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

Recordati Industria Chimica e Farmaceutica S.p.A.

Separate financial statements as at and for the year ended 31 December 2018

(with independent auditors' report thereon)

KPMG S.p.A.

20 March 2019

KPMG S.p.A.
Revisione e organizzazione contabile
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(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 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 2018, the income statement and the statements of 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 2018 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 the company 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 16 "Investments"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2018 include equity investments of €928.9 million. 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. 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. The directors have forecast the operating cash flows for the explicit projection period (2019-2021) used for impairment testing on the basis of the 2019 budget approved by the company's board of directors on 18 December 2018 and of the specific forecasts for 2020 and 2021, which were approved by the company's board of directors on 28 February 2019. 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.	Our audit procedures, which also involved our own valuation specialists, included: — understanding the process adopted for impairment testing approved by the company's board of directors; — understanding the process adopted to prepare the 2019-2021 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 2019-2021 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.

Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") 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 bank'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 this report.

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

On 13 April 2011, the company's shareholders 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 company's directors are responsible for the preparation of a directors' report and a report on corporate governance and ownership structure at 31 December 2018 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 2018 and their compliance with the applicable law and to state whether we have identified 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 company's separate financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

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, 20 March 2019

KPMG S.p.A.

(signed on the original)

Claudio Mariani
Director of Audit

RECORDATI

PROPOSED ANNUAL REPORT AS AT AND FOR THE YEAR- ENDED 31ST DECEMBER 2018

RECORDATI INDUSTRIA CHIMICA E FARMACEUTICA S.p.A.

Company subject to management and co-ordination by Rossini Luxembourg S.àr.l.

Registered Office: 1 Via Matteo Civitali, Milan
Fully paid up share capital: € 26,140,644.50
Tax identification number and Milan Company Registration No. 00748210150

The Company prepares the consolidated financial statements for the Recordati group

BOARD OF DIRECTORS

FLEMMING ØRNSKOV
Chairman

ALFREDO ALTAVILLA
Vice Chairman

ANDREA RECORDATI
Chief Executive Officer

FRITZ SQUINDO	
GIAMPIERO MAZZA	
JAVIER DE JAIME GUIJARRO	
SØREN VESTERGAARD-POULSEN	
CATHRIN PETTY	
JOANNA SUSAN LE COUILLIARD	Independent
SILVIA CANDINI	Independent
MICHAELA CASTELLI	Independent

BOARD OF STATUTORY AUDITORS

ANTONIO SANTI
Chairman

MARCO ROBERTO 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 2018, which we submit to you for your approval, reports net income of € 217,330,294.

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

The items in the reclassified income statement which shows costs by function are given below with the relative percentage of revenue[(1)] and the change compared with the previous year:

€ (thousands)	2018	% of revenue	2017	% of revenue	Change 2018/2017	%
Revenue [(1)]	**448,842**	**100.0**	**371,131**	**100.0**	**77,711**	**20.9**
Cost of sales	(165,970)	(37.0)	(149,756)	(40.3)	(16,214)	10.8
Gross profit	**282,872**	**63.0**	**221,375**	**59.7**	**61,497**	**27.8**
Selling expenses	(54,599)	(12.2)	(56,831)	(15.3)	2,232	(3.9)
R&D expenses	(41,216)	(9.2)	(30,167)	(8.1)	(11,049)	36.6
G&A expenses	(33,418)	(7.4)	(30,304)	(8.2)	(3,114)	10.3
Other income (expense), net	(1,464)	(0.3)	(2,611)	(0.7)	1,147	(43.9)
Operating income	**152,175**	**33.9**	**101,462**	**27.4**	**50,713**	**50.0**
Dividends	135,162	30.1	160,050	43.1	(24,888)	(15.6)
Write-down of investments	(6,200)	(1.4)	0	0	(6,200)	n.s.
Financial (expense)/income, net	(17,242)	(3.8)	(11,812)	(3.2)	(5,430)	46.0
Pretax income	**263,895**	**58.8**	**249,700**	**67.3**	**14,195**	**5.7**
Taxes	(46,565)	(10.4)	(37,194)	(10.0)	(9,371)	25.2
Net income	**217,330**	**48.4**	**212,506**	**57.3**	**4,824**	**2.3**

(1) The revenue reported in the reclassified income statement includes other income of € 102 thousand (€ 123 thousand in 2017, 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 came to € 448.8 million, up € 77.7 million on 2017. Mention is made of the following in particular: the addition to the portfolio from July 2017 of products with a metoprolol base acquired from AstraZeneca (see the section entitled "Other Information" for a description of the acquisition of the rights for "metoprolol"; revenue from the products Transipeg®, Transipeglib®, Colopeg® (trademarks acquired from Bayer in December 2017 for the French market); the launch of Reagila® (cariprazine), a new pharmaceutical for the treatment of schizophrenia.

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 € 40.7 million, were more or less unchanged compared with 2017.

Selling expenses were down 3.9% compared with 2017 and they fell as a percentage of revenue to 12.2%.

R&D costs totalled € 41.2 million accounting for 9.2% of revenue.

General and administrative expenses were up € 3.1 million on 2017 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 € 152.2 million was up 50.0% on the year before amounting to 33.9% of revenue.

The write-down of investments, amounting to € 6.2 million, relates to the investment in the subsidiary Recordati Pharmaceuticals Ltd.

Net financial charges amounted to € 17.2 million, up € 5.4 million on the year before, partly as a result of interest due for "tax assessments by mutual agreement" paid in the last quarter.

Net income came to € 217.3 million, up € 4.8 million on the previous year.

A brief summary is given below of the net financial position, while further details are given in note 43 of the notes to the financial statements.

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Cash and cash equivalents and current receivables	140,040	274,111	(134,071)
Current debt	(405,731)	(337,091)	(68,640)
Net current financial position	**(265,691)**	**(62,980)**	**(202,711)**
Loans and receivables due after one year	3,107	10,105	(6,998)
Borrowings – due after one year(1)	(693,100)	(605,820)	(87,280)
Net financial position	**(955,684)**	**(658,695)**	**(296,989)**

(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 2018 was a debt of € 955.7 million compared with debt of € 658.7 million as at 31st December 2017.

Dividends were distributed during the year totalling € 178.9 million, of which € 87.1 million for the balance on the 2017 dividend and € 91.8 million as an interim dividend relating to 2018 and treasury shares were purchased for a total amount of € 169.8 million. Furthermore, the company Natural Point S.r.l. was purchased in June for a net amount of approximately € 75 million and in December the company Tonipharm S.A.S. was purchased for around € 73 millio, while € 15 million was also paid in relation to the license agreement with Gedeon Richter for the Reagila® rights (cariprazine)."

Expenditure on property, plant and equipment came to € 12.1 million and related to investments made at the Milan headquarters (€ 5.2 million), which included investments in the plant and in pharmaceutical research, as well as in the Campoverde plant (€ 6.9 million).

R&D

In 2018 the Company's research and development activities were concentrated in the field of urology.
The arrival of new pharmaceuticals both through internal research programmes and through opportunities to carry out research in collaboration with external research companies and institutions again represented a key factor in 2018 for enriching the pipeline and ensuring future growth for the Group. At the same time huge efforts were made on the regulatory front aimed at obtaining important authorisations to sell Recordati pharmaceuticals on markets in new geographical areas.

The main R&D activities carried out in 2018 are summarised in the paragraphs below.

Urology and Andrology

Research into urology

The company is focusing its research on the identification of new pharmaceuticals for the treatment of urination disorders, which affect the elderly above all, but which are also found in groups of patients affected by conditions often classified as rare, such as spina bifida.

REC 0/0438

Rec 0/0438 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 single dose trials on healthy volunteers and on adult patients with post-traumatic lesions of the spine were completed, in 2018 a second programme of multicentre trials was launched at European level in patients with spinal lesions in order to assess the tolerability of repeated intravesical administrations of the pharmaceutical carried out directly by patients in the home. These trials also constitute a "Proof of Concept", because the effectiveness of the pharmaceutical in reducing hyperactive bladder of neurological origin is assessed by carrying out urodynamic tests in specialist neurological centres.
The first trial on cohorts of patients exposed to 1 mg was successfully completed during the year and the start of a second trial on cohorts (2 mg) was authorised by the Drug Safety Monitoring Committee with no manifestations of serious adverse reactions. 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.

Cardiology and metabolic diseases

Seloken® (metoprolol) and Logimax® (metoprolol + felodipine)

Regulatory activities were commenced in 2018 for the transfer to Recordati of authorisations for the sale in Europe of metoprolol and metoprolol + felodipine base AstraZeneca (AZ) products. These products are the result of original research by AZ. Their use is well-established and they strengthen Recordati's presence in the cardiovascular field.

Psychiatry

Reagila® (cariprazine)

Cariprazine is a new antipsychotic pharmaceutical authorised at European level for the treatment of schizophrenia, 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. It is of particular interest here that during the clinical trials cariprazine was found to be effective in improving not only the positive symptoms in the adult population but also the negative symptoms.
As part of an agreement between Recordati and Gedeon Richter an initial pharmacokinetics clinical trial under the plan for paediatric development agreed at European was completed in 2018.

Other areas of treatment

LOMEXIN® (fenticonazol)

Fenticonazole is an antimycotic product for topical use, a product of Recordati research. An in vitro trial was completed in 2018 to test its antimycotic and antibacterial activities on strains of microorganisms isolated from patients. This data confirmed the importance of the pharmaceutical in the treatment not only of mycotic infections but also of mixed vaginal infections. The data is of particular interest because approximately 20-30% of women with bacterial vaginitis are also co-infected with Candida.
Furthermore, a review of the post marketing experience was completed in 2018 in order to assess the safety profile. A process was commenced on the basis of this analysis to update and standardise the literature for the product worldwide. Completion is expected in 2019.

OTHER INFORMATION

An important change took place in 2018 in the majority shareholdings of Recordati S.p.A. More specifically, on 29th June 2018 the members of the Recordati family, in their capacity as shareholders of Company's majority shareholder Fimei S.p.A., announced that they had reached an agreement to sell the entire share capital of Fimei S.p.A to a consortium of investment funds controlled by CVC Capital Partners VII Limited. On that date Fimei S.p.A. held 51.79% of the share capital of the Company. In order to implement that agreement, the sale to Rossini Investimenti S.p.A. (a company designated for that purpose on the basis of the aforementioned agreement) by the shareholders of Fimei S.p.A. of the entire investment held by them in Fimei S.p.A. was completed on 6th December 2018. As a result of that transfer, CVC Capital Partners VII Limited became the controlling shareholder of the Company within the meaning of Art. 2359, paragraph 1, No. 2) of the Italian Civil Code and Art. 93 of the Consolidated Finance Law, as results from a communication received in accordance with Art. 120 of Legislative Decree No. 58/1998.

Following these extraordinary operations involving the life of the Company in relation to the sale of their controlling interest by the Recordati family to a consortium of investment funds controlled by CVC Capital Partners VII Limited, on 28th February 2019 the Board of Directors of the company, appointed by a Shareholders' Meeting held on 5th February 2019, noted the management and co-ordination exercised by Rossini Luxembourg S.àr.l., over Recordati S.p.A. pursuant to articles 2497 and following of the Italian Civil Code. We report that Rossini Luxembourg S.àr.l. was formed on 14th May 2018 and the first financial statements of the company have not yet been approved.
Previously, although controlled by Fimei S.p.A, the Company did not consider itself subject to management and co-ordination by that company, pursuant to articles 2497 and following of the Italian Civil Code.
This was because Fimei S.p.A. was a mere financial holding company with no operations of any kind. No authorisation or reporting procedures existed in the Company in its relations with its parent and therefore the Company set its own strategic and operating policies completely independently.
The Board verified that the Company met the requirements pursuant to Art. 16, paragraph 1, letters b, c and d of the Markets Regulation approved by the Consob (Italian securities market authority) with Resolution No. 20249/2017. As concerns the disclosure obligations under Art. 2497-*bis* of the Italian Civil Code, pursuant to Art. 16, paragraph 1, letter a) of the aforementioned Regulation, these will be promptly satisfied within the legal time limits.

An agreement was concluded with AstraZeneca in June 2017 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). 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 myocardiac infarct and functional cardiac disturbances with palpitations. It is a pharmaceutical that is widely used in many European countries which allowed 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 1,476,000 shares was sold during the year, accounting for 0.71% of the share capital, for consideration of € 20.2 million, following the exercise of stock options as part of the 2010-2013 stock option plans by Group employees and 5,766,309 treasury shares were purchased accounting for 2.75% of the share capital, for consideration of € 169.8 million, at the service of the 2010-2013, 2014-2018 and 2018-2022 stock option plans.
As at 31st December 2018 the Company held 5,153,571 treasury shares with a face value of € 0.125 each accounting for 2.46% 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 3, 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-*bis*, paragraph 1 of the Italian Civil 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.

Reference is made to the information given in the Non-Financial Report for details of the principles governing conduct adopted by the Company.

RECORDATI

RELATED-PARTY TRANSACTIONS

As at 31st December 2018, intercompany accounts with Group companies and the parent company Fimei S.p.A. showed payables of € 408,168 thousand and receivables of € 138,104 thousand. The most significant items were as follows:

- receivables of € 9,964 thousand for loans granted to Group companies;
- payables of € 84,924 thousand for loans received from Group companies;
- trade receivables of € 53,777 thousand from subsidiaries;
- trade payables to subsidiaries of € 8,392 thousand;
- receivables from subsidiaries for the management of the centralised cash pooling treasury system amounting to € 74,339 thousand;
- payables to subsidiaries for the management of the centralised cash pooling treasury system amounting to € 306,968 thousand;

Sales and services supplied to Group companies in 2018 amounted to € 223,223 thousand.
Dividends were received during the year as follows: € 45,000 thousand from Bouchara Recordati S.a.s., € 80,000 thousand from Recordati Ireland Ltd, € 5,438 thousand from Recordati Orphan Drugs, € 1,373 thousand from Recordati Pharmaceuticals Ltd and € 3,351 thousand from Herbacos Recordati S.r.o.

Tax payables include those to the parent company Fimei S.p.A. amounting to € 7,884 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-*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.

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		Related parties	
€ (thousands)	Total	Amount	%
Percentage of transactions or positions in the balance sheet with related parties			
Trade receivables and other	96,246	53,801	55.90
Long-term financial assets	3,107	3,000	96.56
Short-term financial assets	81,302	81,302	100.00
Trade payables and other	94,060	16,276	17.30
Long-term financial liabilities	694,819	61,135	8.80
Short-term financial liabilities	398,274	330,757	83.05
Percentage of transactions or positions in the income statement with related parties			
Revenue	450,741	223,296	49.54
Income from investments	135,162	135,162	100.00
Costs of purchases and service provision	201,100	27,010	13.43
Financial income/(expense), net	(17,242)	(1,915)	11.11

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.
It is underlined that no direct business was conducted during the year with the company that carries out management and co-ordination activities.

NON-EUROPEAN UNION SUBSIDIARIES

In relation to the provisions of articles 15 (former Art. 36) and 18 (former Art. 39) of the Markets Regulations (as amended by Consob Resolution No. 20249 of 28th December 2017) concerning the conditions for the listing of the parent companies of companies formed and regulated under the laws of countries that do not belong to the EU and which are of significant importance for the purposes of consolidated financial statements, since 31st December 2018 the regulatory provisions of Art. 15 (former Art. 36) of the Markets Regulations have applied to the subsidiaries the Recordati Ilaç, Recordati Rare Diseases Inc. And Rusfic LLC and the conditions laid down in the aforementioned Art. 15 (former Art. 36) in relation to which the certification is required from the management body, have been satisfied.

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.

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 2019.

Milan, 28th February 2019

For the Board of Directors
The Chief Executive Officer
Andrea Recordati

RECORDATI S.p.A.

INCOME STATEMENTS FOR THE YEARS ENDED
31ST DECEMBER 2018 AND 31ST DECEMBER 2017

Income statement

Amounts in euro	Notes	2018	2017
Revenue	3	**448,740,256**	**371,007,812**
Other income:	4	2,000,889	2,033,524
Total income		**450,741,145**	**373,041,336**
Raw materials and goods costs	5	(119,270,855)	(105,404,864)
Personnel costs	6	(80,716,836)	(79,795,958)
Depreciation and amortisation	7	(22,080,464)	(14,590,233)
Other operating expenses	8	(81,829,556)	(78,225,666)
Changes in inventories	9	5,331,736	6,437,179
Operating income		**152,175,170**	**101,461,794**
Income from investments	10	135,162,189	160,050,000
Write-down of investments	11	(6,200,000)	0
Financial income (expense), net	12	(17,241,615)	(11,812,244)
Pre-tax income		**263,895,744**	**249,699,550**
Taxes	13	(46,565,450)	(37,193,806)
Net income for the year		**217,330,294**	**212,505,744**

Earnings per share (in euro)		
Basic	1.063	1.026
Diluted	1.039	1.016

Basic earnings per share is calculated on average shares outstanding in the relative periods, consisting of 204,379,165 shares in 2018 and 207,030,319 in 2017. The figures are calculated net of average treasury stock held, which amounted to 4,745,991 shares in 2018 and 2,094,837 shares in 2017.

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

The explanatory notes form an integral part of these financial statements.

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BALANCE SHEETS as at 31ST DECEMBER 2018 and as at 31ST DECEMBER 2017

Assets

Amounts in euro	Notes	31st December 2018	31st December 2017
Non-current assets			
Property, plant and equipment	14	51,854,651	46,960,970
Intangible assets	15	242,173,970	239,514,582
Investments	16	928,900,151	774,357,367
Loans and receivables	17	3,106,777	10,104,582
Deferred tax assets	18	27,853,549	27,233,306
Total non-current assets		**1,253,889,098**	**1,098,170,807**
Current assets			
Inventories	19	66,713,282	61,381,547
Trade receivables	20	89,393,672	82,250,366
Other receivables	21	6,851,845	8,556,027
Other current assets	22	927,018	652,671
Fair value of hedging derivatives (cash flow hedges)	23	6,414,332	3,824,811
Other short-term receivables	24	81,302,003	67,573,180
Short-term financial investments, cash and cash equivalents	25	58,737,501	206,537,934
Total current assets		**310,339,653**	**430,776,536**
Total assets		**1,564,228,751**	**1,528,947,343**

The explanatory notes form an integral part of these financial statements.

RECORDATI S.p.A.

BALANCE SHEETS as at 31^{ST} DECEMBER 2018 and as at 31^{ST} DECEMBER 2017

Equity and Liabilities

Amounts in euro	Notes	31^{st} December 2018	31^{st} December 2017
Equity			
Share capital	26	26,140,645	26,140,645
Additional paid-in capital	26	83,718,523	83,718,523
Treasury stock	26	(145,607,941)	(17,029,155)
Statutory reserve	26	5,228,129	5,228,129
Other reserves	26	238,407,302	218,802,826
Revaluation reserve	26	2,602,229	2,602,229
Interim dividend	26	(91,760,954)	(87,469,996)
Net income for the year	26	217,330,294	212,505,744
Total shareholders' equity		**336,058,227**	**444,498,945**
Non-current liabilities			
Loans	27	694,819,367	602,712,138
Personnel leaving indemnities and other benefits	28	9,355,571	10,860,373
Other non-current liabilities	29	3,255,646	2,514,640
Total non-current liabilities		**707,430,584**	**616,087,151**
Current liabilities			
Trade payables	30	49,372,645	55,763,611
Other current payables	31	25,155,139	20,992,064
Tax liabilities	32	19,532,019	8,416,591
Other current liabilities	33	1,622,727	0
Provisions	34	9,580,054	36,538,425
Fair value of hedging derivatives (cash flow hedges)	35	9,746,339	9,559,347
Loans – due within one year	36	67,517,681	47,224,432
Bank overdrafts and short-term loans	37	7,457,274	2,384,170
Other short-term borrowings	38	330,756,062	287,482,607
Total current liabilities		**520,739,940**	**468,361,247**
Total equity and liabilities		**1,564,228,751**	**1,528,947,343**

The explanatory notes form an integral part of these financial statements.

RECORDATI S.p.A.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31ST DECEMBER 2018 AND 31ST DECEMBER 2017

€ (thousands)	2018	2017
Net income for the year	**217,330**	**212,506**
Gains/(losses) on cash flow hedges	(2,532)	1,553
Valuation of the personnel leaving indemnity fund pursuant to IAS 19	478	(74)
Adjustment to investments in listed companies	1,859	8,593
Income (expense) for the year recognised directly in equity	**(195)**	**10,072**
Comprehensive income for the year	**217,135**	**222,578**

Data per share (in euro)		
Basic	1.062	1.075
Diluted	1.038	1.064

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2018 AND 31ST DECEMBER 2017

€ (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 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 shareholder's resolution of 11.04.2017											
Dividends to shareholders									72,245	(110,102)	(37,857)
to Reserves					(34,280)						(34,280)
Merger gain					29,813						29,813
Sales of treasury stock			59,732		(29,465)						30,267
Dividends expired					5						5
Interim dividends									(87,470)		(87,470)
Total comprehensive income						1,553	8,519			212,506	222,578
IAS compliance as at 31st December 2017											
Stock options							3,961				3,961
Recordati Lux IAS reserve							765				765
Balance 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**
Effects of first time adoption of IFRS 15					(1,422)						(1,422)
Balance as at 1st January 2018	**26,141**	**83,718**	**(17,029)**	**5,228**	**107,493**	**(5,866)**	**115,754**	**2,602**	**(87,470)**	**212,506**	**443,077**
Allocation of 2017 net income as per shareholder's resolution of 27.04.2018											
Dividends to shareholders									87,470	(174,596)	(87,126)
to Reserves					37,910					(37,910)	0
Sales of treasury stock			41,189		(20,972)						20,217
Repurchase of treasury stock			(169,768)								(169,768)
Dividends expired					5						5
Interim dividends									(91,761)		(91,761)
Total comprehensive income						(2,532)	2,337			217,330	217,135
IAS compliance as at 31st December 2018											
Stock options							5,020				5,020
Acquisition 10% Opalia Pharma							(741)				(741)
Balance as at 31st December 2018	**26,141**	**83,718**	**(145,608)**	**5,228**	**124,436**	**(8,398)**	**122,370**	**2,602**	**(91,761)**	**217,330**	**336,058**

The explanatory notes form an integral part of these financial statements.

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CASH FLOW STATEMENT FOR THE YEARS ENDED 31ST DECEMBER 2018 AND 31ST DECEMBER 2017

€ (thousands)	2018	2017
Operating activities		
Net income for the year	217,330	212,506
Income from investments	(135,162)	(160,050)
Write-down of investments	6,200	0
Depreciation of property, plant and equipment	7,213	6,748
Amortisation of intangible assets	14,867	7,842
(Increase)/decrease in deferred tax liabilities	157	(26,349)
Increase/(decrease) in personnel leaving indemnities	(1,505)	(377)
Other provisions	(26,958)	23,580
Dividends received	135,162	160,050
Trade receivables	(7,143)	(29,085)
Other receivables and other current assets	1,430	2,078
Inventories	(5,332)	(6,437)
Trade payables	(6,391)	11,202
Other payables and other current liabilities	5,786	769
Tax liabilities	11,115	4,020
Net cash from operating activities	**216,769**	**206,497**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(12,107)	(8,858)
Net (investments)/disposals in intangible assets	(17,526)	(221,840)
Net (increase)/decrease in equity investments	(156,233)	(943)
Net (increase)/decrease in other non-current assets	6,998	6,292
Net cash used in investing activities	**(178,868)**	**(225,349)**
Financing activities		
Loans – due after one year	153,591	389,518
Dividends distributed	(178,887)	(159,607)
(Purchase)/sale of treasury stock	(149,551)	30,267
Effect on shareholders' equity of application of IAS/IFRS	1,451	1,934
Repayment of loans	(46,924)	(36,457)
Net cash from/(used in) financing activities	**(220,320)**	**225,655**
Effects of extraordinary operation		
Net (increase)/decrease in equity investments	0	(137,445)
Current assets and liabilities	0	445
Shareholders' equity	0	31,165
Net cash from/(used in) financing activities	**0**	**(105,835)**
Change in short-term financial position	**(182,419)**	**100,968**
Short-term financial position at beginning of year *	(15,755)	(116,723)
Short-term financial position at end-of-year *	(198,174)	(15,755)

* 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.

The explanatory notes form an integral part of these financial statements.

RECORDATI S.p.A.
NOTES TO THE SEPARATE COMPANY ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2018

1. GENERAL

The separate company 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.
The presentation adopted by the Company for the income statement in the separate company 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

In compliance with Legislative Decree No. 38 of 28th February 2005 (which implements the options provided for by Art. 5 of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19th July 2002 concerning the application of international accounting standards) the separate company financial statements have been prepared by applying the international financial reporting standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and endorsed by the European Union and also the regulations issued in implementation of Art. 9 of Legislative Decree No. 38/2005.
These financial statements have been authorized for publication by the Board of Directors of the Company in their meeting of 28 February 2019.

Adoption of new standards

The Company has adopted two new accounting standards with effect from 1st January 2018:

- IFRS 15, "Revenue from contracts with customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and the relative interpretations;
- IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial Instruments: Recognition and Measurement".

The standard IFRS 15, "Revenue from contracts with customers", introduces a single general model to establish if, when and in what amount revenue is to be recognised. In general, revenue is recognised according to IFRS 15 when the customer obtains control over goods or services and determination of the time at which control is transferred, at a determined point in time, or over time, requires an assessment by company management.
The main area of application for the Company regards accounting for up-front payments resulting from licence and distribution contracts. An analysis of existing contracts led to the conclusion that on the basis of the rules laid down by the new standard, the recognition of milestones recognised by customers as a result of these contracts must in some cases take place over the time of the duration of the agreements themselves.
The Company has applied IFRS 15 retrospectively with cumulative effect from the date of first time adoption. Therefore the information relating to 2017 has not been recalculated, which means that it has been presented according to the standards and interpretations in force at the date of the end of the preceding

financial year. Additionally, in general the disclosure obligations under IFRS 15 have not been applied to the comparative information.

The recalculation of up-front payments received in prior years, which according to the new standard must be recognised as revenue in 2018 and in subsequent years, resulted in a negative impact of € 1.4 million on equity as at 1st January 2018, against an increase in other liabilities amounting to € 2.0 million and an increase of € 0.6 million in deferred tax assets.

The accounting standard IFRS 9, "Financial instruments", introduces new requirements for the recognition and measurement of financial assets and liabilities and new rules for hedge accounting. The main area of application for the Company regards the calculation of write-downs on financial assets. IFRS 9 replaces the incurred loss model with a model based on forecasts of expected credit losses, which therefore takes account out of past events, current conditions and forecasts of future economic conditions. No significant impacts on equity as at 1st January 2018 were found on first time adoption of the new rules.

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 amortisation of the asset and recognition of the interest expenses on the financial liability. The Company intends to apply IFRS 16 from the date of first time adoption (i.e. 1st January 2019) using the modified retrospective method. Therefore, the cumulative effect of the adoption of IFRS 16 will be recognised as an adjustment to the opening balance for retained earnings as at 1st January 2019, with no recalculation of the comparative information. The impacts resulting from the application of the new standard are currently being assessed. On the basis of the currently available information, the Company envisages recognition of additional liabilities amounting between € 2 million and € 3 million as at the date of first time adoption. The effects on final figures resulting from the adoption of the aforementioned standard as at 1st January 2019 could be different because the Company has not yet completed verification and assessment of tests on new IT systems and the new measurement criteria could be subject to modifications up until the presentation of the first financial statements for the year which comprise the date of first time adoption.

Use of estimates

The preparation of financial statements requires estimates and assumptions to be made by Management based on the best possible assessments that have an impact on the values of revenue, expenses, assets and liabilities in the balance sheet and disclosure of contingent assets and liabilities as at the balance sheet date. If in the future those estimates and assumptions should differ from the actual circumstances, they shall be modified appropriately in accordance with the changes in the circumstances.
A brief description is given below of those items in the financial statements which more than others require greater discretion on the part of Directors in making estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on financial data.

- Investments in subsidiaries: according to the accounting standards applied, investments in subsidiaries are subject to an annual impairment test to ascertain whether a reduction in value has occurred. That test requires the use of discretionary assessments by directors based on the information available within the Group and on the market as well as on past experience. These assessments also depend on factors which may change over time, thereby influencing assessments and estimates made by Management. Furthermore, if it is found that potential impairment may have occurred, the Company proceeds to measure it by using the measurement techniques considered most appropriate.

- Provisions: in some circumstances the decision as to whether or not a present obligation (legal or constructive) exists is not easy to make. Management assesses these circumstances on a case-by-case basis in combination with an estimate of the funds required to meet the obligation. When Management considers that it is only possible that a liability will arise, then the risks are reported in a special section of the report on commitments and risks without any recognition of a provision.
- Deferred tax assets: recognition must be supported by a plan to recover these assets based on hypotheses and assumptions that Management considers reasonable.
- Inventories: stock that may be obsolete or that has a slow turnover is periodically tested for impairment and is written down where the recoverable amount is less than the carrying amount. Write-downs are based on assumptions and estimates resulting from experience and historical results.
- Financial instruments: trade receivables are adjusted by the relative allowances for bad debts to take account of their actual recoverable amount. Calculation of the amount of write-downs requires Management to make subjective assessments with account therefore taken of past events, current conditions and forecasts of future economic conditions.

  Generally methods for measuring the fair value of financial instruments for accounting or disclosure purposes are summarised below with reference made to the main categories of financial instruments to which they apply:
  - derivative instruments: appropriate pricing models are used based on market values for interest rates;
  - loans and borrowings and unlisted financial assets: the discounted cash flow method (based on the present value of expected cash flows in consideration of current interest rates and credit ratings) is used for financial assets with maturities of greater than one year for measurement of the fair value on first time recognition. Subsequent recognition is carried out using the amortised cost method;
  - listed financial instruments: the market price as at the reporting date is used.

  IFRS 13 requires the fair value of financial instruments to be measured by classifying them on the basis of a hierarchy of levels laid down by the standard itself, which reflects the degree of observability of the market inputs used in the calculation of the fair value. The following levels are identified:
  - Level 1: unadjusted quotations recorded on active markets for assets or liabilities subject to measurement;
  - Level 2: inputs that are not quoted prices as per level 1, but which are observable on the market, either directly (as in the case of prices) or indirectly (i.e. because they are derived from prices);
  - Level 3: inputs that are not based on observable market data.

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 capitalised when it is probable that the future economic rewards will flow to the Company. The costs for ordinary maintenance and repairs are recognised through profit or 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 calculated 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 recognised through profit or loss for the year.

Intangible assets - An intangible asset is recognised only if it can be identified, if it is probable that it will generate future economic rewards and its cost can be measured reliably. Intangible assets are recognised at purchase cost, net of amortisation calculated on a straight-line basis and on the basis of their estimated useful life which, however, cannot exceed 20 years. Patents, licences and know-how are amortised from the year of the first sale of the relative products. Amortisation of distribution and licence 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 recognised. A reversal of an impairment loss is recognised as income immediately.

Investments in subsidiaries – Investments in subsidiaries are recognised at cost of purchase adjusted for impairment. Positive differences arising at the time of purchase between the purchase 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 recognised through profit or loss as an impairment loss. Where an impairment loss subsequently reverses or reduces, this is recognised through profit or loss 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 recognised directly in equity.

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

Inventories - Inventories are measured at the lower of cost or market value, where the market value of raw materials and subsidiaries is their replacement cost while that related to finished goods and work-in-process is their net realisable value.
Inventories of raw materials and supplies are measured at their average weighted purchase 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 at fair value calculated by using their presumable realization value.

Equity - Equity instruments issued by the Company are recognised at the amount of the proceeds received.
Dividends declared by the Company are recognised as a liability at the time of approval of the relevant resolution at the annual shareholders' meeting.
The cost and selling prices of treasury shares are recognised directly in equity and therefore gains and losses on sales are not recognised through profit or loss.

Loans - Interest-bearing loans are recognised at the amount of the proceeds received, net of direct issue costs.
Subsequently, loans are measured using the amortised cost method as required by IFRS 9. The amortised cost is the amount of the liability on initial recognition net of capital repayments and transaction costs amortised using the effective interest rate method.
If the loans are hedged using derivative instruments qualifying as “fair value hedges”, in accordance with IFRS 9 these loans are measured at fair value as are their related derivative instruments.

Personnel leaving indemnities - Employee benefits stated in the balance sheet are the result of measurements carried out as required by IAS 19. The liabilities recognised in the balance sheet for post-employment benefit schemes represent the present value of the defined benefit obligation, as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost. More specifically, the “Projected Unit Credit Method” is used. All actuarial gains and losses are shown directly in the statement of other comprehensive income recognised in equity. Until 31st December 2006 the personnel 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 more specifically for companies with at least 50 employees, those benefits are now to be treated as defined benefit plans only for the amounts that accrued prior to 1st January 2007 (and not yet paid at the balance sheet date), while subsequent to that date they are treated in the same way as a defined contribution plan.

Trade payables - These relate to payables arising from supply agreements and are recognised at their nominal value.

Other payables - These relate to payables arising in the normal course of business (to employees and third parties) and are recognised at their nominal value.

Bank overdrafts and loans - Bank overdrafts and loans are recognised on the basis of the amounts 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 instruments - The Company uses derivative instruments to hedge its risks associated with interest rate and foreign currency fluctuations. These 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 recognised in the balance sheet. A "cash flow hedge" is a hedge of the exposure to changes in cash flows relating to a recognised asset or liability or to a future transaction.
The gains and losses from the change in fair value of a derivative instrument qualifying as a "fair value hedge" are recognised immediately through profit or loss. All gains or losses resulting from movements in the fair value of the item hedged are also recognised through profit or loss.
The gains or losses from the change in fair value of a hedging instrument qualifying as a "cash flow hedge" are recognised 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 recognised immediately through profit or loss.

Provisions - Provisions are recognised when the Company 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 exchange rates 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 recognised through profit or loss for the period. Non-monetary assets and liabilities, measured at historical cost in foreign currency are not translated on the balance sheet date.

Income statement

The expenses are stated on an aggregate basis 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.

Revenues - Revenues are recognised when it is probable that the economic rewards 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 recognised when a customer obtains control of such goods. 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 charged to the income statement in the year in which they are incurred in accordance with IAS 38. IAS 38 also requires development costs to be capitalised 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 capitalisation under IAS 38 are not met so that development costs are recognised through profit or loss in the year in which they are incurred.
Research and development costs include amounts due under collaboration agreements with third parties.

Non-reimbursable government grants - Government grants towards investment in plant are recognised as income over the periods necessary to match them with the related costs and are recognised in the balance sheet as deferred income. Non-reimbursable government grants, including those for research, are recognised through profit and loss 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 recognised through profit or loss at constant rates over the period between the grant and the vesting date, with the balancing entry recognised directly in equity.

Financial items – These include interest income and expense, foreign exchange gains and losses, both realised and unrealised, and differences arising from the valuation of securities.

Taxation - Taxation for the year constitutes 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 recognised 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 recognised 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 realised. Deferred tax is recognised directly through profit or loss, except when it relates to items recognised directly in equity, in which case the deferred tax is also recognised 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 € 448,740 thousand in 2018 (€ 371,008 thousand in 2017) and was composed as follows:

€ (thousands)	2018	2017	Change 2018/2017
Net sales	423,315	359,041	64,274
Royalties and up-front payments	1,174	575	599
Revenue from services	24,251	11,392	12,859
Total revenue	**448,740**	**371,008**	**77,732**

Net sales revenue is as follows:

€ (thousands)	2018		2017	
	Italy	Abroad	Italy	Abroad
Pharmaceuticals	191,715	189,642	185,242	132,065
Pharmaceutical chemicals	2,724	37,681	2,765	37,944
Others	242	1,311	389	636
Total revenue for net sales	**194,681**	**228,634**	**188,396**	**170,645**

Revenue from pharmaceuticals in Italy was € 191,715 thousand, up € 6,473 thousand on the previous year. Prescription pharmaceuticals saw growth in sales of Urorec® and Cardicor®.
Sales abroad in the pharmaceutical sector were up € 57.577 thousand compared with the previous year, attributable in particular to: sales of € 27.6 million for metoprolol based products made by the Company in the second half of 2017; sales of €7.1 million for Transipeg®, Transipeglib® and Colopeg® (trademarks acquired from Bayer for the French market in December 2017); sales of €7.6 million from the launch of Reagila®; and also to increased sales of lercanidipine in particular.
The review of operations may be consulted for further information on products.

Net sales revenues included € 198,195 thousand (€ 126,327 thousand in 2017) for sales of products to subsidiaries:

€ (thousands)	2018	2017	Change 2018/2017
Recordati Ireland Ltd.	102,402	90,134	12,268
Innova Pharma S.p.A.	22,278	20,959	1,319
Laboratoires Bouchara Recordati S.a.s.	14,299	296	14,003
Casen Recordati S.L.	1,433	413	1,020
Jaba Recordati S.A.	2,792	2,674	118
Recordati Pharma GmbH	28,875	3,257	25,618
Recordati Ilaç	1,644	539	1,105
Orphan Europe S.a.r.l.	3,421	1,437	1,984
Opalia Pharma S.A.	15	21	(6)
Recordati Hellas Pharmaceuticals S.A.	1,065	1,259	(194)
Herbacos Recordati s.r.o.	7,793	4,220	3,573
Recordati Romania S.r.l.	3,300	1,118	2,182
Recordati Polska Sp. z o.o.	4,299	0	4,299
Recordati AG	4,165	0	4,165
Recordati BVBA	141	0	141
Recordati AB	92	0	92
Recordati Pharmaceuticals Ltd.	181	0	181
Total	**198,195**	**126,327**	**71,868**

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

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

€ (thousands)	2018	2017	Change 2018/2017
Services and royalties to subsidiaries:			
Orphan Europe Italy S.r.l.	40	40	0
Innova Pharma S.p.A.	823	883	(60)
Recordati Ireland Ltd.	14,239	2,125	12,114
Laboratoires Bouchara Recordati S.a.s.	700	765	(65)
Recordati Pharma GmbH	883	327	556
Casen Recordati S.L.	302	347	(45)
Jaba Recordati S.A.	271	315	(44)
Recordati Ilaç	293	359	(66)
Recordati Hellas Pharmaceuticals S.A.	95	96	(1)
Herbacos Recordati sro	103	19	84
Recordati Romania S.r.l.	76	6	70
Orphan Europe Sarl	1,624	1,238	386
Recordati Rare Diseases Inc.	1,838	1,457	381
Rusfic LLC	44	52	(8)
Recordati Polska Sp zoo	133	22	111
Italchimici S.p.A.	3,373	3,619	(246)
Natural Point S.r.l.	137	0	137
Recordati AG	47	0	47
Recordati BVBA	4	0	4
Recordati AB	1	0	1
Recordati Pharmaceuticals Ltd.	2	0	2
Total services and royalties to subsidiaries	**25,028**	**11,670**	**13,358**
Services and royalties to third parties			
Royalties and up-front payments	397	297	100
Total services and royalties to third parties	**397**	**297**	**100**
Total revenue from services and royalties	**25,425**	**11,967**	**13,458**

The revenue from services to subsidiaries related principally to the “Group Service Agreement” for services performed on behalf of subsidiaries during the year.
Revenues from Recordati Ireland Ltd. included € 13,012 million for adjustments to intercompany transfer prices made on the basis of the same criteria defined by the tax authorities for prior years and incorporated in a “Commercial and Management Service Agreement”.
Revenues from Orphan Europe Sarl and from Recordati Rare Diseases Inc. were attributable to R&D work carried out on behalf of those subsidiaries
Revenues from Italchimici S.p.A. related above all to the continuation of co-promotion carried out on behalf of the subsidiary as well as to a service contract.
Revenues from Laboratoires Bouchara Recordati S.a.s. included royalties amounting to € 256 thousand.
Services and royalties to third parties, which amounted to € 397 thousand, included € 350 thousand in relation to the adoption of the new accounting standard IFRS 15 for up-front payments resulting from licence and distribution contracts received in prior years.

4. OTHER REVENUE AND INCOME

Other revenue and income came to € 2,001 thousand in 2018, compared with € 2,034 thousand in 2017. It included charges to employees for the use of hired cars, other indemnities, non-recurring income, prior year income and gains on the sale of non-current assets.
We report that the gains included that on the sale of a non-business property located at Bari amounting to € 165 thousand.
There were also the charges passed on to licensees for the "1.83% discount" due on request from AIFA (Italian Medicines Agency) from the holder of the AIC (marketing authorisation).
Steps were taken during the year to recover the VAT incorporated in "pay back" payments made in prior years as permitted by a law dated 27th December 2017.
That recovery generated recognition of prior year income amounting to € 771 thousand.
A government grant towards current expenditure was received during the year amounting to € 17 thousand in relation to the conclusion of a project for the Campoverde headquarters.

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

€ (thousands)	
2014	14
2015	12
2016	6
2017	1
2018	0
Total	**33**

The item also included € 55 thousand of proceeds from property investments and € 18 thousand for charges made to the Parent company Fimei S.p.A. for service provision.

Income from property investments includes the rent of properties to the subsidiary Fimei 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 AND GOODS COSTS

These were composed as follows:

€ (thousands)	2018	2017	Change 2018/2017
Raw materials and goods:			
from licensing-in agreements	31,022	38,478	(7,456)
from other	70,759	52,284	18,475
	101,781	90,762	11,020
Goods for resale	3,176	1,123	2,053
Packaging materials	7,500	7,553	(53)
Others and consumables	6,814	5,967	847
Total	**119,271**	**105,405**	**13,866**

The change in purchases of raw materials, goods and other materials correlates with the changes in the sales mix for each product.
Other costs include purchases of metoprolol for € 13,439 thousand and those from Recordati Ireland Ltd for € 11,109 thousand, from Innova Pharma S.p.A. for € 6,404 thousand, from Casen Recordati S.L. for € 3,074 thousand and from Italchimici S.p.A. for € 702.

6. PERSONNEL COSTS

Personnel costs were composed as follows:

€ (thousands)	2018	2017	Change 2018/2017
Wages and salaries	56,302	55,926	376
Social security costs	17,790	17,542	248
Salary resulting from stock option plans	2,392	2,003	389
Other costs	4,233	4,325	(92)
Total personnel costs	**80,717**	**79,796**	**921**

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 workforce figures for the Company were as follows:

	2018	2017	Change 2018/2017
Executives	70	67	3
Office workers	579	570	9
Manual workers	378	371	7
Total	**1,027**	**1,008**	**19**

7. DEPRECIATION AND AMORTISATION

This is composed as follows:

Amortisation of intangible assets

€ (thousands)	2018	2017	Change 2018/2017
Patent rights and marketing authorisations	10,066	5,074	4,992
Distribution, licence, trademark and similar rights	4,801	2,768	2,033
Total	**14,867**	**7,842**	**7,025**

The increase in the amortisation of intangible assets compared with the previous year is attributable to the rights on metoprolol and on cariprazine.

Depreciation of property, plant and equipment

€ (thousands)	2018	2017	Change 2018/2017
Industrial buildings	1,232	1,137	95
General plant	552	513	39
Accelerated depreciation machinery	2,607	2,526	81
Normal depreciation machinery	1,314	1,189	125
Miscellaneous laboratory equipment	938	846	92
Office furnishings and machines	59	48	11
Electronic equipment	492	466	26
Vehicles for internal transport	20	23	(3)
Total	**7,214**	**6,748**	**466**

8. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

€ (thousands)	2018	2017	Change 2018/2017
Pay back and discount of 1.83%	6,693	8,374	(1,681)
Meetings and scientific publications, market surveys and expenses for medical and scientific communications and advertising	9,923	9,609	314
Clinical and pharmacological trials and professional advice	7,821	5,549	2,272
Commissions on sales paid to agents and logistics commissions	5,832	6,165	(333)
Recordati Rare Diseases commissions	86	83	3
Transport and storage	2,306	2,266	40
Utilities and similar (motor fuel, gas, water, etc.)	5,209	4,458	751
Destruction of industrial waste and cleaning	1,939	1,842	97
Innova co-promotion service	2,117	1,976	141
Italchimici co-promotion service	289	262	27
Maintenance	3,822	3,923	(101)
Insurance premiums	645	673	(28)
Directors’ fees	682	708	(26)
Statutory auditors’ fees	127	124	3
Sundry personnel costs	3,298	3,290	8
Legal, judiciary and notary expenses	591	399	192
Sundry services and expenses charged back to subsidiaries	5,902	5,823	79
Postal and telecommunications expenses	319	398	(79)
External processing	7,565	7,692	(127)
Laboratoires Bouchara external processing	216	291	(75)
Royalties payable	3,960	3,115	845
Recordati Ireland royalties payable	57	0	57
Rent of premises	352	340	12
Car hire expenses	2,370	2,426	(56)
Membership fees	258	210	48
Prior year expenses	69	67	2
Sundry taxation	1,780	1,780	0
Bad debt allowances	96	0	96
Provisions for sundry risks	295	0	295
Provisions for agent customer indemnities	149	133	16
Company and product acquisition costs	1,592	522	1,070
Service expenses and charges made by subsidiaries	2,956	1,458	1,498
Costs of the “Buzzi Hospital renovation”	0	2,000	(2,000)
IT system services	1,605	1,545	60
Other operating expenses	909	725	184
Total	**81,830**	**78,226**	**3,604**

The pay back cost of € 6,693 thousand, in addition to the 1.83%, discount also includes in particular a provision made to cover the risk of reductions in National Health Service spending on pharmaceuticals.
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 Italchimici 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 2018.

The increase in royalties paid compared with 2017 relates directly to the sales of metoprolol and Reagila®.

The intercompany services included services received from the subsidiaries Herbacos Recordati s.r.o. (€ 977 thousand), Recordati A.G. (€ 184 thousand) and Recordati Polska Sp. z.o.o. (€ 1,795 thousand), mainly in relation to activities carried out by subsidiaries for metoprolol.

The item "sundry taxation" amounting to € 1,780 thousand (€ 1,780 thousand in 2017) relates to the following:

€ (thousands)	2018	2017	Change 2018/2017
Contribution under Decree Law No. 269/2003	172	242	(70)
Government licence tax	720	632	88
Municipal property and service taxes	311	313	(2)
Stamp duties and similar	16	15	1
Non-deductible taxes	59	81	(22)
Sundry taxes	502	497	5
Total	**1,780**	**1,780**	**0**

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 licences were attributable to the maintenance of 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.

9. CHANGES IN INVENTORIES

Details of changes in inventories are as follows:

€ (thousands)	2018	2017	Change 2018/2017
Raw materials, ancillary materials, consumables and supplies	(1,201)	4,138	(5,339)
Intermediates and work-in-process	481	2,304	(1,823)
Finished products and goods	6,052	(5)	6,057
Total	**5,332**	**6,437**	**(1,105)**

10. INCOME FROM INVESTMENTS

Income from investments came to € 135,162 thousand (€ 160,050 thousand in 2017) and related to subsidiaries.
This income consisted of dividends declared and distributed by Bouchara Recordati S.A.S. (€ 45,000 thousand), Recordati Ireland Ltd. (€ 80,000 thousand), Recordati Orphan Drug (€ 5,438 thousand), Recordati Pharmaceuticals Ltd. (€ 1,373 thousand) and Herbacos Recordati s.r.o. (€ 3,351 thousand).

11. WRITE-DOWN OF INVESTMENTS

The write-down of investments, amounting to € 6,200 thousand (€ 0 thousand in 2017) relates the investment in Recordati Pharmaceuticals Ltd., as commented in note n. 16.

12. FINANCIAL (EXPENSE)/INCOME, NET

Net financial (expense)/income showed net expense of € 17,242 thousand in 2018 (€ 11,812 thousand in 2017). The main items are summarised in the table below.

€ (thousands)	2018	2017	Change 2018/2017
Foreign exchange gains (losses)	(139)	(3,966)	3,827
Loss on the derecognition of investments	0	(47)	47
Interest income from subsidiaries	734	1,071	(337)
Interest expense payable to subsidiaries	(2,648)	(2,605)	(43)
Interest expense on loans	(2,207)	(1,325)	(882)
Interest expense on bond debt	(5,332)	(4,290)	(1,042)
Net interest on short-term financial positions	(6,649)	488	(7,137)
Bank charges	(886)	(1,014)	128
Interest cost in respect of defined benefit plans (IAS 19)	(115)	(124)	9
Total	**(17,242)**	**(11,812)**	**(5,430)**

Net financial charges amounted to € 17.2 million, up € 5.4 million on the year before, partly as a result of interest due for “tax assessments by mutual agreement” paid in the last quarter relating to the financial years 2009 to 2015.

The balance on foreign exchange differences for transactions in foreign currency represented a loss of € 139 thousand in 2018 compared with a loss of € 3,966 thousand in 2017. More specifically, the loss for the year consisted of € 108 thousand on transactions concluded during the year and a loss of € 31 thousand resulting from the translation as at 31st December 2018 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 realised.

Interest income from subsidiaries is as follows:

€ (thousands)	2018	2017	Change 2018/2017
Italchimici S.p.A.	125	141	(16)
Recordati AG	0	2	(2)
Orphan Europe Sarl	0	45	(45)
Fic Médical S.a.r.l.	0	1	(1)
Recordati Polska Sp. z.o.o.	7	7	0
Casen Recordati S.L.	398	578	(180)
Rusfic LLC	9	112	(103)
Opalia Pharma S.A.	44	141	(97)
Recordati Rare Diseases SA de C.V.	10	7	3
Recordati Ireland Ltd.	82	16	66
Laboratoires Bouchara Recordati Sas	38	1	37
Recordati Romania S.r.l.	21	20	1
Total	**734**	**1,071**	**(337)**

Interest income related to loans granted to subsidiaries during the year (€ 480 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 (€ 254 thousand).

Short-term loans were outstanding as at 31st December to Recordati Polska Sp. z.o.o. (PLN 1,500,000) and to Recordati Rare Diseases SA de C.V. (MXN 3,000,000), while a long-term loan was outstanding to Casen Recordati S.L. (€ 9,000 thousand).

Interest expense paid to subsidiaries was as follows:

€ (thousands)	2018	2017	Change 2018/2017
Casen Recordati S.L.	77	50	27
Laboratoires Bouchara Recordati Sas	9	14	(5)
Innova Pharma S.p.A.	51	44	7
Jaba Recordati S.A.	5	6	(1)
Recordati Ireland Ltd.	8	93	(85)
Orphan Europe Spain S.L.	5	6	(1)
Orphan Europe Sarl	68	60	8
Recordati Pharma GmbH	60	32	28
Recordati Rare Diseases Inc.	2,082	2,055	27
Recordati AG	2	0	2
Recordati Hellas Pharmaceuticals S.A.	6	5	1
Orphan Europe Germany GmbH	11	6	5
Herbacos Recordati s.r.o.	0	1	(1)
Orphan Europe Italy S.r.l.	21	15	6
Orphan Europe Benelux BVBA	3	2	1
Bouchara Recordati s.a.s.	17	48	(31)
Recordati A.B.	2	2	0
Rusfic LLC	132	44	88
Orphan Europe Middle East FZ LLC	15	5	10
Recordati Pharmaceuticals Ltd.	0	54	(54)
Recordati Orphan Drugs	66	63	3
Natural Point S.r.l.	8	0	8
Total	**2,648**	**2,605**	**43**

Interest expense relates to loans granted by subsidiaries during the year (€ 2,108 thousand) and to the centralised cash pooling treasury system amounting to € 540 thousand.

As at 31st December short-term loans were outstanding from the company Orphan Europe Middle East FZ LLC for € 11,600 thousand, from Natural Point S.r.l. for € 10,300 thousand, from Recordati A.G. for CHF 2,000,000 and from Recordati Rare Diseases Japan for JPY 58,000,000, while a long-term loan was outstanding from Recordati Rare Diseases Inc. for USD 70,000,000.

13. TAXES

Taxes recognised in the income statement were composed as follows:

€ (thousands)	2018	2017	Change 2018/2017
Current taxation:			
IRES (corporate income tax)	34,272	24,489	9,783
IRAP (regional tax on production)	7,421	4,248	3,173
Substitute tax for relief on goodwill	0	12,640	(12,640)
Provisions for risks resulting from tax inspections	5,308	22,143	(16,835)
Prior year taxation	3,926	0	3,926
R&D tax credit	(4,751)	0	(4,751)
Total current taxation	**46,176**	**63,520**	**(17,344)**
Deferred taxation:			
Movement in deferred tax assets/liabilities, net	(1,006)	(25,287)	24,281
Use of prior years deferred tax assets/liabilities	1,395	(1,039)	2,434
Total deferred tax liabilities	**389**	**(26,326)**	**26,715**
Total	**46,565**	**37,194**	**9,371**

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

The provision for deferred tax (assets)/liabilities of € 1,006 thousand was composed as follows:

	2018		2017	
	Temporary differences	Tax Effect	Temporary differences	Tax Effect
DEFERRED TAX ASSETS				
- Relief on goodwill	0	0	(78,997)	(22,198)
- Puretech valuation	0	0	(7,992)	(2,317)
- Provisions	(3,464)	(831)	(2,246)	(539)
- Costs relating to future years	(728)	(175)	(756)	(181)
- Write-down of inventories	0	0	(216)	(52)
TOTAL	**(4,192)**	**(1,006)**	**(90,207)**	**(25,287)**
DEFERRED TAX ASSETS/LIABILITIES, NET		**(1,006)**		**(25,287)**

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

	2018 %	2017 %
Tax rate applicable for IRES (corporate income tax)	24	24
Dividends from subsidiaries	(11.7)	(14.6)
Write-down of investments	0.6	0
Contributions to congresses	0.2	0.2
Tax rate applicable for IRES (corporate income tax)	**13.1**	**9.6**
IRAP (regional tax on production)	2.8	1.7
Provisions for risks resulting from tax inspections	2.0	8.9
R&D tax credit	(1.8)	0
Relief on goodwill	0	(3.8)
Adjustment of deferred taxes on equity investments	0	(1.5)
Prior year taxes	1.5	0
Tax rate on pretax income	**17.6**	**14.9**

IRAP (regional tax on production) as a percentage of pre-tax profit was 2.8% because the tax is calculated on a different tax basis which includes interest and some extraordinary items.

Provisions for risks resulting from tax inspections amounted to around € 5 million and they related to risks resulting from inspections into two Group companies for the years 2016 and 2017.

14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, as at 31st December 2018 and 2017 amounted to €51,855 thousand and € 46,961 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 31.12.17	39,476	160,806	37,042	6,425	243,749
Additions	197	2,293	831	8,814	12,135
Disposals	(9)	(11)	(606)	0	(626)
Reclassifications	589	1,890	1,009	(3,496)	(8)
Balance as at 31.12.18	**40,253**	**164,978**	**38,276**	**11,743**	**255,250**
Accumulated depreciation					
Balance as at 31.12.17	30,046	135,287	31,455	0	196,788
Depreciation	1,232	4,473	1,508	0	7,213
Disposals	(9)	(11)	(586)	0	(606)
Balance as at 31.12.18	**31,269**	**139,749**	**32,377**	**0**	**203,395**
Carrying amount					
As at 31st December 2018	**8,984**	**25,229**	**5,899**	**11,743**	**51,855**
As at 31st December 2017	9,430	25,519	5,587	6,425	46,961

In 2018 additions amounted to € 12,135 thousand and related to investments of € 5,198 thousand in the Milan plant and headquarters and to work done on the Campoverde di Aprilia plant amounting to € 6,937 thousand.

Depreciation for the period amounted to € 7,213 thousand and was calculated on all depreciable assets using rates which are held to be representative of the estimated useful life of the assets.

15. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortisation, as at 31st December 2018 and 2017 amounted to € 242,174 thousand and € 239.515 thousand respectively. Changes in this item are given below.

€ (thousands)	Patent rights and marketing authorisations	Distribution, licence, trademark and similar rights	Other	Assets under construction and advances	Total intangible assets
Cost of acquisition					
Balance as at 31.12.17	212,280	42,237	13,234	41,465	309,216
Additions	0	8,771	0	8,748	17,519
Reclassifications	0	39,726	0	(39,718)	8
Balance as at 31.12.18	**212,280**	**90,734**	**13,234**	**10,495**	**326,743**
Accumulated amortisation					
Balance as at 31.12.17	32,039	24,429	13,234	0	69,702
Amortisation	10,066	4,801	0	0	14,867
Balance as at 31.12.18	**42,105**	**29,230**	**13,234**	**0**	**84,569**
Carrying amount					
As at 31st December 2018	**170,175**	**61,504**	**0**	**10,495**	**242,174**
As at 31st December 2017	180,242	17,808	0	41,465	239,515

The additions to intangible assets amounting to € 17,519 thousand related mainly to the acquisition of the rights on cariprazine from Gedeon Richter.
All intangible assets have a defined useful life and are amortised over a period not exceeding 20 years.

16. INVESTMENTS

Investments amounted to € 928,900 thousand as at 31st December 2018, up € 154,543 thousand compared with 2017, 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 IFRS 9. 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 of disposal) can be determined, the recoverable value is determined by calculating the value in use of the investments. 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, where possible, 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 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.

The table below reports the discount rates used for carrying out impairment tests for each of the investments subject to testing:

Investment	*Discount rate*
Recordati Pharmaceuticals Ltd.	7.28%
Recordati Hellas Pharmaceuticals S.A.	11.74%
RRD Canada Inc.	6.45%
RRD S.A. DE C.V.	14.45%

Reference is made for the other rates used to the same section in the consolidated financial report.

Forecasts of operational cash flows for the specific period (2019-2021) used for the calculation were taken from the 2019 budget approved by the Board of Directors of the Company on 18th December 2018 and, for the years 2020 and 2021, from specific forecasts for the investments subject to impairment tests, approved by the Board of Directors on 28th February 2019.

The value in use, determined according to the procedures described for each of the investments, was examined and approved by the Board of Directors. For the subsidiary Recordati Pharmaceuticals Ltd., the comparison between the value in use of the investment and the carrying amount for the Company resulted in the need to write the value down to the limit of the value in use calculated, which was € 6.2 million.

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 recognised 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 € 2,629 thousand.

The value of the investments in other undertakings relates to that in the English Company PureTech Health plc, specialised in start-up companies dedicated to innovative therapies, medical devices and new research technologies. The shares of this company have been admitted for listing on the London stock market since 19th June 2015 and the total fair value as at 31st December 2018 of the 9,554,140 shares held was € 18.0 million. The value of the investment was consequently increased by €1.8 million, compared with 31st December 2017, with the balancing entry, net of tax, recognised in other comprehensive income (in equity) in line with the accounting treatment in previous years.

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.

17. LOANS AND RECEIVABLES (non-current)

Non-current loans and receivables as at 31st December 2018 amounted to € 3,107 thousand (€ 10,105 thousand as at 31st December 2017) and related almost entirely to the long-term loan granted to Casen Recordati S.L. (€ 3,000 thousand due in 2020).
That the loan was granted under normal market conditions.

18. DEFERRED TAX ASSETS

These amounted to € 27,854 thousand as at 31st December 2018 (€ 27,233 thousand as at 31st December 2017), up € 621 thousand, of which € 550 thousand resulting from first time adoption of IFRS 15 on 1st January 2018.

The overall movements in deferred tax assets and those in the main types are shown in the following two tables:

€ (thousands)	2018	2017
Balance as at 1st January *	**27,783**	**3,722**
Increases	1,806	26,619
Uses	(1,735)	(3,108)
Balance as at 31st December	**27,854**	**27,233**

* An amount of € 550 thousand resulting from the first time adoption of the accounting standard IFRS 15 was classified in this balance as at 1st January 2018 (see note No. 2).

€ (thousands)	Balance as at 31/12/2017	Balance as at 01/01/2018	Provision	Use	**Balance as at 31/12/2018**
Adoption of IFRS 15	0	550	0	(97)	**453**
Relief on goodwill	22,198	22,198	0	0	**22,198**
Valuation of derivatives instruments	1,853	1,853	799	0	**2,652**
Provisions for risks	2,642	2,642	831	(1,024)	**2,449**
Write-down of inventories	106	106	0	(48)	**58**
Valuation of investment in the former Lux	(30)	(30)	0	(23)	**(53)**
Other	464	464	176	(543)	**97**
Total	**27,233**	**27,783**	**1,806**	**(1,735)**	**27,854**

19. INVENTORIES

Inventories as at 31st December 2018 and 2017 amounted to € 66,713 thousand and € 61,382 thousand respectively, as shown in the following table:

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Raw materials, ancillary materials, consumables and supplies	14,426	15,628	(1,202)
Intermediates and work-in-process	14,878	14,397	481
Finished products and goods	37,409	30,097	7,312
AstraZeneca metoprolol stock	0	1,260	(1,260)
Total	**66,713**	**61,382**	**5,331**

Inventories increased by € 5.3 million to meet future expected requirements.

20. TRADE RECEIVABLES

Trade receivables as at 31st December 2018 and 2017 amounted to € 89,394 thousand and € 82,250 thousand respectively, as shown below:

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Trade receivables from subsidiaries	53,015	37,004	16,011
Trade receivables from others:			
Italy	30,546	28,210	2,336
Abroad	7,006	18,145	(11,139)
	90,567	**83,359**	**7,208**
less:			
Allowance for doubtful accounts	(1,173)	(1,109)	(64)
Total trade receivables	**89,394**	**82,250**	**7,144**

Exposure calculated on receivables from others stood at 62 days outstanding as at 31st December 2018, in line with a year earlier.
The adjustment of receivables in non-euro currencies resulted in the recognition of negative exchange rate differences of € 1 thousand. The receivables are recognised inclusive of those adjustments.

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

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Innova Pharma S.p.A.	4,363	4,390	(27)
Recordati Ireland Ltd.	28,315	18,029	10,286
Laboratoires Bouchara Recordati S.a.s.	1,834	698	1,136
Jaba Recordati S.A.	832	1,069	(237)
Recordati Pharma GmbH	5,675	474	5,201
Casen Recordati S.L.	435	231	204
Recordati Ilaç	1,431	291	1,140
Orphan Europe Italy S.r.l.	23	23	0
Recordati Hellas Pharmaceuticals S.A	120	597	(477)
Herbacos Recordati S.A.	1,865	2,818	(953)
Orphan Europe Sarl	2,008	1,821	187
Recordati Romania S.r.l.	341	623	(282)
Recordati Polska S.p. z.o.o.	1,149	10	1,139
Recordati Rare Diseases Inc.	0	1,497	(1,497)
Opalia Pharma S.A.	11	263	(252)
Rusfic LLC	54	60	(6)
Italchimici S.p.A.	3,733	4,068	(335)
Bouchara Recordati S.a.s.	0	42	(42)
Recordati AG	652	0	652
Recordati BVBA	26	0	26
Natural Point S.r.l.	148	0	148
Total	**53,015**	**37,004**	**16,011**

The increase in trade receivables from Recordati Ireland Ltd. is attributable to a charge of € 13,012 thousand made on the basis of the "Commercial and Management Service Agreement" (see note 3 Revenue).
The significant increases in trade receivables from Laboratoires Bouchara S.a.s., Recordati Pharma GmbH, Recordati Ilaç, Recordati Polska S.p. z.o.o. and Recordati AG is related to a corresponding increase in sales. Other changes are attributable to the 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)	2018	2017
Balance as at 1st January	1,109	1,193
Use for losses on receivables	(32)	(84)
Addition for the year	96	0
Balance as at 31st December	**1,173**	**1,109**

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

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

	31.12.2018		31.12.2017	
	Currency	€(000)	Currency	€(000)
Receivables in US$	2,898,904	2,532	15,513,165	13,072

21. OTHER RECEIVABLES

Other receivables amounted to € 6,852 thousand (€ 8,556 thousand as at 31st December 2017). The composition is given in the table below.

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Tax income	2,479	2,175	304
From parent companies	24	0	24
From subsidiaries	762	541	221
Advances to employees and agents	2,089	392	1,697
Others	1,498	5,448	(3,950)
Total other receivables	**6,852**	**8,556**	**(1,704)**

Tax receivables as at 31st December 2018 amounted to € 2,479 thousand (€ 2,175 thousand in 2017). They were composed as follows:

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Refund requested from tax authorities	43	43	0
VAT	2,350	1,823	527
Receivables for foreign VAT tax authorities	86	51	35
Tax receivables pursuant to Recordati S.A.	0	258	(258)
Total tax receivables	**2,479**	**2,175**	**304**

The VAT credit consisted of the balance for December 2018 and the VAT refund applied for on 18th October 2007 in relation to VAT on motor vehicles.

Receivables from subsidiaries stood at € 762 thousand (€ 541 thousand in 2017) and related to VAT transferred under Group procedures from the company Innova Pharma S.p.A. (€714 thousand) and to sundry receivables amounting to € 48 thousand from the company Italchimici S.p.A..

Advances to employees and agents as at 31st December 2018 and 2017 came to € 2,089 thousand and € 392 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 € 1,868 thousand for the purchase of 154,500 shares resulting from the options granted on 9th February 2011, 8th May 2012, 29th July 2014 and 13th April 2016.

Receivables from others as at 31st December 2018 amounted to € 1,498 thousand (€ 5,448 thousand as at 31st December 2017) and included advances to suppliers.

22. OTHER CURRENT ASSETS

Other current assets amounted to € 927 thousand (€ 652 thousand as at 31st December 2017) and related mainly to prepaid expenses. These were advance instalments on periodic services covering two financial years.

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

These amounted to € 6,414 thousand (€ 3,825 thousand as at 31st December 2017).

The market value (fair value) as at 31st December 2018 of the currency swaps entered into by the Company to hedge a bond issued for $ 75 million on 30th September 2014 totalled € 6,414 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 € 4,407 thousand, while that of the instrument to hedge the $ 25 million tranche of the loan granted by Unicredit was positive by € 2,007 thousand.

24. OTHER SHORT-TERM RECEIVABLES

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

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Casen Recordati S.L.	6,011	6,018	(7)
Orphan Europe Sarl	0	27	(27)
Laboratoires Bouchara Recordati S.a.s.	9,461	0	9,461
FIC Médical S.a.s.	0	88	(88)
Recordati Ireland Ltd.	50,546	37,232	13,314
Recordati Polska sp. z.o.o.	351	362	(11)
Rusfic LLC	0	711	(711)
Opalia Pharma S.A.	0	343	(343)
Recordati Romania S.r.l.	0	655	(655)
Recordati Rare Diseases SA de C.V.	141	134	7
Italchimici S.p.A.	14,331	22,003	(7,672)
Recordati Rare Diseases Japan	461	0	461
Total	**81,302**	**67,573**	**13,729**

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. and Recordati Rare Diseases SA de C.V.. Interest is paid on these receivables at market rates.

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

These are composed as shown in the following table.

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Deposits in bank current accounts	57,924	205,760	(147,836)
Cash on hand	2	3	(1)
Proceeds from derivative instruments	812	775	37
Total	**58,738**	**206,538**	**(147,800)**

Cash and cash equivalents as at 31st December 2018, consisted of current accounts and short-term bank deposits.

26. 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 2018 amounting to € 26,140,645, is fully paid up and consists of 209,125,156 ordinary shares with a par value of € 0.125 each.
It remained unchanged in 2018.

As at 31st December 2018 there were three stock option plans were in place in favour certain Group employees: the 2010-2013 plan with options granted on 9th February 2011, 8th May 2012, 17th April 2013 and 30th October 2013, the 2014-2018 plan, with options granted on 29th July 2014 and 13th April 2016 and the 2018-2022 plan with options granted on 3rd August 2018. 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 as at 31st December 2018 are given in the table below.

	Strike price (€)	Options outstanding as at 01.01.2018	Options granted during 2018	Options exercised during 2018	Options cancelled and expired	Options outstanding as at 31.12.2018
Grant date						
9th February 2011	6.7505	171,500	-	(98,000)	-	73,500
8th May 2012	5.3070	566,500	-	(139,000)	-	427,500
17th April 2013	7.1600	37,500	-	(12,500)	-	25,000
30th October 2013	8.9300	65,000	-	(50,000)	-	15,000
29th July 2014	12.2900	2,991,000	-	(780,000)	(40,000)	2,171,000
13th April 2016	21.9300	3,523,000	-	(396,500)	(165,000)	2,961,500
3rd August 2018	30.7300	-	4,818,000	-	-	4,818,000
Total		**7,354,500**	**4,818,000**	**(1,476,000)**	**(205,000)**	**10,491,500**

Additional paid-in capital
Additional paid-in capital as at 31st December 2018 amounted to € 83,718 thousand and was unchanged compared with 31st December 2017.
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 2018 this amounted to € 145,608 thousand, consisting of 5,153,571 shares held in portfolio.
The net decrease during the year was € 128,579 thousand and was due to the sale of 1,476,000 shares for € 41,189 thousand and to the purchase of 5,766,309 shares for € 169,768 thousand for use in the 2010-2013, 2014-2018 and 2018-2022 stock option plans.

Statutory reserve
This amounted to € 5,228 thousand and was unchanged compared with 31st December 2017 because the limit set by Art. 2430 of the Italian Civil Code had been reached.

Other reserves

Other reserves totalled € 238,408 thousand. Details are as follows:

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Gain on merger	29,813	29,813	0
Extraordinary reserve	73,184	57,663	15,521
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	122,370	115,754	6,616
Total	**246,806**	**224,669**	**22,137**
Fair value of derivative instruments	(8,398)	(5,866)	(2,532)
Total other reserves	**238,408**	**218,803**	**19,605**

- *Gain on merger*
  This amounted to € 29,813 thousand (unchanged compared with 2017) and it relates to the merger gain generated in 2017 following the merger of the former subsidiary Recordati S.A. Chemical and Pharmaceutical Company into the Company.

- *Extraordinary reserve*
  This amounted as at 31st December 2018 and 31st December 2017 to € 73,184 thousand and € 57,663 thousand respectively. The reserve increased by a total of € 15,521 thousand as result of the following:
  - allocation of profit for the year amounting to € 37,910 thousand in accordance with a shareholders’ resolution dated 18th April 2018;
  - 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 € 20,972 thousand, which was charged as a decrease to the extraordinary reserve in accordance with international accounting standards;
  - a decrease of € 1,422 thousand following first time adoption of the accounting standard IFRS 15.

- *Reserve under Art. 13, paragraph 6 of Legislative Decree 124/1993*
  This amounted to € 99 thousand as at 31st December 2018 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 € 122,370 thousand (€ 115,754 thousand as at 31st December 2017) and is composed as follows:

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
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	(276)	(754)	478
Stock options	16,855	14,463	2,392
Adjustment to investments for stock options	11,319	8,691	2,628
Reserve to adjust entries for the merged company	24	765	(741)
Financial instrument adjustment reserve	10,452	8,593	1,859
Total	**122,370**	**115,754**	**6,616**

Changes that occurred in the items in 2018 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 2018 amounting to € 276 thousand;

- *Stock options*
  the amount of € 16,855 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 € 11,319 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*
  This reserve, amounting to € 24 thousand, originated in 2017 following the merger by acquisition of the former subsidiary Recordati S.A. Chemical and Pharmaceutical Company into the Company.
  The balance on this item is the result of the following:
  - an increase in other non-current liabilities, with a consequent decrease in reserves in equity for a total of € 1,328 thousand, in order to take account of the option to purchase the remaining 10% interest held by minority shareholders of the subsidiary Opalia Pharma S.A.;
  - 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 by € 1,352 thousand.

- *Financial instrument adjustment reserve*
  This reserve, amounting to € 10,452 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 in 2017 following the merger by acquisition already mentioned of Recordati S.A. Chemical and Pharmaceutical Company.

- *Reserve for fair value movements in derivative instruments*
  In accordance with the provisions of IFRS 9, 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 2018, net of tax, was negative by € 8,398 thousand.

- *Revaluation reserve*
  This amounted to € 2,602 thousand (unchanged compared with 2017) and consisted of revaluation balances within the meaning of Law 413/1991.

Untaxed (suspended taxation) reserves as at 31st December 2018 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 recognised in respect of those reserves, because, in accordance with IAS 12, these deferred tax provisions are recognised in the year in which the distribution is declared.

27. LOANS

The composition of medium to long-term loans as at 31st December 2018 and 2017 is shown below:

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Bond subscribed in dollars by the investor Pricoa Capital Group (Prudential)	65,502	62,536	2,966
Loan granted by Unicredit at a floating interest rate repayable in semi-annual instalments by 2020	15,000	25,000	(10,000)
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual instalments by 2020	11,250	18,750	(7,500)
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2018	0	12,500	(12,500)
Loan granted by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual instalments by 2022	27,273	34,091	(6,818)
Loan granted by BNL at a floating interest rate repayable in semi-annual 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	61,135	58,367	2,768
Bond subscribed in euro by the investor Pricoa Capital Group (Prudential)	125,000	125,000	0
Loan granted by Mediobanca at a floating interest rate repayable in annual instalments by 2024	64,500	75,000	(10,500)
Loan granted by UBI Banca at a floating interest rate repayable in a single instalment in 2022	50,000	50,000	0
Loan granted by Unicredit at a floating interest rate repayable in a single instalment by 2021	50,000	50,000	0
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2025	75,000	75,000	0
Loan granted by Banca Passadore at a floating interest rate repayable in annual instalments by 2022	15,000	15,000	0
Loan granted by Banca del Mezzogiorno - Mediocredito Centrale at a fixed and floating interest rate repayable in semi-annual instalments by 2021.	4,279	0	4,279
Loan granted by Mediobanca at a floating interest rate repayable in semi-annual instalments by 2023	150,000	0	150,000
Total amortised cost of loans	**763,939**	**651,244**	**112,695**
Portion due within one year	(67,518)	(47,224)	(20,294)
Portion due after one year	**694,421**	**604,020**	**(24,521)**
Expenses relating to loans	(1,602)	(1,308)	(294)
Total	**694,819**	**602,712**	**(24,315)**

As at 31st December 2018 medium to long-term loans, inclusive also of the current portions (see note 36), amounted to € 762,337 thousand. The net increase of € 112,401 thousand compared with 31st December 2017 was the result of new loans for € 153,591 thousand, repayment instalments for the period amounting to € 46,924 thousand and the effect of foreign currency translations (an increase of € 5,734 thousand).

The portions of the medium to long-term debt due after 31st December 2019 will be repaid, on the basis of the repayment schedules, in the following years:

€ (thousands)	
2020	85,293
2021	135,834
2022	133,221
2023	74,285
2024	32,091
2025 and after	234,095
Total	**694,819**

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 30th 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 conversion of the debt at 31st December 2018 determined an increase in liabilities of € 2,966 thousand compared with 31st December 2017, due to an appreciation of the United States dollar against the consolidation accounting currency. 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 2018, was positive on aggregate by € 6,414 thousand and was recognised directly as an increase in equity and an increase in the asset item "Fair value of hedging derivatives – cash flow hedges" (see note 23). 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 6-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 at as at 31st December 2018 was € 15 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%. Measurement of the fair value of the derivative instrument as at 31st December 2018 for the hedge of € 12.5 million was negative by € 74 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35). 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 remaining debt at as at 31st December 2018 was € 11 million. 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. Measurement of the fair value of the derivative instrument as at 31st December 2018 was negative by € 150 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
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 6-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 five years with semi-annual repayments of the principal by September 2018 commencing from March 2015. The loan had been fully extinguished as at 31st December 2018.

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 at as at 31st December 2018 was € 27 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%. Measurement of the fair value of the derivative instrument as at 31st December 2018 was negative by € 971 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
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 four 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%. Measurement of the fair value of the derivative instrument as at 31st December 2018 was negative by € 76 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
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 five 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%. Measurement of the fair value of the derivative instrument as at 31st December 2018 was negative by € 100 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
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, in order to centralise the cash generated by the subsidiary, 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 conversion of the debt at 31st December 2018 determined an increase in liabilities of € 2,768 thousand compared with 31st December 2017, due to an appreciation of the United States dollar against the consolidation accounting currency. 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 seven years and at a fixed interest rate of 1.76% per annum for that maturing in nine years. The measurement of the fair value of the hedging instruments at 31st December 2018 gave an aggregate negative result of € 4,695 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).

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 seven years with annual repayments of the principal commencing in July 2018 and continuing until July 2024. The remaining debt at as at 31st December 2018 was € 64.5 million. 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%. Measurement of the fair value of the derivative instrument as at 31st December 2018 was negative by € 703 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35). 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%. Measurement of the fair value of the derivative instrument as at 31st December 2018 was negative by € 423 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35). 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 of the fair value of the hedging instruments at 31st December 2018 gave an overall negative result of € 401 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).

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 0.30%. 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%. Measurement of the fair value of the derivative instrument as at 31st December 2018 was negative by € 516 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35).
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 10th November 2017, the Company signed a loan agreement with Banca Passadore for € 15.0 million, disbursed net of expenses and commissions of 0.05%. 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.

In July 2018 the company received € 4.3 million from Banca del Mezzogiorno-Mediocredito Centrale to support investments in research, of which € 3.9 million at a subsidised fixed interest rate of 0.50% to be repaid in six semi-annual instalments from 30th June 2019 and by 31st December 2021 and € 0.4 million at a floating interest rate equal to the 6-month Euribor plus a spread of 220 basis points, to be repaid in two instalments on 30th June 2019 and by 31st December 2021.

On 28th November 2018, the Company signed a loan agreement with Mediobanca for € 150.0 million, disbursed net of up-front fees and commissions of 0.45%. The main terms and conditions of the loan are a floating interest rate equal to the 6-month Euribor plus a spread of 130 basis points and a life of five years with semi-annual repayments of the principal from November 2020 and until November 2023. The loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 1.619%. Measurement of the fair value of the derivative instrument as at 31st December

2018 was negative by € 1,637 thousand and this was recognised directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 35). 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.

28. PERSONNEL LEAVING INDEMNITIES AND OTHER BENEFITS

The balance as at 31st December 2018 was € 9,356 thousand (€ 10,860 thousand as at 31st December 2017). Changes in the item were as follows:

€ (thousands)	2018	2017
Balance as at 1st January	10.860	11.237
Additions during the year	115	125
Use for the year	(769)	(547)
Change in fair value of the personnel leaving indemnity fund (IAS 19)	(850)	45
Balance as at 31st December	**9.356**	**10.860**

The valuation of the personnel leaving indemnity fund in accordance with IAS 19 generated a liability as at 31st December 2018 of € 9,356 thousand. The calculations made, which used actuarial parameters updated as at 31st December 2018, found a smaller liability and resulted in the recognition of an adjustment of € 850 thousand to the fund compared with the figure as at 31st December 2017 which was stated, net of tax, in the statement of comprehensive income recognised in equity, as required by the relative accounting standard.

29. OTHER NON-CURRENT LIABILITIES

The balance as at 31st December 2018 stood at € 3,256 thousand (€ 2,515 thousand as at 31st December 2017) and relates to the quota of long-term debt for the acquisition of the investment in Opalia Pharma S.A.

30. 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 2018 and 2017 to € 49,373 thousand and € 55,764 thousand, respectively. Details are as follows:

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Suppliers, subsidiaries	8,274	7,544	730
Suppliers, Italy	17,348	17,504	(156)
Suppliers, Italy for invoices to be received	7,810	10,355	(2,545)
Suppliers, abroad	8,984	8,802	182
Suppliers, abroad for invoices to be received	6,957	11,559	(4,602)
Total trade payables	**49,373**	**55,764**	**(6,391)**

Details for subsidiaries are as follows:

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Recordati Rare Diseases Inc.	1,076	9	1,067
Laboratoires Bouchara Recordati S.a.s.	107	22	85
Innova Pharma S.p.A.	2,421	2,510	(89)
Italchimici S.p.A.	289	262	27
Recordati Ireland Ltd.	2,922	2,832	90
Casen Recordati S.L.	1,056	507	549
Recordati AG (formerly Pro Farma AG)	99	28	71
Herbacos Recordati S.r.o.	217	387	(170)
Recordati Polska Sp. Z.o.o.	0	457	(457)
Recordati Romania S.r.l.	0	530	(530)
Recordati Pharmaceuticals Ltd	52	0	52
Recordati Nordic	35	0	35
Total payables to subsidiaries	**8,274**	**7,544**	**730**

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 € 138 thousand.

The largest trade payables in foreign currency were as follows:

	31.12.2018		31.12.2017	
	Currency	€(000)	Currency	€(000)
Payables in US$	2,806,309	2,583	3,853,821	3,374
Payables in GBP	79,303	101	68,026	88

31. OTHER CURRENT PAYABLES

Other current payables as at 31st December 2018 amounted to € 25,155 thousand (€ 20,992 thousand as at 31st December 2017). They were composed as follows:

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Payables to third parties for the acquisition of Opalia Pharma S.A.	655	655	0
Employees	8,902	9,519	(617)
Social security	6,962	6,902	60
Commissions to agents	717	745	(28)
Payables to AIFA (Italian Medicines Agency)	4,247	1,213	3,034
Others	3,672	1,958	1,714
Total other borrowings and payables	**25,155**	**20,992**	**4,163**

Payables to third parties regard 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, merged by acquisition into Recordati S.p.A. in 2017.
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 € 298 thousand in commissions for foreign agents.

Payables to AIFA (Italian Medicines Agency) relate in particular to the quota relating to 2018 for the renewal of the contract agreement signed with AIFA on 29th September 2015 (the "Urorec Agreement"), in addition to the amount due to cover the debt to Regional Governments on the basis of Law No. 122 of 30th July 2010.

Other payables include directors' fees as at 31st December 2018 (€ 482 thousand) and those for credit notes to be issued (€ 1,308 thousand). We also report € 118 thousand of payables to Orphan Europe Italy S.r.l. in relation to VAT transfers within the Group.

32. TAX LIABILITIES

Tax liabilities as at 31st December 2018 amounted to € 19,532 thousand (€ 8,417 thousand as at 31st December 2017).

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Liabilities payable to Fimei S.p.A. for IRES (corporate income tax)	7,884	2,479	5,405
Liabilities for current taxation	8,328	1,121	7,207
Liabilities for split payment of VAT	634	2,509	(1,875)
Liabilities for employee withholding taxes	2,483	2,040	443
Liabilities for self-employed withholding taxes	202	267	(65)
Other tax liabilities	1	1	0
Total tax liabilities	**19,532**	**8,417**	**11,115**

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 provision made for taxes due, net of payments made on account.
In advance application of the interpretation IFRIC 23 the item includes the provision of around € 5 million, made as a result of a decision to apply the criteria used already by the tax authorities for determining "tax assessment by consent" relating to the periods 2009 to 2015 to the tax years 2016 and 2017, making them subject to determination in 2019.

33. OTHER CURRENT LIABILITIES

As at 1st January 2018, the date of first time adoption of the accounting standard IFRS 15, € 1,973 thousand was recognised for up-front payments resulting from licence and distribution contracts received in prior years, but relating to the subsequent periods. During the year € 350 thousand was recognised through profit or loss and as a consequence the liability amounted to € 1,623 thousand as at 31st December 2018.

34. PROVISIONS

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

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Tax	0	25,745	(25,745)
For agent customer indemnities	1,630	1,669	(39)
Other risks	7,950	9,124	(1,174)
Total other provisions	**9,580**	**36,538**	**(26,958)**

The decrease during the year is due mainly to the use of provisions for taxes recognised in the previous year.
Movements in other provisions consisted of uses of € 4,638 thousand and additions of € 3,464 thousand.
Uses related mainly to recognition in the accounts of the quota relating to the year of the debt for the renewal of the contract agreement signed with AIFA (Italian Medicines Agency) on 29th September 2015 (the "Urorec Agreement"), to the work carried out for the "Buzzi Project", to the conclusion of employment legal proceedings and to the payment of notice indemnities to employees.
Additions to provisions related mainly to the provision to cover reductions in National Health Service spending on pharmaceuticals.

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

The balance as at 31st December 2018 was € 9,746 thousand (€ 9,559 thousand as at 31st December 2017).
The fair value measurement as at 31st December 2018 of interest rate swaps to hedge medium to long-term loans gave rise to a € 5,051 thousand liability, which represents the foregone benefit of paying currently expected future floating interest rates instead of the agreed interest rates 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 (€ 971 thousand), Banca Nazionale del Lavoro (€ 76 thousand), ING Bank (€ 150 thousand), Unicredit (€ 475 thousand), Intesa Sanpaolo (€616 thousand), Mediobanca (€ 2,340 thousand) and UBI Banca €423 thousand).
The market value (fair value) as at 31st December 2018 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 € 4,695 thousand and was recognised directly as a reduction in equity.

36. LOANS – DUE WITHIN ONE YEAR

The current portions of medium and long-term loans due within one year as at 31st December 2018 and 2017 were composed as follows:

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
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	0	12,406	(12,406)
Loan granted by Unicredit at a floating interest rate repayable in semi-annual instalments by 2020	9,905	10,000	(95)
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual instalments by 2020	7,470	7,500	(30)
Loan granted by Mediobanca at a floating interest rate repayable in annual instalments by 2024	10,500	10,500	0
Loan granted by Intesa Sanpaolo at a floating interest rate repayable in semi-annual instalments by 2025	19,048	0	19,048
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2020	12,500	0	12,500
Loan granted by Banca del Mezzogiorno - Mediocredito Centrale at a fixed and floating interest rate repayable in semi-annual instalments by 2021.	1,277	0	1,277
Total	**67,518**	**47,224**	**20,294**

37. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans as at 31st December 2018 and 2017 amounted to € 7,457 thousand and € 2,384 thousand, respectively.

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Current account overdrafts	47	21	26
Expenses on derivative instruments	975	961	14
Interest on loans	506	505	1
Interest on bond debt	929	897	32
Very short-term lending	5,000	0	5,000
Total	**7,457**	**2,384**	**5,073**

38. OTHER SHORT-TERM PAYABLES

The balance on other short-term payables consisted entirely of amounts due to subsidiaries and amounted to € 330,756 thousand (€ 287,483 thousand as at 31st December 2017).

€ (thousands)	31.12.2018	31.12.2017	Change 2018/2017
Innova Pharma S.p.A.	37,393	32,755	4,638
Laboratoires Bouchara Recordati S.a.s.	0	11,024	(11,024)
Casen Recordati S.L.	54,573	42,410	12,163
Orphan Europe Germany GmbH	11,636	6,147	5,489
Orphan Europe Sarl	56,666	42,103	14,563
Recordati Rare Diseases Inc.	101	94	7
Recordati Orphan Drugs	49,196	48,428	768
Orphan Europe Spain S.L.	3,934	5,431	(1,497)
Orphan Europe Italy S.r.l.	18,592	14,096	4,496
Recordati Ireland Ltd.	0	77	(77)
FIC Médical S.a.r.l.	489	0	489
Orphan Europe Benelux BVBA	2,373	1,472	901
Orphan Europe Portugal LDA	0	304	(304)
Recordati Hellas Pharmaceuticals S.A.	4,262	4,262	0
Recordati Pharma Gmbh	55,308	40,362	14,946
Bouchara Recordati Sas	6,418	23,093	(16,675)
Orphan Europe Nordic A.B.	792	1,392	(600)
Orphan Europe Switzerland GmbH	0	331	(331)
Jaba Recordati S.A.	4,575	6,699	(2,124)
Orphan Middle East FZ LLC	11,609	7,003	4,606
Natural Point S.r.l.	10,304	0	10,304
Recordati AG	1,777	0	1,777
Rusfic LLC	758	0	758
Total	**330,756**	**287,483**	**43,273**

The payables consist of € 306,967 thousand for the centralised cash pooling system and of € 23,789 thousand for loans from Orphan Middle East FZ LLC (€ 11,609 thousand), Natural Point S.r.l. (€ 10,304 thousand), Recordati AG (€ 1,777 thousand) and Recordati Rare Diseases (€ 99 thousand).

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

As required by IFRS 7, a comparison of the carrying amounts as at 31st December 2018 and the fair values of financial assets and liabilities is given below.

€ (thousands)	Carrying amount	Fair value
Financial assets		
Other short-term receivables	81,302	81,302
Financial investments and cash and cash equivalents	61,738	61,804
Trade receivables	89,394	89,394
Other receivables	6,852	6,852
Fair value of hedging derivatives (cash flow hedges)	6,414	6,414
Financial liabilities		
Loans		
- at fixed interest rates	124,888	126,884
- at fixed rate hedged by cross currency swaps (CCS)	126,401	116,952
- at floating rate hedged with interest rate swaps (IRS)	511,048	511,048
Trade payables	49,373	49,373
Other payables	46,310	46,310
Fair value of hedging derivatives (cash flow hedges)	9,746	9,746
Bank overdrafts and short-term loans	7,457	7,457
Other short-term borrowings	330,756	330,756

40. DISCLOSURE OF FINANCIAL RISKS

The company aims to achieve a balanced and prudent financial structure as a fundamental condition for financing internal and external growth, thereby reducing financing costs to a minimum, while maximising returns. Speculative investments in shares, funds or financial assets which might impair the value of companies is not permitted.
The only financial investments admissible are investments in risk free assets and/or funds issued by major financial institutions.
The Company monitors the financial risks to which it is exposed in order to take immediate mitigation action, when necessary, in compliance with the applicable legislation and regulations and it transacts only with banks with a strong credit rating.

On the basis of the above and considering that the related effects would not be significant, no sensitivity analysis has been carried out.
As required by IFRS 7, information is given below on the main financial risks to which the Company is exposed.

Liquidity risk

The liquidity risk to which the Company could be exposed is the inability to raise sufficient funds 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 facilities 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 2018, 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 2018 gross trade receivables, inclusive of those receivable from subsidiaries, totalled € 90,567 thousand and the relative allowance for doubtful accounts of € 1,173 thousand recognised 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.

41. SEGMENT INFORMATION

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)	2018	2017	Change 2018/2017
Europe	422,828	347,676	75,152
of which Italy	*199,040*	*192,993*	*6,047*
Australasia	10,419	8,934	1,485
The Americas	13,937	12,516	1,421
Africa	1,556	1,882	(326)
Total	**448,740**	**371,008**	**77,732**

42. LITIGATION AND CONTINGENT LIABILITIES

In December 2015 the Milan Tax Police Unit of the *Guardia di Finanza* (finance police) served notice that it was commencing a general inspection on indirect taxes for the tax years 2009 to 2014 directly into the Recordati Group companies located in Ireland and Luxembourg, these being Recordati Ireland Ltd. and Recordati S.A. Chemical & Pharmaceutical Company, respectively. The declared objective of these inspections was to assess the operating context of these foreign companies in order to verify whether these companies are in reality only formally located abroad, but in substance managed and administered from Italy. Furthermore, on 28 February 2017, the *Guardia di Finanza* extended its inspection to cover direct taxes for the tax year 2015. Once the fact-finding stage consisting of the acquisition of documents and analysis of that information was concluded, the *Guardia di Finanza* made its final report to Recordati Ireland Ltd. on 6th September 2017 of the grounds that led it to consider that the Irish company was liable to pay taxes in Italy on corporate income in the tax years considered, with the consequent determination of claimed taxes due in Italy amounting to € 109.4 million, and those already paid in Ireland, amounting to € 51.8 million. Similarly, on 6th September 2017 the *Guardia di Finanza* made its final report to Recordati S.A. Chemical and Pharmaceutical Company of the grounds that led it to consider that the Luxembourg company was liable to pay taxes in Italy on corporate income in the tax years considered, with the consequent determination of claimed taxes due in Italy amounting to € 7.2 million. Recordati Ireland Ltd. and Recordati S.p.A. (in its capacity as the survivor of the merger of Recordati S.A. Chemical and Pharmaceutical Company) filed defence documents against the claims made in the aforementioned reports. In 2018 the Regional Department for Lombardy of the tax authorities, with jurisdiction for Recordati S.p.A., reviewed the claims made in the aforementioned "record of findings" and carried out further investigations into the relations between Recordati S.p.A. and its Irish subsidiary in the tax years 2009 to 2015. Following those investigations, the tax authorities concluded (in confirmation of the validity of the Company's arguments) that in the tax years running from 2009 to 2015, the Irish company had not operated as an "offshore dummy company". Nevertheless, according to the tax authorities, part of the profits earned in those years by the Irish subsidiary should be attributed to Recordati S.p.A., on the basis of an alleged "management support" provided by the Italian Parent to its Irish subsidiary. On that basis the tax authorities made a proposal of "tax assessment by mutual consent", for IRES (corporate income tax) and IRAP (regional tax on production) purposes, for the tax years running from 2009 to 2015, on the basis of which it demanded additional payment of taxes totalling € 21.0 million, in addition to € 4.9 million of interest and € 2.5 million of fines to which, in view of the reduced penalties, Recordati S.p.A. agreed. The Company intention is to apply the same criteria for the subsequent tax years, 2016 to 2017, making them subject to determination in 2019, for which a provision of around € 5 million has been recognised in the income statement. The same criteria agreed with the Italian Revenue Agency for the preceding years and included in a Commercial and Management Service Agreement have been applied to 2018. Following a "record of findings" prepared by the *Guardia di Finanza* for the tax years running from 2009 to 2015 with regard to Recordati S.A. Chemical & Pharmaceutical Company, a company which was wound up and removed from the Luxembourg Register of Commerce on 21st June 2017 as a consequence of its merger into the Company, the Milan Provincial Department II (Audit Office) of the tax authorities made a proposal for "tax assessment by mutual consent" for the aforementioned tax years, with a demand made for taxes totalling € 4.6 million, in addition to € 1.1 million of interest and € 1.9 million of fines. As a consequence of the substantial reduction in the taxable amounts originally claimed and in view of the reduced penalties, the Company agreed to that proposal. The amounts involved in that agreement were almost entirely attributable to taxes on dividends received by the Luxembourg company, which it had always distributed fully to its parent company. As such they were already subject to taxation in Italy.

43. 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)	31.12.2018	31.12.2017	Change 2017/2016
Deposits in bank current accounts and cash on hand	58,738	206,538	(147,800)
Short-term loans to Group companies	81,302	67,573	13,729
Cash and cash equivalents and current receivables	**140,040**	**274,111**	**(134,071)**
Bank overdrafts and short-term loans	(7,457)	(2,384)	(5,073)
Loans – due within one year	(67,518)	(47,224)	(20,294)
Short-term borrowings from Group Companies	(330,756)	(287,483)	(43,273)
Short-term borrowings	**(405,731)**	**(337,091)**	**(68,640)**
Net current financial position	**(265,691)**	**(62,980)**	**(202,711)**
Loans and receivables – due after one year	3,107	10,105	(6,998)
Borrowings – due after one year (1)	(693,100)	(605,820)	(87,280)
Net financial position	**(955,684)**	**(658,695)**	**(296,989)**

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

44. 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)	2018	2017	Change 2018/2017
Expenses related to the return of expired pharmaceuticals	0	(163)	163
Company acquisition costs	(1,592)	0	(1,592)
Costs for the acquisition of metoprolol rights	0	(522)	522
Costs of the “Buzzi Hospital renovation”	0	(2,000)	2,000
Total non-recurring operating expense	**(1,592)**	**(2,685)**	**1,093**

45. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In compliance with CONSOB communication of 28th July 2006, the Company performed no atypical and/or unusual transactions in 2018, 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.

46. RELATED-PARTY TRANSACTIONS

As at 31st December 2018, intercompany accounts with Group companies and the parent company Fimei S.p.A. showed payables of € 408,168 thousand and receivables of € 138,104 thousand. The most significant items were as follows:

- receivables of € 9,964 thousand for loans granted to Group companies;
- payables of € 84,924 thousand for loans received from Group companies;
- trade receivables of € 53,777 thousand from subsidiaries;
- trade payables to subsidiaries of € 8,392 thousand;
- receivables from subsidiaries for the management of the centralised cash pooling treasury system amounting to € 74,339 thousand;
- payables to subsidiaries for the management of the centralised cash pooling treasury system amounting to € 306,968 thousand;

Sales and services supplied to Group companies in 2018 amounted to € 223,223 thousand.
Dividends were received during the year as follows: € 45,000 thousand from Bouchara Recordati S.a.s., € 80,000 thousand from Recordati Ireland Ltd, € 5,438 thousand from Recordati Orphan Drugs, € 1,373 thousand from Recordati Pharmaceuticals Ltd and € 3,351 thousand from Herbacos Recordati S.r.o.

Tax payables include those to the parent company Fimei S.p.A. amounting to € 7,884 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-*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.

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		Related parties	
€ (thousands)	Total	Amount	%
Percentage of transactions or positions in the balance sheet with related parties			
Trade receivables and other	96,246	53,801	55.90
Long-term financial assets	3,107	3,000	96.56
Short-term financial assets	81,302	81,302	100.00
Trade payables and other	94,060	16,276	17.30
Long-term financial liabilities	694,819	61,135	8.80
Short-term financial liabilities	398,274	330,757	83.05
Percentage of transactions or positions in the income statement with related parties			
Revenue	450,741	223,296	49.54
Income from investments	135,162	135,162	100.00
Costs of purchases and service provision	201,100	27,010	13.43
Financial income/(expense), net	(17,242)	(1,915)	11.11

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.
It is underlined that no direct business was conducted during the year with the company that carries out management and co-ordination activities.

In compliance with the information required by article 38 of legislative decree 127/91, it is hereby specified that the overall compensation of the Directors and Statutory Auditors for the performance of their functions during 2018 amount to € 0.6 million and € 0.1 million respectively.

Following these extraordinary operations involving the life of the Company in relation to the sale of their controlling interest by the Recordati family to a consortium of investment funds controlled by CVC Capital Partners VII Limited, on 28th February 2019 the Board of Directors of the company, appointed by a Shareholders' Meeting held on 5th February 2019, noted the management and co-ordination exercised by Rossini Luxembourg S.àr.l., over Recordati S.p.A. pursuant to articles 2497 and following of the Italian Civil Code. We report that Rossini Luxembourg S.àr.l. was formed on 14th May 2018 and the first financial statements of the company have not yet been approved.

47. EVENTS AFTER THE REPORTING PERIOD

On 6th December 2018, following the sale of shares reported in the section “Other information” in the “Review of operations”, the legal conditions arose for the initiation by Rossini Investimenti S.p.A. of a mandatory public bid, in accordance with articles 102 and 106, paragraph 1-*bis* of the Consolidated Finance Law for the purchase of a maximum of 97,735,180 ordinary shares of the Company, representing 46.735% of the share capital of Recordati S.p.A. and excluding 5,172,571 treasury shares of the issuer, equal to 2.473%, and including a maximum of 2,091,500 ordinary shares of Recordati S.p.A. if all the stock options resulting from currently valid stock option plans were to be exercised (the “Public Bid”). On 21st December 2018 the Public Bid was authorised by the Consob (Italian securities market authority) and the bid began on 2nd January 2019.
The bid period for the “Public Bid” ended on 1st February 2019 and 59,816 ordinary shares of Recordati S.p.A. were subscribed accounting for approximately 0.061% of the shares on which the bid was made and therefore equal to 0.029% of the share capital of the Company. Therefore, on 8th February 2019, the payment date of the consideration due to holders of the shares that were purchased and of the transfer of the same time of those shares to the bidder, the shares of Recordati S.p.A. held by Fimei S.p.A. (as the actual designated acquirer under the Public Bid) accounted for 51.820% of the share capital.
In consideration of the final results of the Public Bid, the necessary conditions for the exercise of the obligation and of the right to purchase in accordance with Art. 108, paragraphs 1 and 2, and 111 respectively of the Consolidated Finance Law did not arise.
Following the events described above, a Shareholders’ Meeting appointed a new Board of Directors on 5th February 2019.
Except for the above, no significant events occurred subsequent to 31 December 2018.

48. PROPOSAL FOR THE ALLOCATION OF PROFIT FOR THE YEAR

A proposal is made for the profit for the year, amounting to € 217,330,294, to be allocated as follows:

- to distribute to the shareholders a dividend of € 0.47 per share, in full balance of the interim 2018 dividend of € 0.45, to be paid to all shares outstanding at ex-dividend date, excluding those in treasury stock of the Company at that date, with ex-dividend on 23 April 2019. The full 2018 dividend is therefore of € 0.92 per share (€ 0.85 per share in 2017);
- the remainder to retained earnings.

RECORDATI

RECORDATI S.p.A. ATTACHMENT 1

STATEMENT OF CHANGES IN DIRECT INVESTMENTS

€ (thousands)	Balance as at 31st Dec 2017	Share capital sales and redemption	Mergers	Acquisitions subscription	(Write-down) Write-ups	IFRS valuation	IFRS 2 Stock option valuation	Balance as at 31st Dec 2018
Investments in subsidiaries								
Casen Recordati S.L. – Spain	270,271	-		-	-	-	676	270,947
Innova Pharma S.p.A. – Italy	10,564	-	-	-	-	-	2	10,566
Bouchara Recordati S.a.s. – France	56,158	-	-	-	-	-	532	56,690
Recordati Pharmaceuticals Ltd. – United Kingdom	22,589	-	-	-	(6,200)	-	14	16,403
Recordati Hellas Pharmaceuticals S.A. – Greece	4,790	-	-	-	-	-	50	4,840
Herbacos Recordati S.r.o. – Czech Republic	19,632	-	-	-	-	-	58	19,690
Recordati Polska Sp. z.o.o. – Poland	19,426	-	-	-	-	-	160	19,586
Italchimici S.p.A. – Italy	106,294	-	-	-	-	-	-	106,294
Natural Point s.r.l. - Italy	-	-	-	83,597	-	-	-	83,597
Recordati AG (formerly Pro Farma AG) - Switzerland	14,496	-	1,668	-	-	-	92	16,256
Recordati Rare Diseases Canada Inc. - Canada	245	-	-	-	-	-	-	245
Recordati Rare Diseases Inc. – United States	2,026	-	-	-	-	-	280	2,306
Recordati Rare Diseases S.A. DE C.V. – Mexico	823	-	-	-	-	-	15	838
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	206	-	-	-	-	-	9	215
Recordati Ireland LTD - Ireland	808	-	-	-	-	-	200	1.008
Recordati SA - Switzerland	1,668	-	(1,668)	-	-	-	-	-
Recordati Orphan Drugs S.A.S. - France	52,843	-	-	-	-	-	383	53,226
Opalia Pharma S.A. - Tunisia	19,982	-	-	-	-	-	-	19,982
Recordati Romania Srl - Rumania	1,481	-	-	-	-	-	32	1,513
Recordati Pharma GMBH - Germany	87,151	-	-	-	-	-	126	87,277
Accent LLC – Russian Federation	66,707	-	-	-	-	-	-	66,707
Tonipharm S.A.S. – France	-	-	-	72,636	-	-	-	72,636
	758,160	**-**	**-**	**156,233**	**(6,200)**	**-**	**2,629**	**910,822**
Investments in other companies:								
Sifir S.p.A. – Reggio Emilia	0	-	-	-	-	-	-	0
Consorzio Dafne – Reggello (Florence)	2	-	-	-	-	-	-	2
Consorzio Nazionale Imballaggi – Rome	0	-	-	-	-	-	-	0
Consorzio C4T – Pomezia (Rome)	0	-	-	-	-	-	-	0
DGT - United States	0	-	-	-	-	-	-	0
Codexis Inc. - United States	37	-	-	-	-	34	-	71
Puretech Health p.l.c. - United States	16,153	-	-	-	-	1,844	-	17,997
Fluidigm Corp. - United States	5	-	-	-	-	3	-	8
	16,197	**-**	**-**	**-**	**-**	**1,881**	**-**	**18,078**
TOTAL	**774,357**	**-**	**-**	**156,233**	**(6,200)**	**1,881**	**2,629**	**928,900**

RECORDATI

RECORDATI S.p.A.

SUMMARY STATEMENT OF DIRECT INVESTMENTS

ATTACHMENT 2

€ (thousands)	Balance as at 31st Dec 2018	Percentage ownership	Number of shares or quotas possessed
Investments in subsidiaries			
Casen Recordati S.L. – Spain	270,947	100.00	2,389,660
Innova Pharma S.p.A. – Italy	10,566	100.00	960,000
Bouchara – Recordati S.a.s. – France	56,690	100.00	10,000
Recordati Pharmaceuticals Ltd. – United Kingdom	16,403	100.00	15,000,000
Recordati Hellas Pharmaceuticals S.A. – Greece	4,840	100.00	1,005,000
Herbacos Recordati S.r.o. – Czech Republic	19,690	100.00	2,560
Recordati Polska Sp. z.o.o. – Poland	19,586	100.00	90,000
Italchimici S.p.A. – Italy	106,294	100.00	7,646,000
Natural Point s.r.l. - Italy	83,597	100.00	1
Recordati AG (formerly Pro Farma AG) - Switzerland	16,256	100.00	30,000
Recordati Rare Diseases Canada Inc. - Canada	245	100.00	1,000
Recordati Rare Diseases Inc. - United States	2,306	100.00	100
Recordati Rare Diseases Ukraine LLC - Ukraine	0	0.01	1
Recordati Rare Diseases S.A. DE C.V. – Mexico	838	99.998	49,999
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	215	99.398	166
Recordati Ireland LTD - Ireland	1,008	100.00	200,000
Recordati Orphan Drugs S.A.S. - France	53,226	90.00	51,300
Opalia Pharma S.A. - Tunisia	19,982	90.00	612,000
Recordati Romania Srl - Rumania	1,513	100.00	500,000
Recordati Pharma GMBH - Germany	87,277	55.00	1
Accent LLC – Russian Federation	66,707	100.00	1
Tonipharm S.A.S. – France	72,636	100.00	2,577
	910,822		
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	71	n.s	5.203
PureTech Health p.l.c. – United Kingdom	17,997	4.02	9,554,140
Fluidigm Corp. - United States	8	n,s	1,019
	18,078		
TOTAL	**928,900**		

RECORDATI S.p.A. ATTACHMENT 3

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

€ (thousands)	Share capital	31.12.2018 Equity	Profit (loss)	% Ownership	Corresponding pro-rata equity (A)	Carrying amount (B)	Valuation Art. 2426 (C)
Investments							
Casen Recordati S.L. - Spain	238,966	370,924	20,000	100,00	370,924	270,947	364,607
Innova Pharma S.p.A. - Italy	1,920	39,256	3,420	100,00	39,256	10,566	39,228
Bouchara Recordati S.a.s. - France	4,600	35,787	29,185	100,00	35,787	56,690	116,975
Recordati Pharmaceuticals Ltd. - United Kingdom*	16,769	15,840	(1,035)	100,00	15,840	16,403	15,529
Recordati Hellas Pharmaceuticals S.A. – Greece *	10,050	4,917	283	100,00	4,917	4,840	4,353
Herbacos Recordati s.r.o. - Czech Republic	995	10,584	1,993	100,00	10,584	19,690	25,680
Recordati Polska S.p.z.o.o. – Poland *	1,046	2,850	2,227	100,00	2,850	19,586	16,726
Italchimici S.p.A. – Italy	7,646	58,209	8,880	100,00	58,209	106,294	129,183
Natural Point S.r.l. – Italy	10	14,807	7,197	100,00	14,807	83,597	86,049
Recordati AG (former Pro Farma AG) – Switzerland	2,662	11,055	2,999	100,00	11,055	16,256	19,442
Recordati Rare Diseases Canada Inc. – Canada *	224	(305)	(542)	100,00	(305)	245	(1,315)
Recordati Rare Diseases Inc. – United States	10,462	161,398	36,803	100,00	161,398	2,306	154,468
Recordati Rare Diseases S.A. DE C.V. – Mexico *	722	95	248	99,998	95	838	(32)
Recordati Rare Diseases Comercio Medicamentos Ltda - Brazil	0	341	94	99,398	339	215	339
Recordati Ireland LTD - Ireland	200	122,673	56,985	100,00	122,673	1,008	107,520
Recordati Orphan Drugs S.A.S. - France	57,000	99,870	5,162	90,00	89,883	53,226	205,648
Opalia Pharma S.A. - Tunisia	2,815	11,879	3,043	90,00	10,692	19,982	28,311
Recordati Romania Srl - Rumania	1,072	7,213	4,329	100,00	7,213	1,513	6,625
Recordati Pharma GMBH - Germany	600	154,294	13,006	55,00	84,862	87,277	118,035
Accent LLC – Russian Federation*	0	330	18	100,00	330	66,707	28,150
Tonipharm S.A.S. - France	258	17,970	3,763	100,00	17,970	72,636	72,636
	358,017	**1,139,987**	**198,058**		**1,059,379**	**910,822**	**1,538,157**

Difference A-B	**148,557**
Surplus C-B	**627,335**

* 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.

RECORDATI S.p.A.

SUMMARY INFORMATION ON SUBSIDIARIES

ATTACHMENT 4

Subsidiaries	Headquarters	Currency	Share capital	Profit (loss) 2018	Equity as at 31/12/2018	Revenue 2018
INNOVA PHARMA S.p.A. *Marketing and sales of pharmaceuticals*	Italy	€(000)	1,920	3,420	39,256	48,612
CASEN RECORDATI S.L. *Marketing and sales of pharmaceuticals*	Spain	€(000)	238,966	20,000	370,924	97,882
BOUCHARA RECORDATI S.A.S. Research, production and sales of pharmaceuticals	France	€(000)	4,600	29,185	35,787	15,838
REC.RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA. *Dormant, holds pharmaceutical marketing rights in Brazil*	Brazil	BRL(000)	0	419	1,515	4,972
RECORDATI RARE DISEASES Inc. *Research, production and sales of pharmaceuticals*	U.S.A.	USD(000)	11,979	42,140	184,801	121,747
RECORDATI IRELAND LTD *Research, production and sales of pharmaceuticals*	Ireland	€(000)	200	56,985	122,673	293,073
LABORATOIRES BOUCHARA RECORDATI S.A.S. *Research, production and sales of pharmaceuticals*	France	€(000)	14,000	12,527	27,963	174,932
RECORDATI PHARMA GmbH *Marketing and sales of pharmaceuticals*	Germany	€(000)	600	13,006	154,294	121,172
RECORDATI PHARMACEUTICALS LTD. *Marketing and sales of pharmaceuticals*	United Kingdom	GBP(000)	15,000	(926)	14,169	1,763
RECORDATI HELLAS PHARMACEUTICALS S.A. *Marketing and sales of pharmaceuticals*	Greece	€(000)	10,050	283	4,917	17,499
JABA RECORDATI S.A. *Marketing and sales of pharmaceuticals*	Portugal	€(000)	2,000	3,878	11,506	40,864
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. *Marketing of pharmaceuticals*	Portugal	€(000)	50	113	278	810
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. *Marketing of pharmaceuticals*	Portugal	€(000)	50	475	1,206	2,287
RECORDATI ORPHAN DRUGS S.A.S. *Holding company*	France	€(000)	57,000	5,162	99,870	2,053
ORPHAN EUROPE SWITZERLAND GmbH *Marketing and sales of pharmaceuticals*	Switzerland	CHF(000)	20	19	358	137
ORPHAN EUROPE MIDDLE EAST FZ LLC *Marketing and sales of pharmaceuticals*	United Arab Emirates	€(000)	20	4,964	17,230	13,629
RECORDATI A.B. *Marketing and sales of pharmaceuticals*	Sweden	SEK(000)	100	4,999	9,351	38,521
ORPHAN EUROPE S.A.R.L. *Research, production and sales of pharmaceuticals*	France	€(000)	320	29,626	92,156	88,696
NATURAL POINT S.r.l. * *Marketing and sales of pharmaceuticals*	Italy	€(000)	10	3,533	14,807	7,685
PRO FARMA GmbH *Marketing and sales of pharmaceuticals*	Austria	€(000)	35	(27)	369	403
TONIPHARM S.A.S * *Marketing and sales of pharmaceuticals*	France	€(000)	258	0	17.970	0
ORPHAN EUROPE UNITED KINGDOM LTD *Marketing and sales of pharmaceuticals*	United Kingdom	GBP(000)	50	2,080	2,181	5,676

Subsidiaries	Headquarters	Currency	Share capital	Profit (loss) 2018	Equity as at 31/12/2018	Revenue 2018
ORPHAN EUROPE GERMANY GmbH *Marketing and sales of pharmaceuticals*	Germany	€(000)	26	5,154	9,669	13,526
ORPHAN EUROPE SPAIN S.L. *Marketing and sales of pharmaceuticals*	Spain	€(000)	1,775	2,614	4,804	7,136
ORPHAN EUROPE ITALY S.R.L. *Marketing and sales of pharmaceuticals*	Italy	€(000)	40	4,627	19,245	11,107
RECORDATI BVBA *Marketing and sales of pharmaceuticals*	Belgium	€(000)	19	1,566	2,954	5,985
FIC MEDICAL S.A.R.L. *Marketing of pharmaceuticals*	France	€(000)	174	8	1,194	2,110
HERBACOS RECORDATI s.r.o. *Research, production and sales of pharmaceuticals*	Czech Republic	CZK(000)	25,600	51,272	272,262	648,701
RECORDATI SK s.r.o. *Marketing and sales of pharmaceuticals*	Slovak Republic	€(000)	33	48	301	791
RUSFIC LLC *Marketing and sales of pharmaceuticals*	Russian Federation	RUB(000)	3,560	570,941	1,675,647	6,354,993
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. *Marketing of pharmaceuticals*	Turkey	TRY(000)	10	17	236	444
RECORDATI ROMANIA S.R.L. *Marketing and sales of pharmaceuticals*	Rumania	RON(000)	5,000	20,186	33,640	56,518
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. *Research, production and sales of pharmaceuticals*	Turkey	TRY(000)	180,000	57,098	315,046	403,119
RECORDATI POLSKA Sp. z o.o *Marketing and sales of pharmaceuticals*	Poland	PLN(000)	4,500	9,578	12,258	103,873
ACCENT LLC *Holds pharmaceutical marketing rights*	Russian Federation	RUB(000)	20	1,429	26,333	3,600
RECORDATI UKRAINE LLC *Marketing of pharmaceuticals*	Ukraine	UAH(000)	1,032	9,129	35,369	362,964
CASEN RECORDATI Portugal Unipessoal Ltd *Marketing and sales of pharmaceuticals*	Portugal	€(000)	100	119	487	551
OPALIA PHARMA S.A. *Research, production and sales of pharmaceuticals*	Tunisia	TND(000)	9,656	10,438	40,749	56,996
OPALIA RECORDATI SARL *Marketing of pharmaceuticals*	Tunisia	TND(000)	20	911	1,406	3,176
RECORDATI RARE DISEASE S.A. DE CV *Marketing of pharmaceuticals*	Mexico	MXN(000)	16,250	5,576	2,144	34,241
RECORDATI RARE DISEASE COLOMBIA S.A.S *Marketing of pharmaceuticals*	Colombia	COP(000)	150,000	5,007,437	9,174,311	19,726,863
RECORDATI RARE DISEASE CANADA INC. *Marketing of pharmaceuticals*	Canada	CAD(000)	350	(846)	(476)	4,246
RECORDATI RARE DISEASE JAPAN K.K. * *Marketing of pharmaceuticals*	Japan	JPY/000	10,000	57,317	67,317	206,772
RECORDATI RARE DISEASE AUSTRALIA Pty Ltd. * *Marketing of pharmaceuticals*	Australia	AUD(000)	200	(290)	(90)	190
ITALCHIMICI S.p.A. *Marketing and sales of pharmaceuticals*	Italy	€(000)	7,646	8,880	58,209	42,487
RECORDATI AG *Marketing and sales of pharmaceuticals*	Switzerland	CHF(000)	3,000	3,380	12,458	22,149

* Acquired in 2018.

RECORDATI

RECORDATI S.p.A.

ATTACHMENT 5

DETAILS OF ITEMS IN SHAREHOLDERS' EQUITY

€ (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	0	0	0	
Treasury stock reserve	(145,608)		(145,608)	(145,608)	0	
Other reserves						
Gain on merger	29,813	A B C	29,813	29,813	0	
Extraordinary reserve	73,184	A B C	73,184	73,184	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	113,972	A B C	113,972	113,972	0	
Interim dividends	(91,761)		(91,761)	(91,761)	0	
Net income (loss) for the period	217,330	A B C	217,330	217,330	0	
Total shareholders' equity	**336,058**		**301,057**	**213,231**	**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.

RECORDATI S.p.A. ATTACHMENT 6

DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

Amounts in euro

Type of service	*Firm providing the service*	*Remuneration*
Accounting audit	Auditor of the Company	130,200
Certification services	Auditor of the Company	44,000
Due diligence	Auditor of the Company	223,000
Other services	Auditor of the Company	30,000

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

1. The undersigned, Andrea Recordati, in his capacity as 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 or article 154-*bis*, clauses 3 and 4, of Legislative Decree No. 58 of 24th February 1998, hereby certify it to

- 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 2018.

2. Furthermore, it is certified that:

2.1 The financial statements as at and for the year ended 31st December 2018:

- have been prepared in accordance with the international accounting standards, recognised 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 Company.

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, 28th February 2019

Chief Executive Officer	Manager responsible for preparing the Company's financial reports
Andrea Recordati	*Fritz Squindo*