December 2017 and 2016 were as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Suppliers, subsidiaries	7,544	8,050	(506)
Suppliers, Italy	17,504	22,179	(4,675)
Suppliers, Italy for invoices to be received	10,355	7,611	2,744
Suppliers, abroad	8,802	4,780	4,022
Suppliers, abroad for invoices to be received	11,559	1,895	9,664
Total trade payables	55,764	44,515	11,249

Details for subsidiaries are as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Recordati Rare Diseases Inc.	9	94	(85)
Laboratoires Bouchara Recordati S.a.s.	22	106	(84)
Innova Pharma S.p.A.	2,510	4,050	(1,540)
Italchimici S.p.A.	262	3	259
Recordati Ireland Ltd.	2,832	3,044	(212)
Casen Recordati S.L.	507	641	(134)
Recordati AG (formerly Pro Farma AG)	28	0	28
Recordati S.A. – Switzerland	0	112	(112)
Herbacos Recordati S.r.o.	387	0	387
Recordati Polska Sp. Z.o.o.	457	0	457
Recordati Romania S.r.l.	530	0	530
Total payables to subsidiaries	7,544	8,050	(1,493)

There were no concentrations of large debts to a single or a small number of suppliers.

The adjustment of trade payables in non-euro currencies resulted in the recognition of net positive exchange rate differences of € 166 thousand.

The largest trade payables in foreign currency were as follows:

	31.12.2017		31.12.2016	
	Currency	€(000)	Currency	€(000)
Payables in US\$	3,853,821	3,374	1,509,749	1,512
Payables in GBP	68,026	88	156,007	193

30. OTHER CURRENT PAYABLES

Other current accounts payable as at 31st December 2017 amounted to € 20,992 thousand (€ 19,567 thousand as at 31st December 2016). They were composed as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Payables to third parties for the acquisition of Opalia Pharma S.A.	655	0	655
Employees	9,519	8,635	884
Social security	6,902	6,640	262
Commissions to agents	745	963	(218)
Others	3,171	3,329	(158)
Total other borrowings and payables	20,992	19,567	1,425

The debt to third parties regards the short-term portion of the debt for the acquisition of the investment in Opalia Pharma S.A. held by the former subsidiary Recordati S.A. Chemical and Pharmaceutical Company, now merged by acquisition into Recordati S.p.A..

Amounts due to employees include amounts accrued and not paid, vacations not taken and bonuses for presence and for achieving objectives.

Social security payables not only include contribution expenses for those periods but also the amount due to pension institutes for December.

Amounts payable to agents include € 290 thousand in commissions for foreign agents.

Other payables include directors' fees accruing as at 31st December 2017 (€ 516 thousand), credit notes to be issued (€ 809 thousand) and those for the debt to Regions pursuant to Law 122 of 30th July 2010 amounting to € 1,212 thousand. We also report € 68 thousand of payables to Orphan Europe Italy S.r.l. in relation to VAT transfers within the Group and € 26 thousand of payables to Italcimici S.p.A..

31. TAX LIABILITIES

Tax liabilities amounted to € 8,417 thousand as at 31st December 2017 (€ 4,397 thousand as at 31st December 2016).

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Liabilities payable to FimeI S.p.A. for IRES (corporate income tax)	2,479	1,285	1,194
Liabilities for current taxation	1,121	561	560
Liabilities for split payment of VAT	2,509	0	2,509
Liabilities for employee withholding taxes	2,040	2,517	(477)
Liabilities for self-employed withholding taxes	267	33	234
Other tax liabilities	1	1	0
Total tax liabilities	8,417	4,397	4,020

The payables to the parent company FIMEI S.p.A. are composed as follows:

- receivables for tax refunds requested relating to an application for an IRES (corporate income tax) tax refund because it had not made an expense based deduction from IRAP (regional tax on production) relating to personnel expense for employees for the years 2007 until 2011 in accordance with Art. 2, paragraph 1-*quater* of Decree Law 201 of 2011;
- tax liabilities for current taxation relating to taxes for the year calculated on the basis of estimated taxable income. That liability was transferred by the Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.

Liabilities for current taxation consist of the IRAP (regional production tax) due for the year, net of payments on account.

We report that Decree Law No. 50 of 24th April 2017 amended Art. 17-*ter* of Presidential Decree No. 63/1972 which extended split payment of VAT procedures to include transactions carried out by companies listed in the FTSE MIB index of Borsa Italiana. That therefore includes Recordati S.p.A. Consequently as of 1st July 2017 the Company has been making payments of the VAT stated on invoices received from suppliers directly to the tax authorities.

In respect of the above, the liability for split payment of VAT as at 31st December 2017 was € 2,509 thousand.

32. PROVISIONS

These consist of tax and other provisions as reported in the table below.

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Tax	25,745	3,955	21,790
For agent customer indemnities	1,669	1,536	133
Other risks	9,124	7,467	1,657
Total other provisions	36,538	12,958	23,580

A provision of €22,143 thousand was set for risks resulting from tax inspections.

The change in the provision for other risks is due to utilizations of € 349 thousand and additional provisions of € 2,007 thousand.

Uses related mainly to the conclusion of personnel litigation cases and to the payment of a notice indemnity to employees.

Provisions include costs of € 1,949 thousand consisting of an obligation (IAS 37) arising from the approval by the Board of Directors on the 15th June 2017 which commits the Company to renovate the paediatric and outpatient area of the Bambini Vittore Buzzi Hospital which forms part of the Fatebenefratelli Sacco Health Authority. It is a charitable initiative in memory of Ing. Giovanni Recordati which will be carried out in 2018 by a contractor engaged for that purpose at the end of 2017 and will conclude with a charitable donation to the Buzzi Hospital for the works carried out by and at the expense of the Company.

33. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGES) (current assets)

The balance as at 31st December 2017 was € 9,559 thousand (€ 3,621 thousand as at 31st December 2016).

The interest rate swaps to hedge the cash flows related to medium and long-term loans measured at fair value as at 31st December 2017 gave rise to a € 2,699 thousand 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 fair value measurement relates to interest rate swaps entered into by the Company to hedge interest rates on loans granted by Centrobanca (€ 1,331 thousand), Banca Nazionale del Lavoro (€ 201 thousand), ING Bank (€ 367 thousand), Unicredit (€ 338 thousand), Intesa Sanpaolo (€43 thousand) and Mediobanca (€ 419 thousand).

The market value (fair value) as at 31st December 2017 of two cross-currency swaps entered into to hedge currency risks on loans to the United States company Recordati Rare Diseases, for a total nominal value of \$ €70.0 million, was negative on aggregate by € 6,860 thousand and was recognised directly as a reduction in equity.

34. LOANS – DUE WITHIN ONE YEAR

The current portions of medium and long-term loans due within one year as at 31st December 2017 and 2016 were composed as follows:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Loan granted for research by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual instalments by 2022	6,818	6,818	0
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2018	12,406	12,500	(94)
Loan granted by Unicredit at a floating interest rate repayable in semi-annual instalments by 2020	10,000	10,000	0
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual instalments by 2020	7,500	7,500	0
Loan granted by Mediobanca at a floating interest rate repayable in annual instalments by 2024	10,500	0	10,500
Total	47,224	36,818	10,406

35. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans as at 31st December 2017 and 2016 amounted to € 2,384 thousand and € 1,777 thousand respectively.

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Current account overdrafts	982	837	146
Interest on loans	505	149	356
Interest on bond debt	897	792	105
Total	2,384	1,777	607

36. OTHER SHORT-TERM PAYABLES

The balance on other short-term payables consisted entirely of amounts due to subsidiaries and amounted to € 287,483 thousand (€ 321,617 thousand as at 31st December 2016).

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Recordati S.A. – Luxembourg	0	11,673	(11,673)
Innova Pharma S.p.A.	32,755	31,935	820
Laboratoires Bouchara Recordati S.a.s.	11,024	18,369	(7,345)
Herbacos Recordati S.r.o.	0	2,101	(2,101)
Casen Recordati S.L.	42,410	26,493	15,917
Orphan Europe Germany GmbH	6,147	4,844	1,303
Orphan Europe Sarl	42,103	0	42,103
Recordati Rare Diseases Inc.	94	109	(15)
Recordati Orphan Drugs	48,428	42,750	5,678
Orphan Europe Spain S.L.	5,431	3,816	1,615
Orphan Europe Italy S.r.l.	14,096	10,577	3,519
Recordati Ireland Ltd.	77	75,645	(75,568)
FIC Médical S.a.r.l.	0	301	(301)
Orphan Europe Benelux BVBA	1,472	1,371	101
Orphan Europe Portugal LDA	304	304	0
Recordati Hellas Pharmaceuticals S.A.	4,262	341	3,921
Recordati Pharma GmbH	40,362	21,233	19,129
Bouchara Recordati Sas	23,093	60,081	(36,988)
Orphan Europe Nordic A.B.	1,392	1,241	151
Orphan Europe Switzerland GmbH	331	331	0
Jaba Recordati S.A.	6,699	2,800	3,899
Orphan Middle East FZ LLC	7,003	5,302	1,701
Total	287,483	321,617	(34,134)

The payables consist of € 280,386 thousand for the centralized cash pooling system and of € 7,097 thousand for payables for loans from Orphan Middle East FZ LLC (€ 7,003 thousand) and Recordati Rare Diseases (€ 94 thousand).

We report that following the merger of Recordati S.A. Chemical and Pharmaceutical Company, the debt of € 11,673 thousand to the merged company still existing as at 31st December 2016 was cancelled.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IFRS 7, a comparison of the carrying amounts as at 31st December 2017 and the fair values of financial assets and liabilities is given below.

€ (thousands)	Carrying amount	Fair value
Financial assets		
Other short-term receivables	67,573	67,573
Financial investments and cash and cash equivalents	216,547	216,976
Trade receivables	82,250	82,250
Other receivables	8,556	8,556
Fair value of hedging derivatives (cash flow hedges)	3,825	3,825
Financial liabilities		
Loans		
- loans at fixed interest rates	124,880	120,655
- at fixed rate hedged by cross currency swaps (CCS)	120,640	117,989
- at floating rate hedged with interest rate swaps (IRS)	404,417	404,417
Trade payables	55,764	55,764
Other payables	29,409	29,409
Fair value of hedging derivatives (cash flow hedges)	9,559	9,559
Bank overdrafts and short-term loans	2,384	2,384
Other short-term borrowings	287,483	287,483

38. DISCLOSURE OF FINANCIAL RISKS

The Company constantly monitors the financial risks to which it is exposed in order to take immediate mitigating action when necessary. Financial policies are designed to achieve a balanced and prudent structure as a basic condition for funding internal and external growth.

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

Liquidity risk

The liquidity risk to which the Company 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 Company's liquidity are, on the one hand, the resources 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 terms and conditions of the Company's loans and its financial assets are set out in notes 24, 26, 34 and 35 which address, respectively, short-term financial investments, cash and cash equivalents, medium to long-term loans and the current portions of medium to long-term loans and bank loans and overdrafts.

The Company 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 on their natural due dates.

Credit risk

The Company closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. As at 31st December 2017, the credit exposure was not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. More specifically as at 31st December 2017 gross trade receivables, inclusive of those receivable from subsidiaries, totalled € 83,359 thousand and the relative allowance for doubtful accounts of € 1,109 thousand recognized is considered to be sufficient in relation to the risk of insolvencies.

Interest rate risk

The Company raises funds using debt and invests excess cash in money market funds and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Company's net financial charges.

The Company's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest rate loans or floating interest rate loans. Any floating rate loans are promptly hedged by using derivative instruments (e.g. interest rate swaps – IRS), used solely for hedging and not speculative purposes.

This hedging policy allows the company to minimise the risk attaching to fluctuations in interest rates (as illustrated in note 26).

Foreign currency risk

The Company is exposed to foreign currency fluctuations which can affect its operating results.

In particular, the Company is exposed to foreign currency fluctuations on its international sales and financing denominated in currencies other than the euro.

The company also enters into forward contracts for the purchase and sale of currency in order to hedge amounts at risk. It does this for hedging purposes only and not for speculation.

39. SEGMENT REPORTING

Reporting by business segment and geographical area, presented in compliance with IFRS 8 – Operating segments – has been performed according to the same accounting policies employed in the presentation of the consolidated financial statements of the Group where, following the acquisition of Orphan Europe, two main segments have been identified: the pharmaceuticals segment and the orphan pharmaceuticals segment, which relates to the whole of Orphan Europe. Consequently the only business segment that exists for Recordati S.p.A. is the pharmaceuticals segment. Furthermore, the pharmaceutical chemicals business is considered an integral part of the pharmaceuticals segment because from an organisational and strategic viewpoint it is involved principally in the production of the active ingredients required to produce pharmaceuticals.

The following table presents net revenues by geographic area:

€ (thousands)	2017	2016	Change 2017/2016
Europe	347,676	297,839	49,837
<i>of which Italy</i>	192,993	188,258	4,735
Australasia	8,934	8,485	449
The Americas	12,516	12,882	(366)
Africa	1,882	1,500	382
Total	371,008	320,706	50,302

40. LITIGATION AND CONTINGENT LIABILITIES

The Company is party to certain legal actions.

On 29th September 2006, a notice of tax assessment was served on the Company by the Milan 6 Office of the Tax Authorities relating to the fiscal year 2003. It was assessed for additional taxation as follows: corporate income tax of € 2.3 million, IRAP (regional production tax) of € 0.2 million and VAT of € 0.1 million and the imposition of fines of € 2.6 million. The Company believed no amount was due and considered the assessment flawed both from a legitimacy as well as a substantive point of view, and is supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first instance judgment before section 33 of the Provincial Tax Commission was concluded partially in the Company's favour with decision No. 539/33/07 dated 11th October 2007, filed on 16th October 2007. An appeal was subsequently filed against that judgment with the Regional Tax Commission of Milan, firstly by the Milan Office 6 of the Tax Authorities with notice served on 8 November 2008 and secondly by the Company with notice served on 7th January 2009. With judgment No. 139/32/09 of 10th June 2009, filed on 27th November 2009, section 32 of the Regional Tax Commission of Milan rejected the interlocutory appeal filed by the Company and accepted the principal appeal of the Milan Office 6 of the Tax Authorities. As a result of that judgment the claims contained in the aforementioned tax assessment relating to the tax year 2003 were confirmed in their entirety and the Company paid the full amount due. On 26th May 2010, the Company appealed that decision before the Supreme Court of Cassation. On 20th April 2017 the hearing took place and as a result with the decision n. 20805/17, handed down on 6th September 2017, the Court came to the decision to almost reject all the Company's arguments.

On 24th September 2014, the Company received a visit from the Milan Tax Police Unit of the Guardia di Finanza (finance police) as part of a general tax inspection for IRES (corporate income tax) and IRAP (regional tax on production) purposes (relating to the years 2010, 2011, 2012). The inspection was concluded for the year 2010 with a "Record of Findings" issued on 23rd September 2015 with which the inspectors found that the cost for a provision of services amounting to € 50,000 was not sufficiently documented and therefore to be considered not deductible from taxable income. On 19th October 2015 the Company filed an application for full settlement of the findings by consent, concluded following payment of the sums due. On 26th July 2016 as part of the tax inspection into the company mentioned above, the Milan Tax Police Unit of the Guardia di Finanza notified the Company of a "Record of Findings" for the financial year 2011, followed by a tax assessment by the tax authorities on the basis of which it found a cost of €50,000 for a provision of services – which had been appealed against also in the previous year – not sufficiently documented and therefore considered not deductible from taxable income. On 15th December 2016, the Company decided to comply with the tax assessment.

On 25th September 2017, again within the same tax audit of the Company above mentioned, the Italian Tax Police issued a Tax Audit Report for the 2012 tax year, which was followed up by a notice of assessment by the Internal Revenue Service, disallowing costs for services rendered for an amount of € 50,000 - an issue with regard to which notices of assessment were already issued for the previous tax periods - being not sufficiently documented and therefore not deductible for income tax purposes. On 23rd January 2018, the Company filed an application for full settlement of the findings by consent for VAT purposes whilst, on 29th January 2018, the Company decided to comply with the tax assessment for IRES and IRAP purposes.

In December 2015, the same Italian Tax Police (Guardia di Finanza) notified the Company of their intention to commence a general income tax inspection covering the years 2009 through 2014 involving the Group companies which reside in Ireland and in Luxembourg, Recordati Ireland Ltd and Recordati S.A. Chemical and Pharmaceutical Company respectively. The declared intention of the inspection is to evaluate the operational context of the foreign companies in order to verify whether said companies are in reality only formally localized abroad but are substantially managed/administered from Italy. On 28th February 2017 the Italian Tax Police (Guardia di Finanza) prescribed the extension of the income tax inspection to include the year 2015. After having analysed the documents and completed the investigation process, the Italian Tax Police finally revealed to Recordati Ireland Ltd., on 6th September 2017, their reasons for considering the Irish company subject to tax in Italy for corporate tax purposes in the reference period, resulting in an assessment of taxes allegedly owed to Italy, in the amount of € 109,4 million, against taxes of € 51,8 million already paid in Ireland. Similarly, the Italian Tax Police finally revealed to Recordati S.A. Chemical and Pharmaceutical Company, on 6th September 2017, their reasons for considering the Luxembourg company subject to tax in Italy for corporate tax purposes in the reference period, resulting in an assessment of taxes allegedly owed to Italy, in the amount of € 7.2 million. Recordati Ireland Ltd. and Recordati S.p.A. (as acquiring company by way of merger of Recordati S.A. Chemical & Pharmaceutical Company) filed their comments and observations on the findings reported in the above mentioned Tax Audits Reports within the legal deadlines. At the date of approval of the financial statements the tax reports and the said observations are still under consideration by the Tax Authorities (Agenzia delle Entrate). Although the Group's viewpoints remain unchanged on the legitimacy of its tax practices, it was decided to recognise, based on the best estimate of the potential exposure arising from the ongoing tax audits, a provision of € 22,1 million, including penalties.

41. NET FINANCIAL POSITION

The following summary is set out in the table below in compliance with Consob Resolution No. 15519 of 27th July 2006:

€ (thousands)	31.12.2017	31.12.2016	Change 2017/2016
Deposits in bank current accounts and cash on hand	206,538	86,815	119,723
Short-term loans to Group companies	67,573	119,857	(52,284)
Cash and cash equivalents and current receivables	274,111	206,672	67,439
Bank overdrafts and short-term loans	(2,384)	(1,778)	(606)
Loans – due within one year	(47,224)	(36,818)	(10,406)
Short-term borrowings from Group Companies	(287,483)	(321,617)	34,134
Short-term borrowings	(337,091)	(360,213)	23,122
Net current financial position	(62,980)	(153,541)	90,561
Loans and receivables – due after one year	10,105	16,396	(6,291)
Borrowings – due after one year (1)	(605,820)	(264,214)	(341,606)
Net financial position	(658,695)	(401,359)	(257,336)

(1) Including the recognition at fair value of derivative instruments to hedge foreign exchange rate risk (cash flow hedges).

42. NON-RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

In compliance with Consob communication of 28th July 2006 a summary is given in the table below of the main events, transactions and actions which are non-recurring and which do not repeat frequently in the usual course of business. The overall net effect of such occurrences on the profit and loss, balance sheet and cash flow of the Company is not significant.

€ (thousands)	2017	2016	Change 2017/2016
Expenses related to the return of expired pharmaceuticals	(163)	(200)	37
Company acquisition costs	0	(2,272)	2,272
Costs for the acquisition of metoprolol rights	(522)	0	(522)
Costs of the “Buzzi Hospital renovation”	(2,000)	0	(2,000)
Biopharma marketing proceedings reimbursement	0	354	(354)
Total non-recurring operating expense	(2,685)	(2,118)	(567)

43. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In compliance with CONSOB communication of 28th July 2006, the Company performed no atypical and/or unusual transactions in 2017, as defined in that same communication, according to which atypical and/or unusual transactions are those which because of their significance or importance, the nature of the counterparties, the content of the transaction, the way in which the transfer price is decided and the timing of the event (close to the end of the financial year) might give rise to doubts concerning: the accuracy and completeness of the information in the financial statements, a conflict of interests, the security of the company's assets, the protection of the interests of minority shareholders.

RECORDATI S.p.A.
STATEMENT OF CHANGES IN DIRECT INVESTMENTS
ATTACHMENT 1

€ (thousands)	Balance as at 31 st Dec 2016	Share capital sales and redemptions	Mergers	Acquisitions subscriptions	Initial adjustments	IFRS valuation	IFRS 2 Stock option valuation	Balance as at 31 st Dec 2017
Investments in subsidiaries								
Recordati S.A. – Luxembourg	221,343	-	(221,343)	-	-	-	-	0
Casen Recordati S.L. – Spain	192,463	-	77,362	-	-	-	446	270,271
Innova Pharma S.p.A. – Italy	10,561	-	-	-	-	-	3	10,564
Recordati Portuguesa LDA – Portugal	78	(78)	-	-	-	-	-	0
Bouchara Recordati S.a.s. – France	55,702	-	17	-	-	-	439	56,158
Recordati Pharmaceuticals Ltd. – United Kingdom	753	-	21,836	-	-	-	-	22,589
Recordati Hellas Pharmaceuticals S.A. – Greece	97	-	4,656	-	-	-	37	4,790
Herbacos Recordati S.r.o. – Czech Republic	15	-	19,557	-	-	-	60	19,632
Recordati Polska Sp. z o.o. – Poland	19,311	-	-	-	-	-	115	19,426
Italchimici S.p.A. – Italy	106,294	-	-	-	-	-	-	106,294
Recordati AG (formerly Pro Farma AG) - Switzerland	14,496	-	-	-	-	-	-	14,496
Recordati Rare Diseases Canada Inc. - Canada	-	-	-	245	-	-	-	245
Recordati Rare Diseases Inc. – United States	-	-	1,782	-	-	-	244	2,026
Recordati Rare Diseases Ukraine LLC - Ukraine	-	-	0	-	-	-	-	0
Recordati Rare Diseases S.A. DE C.V. – Mexico	-	-	10	804	-	-	9	823
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	-	-	212	-	-	-	(6)	206
Recordati Ireland LTD - Ireland	-	-	632	-	-	-	176	808
Recordati SA - Switzerland	-	-	1,607	-	-	-	61	1,668
Recordati Orphan Drugs S.A.S. - France	-	-	52,588	-	-	-	255	52,843
Opalia Pharma S.A. - Tunisia	-	-	18,055	-	1,927	-	-	19,982
Recordati Romania Srl - Rumania	-	-	1,463	-	-	-	18	1,481
Recordati Pharma GMBH - Germany	-	-	87,050	-	-	-	101	87,151
Accent LLC – Russian Federation	-	-	66,707	-	-	-	-	66,707
	621,113	(78)	132,191	1,049	1,927	0	1,958	758,160
Investments in other companies:								
Tecnofarmaci S.CpA - in liquidation – Pomezia (Rome)	28	(28)	-	-	-	-	-	-
Sifir S.p.A. – Reggio Emilia	0	-	-	-	-	-	-	0
Consorzio Dafne – Reggello (Florence)	2	-	-	-	-	-	-	2
Consorzio Nazionale Imballaggi – Rome	0	-	-	-	-	-	-	0
Consorzio C4T – Pomezia (Rome)	1	(1)	-	-	-	-	-	-
DGT - United States	-	-	0	-	-	-	-	0
Codexis Inc. - United States	-	-	24	-	-	13	-	37
PureTech Health p.l.c. - United States	-	-	5,224	-	7,992	2,937	-	16,153
Fluidigm Corp. - United States	-	-	7	-	-	(2)	0	5
	31	(29)	5,255	0	7,992	2,948	0	16,197
TOTAL	621,144	(107)	137,446	1,049	9,919	2,948	1,958	774,357

RECORDATI S.p.A.
SUMMARY STATEMENT OF DIRECT INVESTMENTS
ATTACHMENT 2

€ (thousands)	Balance as at 31 st Dec 2017	Percentage ownership	Number of shares or quotas possessed
Investments in subsidiaries			
Casen Recordati S.L. – Spain	270,271	100.00	2,389,660
Innova Pharma S.p.A. – Italy	10,564	100.00	960,000
Bouchara – Recordati S.a.s. – France	56,158	100.00	10,000
Recordati Pharmaceuticals Ltd. – United Kingdom	22,589	100.00	15,000,000
Recordati Hellas Pharmaceuticals S.A. – Greece	4,790	100.00	1,005,000
Herbacos Recordati S.r.o. – Czech Republic	19,632	100.00	2,560
Recordati Polska Sp. z.o.o. – Poland	19,426	100.00	90,000
Italchimici S.p.A. – Italy	106,294	100.00	7,646,000
Recordati AG (formerly Pro Farma AG) - Switzerland	14,496	100.00	30,000
Recordati Rare Diseases Canada Inc. - Canada	245	100.00	1,000
Recordati Rare Diseases Inc. - United States	2,026	100.00	100
Recordati Rare Diseases Ukraine LLC - Ukraine	0	0.01	1
Recordati Rare Diseases S.A. DE C.V. – Mexico	823	99.998	49,999
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	206	99.398	166
Recordati Ireland LTD - Ireland	808	100.00	200,000
Recordati SA - Switzerland	1,668	100.00	2,000
Recordati Orphan Drugs S.A.S. - France	52,843	90.00	51,300
Opalia Pharma S.A. - Tunisia	19,982	90.00	612,000
Recordati Romania Srl - Rumania	1,481	100.00	500,000
Recordati Pharma GMBH - Germany	87,151	55.00	1
Accent LLC – Russian Federation	66,707	100.00	1
	758,160		
Investments in other companies:			
Sifir S.p.A. – Reggio Emilia	0	0.04	1,304
Consorzio Dafne – Reggello (Florence)	2	1.16	1
Consorzio Nazionale Imballaggi – Rome	0	n,s,	1
DGT - United States	0	n,s,	n,s,
Codexis Inc. - United States	37	n,s	5,203
PureTech Health p.l.c. – United Kingdom	16,153	4.02	9,554,140
Fluidigm Corp. - United States	5	n,s	1,019
	16,197		
TOTAL	774.357		

COMPARISON BETWEEN THE CARRYING AMOUNT OF DIRECT INVESTMENTS IN SUBSIDIARIES AND THEIR VALUATION USING THE EQUITY METHOD

€ (thousands)	31.12.2017	%	Corresponding	Carrying	Valuation		
	Share capital	Ownership	pro-rata equity	amount	Art. 2426		
			(A)	(B)	(C)		
Investments							
Casen Recordati S.L. - Spain	238,966	350,721	13,048	100.00	350,721	270,271	352,412
Bouchara Recordati S.a.s. - France	4,600	51,602	12,630	100.00	51,602	56,158	126,584
Innova Pharma S.p.A. - Italy	1,920	35,836	2,521	100.00	35,836	10,564	35,795
Recordati Pharmaceuticals Ltd. - United Kingdom*	16,907	18,367	503	100.00	18,367	22,589	17,964
Recordati Hellas S.A. – Greece*	10,050	4,634	(265)	100.00	4,634	4,790	4,233
Recordati Polska S.p.z.o.o. - Poland*	1,077	641	(384)	100.00	641	19,426	16,013
Herbacos Recordati s.r.o. - Czech Republic	1,003	11,938	2,184	100.00	11,938	19,632	26,869
Italchimici S.p.A. – Italy	7,646	49,290	15,165	100.00	49,290	106,294	120,271
Recordati AG (formerly Pro Farma AG) – Switzerland*	2,564	3,874	430	100.00	3,874	14,496	13,824
Recordati Orphan Drugs S.A.S. - France	57,000	100,749	6,121	90.00	90,674	52,843	178,592
Recordati Pharma GMBH - Germany	600	141,287	14,681	55.00	77,708	87,151	112,251
Recordati S.A. - Switzerland	1,709	3,883	1,938	100.00	3,883	1,668	3,279
Recordati Rare Diseases Inc. – United States	9,988	118,954	28,342	100.00	118,954	2,026	115,831
Recordati Ireland LTD - Ireland	200	170,000	81,384	100.00	170,000	808	151,917
Recordati Romania Srl - Rumania	1,073	2,888	1,209	100.00	2,888	1,481	2,303
Accent LLC – Russian Federation*	0	359	35	100.00	359	66,707	33,470
Recordati Rare Diseases S.A. DE C.V. – Mexico*	687	(145)	(378)	99.998	(145)	823	(337)
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	0	276	108	99.398	274	206	274
Opalia Pharma S.A. - Tunisia	8,051	24,873	4,621	90.00	22,386	19,982	29,373
Recordati Rare Diseases Canada Inc. – Canada*	233	246	13	100.00	246	245	(167)
	364,274	1,090,272	183,905		1,014,129	758,160	1,340,751
				Difference A-B	255,969		
				Surplus C-B	582,591		

* The carrying amount of the investment has not been adjusted to bring it into line with the amount calculated using the equity method because the results of the annual impairment test showed that the difference was not to be considered an indicator of permanent impairment.

SUMMARY INFORMATION ON SUBSIDIARIES

Subsidiaries	Headquarters	Currency	Share capital	Profit (loss) 2017	Equity as at 31/12/2017	Revenue 2017
INNOVA PHARMA S.p.A. <i>Marketing and sales of pharmaceuticals</i>	Italy	€(000)	1,920	2,521	35,836	45,707
CASEN RECORDATI S.L. <i>Research, production and sales of pharmaceuticals</i>	Spain	€(000)	238,966	13,048	350,721	91,636
BOUCHARA RECORDATI S.A.S. <i>Research, production and sales of pharmaceuticals</i>	France	€(000)	4,600	12,630	51,602	16,669
REC.RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA. <i>Dormant, holds pharmaceutical marketing rights in Brazil</i>	Brazil	BRL(000)	0	428	1,097	3,570
RECORDATI RARE DISEASES Inc. <i>Research, production and sales of pharmaceuticals</i>	U.S.A.	USD(000)	11,979	33,991	142,661	125,526
RECORDATI IRELAND LTD <i>Research, production and sales of pharmaceuticals</i>	Ireland	€(000)	200	81,384	170,000	300,368
RECORDATI S.A. <i>Marketing and sales of pharmaceuticals</i>	Switzerland	CHF(000)	2,000	2,268	4,544	9,569
LABORATOIRES BOUCHARA RECORDATI S.A.S. <i>Research, production and sales of pharmaceuticals</i>	France	€(000)	14,000	19,102	35,596	184,339
RECORDATI PHARMA GmbH <i>Marketing and sales of pharmaceuticals</i>	Germany	€(000)	600	14,681	141,287	104,106
RECORDATI PHARMACEUTICALS LTD <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	GBP(000)	15,000	446	16,296	2,492
RECORDATI HELLAS PHARMACEUTICALS S.A. <i>Marketing and sales of pharmaceuticals</i>	Greece	€(000)	10,050	(265)	4,634	12,818
JABA RECORDATI S.A. <i>Marketing and sales of pharmaceuticals</i>	Portugal	€(000)	2,000	2,213	10,348	39,970
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. <i>Marketing of pharmaceuticals</i>	Portugal	€(000)	50	101	615	720
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. <i>Marketing of pharmaceuticals</i>	Portugal	€(000)	50	587	3,331	2,450
RECORDATI ORPHAN DRUGS S.A.S. <i>Holding company</i>	France	€(000)	57,000	6,121	100,749	1.933
ORPHAN EUROPE SWITZERLAND GmbH <i>Marketing and sales of pharmaceuticals</i>	Switzerland	CHF(000)	20	11	339	71
ORPHAN EUROPE MIDDLE EAST FZ LLC <i>Marketing and sales of pharmaceuticals</i>	United Arab Emirates	€(000)	20	7,656	12,265	15,021
ORPHAN EUROPE NORDIC AB <i>Marketing and sales of pharmaceuticals</i>	Sweden	SEK(000)	100	14,388	19,070	38,265
ORPHAN EUROPE PORTUGAL LDA <i>Marketing and sales of pharmaceuticals</i>	Portugal	€(000)	5	(11)	556	95
ORPHAN EUROPE S.A.R.L. <i>Research, production and sales of pharmaceuticals</i>	France	€(000)	320	15,855	68,272	71,170

Subsidiaries	Headquarters	Currency	Share capital	Profit (loss) 2017	Equity as at 31/12/2017	Revenue 2017
ORPHAN EUROPE UNITED KINGDOM LTD <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	GBP(000)	50	1,610	2,101	5,128
ORPHAN EUROPE GERMANY GmbH <i>Marketing and sales of pharmaceuticals</i>	Germany	€(000)	26	4,006	4,516	10,949
ORPHAN EUROPE SPAIN S.L. <i>Marketing and sales of pharmaceuticals</i>	Spain	€(000)	1,775	1,681	6,325	5,240
ORPHAN EUROPE ITALY S.R.L. <i>Marketing and sales of pharmaceuticals</i>	Italy	€(000)	40	3,689	14,618	9,929
ORPHAN EUROPE BENELUX BVBA <i>Marketing and sales of pharmaceuticals</i>	Belgium	€(000)	19	1,491	2,388	4,777
FIC MEDICAL S.A.R.L. <i>Marketing of pharmaceuticals</i>	France	€(000)	174	216	1,185	2,451
HERBACOS RECORDATI s.r.o. <i>Research, production and sales of pharmaceuticals</i>	Czech Republic	CZK(000)	25,600	55,766	304,826	438,072
RECORDATI SK s.r.o. <i>Marketing and sales of pharmaceuticals</i>	Slovak Republic	€(000)	33	20	253	679
RUSFIC LLC <i>Marketing and sales of pharmaceuticals</i>	Russian Federation	RUB(000)	3,560	390,296	1,104,706	6,060,488
RECOFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. <i>Marketing of pharmaceuticals</i>	Turkey	TRY(000)	10	50	220	444
RECORDATI ROMANIA S.R.L. <i>Marketing and sales of pharmaceuticals</i>	Rumania	RON(000)	5,000	5,631	13,454	32,217
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. <i>Research, production and sales of pharmaceuticals</i>	Turkey	TRY(000)	120,875	42,353	198,823	334,372
RECORDATI POLSKA Sp. z o.o <i>Marketing and sales of pharmaceuticals</i>	Poland	PLN(000)	4,500	(1,606)	2,679	62,422
ACCENT LLC <i>Holds pharmaceutical marketing rights</i>	Russian Federation	RUB(000)	20	2,450	24,904	3,600
RECORDATI UKRAINE LLC <i>Marketing and sales of pharmaceuticals</i>	Ukraine	UAH(000)	1,032	7,666	26,239	170,365
CASEN RECORDATI Portugal Unipessoal Ltd <i>Marketing and sales of pharmaceuticals</i>	Portugal	€(000)	100	67	368	462
OPALIA PHARMA S.A. <i>Research, production and sales of pharmaceuticals</i>	Tunisia	TND(000)	9,656	5,542	29,830	47,797
OPALIA RECORDATI SARL <i>Marketing of pharmaceuticals</i>	Tunisia	TND(000)	20	697	1,695	2,763
RECORDATI RARE DISEASES S.A. DE CV <i>Marketing and sales of pharmaceuticals</i>	Mexico	MXN(000)	16,250	(8,948)	(3,432)	12,420
RECORDATI RARE DISEASES COLOMBIA S.A.S <i>Marketing and sales of pharmaceuticals</i>	Colombia	COP(000)	150,000	2,478,203	4,166,874	14,346,377
RECORDATI RARE DISEASES CANADA INC. * <i>Marketing and sales of pharmaceuticals</i>	Canada	CAD(000)	350	20	370	3,453
ITALCHIMICI S.p.A. <i>Marketing and sales of pharmaceuticals</i>	Italy	€(000)	7,646	15,165	49,290	43,538
RECORDATI AG (già PRO FARMA AG) <i>Marketing and sales of pharmaceuticals</i>	Switzerland	CHF(000)	3,000	503	4,533	10,198
PRO FARMA GmbH <i>Marketing and sales of pharmaceuticals</i>	AUSTRIA	€(000)	35	9	396	667

* Formed in 2017.

RECORDATI S.p.A.
 DETAILS OF ITEMS IN SHAREHOLDERS' EQUITY

ATTACHMENT 5

€ (thousands)	Amount	Possibility of use	Amount available	Amount distributable without tax effects	Amount distributable with tax effects	Notes
Share capital	26,141					
Additional paid-in capital reserve	83,718	A B C	83,718	15,074	68,644	1
Revaluation reserve	2,602	A B C	2,602	0	2,602	
Statutory reserve	5,228	B				
By-law reserves	0					
Treasury stock reserve	(17,029)		(17,029)	(17,029)	0	
Other reserves						
Gain on merger	29,813	A B C	29,813	29,813	0	
Extraordinary reserve	57,663	A B C	57,663	57,663	0	
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	A B C	99	0	99	
Research and investment grants	17,191	A B C	17,191	1,227	15,964	2
Extraordinary VAT concession reserve	517	A B C	517	0	517	
Southern Italy investment fund	3,632					
IAS reserve	109,888	A B C	109,888	109,888	0	
Interim dividends	(87,470)		(87,470)	(87,470)	0	
Net income for the year	212,506	A B C	212,506	212,506	0	
Total shareholders' equity	444,499		409,499	321,673	87,826	

Legend:

- A for share capital increase
- B to replenish losses
- C to distribute to shareholders

Notes:

- 1 The additional paid-in capital reserve may be distributed when the statutory reserve has reached one fifth of the share capital
- 2 The research and investment grant reserve has already been subject to taxation of € 1,227 thousand.

DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

Amounts in euro

Type of service	Provider of the service	Remuneration
Accounting audit	Auditor of the Company	128.800
Attestation services	Auditor of the Company	44.000
Due diligence	Auditor of the Company	51.000

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

1. The undersigned, Andrea Recordati, in his capacity as Vice Chairman and Chief Executive Officer, and Fritz Squindo, as the Manager responsible for the preparation of the financial statements of Recordati S.p.A., pursuant to the provisions of article 154-bis, clauses 3 and 4, of Legislative Decree No. 58 of 24th February 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 separate company financial statements for the financial year 2017.

2. Furthermore, it is certified that:

2.1 the financial statements as at and for the year ended 31st December 2017:

- have been prepared in accordance with the international accounting standards, recognized by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19th July 2002;
- correspond to the amounts shown in the Company's accounts, books and records;
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the issuer.

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

Milan, 15th March 2018

The Vice Chairman and
Chief Executive Officer

Andrea Recordati

Manager responsible for the preparation
of the Company's financial reports

Fritz Squindo