INTERIM REPORT

FIRST HALF
2018

RECORDATI

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

Management review

HIGHLIGHTS

FIRST HALF 2018

REVENUE

€ (thousands)	First half 2018	%	First half 2017	%	Change 2018/2017	%
Total revenue	696,054	100.0	650,868	100.0	45,186	6.9
Italy	145,791	20.9	142,415	21.9	3,376	2.4
International	550,263	79.1	508,453	78.1	41,810	8.2

KEY CONSOLIDATED P&L DATA

€ (thousands)	First half 2018	% of revenue	First half 2017	% of revenue	Change 2018/2017	%
Revenue	696,054	100.0	650,868	100.0	45,186	6.9
EBITDA[1]	260,017	37.4	224,032	34.4	35,985	16.1
Operating income	231,931	33.3	203,198	31.2	28,733	14.1
Net income	164,188	23.6	146,987	22.6	17,201	11.7

(1) Operating income before depreciation, amortization and write down of both tangible and intangible assets.

KEY CONSOLIDATED B/S DATA

€ (thousands)	30 June 2018	31 December 2017	Change 2018/2017	%
Net financial position[2]	(556,447)	(381,780)	(174,667)	45.8
Shareholders' equity	927,219	1,027,237	(100,018)	(9.7)

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

SECOND QUARTER 2018

REVENUE

€ (thousands)	Second quarter 2018	%	Second quarter 2017	%	Change 2018/2017	%
Total revenue	329,554	100.0	308,928	100.0	20,626	6.7
Italy	66,865	20.3	65,692	21.3	1,173	1.8
International	262,689	79.7	243,236	78.7	19,453	8.0

KEY CONSOLIDATED P&L DATA

€ (thousands)	Second quarter 2018	% of revenue	Second quarter 2017	% of revenue	Change 2018/2017	%
Revenue	329,554	100.0	308,928	100.0	20,626	6.7
EBITDA(1)	125,644	38.1	106,325	34.4	19,319	18.2
Operating income	111,400	33.8	95,927	31.1	15,473	16.1
Net income	77,596	23.5	68,472	22.2	9,124	13.3

(1) Operating income before depreciation, amortization and write down of both tangible and intangible assets.

The financial results obtained in the first half of the year confirm the continued growth of the Group, with further improvement of the profitability. Consolidated revenue is € 696.1 million, up by 6.9% compared to the same period of the preceding year. International sales grow by 8.2%. EBITDA, at 37.4% of sales, is € 260.0 million, an increase of 16.1% over the first half of 2017. Operating income, at 33.3% of sales, is € 231.9 million, an increase of 14.1% over the same period of the preceding year. Net income, at 23.6% of sales, is € 164.2 million, an increase of 11.7% over the first half of 2017.

Net financial position at 30 June 2018 records a net debt of € 556.4 million compared to net debt of € 381,8 million at 31 December 2017. During the period own shares were purchased for an overall disbursement of € 169.8 million, dividends were distributed for an amount of € 87.1 million. Furthermore, the Italian company Natural Point S.r.l. was acquired for a value of € 75 million. Shareholders' equity is € 927.2 million.

CORPORATE DEVELOPMENT NEWS

In April an agreement with Mylan for the acquisition of the rights to Cystagon® (cysteamine bitartrate), indicated for the treatment of proven nephropathic cystinosis in children and adults, for certain territories, including Europe, was concluded. The product was previously commercialized by Orphan Europe (a Recordati group company) under license from Mylan. The definitive acquisition of the rights allows the Group to continue offering this life-saving treatment to patients.

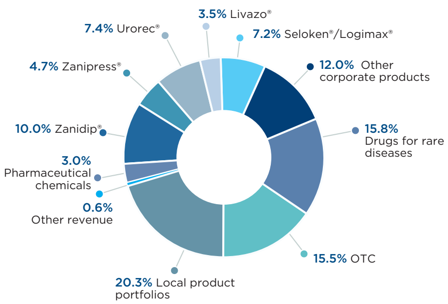
In June Recordati acquired 100% of the share capital of Natural Point S.r.l., an Italian company, based in Milan, active in the food supplements market. The company realized sales of € 15 million in 2017 and has an excellent profitability profile. The signing and closing of the transaction took place at the same time. Natural Point was established in 1993 with the objective of promoting a culture of healthy use of food supplements. It offers a wide portfolio of very efficacious supplements in highly bioavailable formulations, produced with safe active ingredients, to improve health and well-being. The company's main product is a particular formulation of magnesium carbonate and citric acid that has the characteristic of being easily assimilated into the body, apart from its having an agreeable flavor.

Recordati is the exclusive global partner of NovaBiotics Ltd, a biotechnology company based in Aberdeen, Scotland, for the commercialization of Lynovex®, a first-in-class oral intervention for acute infectious exacerbations associated with cystic fibrosis (CF). Cystic fibrosis exacerbations are major contributors to the irreversible decline in lung function and overall health of people with CF. Treatments that increase recovery from exacerbations might reduce the damaging effects of exacerbations. Lynovex® is designated as an orphan drug in Europe and in the U.S. and is the first multi-active therapy of its kind (anti-infective, mucolytic, anti-biofilm, antibiotic potentiating) to be developed specifically for alleviating the infectious trigger and symptoms of CF exacerbations. In July top line data from a recent clinical study (CARE CF 1) of oral Lynovex® in cystic fibrosis exacerbations was announced.

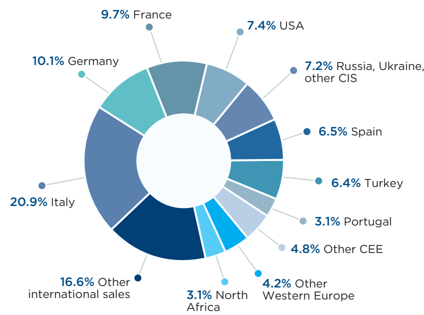
REVIEW OF OPERATIONS

Net revenue in the first half of 2018 is € 696.1 million, up 6.9% over the same period of the preceding year and includes the consolidation of the sales of Seloken®, Seloken® ZOK and Logimax®, the metoprolol based brands acquired from AstraZeneca and consolidated as from 1 July 2017, for an amount of € 50.4 million, as well as an estimated negative currency exchange rate effect of € 27.1 million. Excluding these two items growth would have been of 3.4%. International sales grow by 8.2% to € 550.3 million, which represent 79.1% of total sales. Pharmaceutical sales are € 675.2 million, up by 7.6% while pharmaceutical chemicals sales are € 20.9 million, down by 9.9%, and represent 3.0% of total revenues.

SALES BY BUSINESS



PHARMACEUTICAL SALES



The Group's pharmaceutical business, which represents 97.0% of total revenue, is carried out in the main European markets, including Central and Eastern Europe, in Russia, Turkey, North Africa, the United States of America, Canada, Mexico, in some South American countries and in Japan through our own subsidiaries and in the rest of the world through licensing agreements with pharmaceutical companies of high standing.

The performance of products sold directly in more than one country (corporate products) during the first half of 2018 is shown in the table below.

€ (thousands)	First half 2018	First half 2017	Change 2018/2017	%
Zanidip® (lercanidipine)	69,586	69,191	395	0.6
Zanipress® (lercanidipine+enalapril)	32,996	36,318	(3,322)	(9.1)
Urorec® (silodosin)	51,174	46,510	4,664	10.0
Livazo® (pitavastatin)	23,990	19,438	4,552	23.4
Seloken®/Seloken® ZOK/Logimax® (metoprolol/metoprolol+felodipine)	50,431	-	50,431	n.s.
Other corporate products*	136,408	144,681	(8,273)	(5.7)
Drugs for rare diseases	110,121	104,115	6,006	5.8

** Include the OTC corporate products for an amount of € 52.8 million in 2018 and € 54.5 million in 2017 (-3.1%).*

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

€ (thousands)	First half 2018	First half 2017	Change 2018/2017	%
Direct sales	35,774	37,186	(1,412)	(3.8)
Sales to licensees	33,812	32,005	1,807	5.6
Total lercanidipine sales	69,586	69,191	395	0.6

Lercanidipine direct sales are down by 3.8% mainly due to the reduction of sales in Algeria, realized directly by our French subsidiary, following importation restrictions on products for which there is local production. Sales increase mainly in France and in Greece, where the brands previously sold under co-marketing arrangements are now sold directly by our subsidiaries following the termination of the license agreements.

Sales to licensees, which represent 48.6% of total lercanidipine sales, are up by 5.6%.

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

€ (thousands)	First half 2018	First half 2017	Change 2018/2017	%
Direct sales	26,231	28,509	(2,278)	(8.0)
Sales to licensees	6,765	7,809	(1,044)	(13.4)
Total lercanidipine+enalapril sales	32,996	36,318	(3,322)	(9.1)

Direct sales of Zanipress® in the first half of 2018 are down by 8.0% mainly due to competition from generic versions of the product. Sales to licensees represent 20.5% of total Zanipress® sales and are down by 13.4% mainly due to lower sales to licensees in France.

Urorec® (silodosin) is a specialty indicated for the treatment of symptoms associated with benign prostatic hyperplasia (BPH). Currently the product has been successfully launched in 38 countries with sales of € 51.2 million in the half of 2018, up 10.0% due to the good performance of the product in all main markets.

Sales of Livazo® (pitavastatin), a statin indicated for the reduction of elevated total and LDL cholesterol, in Spain, Portugal, Ukraine, Greece, Switzerland, Russia, other C.I.S. countries and Turkey, are € 24.0 million in the first half of 2018, up by 23.4% due to the performance of the product in Turkey and in all the other markets where it has been launched.

On 30 June 2017 the agreement with AstraZeneca for the acquisition of the rights to Seloken®/Seloken® ZOK (metoprolol succinate) and associated Logimax® fixed dose combination (metoprolol succinate and felodipine) treatments in Europe was concluded. Revenues generated by these products in the European countries covered by the agreement are consolidated as from 1 July 2017. In the first half of 2018 sales are of € 50.4 million. These products contribute significantly to the growth of our subsidiaries mainly in Germany, Poland, France, the Czech Republic and Romania.

In the first half of 2018 sales of other corporate products totaled € 136.4 million, down by 5.7% compared to the same period of the preceding year due mainly to competition from generic versions of the rupatadine based brands and to the weak flu season as well as to the negative exchange rate effect in Russia. Other corporate products comprise both prescription and OTC products and are: Lomexin® (fenticonazole), Urispas® (flavoxate), Kentera® (oxybutynin transdermal patch), TransAct® LAT (flurbiprofen transdermal patch), Rupafin®/Wystamm® (rupatadine), Lopresor® (metoprolol), Procto-Glyvenol® (tribenoside), Tergynan® (fixed association of anti-infectives) as well as CitraFleet®, Casenlax®, Fleet enema, Phosphosoda®, Reuflor®/Reuteri® (lactobacillus Reuteri) and Lacdigest® (tilactase), gastroenterological products, Polydexa®, Isofra® and Otofa®, ENT anti-infective products, the Hexa line of products indicated for seasonal disorders of the upper respiratory tract, Abufene® and Muvagyn® for gynecological use, Virirec® (alprostadil), Fortacin® (lidocaine+prilocaine) and Reagila® (cariprazine).

Our specialties indicated for the treatment of rare diseases, marketed directly throughout Europe, in the Middle East, in the U.S.A., Canada, Mexico, in some South American countries and in Japan and through partners in other parts of the world, generated sales of € 110.1 million, up by 5.8%. Sales in the United States of America are down by 9.2% due mainly to a negative currency exchange rate effect.

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

€ (thousands)	First half 2018	First half 2017	Change 2018/2017	%
Italy	141,198	138,749	2,449	1.8
Germany	68,612	54,341	14,271	26.3
France	65,512	60,063	5,449	9.1
U.S.A.	49,681	54,709	(5,028)	(9.2)
Russia, other C.I.S. countries and Ukraine	48,639	56,407	(7,768)	(13.8)
Spain	43,837	40,197	3,640	9.1
Turkey	43,356	45,706	(2,350)	(5.1)
Portugal	20,656	20,378	278	1.4
Other C.E.E. countries	32,492	16,519	15,973	96.7
Other Western European countries	28,489	25,606	2,883	11.3
North Africa	20,671	23,144	(2,473)	(10.7)
Other international sales	112,051	91,907	20,144	21.9
Total pharmaceutical revenue	675,194	627,726	47,468	7.6

Both years include sales as well as other income.

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

Local currency (thousands)	First half 2018	First half 2017	Change 2018/2017	%
Russia (RUB)	2,739,982	2,958,631	(218,649)	(7.4)
Turkey (TRY)	202,420	169,152	33,268	19.7
U.S.A. (USD)	61,969	60,987	982	1.6

Net revenues in Russia and in Turkey exclude sales of products for rare diseases.

Sales of pharmaceuticals in Italy are up by 1.8% compared to those of the same period of the preceding year. Worth mentioning is the good performance of Urorec® and Cardicor® (bisoprolol), the significant growth of the treatments for rare diseases and the integration in the product portfolio, as from July 2017, of the metoprolol based brands acquired from AstraZeneca.

In Germany sales are up by 26.3% mainly thanks to the sales generated by the metoprolol based products acquired from AstraZeneca, consolidated as from 1 July 2017.

Pharmaceutical sales in France are up by 9.1%. Worth mentioning is the good performance of Urorec® and methadone, in addition to the sales of Lercan® (lercanidipine) which is now marketed directly by our subsidiary following the termination of the license agreement with Pierre Fabre, and the integration in the product portfolio of the metoprolol based brands acquired from AstraZeneca and of Transipeg® and Colopeg®, the gastrointestinal products acquired from Bayer in December 2017. The treatments for rare diseases are also growing strongly.

The Group's pharmaceutical business in the U.S.A. is dedicated to the marketing of products for the treatment of rare diseases. Sales in the first half of 2018 are € 49.7 million, down by 9.2% due to a significant negative currency exchange rate effect and initial competition from a generic version of Cosmegen®. The main products are Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Cosmegen® (dactinomycin for injection) used in the treatment of three rare cancers and Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency.

Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) is € 48.6 million, down by 13.8% compared to the same period of the preceding year and includes estimated currency exchange losses of € 6.3 million. Sales in Russia, in local currency, are RUB 2,740.0 million, down by 7.4% compared to the same period of the preceding year mainly due to the sales reduction of the products for seasonal disorders of the upper respiratory tract due to a much weaker flu season than last year's. Worth mentioning is the growth of the corporate products Livazo®, Urorec®, Zanidip® and Procto-Glyvenol®. Sales generated in Ukraine and in the C.I.S. countries, mainly Belarus, Georgia and Kazakhstan are growing significantly and have reached € 9.1 million.

In Spain sales are € 43.8 million, up by 9.1% mainly due to the performance of Livazo® and Urorec® as well as to the integration in the product portfolio, as from July 2017, of the metoprolol based brands acquired from AstraZeneca. Sales of the treatments for rare diseases are also growing significantly.

Sales in Turkey are down by 5.1% and include a negative currency exchange effect estimated to be of € 10.5 million. In local currency sales of our Turkish subsidiary grow by 19.7% thanks to the good performance of all the corporate products, in particular Livazo®, Lercadip®, Urorec®, Zanipress®, Procto-Glyvenol®, Kentera® and Gyno Lomexin®, as well as the local products Mictonorm® (propiverine), Cabral® (phenyramidol) and Pankreoflat® (pancreatin, dimeticone).

Sales in Portugal are up by 1.4% thanks mainly to the good performance of Livazo® and Urorec®.

Sales in other Central and Eastern European countries include the sales of Recordati subsidiaries in Poland, the Czech Republic, Slovakia and Romania, in addition to sales generated by Orphan Europe in this area. In the first half of 2018 overall sales are up by 96.7% thanks mainly to the revenue contribution as from 1 July 2017 generated by the sales of the metoprolol based products acquired from AstraZeneca. Sales of the treatments for rare diseases in these countries are up by 5.1%.

Sales in other countries in Western Europe, up by 11.3%, comprise sales of products for the treatment of rare diseases in these countries (+9.8%) and sales of primary and specialty care products generated by the Recordati subsidiaries in the United Kingdom, Ireland, Greece and Switzerland. The increase in sales is to be attributed mainly to the performance of the Greek subsidiary thanks to the growth of Livazo® and Lercadip® (lercanidipine), the direct sales of lercanidipine based brands previously co-marketed by licensees and to the consolidation as from 1 July 2017 of the sales of the metoprolol based products acquired from Astra Zeneca. Furthermore, the good performance of the Swiss subsidiary is worth mentioning.

Sales in North Africa are € 20.7 million, down by 10.7%, and comprise both the export sales generated by Laboratoires Bouchara Recordati in these territories, in particular in Algeria, and sales generated by Opalia Pharma, the Group's Tunisian subsidiary. The sales reduction is due mainly to lower sales of Zanidip® in Algeria. Sales in Tunisia in the first half of 2018, in local currency, are up by 25.8%.

Other international sales are up by 21.9% as compared to the same period of the preceding year and comprise the sales to, and other revenues from, our licensees for our corporate products, Laboratoires Bouchara Recordati's and Casen Recordati's export sales, as well as the sales of products for the treatment of rare diseases in the rest of the world. The growth is to be attributed mainly to the revenues generated, as from 1 July 2017, by the sales of the metoprolol based products acquired from AstraZeneca in countries where the Group is not present directly with its own subsidiaries.

FINANCIAL REVIEW

INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus the first half of 2017:

€ (thousands)	First half 2018	% of revenue	First half 2017	% of revenue	Change 2018/2017	%
Revenue	696,054	100.0	650,868	100.0	45,186	6.9
Cost of sales	(203,013)	(29.2)	(196,742)	(30.2)	(6,271)	3.2
Gross profit	493,041	70.8	454,126	69.8	38,915	8.6
Selling expenses	(172,793)	(24.8)	(168,521)	(25.9)	(4,272)	2.5
R&D expenses	(53,627)	(7.7)	(47,152)	(7.2)	(6,475)	13.7
G&A expenses	(33,140)	(4.8)	(33,841)	(5.2)	701	(2.1)
Other income (expense), net	(1,550)	(0.2)	(1,414)	(0.2)	(136)	9.6
Operating income	231,931	33.3	203,198	31.2	28,733	14.1
Financial income (expense), net	(8,458)	(1.2)	(6,991)	(1.1)	(1,467)	21.0
Pretax income	223,473	32.1	196,207	30.1	27,266	13.9
Provision for income taxes	(59,285)	(8.5)	(49,220)	(7.6)	(10,065)	20.4
Net income	164,188	23.6	146,987	22.6	17,201	11.7
Attributable to:						
Equity holders of the parent	164,164	23.6	146,967	22.6	17,197	11.7
Minority interests	24	0.0	20	0.0	4	20.0

Revenue for the period is € 696.1 million, an increase of € 45.2 million compared to the first half of 2017. For a detailed analysis please refer to the preceding “Review of Operations”.

Gross profit is € 493.0 million with a margin of 70.8% on sales, an increase over that of the same period of the preceding year due to the further growth of products with higher margins and to the positive effect of the consolidation of the metoprolol based products acquired from AstraZeneca.

Selling expenses increase less than sales and are therefore down as a percent of revenue compared to the same period of the preceding year thanks to the increased efficiency of the group’s commercial organizations.

R&D expenses are € 53.6 million, up by 13.7% compared to those recorded in the first half of 2017 due to the initiation of new development programs and the amortization of the acquired rights to the metoprolol based products.

G&A expenses are down by 2.1% and diminish as percent of sales to 4.8%.

Net financial charges are € 8.5 million, an increase of € 1.5 million compared to the same period of the preceding year due to the interest on the medium/long term loans.

The effective tax rate during the period is 26.5%, higher than that of the same period of the preceding year due to an adjustment of the tax risk provision in part compensated by a tax credit in Turkey, for an overall net effect of € 4.4 million.

Net income at 23.6% of sales is € 164.2 million, an increase of 11.7% over the same period of the preceding year.

NET FINANCIAL POSITION

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

€ (thousands)	30 June 2018	31 December 2017	Change 2018/2017	%
Cash and short-term financial investments	154,632	302,077	(147,445)	(48.8)
Bank overdrafts and short-term loans	(62,280)	(16,577)	(45,703)	275.7
Loans – due within one year	(59,437)	(51,710)	(7,727)	14.9
Net liquid assets	32,915	233,790	(200,875)	(85.9)
Loans – due after one year (1)	(589,362)	(615,570)	26,208	(4.3)
Net financial position	**(556,447)**	**(381,780)**	**(174,667)**	**45.8**

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

At 30 June 2018 the net financial position shows a net debt of € 556.4 million compared to net debt of € 381.8 million at 31 December 2017. During the period a € 10.0 million milestone was paid as per the license agreement with Gedeon Richter for the rights to Reagila® (cariprazine), own shares were purchased for an overall amount of € 169.8 million and dividends were distributed for an amount of € 87.1 million. Furthermore, the Italian company Natural Point S.r.l. was acquired for a value of € 75 million.

RELATED PARTY TRANSACTIONS

Tax liabilities shown in the consolidated balance sheet at 30 June 2018 include those payable to the controlling company FIMEI S.p.A. for an amount of € 21.7 million. This amount refers to tax liabilities computed by the parent Recordati S.p.A. based on estimated taxable income and transferred to the controlling company consequent to the participation in a tax consolidation grouping under tax laws in Italy.

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

SECOND QUARTER 2018 REVIEW

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus the second quarter of 2017:

€ (thousands)	Second quarter 2018	% of revenue	Second quarter 2017	% of revenue	Change 2018/2017	%
Revenue	329,554	100.0	308,928	100.0	20,626	6.7
Cost of sales	(93,725)	(28.4)	(90,933)	(29.4)	(2,792)	3.1
Gross profit	235,829	71.6	217,995	70.6	17,834	8.2
Selling expenses	(81,106)	(24.6)	(79,900)	(25.9)	(1,206)	1.5
R&D expenses	(25,963)	(7.9)	(23,985)	(7.8)	(1,978)	8.2
G&A expenses	(16,768)	(5.1)	(16,708)	(5.4)	(60)	0.4
Other income (expense), net	(592)	(0.2)	(1,475)	(0.5)	883	(59.9)
Operating income	111,400	33.8	95,927	31.1	15,473	16.1
Financial income (expense), net	(3,602)	(1.1)	(5,207)	(1.7)	1,605	(30.8)
Pretax income	107,798	32.7	90,720	29.4	17,078	18.8
Provision for income taxes	(30,202)	(9.2)	(22,248)	(7.2)	(7,954)	35.8
Net income	77,596	23.5	68,472	22.2	9,124	13.3
Attributable to:						
Equity holders of the parent	77,584	23.5	68,462	22.2	9,122	13.3
Minority interests	12	0.0	10	0.0	2	20.0

Net revenue is € 329.6 million, up by 6.7% over the second quarter 2017. Pharmaceutical sales are € 318.6 million, up by 7.1%. Pharmaceutical chemical sales are € 11.0 million, down by 4.6%.

Gross profit is € 235.8 million with a margin of 71.6% on sales, an increase over that of the same period of the preceding year due to the further growth of products with higher margins and to the positive effect of the consolidation of the metoprolol based products acquired from AstraZeneca.

Selling expenses increase less than sales and are therefore down as a percent of revenue compared to the same period of the preceding year thanks to the increased efficiency of the group's commercial organizations.

R&D expenses are € 26.0 million, up by 8.2% compared to those recorded in the second quarter of 2017 due to the initiation of new development programs and the amortization of the acquired rights to the metoprolol based products.

G&A expenses are substantially unchanged and diminish as percent of sales to 5.1%.

Net financial charges are € 3.6 million, a decrease of € 1.6 million compared to the same period of the preceding year due to net foreign exchange gains as compared to the significant net losses in the second quarter of 2017.

Net income at 23.5% of sales is € 77.6 million, an increase of 13.3% over the same period of the preceding year.

BUSINESS OUTLOOK

The growth of Group's business continued during July and for the full year 2018, the objective is to to achieve sales ranging from € 1,350 million to € 1,370 million, EBITDA of between € 490 and € 500 million, EBIT of between € 430 and 440 million and net income of between € 310 and 315 million.

Milan, 26 July 2018

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

Consolidated condensed financial statements at 30 june 2018

The consolidated condensed financial statements are presented in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and adopted by the European Union, and were prepared in accordance with the IAS 34 requirements for interim reporting.

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 30 JUNE 2018

INCOME STATEMENT

€ (thousands)	First half 2018	First half 2017
Revenue	696,054	650,868
Cost of sales	(203,013)	(196,742)
Gross profit	493,041	454,126
Selling expenses	(172,793)	(168,521)
R&D expenses	(53,627)	(47,152)
G&A expenses	(33,140)	(33,841)
Other income (expense), net	(1,550)	(1,414)
Operating income	231,931	203,198
Financial income (expense), net	(8,458)	(6,991)
Pretax income	223,473	196,207
Provision for income taxes	(59,285)	(49,220)
Net income	164,188	146,987
Attributable to:		
Equity holders of the parent	164,164	146,967
Minority interests	24	20
Earnings per share		
Basic	€ 0.801	€ 0.713
Diluted	€ 0.785	€ 0.703

Earnings per share (EPS) are based on average shares outstanding during each year, 205,053,284 in 2018 and 205,984,391 in 2017, net of average treasury stock which amounted to 4.071.872 shares in 2018 and to 3.140.765 shares in 2017.
Diluted earnings per share is calculated taking into account stock options granted to employees.

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 30 JUNE 2018

ASSETS

€ (thousands)	30 June 2018	31 December 2017
Non-current assets		
Property, plant and equipment	101,182	103,009
Intangible assets	556,210	540,565
Goodwill	601,591	539,871
Other investments	19,593	24,171
Other non-current assets	5,776	5,944
Deferred tax assets	77,097	69,162
Total non-current assets	1,361,449	1,282,722
Current assets		
Inventories	193,139	179,100
Trade receivables	264,909	244,117
Other receivables	28,750	39,730
Other current assets	8,368	4,836
Fair value of hedging derivatives (cash flow hedge)	4,169	3.825
Short-term financial investments, cash and cash equivalents	154,632	302,077
Total current assets	653,967	773,685
Total assets	2.015.416	2.056.407

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 30 JUNE 2018

EQUITY AND LIABILITIES

€ (thousands)	30 June 2018	31 December 2017
Shareholders' equity		
Share capital	26,141	26,141
Additional paid-in capital	83,719	83,719
Treasury stock	(162,627)	(17,029)
Hedging reserve (cash flow hedge)	(8,341)	(5,867)
Translation reserve	(139,411)	(124,004)
Other reserves	37,639	40,684
Retained earnings	925,764	822,154
Net income for the year	164,164	288,762
Interim dividend	0	(87,470)
Group shareholders' equity	927,048	1,027,090
Minority interest	171	147
Shareholders' equity	927,219	1,027,237
Non-current liabilities		
Loans – due after one year	586,988	612,462
Staff leaving indemnities	21,218	21,093
Deferred tax liabilities	16,379	17,554
Other non-current liabilities	2,516	2,515
Total non-current liabilities	627,101	653,624
Current liabilities		
Trade payables	137,420	141,740
Other payables	83,725	82,779
Tax liabilities	55,550	24,373
Other current liabilities	830	486
Provisions	52,169	48,322
Fair value of hedging derivatives (cash flow hedge)	9,685	9,559
Loans – due within one year	59,437	51,710
Bank overdrafts and short-term loans	62,280	16,577
Total current liabilities	461,096	375,546
Total equity and liabilities	2,015,416	2,056,407

RECORDATI S.P.A. AND SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2018

€ (thousands)	First half 2018	First half 2017
Net income for the period	164,188	146,987
Gains/(losses) on cash flow hedges	(2,474)	3,090
Gains/(losses) on translation of foreign financial statements	(15,407)	(23,286)
Other gains/(losses)	(3,254)	4,060
Income and expense for the period recognized directly in equity	(21,135)	(16,136)
Comprehensive income for the period	143,053	130,851
Attributable to:		
Equity holders of the parent	143,029	130,831
Minority interests	24	20

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

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the period	Interim dividend	Minority Interest	Total
Balance at 31.12.2016	26,141	83,719	(76,761)	(7,420)	(78,309)	35,295	756,004	237,406	(72,245)	110	903,940
Allocation of 2016 net income:											
- Dividends							(34,280)	(110,102)	72,245		(72,137)
- Retained earnings							127,304	(127,304)			0
Change in the reserve for share based payments						(384)	2,365				1,981
Disposal of own shares			51,713				(25,129)				26,584
Other changes							(95)				(95)
Comprehensive income for the year				3,090	(23,286)	4,060		146,967		20	130,851
Balance at 30.6.2017	26,141	83,719	(25,048)	(4,330)	(101,595)	38,971	826,169	146,967	0	130	991,124
Balance at 31.12.2017	26,141	83,719	(17,029)	(5,867)	(124,004)	40,684	822,154	288,762	(87,470)	147	1,027,237
Allocation of 2017 net income:											
- Dividends							37,910	(212,506)	87,470		(87,126)
- Retained earnings							76,256	(76,256)			0
Change in the reserve for share based payments						209	1,152				1,361
Purchase of own shares			(169,769)								(169,769)
Disposal of own shares			24,171				(11,918)				12,253
Other changes							210				210
Comprehensive income for the year				(2,474)	(15,407)	(3,254)		164,164		24	143,053
Balance at 30.6.2018	26,141	83,719	(162,627)	(8,341)	(139,411)	37,639	925,764	164,164	0	171	927,219

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2018

€ (thousands)	First half 2018	First half 2017
Operating activities		
Cash flow		
Net Income	164.188	146,987
Depreciation of property, plant and equipment	6.816	7,173
Amortization of intangible assets	21.270	13,661
Total cash flow	192.274	167,821
(Increase)/decrease in deferred tax assets	(7.585)	4,824
Increase/(decrease) in staff leaving indemnities	11	659
Increase/(decrease) in other non-current liabilities	463	(2,801)
	185.163	170,503
Changes in working capital		
Trade receivables	(16,927)	(26,207)
Inventories	(13,270)	(8,171)
Other receivables and other current assets	7,502	(2,143)
Trade payables	(5,649)	8,189
Tax liabilities	29,578	14,800
Other payables and other current liabilities	1,158	1,239
Provisions	3,847	(1,579)
Changes in working capital	6,239	(13,872)
Net cash from operating activities	191,402	156,631
Investing activities		
Net (investments)/disposals in property, plant and equipment	(6,608)	(5,400)
Net (investments)/disposals in intangible assets	(37,595)	(262,124)
Net (investments)/disposals in equity investments	(83,577)[1]	0
Net (increase)/decrease in other non-current receivables	168	(808)
Net cash used in investing activities	(127,612)	(268,332)
Financing activities		
Net short-term financial position* of acquired companies	8,971	0
Medium/long term loans granted	265	125,151
Re-payment of loans	(21,007)	(19,890)
Increase in treasury stock	(169,769)	0
Decrease in treasury stock	12,253	26,584
Effect on shareholders' equity of application of IAS/IFRS	1,361	1,981
Other changes in shareholders' equity	210	(95)
Dividends paid	(87,126)	(72,137)
Change in translation reserve	(2,096)	(6,863)
Net cash from/(used in) financing activities	(256,938)	54,731
Changes in short-term financial position	(193,148)	(56,970)
Short-term financial position at beginning of year *	285,500	122,804
Short-term financial position at end of period *	92,352	65,834

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

(1) Acquisition of Natural Point S.r.l.: Working capital (1,628), short-term financial position (8,971), fixed assets (2,564), goodwill (71,997), personnel leaving indemnity 114, medium/long-term loans 1,351, deferred tax liabilities 118.*

Notes to the consolidated condensed financial statements for the period ended 30 june 2018

1. GENERAL

The consolidated condensed financial statements at 30 June 2018 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in attachment 1. During the period ended 30 June 2018 the consolidation perimeter changed consequent to the following events:

- the acquisition, on June 11, of Natural Point S.r.l., an Italian company active in the food supplements market. The recognition of this company in the accounts is not yet definite, and could be subject to change, as allowed by IFRS 3, in view of the limited period of time elapsed and the need to assess the fair value of the assets and liabilities acquired. The profit and loss accounts of Natural Point S.r.l. will be consolidated as from 1 July 2018 and the consolidated cash flow statement includes the effect of the balance sheet accounts at 30 June 2018;
- reorganization of the Group's presence in Switzerland through the incorporation of Recordati S.A. by Pro Farma AG, a company acquired in 2016 and redenominated Recordati AG;
- With the objective of expanding the Group's rare disease business in new markets, Recordati Rare Diseases Japan K.K. was established;
- the companies Orphan Europe Nordic AB and Orphan Europe Benelux BVBA were respectively redenominated Recordati AB and Recordati BVBA.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The first half consolidated condensed financial statements were prepared in accordance with the IAS 34 requirements for interim reporting. The statements do not include the full information required for the annual financial statements and must therefore be read together with the annual report for the full year ended 31 December 2017, prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

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

Two new accounting principles enter into effect as from 1 January 2018. IFRS 9, "Financial instruments", introduces new requisites for the classification, measurement and impairment of financial assets and liabilities and new rules governing hedge accounting. IFRS 15, "Revenue from contracts with customers", sets out five requirements for the recognition of revenue that apply to contracts with customers, except for those to which other IAS/IFRS principles apply. Based on the analysis for the identification of the areas of application and the determination of the relative effects no significant impacts on the consolidated profit or net equity were identified. In particular, the main areas of application are: with reference to IFRS 15 the accounting treatment of the up-front payments associated with the licensing-out contracts, with reference to IFRS 9 the determination of the impairment losses of the financial assets based on an expected loss model, considering past events, current conditions and foreseeable future economic conditions.

Furthermore, IFRS 16, "Leases", will apply as from 1 January 2019. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance. The lessee is required to recognize a right-of-use asset and a lease liability representing the obligation of making the payments stipulated in the contract, as well as the effects on profit and loss of the amortization of the asset and the financial expense connected with the financial liability. The impact resulting from the application of the new standard is under evaluation.

Disclosure of the net financial position and of events subsequent to the end of the period are included under the preceding management review.

3. REVENUE

Net revenue for the first half of 2018 is € 696.1 million (€ 650.9 million in the same period of the preceding year) and can be broken down as follows:

€ (thousands)	First half 2018	First half 2017	Change 2018/2017
Net sales	687,477	644,809	42,668
Royalties	3,254	2,452	802
Up-front payments	2,035	520	1,515
Other revenue	3,288	3,087	201
Total revenue	**696,054**	**650,868**	**45,186**

4. OPERATING EXPENSES

Overall operating expenses in the first half of 2018 are € 464.1 million, an increase as compared to the € 447.7 million in the same period of the preceding year and are analyzed by function. Personnel costs are € 138.5 million and include a cost for stock options of € 1.4 million. Total depreciation and amortization charges are € 28.1 million, an increase of € 7.3 million over those of the first half of 2017.

Other income (expense) comprises non-recurring events, operations and matters which are not often repeated in the ordinary course of business. In the first half of 2018 the net amount is other expense of € 1.6 million.

5. FINANCIAL INCOME AND EXPENSE

In the first half of 2018 and in the same period of 2017 financial items record a net expense of € 8.5 million and € 7.0 million respectively and are comprised as follows:

€ (thousands)	First half 2018	First half 2017	Change 2018/2017
Currency exchange gains (losses)	(450)	(1,404)	954
Interest expense on loans	(6,329)	(4,347)	(1,982)
Net interest income (expense) on short-term financial position	(1,566)	(1,146)	(420)
Interest cost in respect of defined benefit plans	(113)	(94)	(19)
Total financial income (expense), net	**(8,458)**	**(6,991)**	**(1,467)**

6. PROPERTY, PLANT AND EQUIPMENT

The composition and variation of property, plant and equipment are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
Cost					
Balance at 31 December 2017	76,513	225,772	66,105	8,309	376,699
Additions	346	857	879	4,198	6,280
Disposals	(26)	(18)	(411)	(68)	(523)
Changes in reporting entities	3,354	0	178	0	3,532
Other changes	(1,406)	(1,061)	789	(3,118)	(4,796)
Balance at 30 June 2018	**78,781**	**225,550**	**67,540**	**9,321**	**381,192**
Accumulated depreciation					
Balance at 31 December 2017	41,000	180,717	51,973	0	273,690
Depreciation for the period	1,110	3,742	1,964	0	6,816
Disposals	(19)	(18)	(379)	0	(416)
Changes in reporting entities	827	0	141	0	968
Other changes	(109)	(790)	(149)	0	(1,048)
Balance at 30 June 2018	**42,809**	**183,651**	**53,550**	**0**	**280,010**
Carrying amount at					
30 June 2018	35,972	41,899	13,990	9,321	101,182
31 December 2017	35,513	45,055	14,132	8,309	103,009

The additions during the period are € 6,3 million and refer to investments in the Italian plants and in the headquarters building for an amount of € 3.6 million.

The fixed assets of the recently acquired company Natural Point S.r.l. are initially recognized under “Changes in reporting entities” for an overall amount of € 2.6 million. This amount refers mainly to the net book value of a leased plant, where the company has its headquarters, determined as prescribed by IAS 17.

7. INTANGIBLE ASSETS

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

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31 December 2017	584,105	197,421	18,354	46,680	846,560
Additions	81	24,074	54	13,823	38,032
Disposals	0	(1,331)	(6)	0	(1,337)
Changes in reporting entities	0	0	23	0	23
Other changes	(381)	43,733	(756)	(43,868)	(1,272)
Balance at 30 June 2018	583,805	263,897	17,669	16,635	882,006
Accumulated amortization					
Balance at 31 December 2017	160,169	129,269	16,557	0	305,995
Amortization for the period	14,620	6,477	173	0	21,270
Disposals	0	(1,331)	(6)	0	(1,337)
Changes in reporting entities	0	0	23	0	23
Other changes	94	(78)	(171)	0	(155)
Balance at 30 June 2018	174,883	134,337	16,576	0	325,796
Carrying amount at					
30 June 2018	408,922	129,560	1,093	16,635	556,210
31 December 2017	423,936	68,152	1,797	46,680	540,565

The main increases during the period include:

- € 19,0 million for the acquisition from Mylan of the rights to Cystagon® (cisteamine bitartrate), indicated for the treatment of proven nephropathic cystinosis in children and adults, for certain territories, including Europe.
- € 10,0 million paid to Gedeon Richter in accordance with the terms of the license agreement for the rights of Reagila® (cariprazine), an innovative atypical antipsychotic drug for the treatment of schizophrenia in Western Europe, Algeria, Tunisia and Turkey.
- € 4,0 million in accordance with the terms of the license agreement signed in 2014 with Plethora Solutions Limited and Plethora Solutions Holdings Plc for the commercialization of Fortacin®, a topical spray formulation of lidocaine and prilocaine for the treatment of premature ejaculation.

8. GOODWILL

Net goodwill at 30 June 2018 amounts to € 601.6 million, a decrease of € 61.7 million as compared to that at 31 December 2017, and is attributed to the operational areas, which represent the same number of cash generating units:

- France: € 45.8 million;
- Russia: € 27.0 million;
- Germany: € 48.8 million;
- Portugal: € 32.8 million;
- Treatments for rare diseases business: € 110.6 million;
- Turkey: € 46.6 million;
- Czech Republic: € 13.6 million;
- Romania: € 0.2 million;
- Poland: € 15.0 million;
- Spain: € 58.1 million;
- Tunisia: € 17.8 million;
- Italy: € 177.3 million;
- Switzerland: € 8.0 million.

The acquisition of Natural Point S.r.l. determined an increase of € 72.0 million. The entire difference between the amount paid and the book value of the assets and liabilities acquired was allocated to goodwill. The measurement of the fair value of the company's assets and liabilities at the date of acquisition has not yet been completed in view of the limited period of time elapsed and the need to obtain more information. The allocation is therefore not yet definite, as allowed by IFRS 3.

Goodwill related to acquisitions made in countries outside the European Monetary Union is calculated in local currency and converted into Euro at the period-end exchange rate. Conversion at 30 June 2018 resulted in an overall net decrease of € 10.3 million, compared to that at 31 December 2017, to be attributed to the acquisitions in Turkey (decrease of € 8.1 million), Russia (decrease of € 0.8 million), Poland (decrease of € 0.7 million), Tunisia (decrease of € 0.5 million), Czech Republic (decrease of € 0.3 million) and Switzerland (increase of € 0.1 million).

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

9. OTHER INVESTMENTS

At 30 June 2018 other investments amount to € 19.6 million, a decrease of € 4.6 million compared to those at 31 December 2017.

The main investment is that made in the U.K. company PureTech Health plc, specialized in investment in start-up companies dedicated to innovative therapies, medical devices and new research technologies. Starting 19 June 2015 the shares of the company were admitted to trading on the London Stock Exchange. At 30 June 2018 the overall fair value of the 9.554.140 shares held is of € 15.4 million. The € 0.8 million decrease in value compared to that at 31 December 2017 is recognized directly in equity, net of the relative tax effect, and shown on the statement of comprehensive income.

This account also comprises € 4.2 million regarding an investment made during 2012 in Erytech Pharma S.A., a late development stage French biopharmaceutical company focused on orphan oncology and rare diseases. The investment, originally structured as a non-interest bearing loan, was converted into 431,034 shares of the company in May 2013. As compared to 31 December 2017 the value of the investment was reduced by € 3.8 million to bring it in line with its fair value. This amount, net of its tax effect, is recognized directly in equity and shown on the statement of comprehensive income.

10. DEFERRED TAX ASSETS AND LIABILITIES

At 30 June 2018 deferred tax assets are € 77.1 million, a net increase of € 7.9 million compared to those at 31 December 2017 and include a tax credit in Turkey. Deferred tax liabilities are € 16.4 million, a net decrease of € 1.2 million compared to those at 31 December 2017.

11. SHAREHOLDERS' EQUITY

Shareholders' Equity at 30 June 2018 is € 927.2 million, a reduction of € 100.0 million compared to that at 31 December 2017 for the following reasons:

- net income for the period (increase of € 164.2 million);
- cost of stock option plans set-off directly in equity (increase of € 1.4 million);
- disposal of 873.646 own shares in treasury stock to service the stock option plans (increase of € 12.3 million);
- purchase of 5,766,309 own shares (decrease of € 169.8 million);
- change in the value of cross currency swaps, the underlying loans and interest rate swaps set-off directly in equity, net of the relative tax effect (decrease of € 2.4 million);
- application of IAS/IFRS (decrease of € 3.2 million), almost entirely due to the change in fair value of the holdings in PureTech Health plc and in Erytech Pharma S.A., net of the tax effect;
- translation adjustments (decrease of € 15.4 million);
- dividend paid (decrease of € 87.1 million).

The Italian subsidiary of Orphan Europe is 99% owned giving rise to a minority interest of € 171.0 thousand.

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

	Strike price (€)	Options outstanding at 1.1.2018	Options granted during 2018	Options exercised during 2018	Options cancelled or expire	Options outstanding at 30.6.2018
Date of grant						
9 February 2011	6.7505	171,500	-	(5,000)	-	166,500
8 May 2012	5.3070	566,500	-	(75,000)	-	491,500
17 April 2013	7.1600	37,500	-	(12,500)	-	25,000
30 October 2013	8.9300	65,000	-	(50,000)	-	15,000
29 July 2014	12.2900	2,991,000	-	(492,646)	(10,000)	2,488,354
13 April 2016	21.9300	3,523,000	-	(238,500)	(36,000)	3,248,500
Total		**7,354,500**	**-**	**(873,646)**	**(46,000)**	**6,434,854**

At 30 June 2018, 5,755,925 own shares are held as treasury stock, an increase of 4,892,663 shares as compared to those at 31 December 2017. The change is to be attributed to the disposal of 873,646 shares for an overall value of € 12.3 million to service the exercise of stock options issued under the stock option plans, and to the purchase of 5,766,309 shares for an overall value of € 169.8 million. The overall purchase cost of the shares held in treasury stock is € 162.6 million with an average unit price of € 28.25.

12. LOANS

At 30 June 2018 medium and long-term loans are € 646.4 million. The net decrease of € 17.7 million compared to those at 31 December 2017 is determined by reimbursements during the period for an amount of € 21.0 million and by an increase of € 1.6 million arising from the conversion of loans in foreign currency. During the first six months, loans were obtained for an overall amount of € 0.3 million. In addition, the consolidation of the recently acquired company Natural Point S.r.l. determined a liability of € 1.4 million related to the financial lease on the building in which the company is headquartered.

During the period the loan undersigned on 30 November 2015 by subsidiary Recordati Ilaç with ING Bank was extinguished with the reimbursement of 5.9 million Turkish Lira for an equivalent amount of € 1.3 million.

The main long-term loans outstanding are:

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

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

   The above conditions were amply fulfilled during the period.

b) A loan agreement with Intesa Sanpaolo undersigned by the Parent in October 2017 for an amount of € 75.0 million, disbursed net of up-front commissions of 0.30%. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a spread of 95 basis points, semi-annual payments of interest and a duration of 8 years with semi-annual repayments of capital from June 2019 through October 2025. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 1.305%. The measurement at fair value at 30 June 2018 of the swap generated a liability of € 0.3 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

   The above conditions were amply fulfilled during the period.

c) A loan agreement with UniCredit undersigned by the Parent in September 2017 for an amount of € 50.0 million, disbursed net of up-front commissions of 0.15%. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 55 basis points with semi-annual payments of interest and the repayment of capital on 29 September 2021. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.698%. loan. The measurement at fair value at 30 June 2018 of the swap generated a liability of € 0.3 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

   The above conditions were amply fulfilled during the period.

d) A loan agreement with UBI Banca undersigned by the Parent in September 2017 for an amount of € 50.0 million, disbursed net of up-front commissions of 0.10%. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 50 basis points with semi-annual payments of interest and the repayment of capital on 7 September 2022. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.714%. The measurement at fair value at 30 June 2018 of the swap generated a liability of € 0.2 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

e) A loan agreement with Mediobanca undersigned by the Parent in July 2017 for an amount of € 75.0 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 95 basis points and a duration of 7 years with annual repayments of capital from July 2018 through July 2024. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 1.29%. The measurement at fair value at 30 June 2018 of the swap generated a liability of € 0.6 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

f) Privately placed guaranteed senior notes by the Parent in May 2017 for an overall amount of € 125.0 million at 2.07% fixed interest rate with repayment in annual instalments starting on 31 May 2025 through 31 May 2032. The note purchase agreement covering the notes includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

g) A loan agreement with Banca Nazionale del Lavoro undersigned by the Parent company in December 2016 for an amount of € 25.0 million, disbursed net of expenses and commissions of € 0.1 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 40 basis points and a duration of 4 years with semi-annual repayments of capital from March 2019 through September 2020. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.41%. The measurement at fair value at 30 June 2018 of the swap generated a liability of € 0.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions are amply fulfilled.

h) A loan agreement with Intesa Sanpaolo undersigned by the Parent company in December 2016 for an amount of € 25.0 million, disbursed net of expenses and commissions of € 0.1 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 60 basis points and a duration of 5 years with semi-annual repayments of capital from June 2019 through December 2021. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.68%. The measurement at fair value at 30 June 2018 of the swap generated a liability of € 0.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions are amply fulfilled.

i) A loan agreement with UniCredit undersigned by the Parent company in May 2015 for an amount of € 50.0 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 80 basis points and a duration of 5 years with semi-annual repayments of capital from November 2015 through May 2020. The debt outstanding at 30 June 2018 is of € 19.8 million. The loan is partly covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges on a portion of the debt from variable to a fixed rate of 1.734%. The measurement at fair value at 30 June 2018 of the swap covering € 12.5 million generated a liability of € 0.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions are amply fulfilled.

j) A loan agreement with ING Bank for an amount of € 30.0 million, originally undersigned by the Parent company on 8 January 2014, was re-negotiated on 12 June 2015 with only the interest rate being changed. Main terms are: variable interest rate equivalent to the six months' Euribor plus a spread of 85 basis points (as opposed to the 190 basis points in the previous agreement), and reimbursement of principal at the end of every six months starting July 2016 through January 2020. The debt outstanding at 30 June 2018 is of € 15.0 million. The loan was simultaneously covered with an interest rate swap qualifying as a cash flow hedge transforming the interest payable on the entire debt to a fixed interest rate of 1.913% following the above mentioned re-negotiation. The fair value measurement of the swap at 30 June 2018 generated a liability of € 0.2 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The ING Bank loan agreement contains covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions are amply fulfilled.

k) A loan agreement with IFC-World Bank undersigned by the subsidiary Recordati Ilaç on 16 October 2014 for an amount of 71.6 million Turkish lira to finance the construction of a new production plant. Main terms are: variable interest rate equivalent to the three months' trlibor plus a spread of 162 basis points, 8-year duration and reimbursement of principal at the end of every three months starting November 2016 through August 2022. The value in euros of the outstanding loan at 30 June 2018 is of € 9.3 million, resulting in a reduction of the liability by € 2.9 million as compared to that at 31 December 2017, of which € 1.8 million was due to the devaluation of the Turkish lira. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions were amply fulfilled.

l) Privately placed guaranteed senior notes by the Parent company on 30 September 2014 for an amount of $ 75 million in two tranches: $ 50 million at a fixed interest rate of 4,28% to be reimbursed bi-annually as from 30 March 2022 through 30 September 2026, and $ 25 million at a fixed interest rate of 4.51% to be reimbursed bi-annually as from 30 March 2023 through 30 September 2029. The conversion of the loan into euros at 30 June 2018 resulted in an increase of the liability by € 1.8 million as compared to that at 31 December 2017 due to the revaluation of the U.S. dollar. The loan was simultaneously covered with two currency rate swaps transforming the overall debt to € 56.0 million, of which € 37.3 million at a fixed interest rate of 2.895% on the 12-year tranche and € 18.7 million at a fixed interest rate of 3.15% on the 15-year tranche. At 30 June 2018 the measurement at fair value of the hedging instruments generated an overall positive amount of € 4.2 million recognized directly to equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current assets (see Note 17).

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

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

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

The above conditions were amply fulfilled during the period.

m) A loan agreement with Banca Nazionale del Lavoro undersigned by the Parent Company on 30 September 2013 for an amount of € 50 million, cashed-in net of expenses and commissions of € 0.6 million. Main terms are: variable interest rate equivalent to the six months' Euribor plus a spread (which following re-negotiation of the agreement was reduced from 200 to 70 basis points as from 1 April 2015 and to 50 basis points as from 29 March 2017) and 5-year duration with reimbursement of principal in 8 installments due at the end of every six months starting March 2015 through September 2018. The residual amount of the loan amounts to € 6.2 million at 30 June 2018. The loan was simultaneously covered with an interest rate swap qualifying as a cash flow hedge transforming the interest payable on the entire debt to a fixed interest which now stands at 1.4925% following re-negotiation. The measurement at fair value of the swap at 30 June 2018 generated a slight liability which is recognized directly in equity and under current liabilities as 'Fair value of hedging derivatives (cash flow hedge)' (see Note 17). The loan agreement contains covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions are amply fulfilled.

n) Senior guaranteed notes issued by Recordati Rare Diseases Inc. privately placed with U.S. investors on 13 June 2013 to fund the acquisition of a portfolio of products for the treatment of rare and other diseases sold mainly in the United States of America. The loan comprises two series of notes for a total of $ 70 million, of which $ 40 million ten-year bullet and 4.55% coupon and $ 30 million twelve-year bullet and 4.70% coupon. The conversion of the loan into euros at 30 June 2018 resulted in an increase of the liability by € 1.7 million as compared to that at 31 December 2017 due to the revaluation of the U.S. dollar. The note purchase agreement covering the senior guaranteed notes issued by Recordati Rare Diseases Inc. includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

o) A loan agreement with Centrobanca undersigned by the Parent company on 30 November 2010 to fund a three-year research and investment program. The loan, for which Centrobanca received funding from the European Investment Bank, amounts to € 75.0 million of which € 30.0 million were cashed in during 2010 and € 45.0 million in the first quarter of 2011, net of the € 0.3 million expenses. The main terms and conditions provide for a variable interest rate and a duration of 12 years with semi-annual repayments of capital from June 2012 through December 2022. At 30 June 2018 the residual amount of the loan is € 30.6 million. During the month of June 2012 interest on the whole loan was covered with an interest rate swap qualifying as a cash flow hedge. The current interest rate on the loan is 2.575%. The measurement at fair value of the hedging instrument at 30 June 2018 generated a liability of € 1.2 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

13. STAFF LEAVING INDEMNITIES

The staff leaving indemnity fund at 30 June 2018 is of € 21.2 million and is measured as prescribed by IAS 19.

14. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities at 30 June 2018 are € 2.5 million and refer entirely to the debt for the acquisition of a further 10% of the share capital of Opalia Pharma which, in line with the put and call options in the purchase agreement, is expected to be settled not before the next 12 months.

15. CURRENT ASSETS

Inventories are € 193.1 million, an increase of € 14.0 million compared to those stated at 31 December 2017.

Trade receivables at 30 June 2018 are € 264.9 million, an increase of € 20.8 million compared to that at 31 December 2017 due to the increase in sales and the consolidation of the recently acquired company (€ 3.9 million). Trade receivables are stated net of a € 15.0 million provision for doubtful accounts which reflects the collection risk connected with certain customers and geographic areas. Days sales outstanding are 62.

Other receivables, at € 28.8 million, decrease by € 11.0 million compared to those at 31 December 2017.

Other current assets are € 8.4 million and refer mainly to prepaid expenses.

16. CURRENT LIABILITIES

Trade payables, which include the accrual for invoices to be received, are € 137.4 million, of which € 1.3 million belonging to the recently acquired company.

Other payables are € 83.7 million, an increase of € 0.9 million compared to those at 31 December 2017, and relate mainly to amounts owed to personnel and social security institutions. This account also includes:

- € 9.8 million to be paid to the "Krankenkassen" (German health insurance) by Recordati Pharma GmbH;
- € 6.2 million to be paid to U.S. health insurance institutions by Recordati Rare Diseases;
- € 6.0 million to be paid to the Italian health authorities resulting from the 1.83% claw-back applicable on the price to the public before VAT of pharmaceutical products reimbursed by the National Health Service and the pay-back due in substitution for a 5% price reduction on selected products.

Tax payables are € 55.6 million, an increase of € 31.2 million compared to those at 31 December 2017. Of these, € 1.6 million are related to Natural Point S.r.l., the recently acquired company.

Provisions are € 52.2 million, an increase of € 3.8 million compared to those at 31 December 2017 mainly due to an adjustment of the provision for tax disputes.

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

The cross currency swaps covering the cash flows related to the notes issued and privately placed on 30 September 2014, for an amount of $ 75 million, measured at fair value at 30 June 2018 give rise to a € 4.2 million asset recognized under current assets as 'Fair value of hedging derivatives (cash flow hedge)'. This amounts represents the potential benefit of a lower value in euros of the future dollar denominated capital and interest flows, in view of the revaluation of the foreign currency subsequent to the moment in which the loan and hedging instrument were negotiated. In particular, the change in fair value of the hedging instrument covering the $ 50 million tranche of the loan, provided by Mediobanca, was positive for an amount of € 2.9 million, and that covering the $ 25 million tranche of the loan, provided by UniCredit, yielded a € 1.3 million positive value change.

The measurement at fair value of the interest rate swaps covering the cash flows related to medium and long-term loans gave rise to a net € 3.1 million liability at 30 June 2018 recognized under current liabilities as 'Fair value of hedging derivatives (cash flow hedge)'. This amount represents the unrealized opportunity of paying the current expected future rates instead of the rates agreed. The amount refers to the interest rate swaps to cover the interest rate risk associated with the loans granted by Centrobanca (€ 1.2 million), Mediobanca (€ 0.6 million), UniCredit (€ 0.4 million), Intesa Sanpaolo (€ 0.4 million), ING Bank (€ 0.2 million), UBI Banca (€ 0.2 million) and by Banca Nazionale del Lavoro (€ 0.1 million).

In November 2016, following two loan agreements undersigned by the U.S. company Recordati Rare Diseases and the Parent for a nominal total of $ 70 million (corresponding to the two tranches of the notes issued by Recordati Rare Diseases in 2013), two cross currency swaps were provided by Unicredit which effectively convert the loan into a total of € 62.9 million, of which € 35.9 million at a fixed interest rate of 1.56% per year corresponding to the tranche expiring in 2023 and € 27.0 million at a fixed interest rate of 1.76% per year for the tranche expiring in 2025. At 30 June 2018 the fair value of the hedging instruments is a liability of € 6.5 million, recognized directly in equity.

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

Short term financial investments, cash and cash equivalents at 30 June 2018 are € 154.6 million, a reduction of € 147.4 million compared to those at 31 December 2017. They are mostly denominated in Euro, U.S. Dollars and Pounds Sterling and comprise mainly current accounts and short-term deposits.

19. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans are € 62.3 million at 30 June 2018 and are comprised mainly of temporary use of lines of credit, current account overdrafts and interest accrued on existing loans. The increase compared to 31 December 2017 is to be attributed mainly to the use of two lines of credit granted to the Parent by UBI Banca and by Banca Passadore during the month of June for € 40.0 million and € 5.0 million respectively, both for a duration of three months. At 30 June 2018 a total of 20 million Turkish Lira, for an equivalent amount of € 3.7 million, were drawn down on the revolving line of credit obtained in July 2017 by Recordati Ilaç, the subsidiary in Turkey, for a maximum amount of 40 million Turkish Lira. This short-term financing instrument, which has 24 months' maximum duration, provides flexibility by combining the fact that it's non-revocable with the variability of the draw-downs based on specific financial needs. The agreement contains financial covenants in line with those already in place for other loans.

20. ACQUISITION OF COMPANIES

The following table summarizes the effects of the consolidation at the date of acquisition of Natural Point S.r.l., the Italian company of which the group acquired 100% of the share capital on 11 June 2018.

€ (thousands)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
Non-current assets			
Property, plant and equipment	2,564	0	2,564
Current assets			
Inventories	769	0	769
Trade receivables	3,865	0	3,865
Other receivables	7	0	7
Tax receivable	1	0	1
Other current assets	47	0	47
Short-term financial investments, cash and cash equivalents	8,971	0	8,971
Non-current liabilities			
Loans – due after one year	(1,248)	0	(1,248)
Staff leaving indemnities	(114)	0	(114)
Deferred tax liabilities	(118)	0	(118)
Current liabilities			
Trade payables	(1,329)	0	(1,329)
Other payables	(133)	0	(133)
Tax liabilities	(1,599)	0	(1,599)
Loans – due within one year	(103)	0	(103)
	11,580	0	11,580
Goodwill			71,997
Cost of the acquisition			83,577

The entire difference between the amount paid, contractually subject to possible adjustments, and the book value of the assets and liabilities acquired was allocated to goodwill. The identification and measurement at fair value of the assets and liabilities at the date of acquisition has not yet been completed in view of the limited period of time elapsed and the need to obtain further information. The allocation is therefore not yet definite, as allowed by IFRS 3.

21. OPERATING SEGMENTS

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

The following table shows financial information for these two business segments as at 30 June 2018 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
First half 2018				
Revenues	585,933	110,121	-	696,054
Expenses	(407,448)	(56,675)	-	(464,123)
Operating income	**178,485**	**53,446**	**-**	**231,931**
First half 2017				
Revenues	546,754	104,114	-	650,868
Expenses	(388,478)	(59,192)	-	(447,670)
Operating income	**158,276**	**44,922**	**-**	**203,198**

** Includes the pharmaceutical chemicals operations*

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated**	Consolidated accounts
30 June 2018				
Non-current assets	1,135,151	206,705	19,593	1,361,449
Inventories	173,776	19,363	-	193,139
Trade receivables	225,477	39,432	-	264,909
Other current assets	32,659	4,459	4,169	41,287
Short-term investments, cash and cash equivalents	-	-	154,632	154,632
Total assets	**1,567,063**	**269,959**	**178,394**	**2,015,416**
Non-current liabilities	37,312	2,799	586,990	627,101
Current liabilities	283,341	46,352	131,403	461,096
Total liabilities	**320,653**	**49,151**	**718,393**	**1,088,197**
Net capital employed	**1,246,410**	**220,808**		
31 December 2017				
Non-current assets	1,075,356	183,195	24,171	1,282,722
Inventories	161,561	17,539	-	179,100
Trade receivables	210,114	34,003	-	244,117
Other current assets	32,343	12,223	3,825	48,391
Short-term investments, cash and cash equivalents	-	-	302,077	302,077
Total assets	**1,479,374**	**246,960**	**330,073**	**2,056,407**
Non-current liabilities	37,591	2,546	613,487	653,624
Current liabilities	262,572	35,128	77,846	375,546
Total liabilities	**300,163**	**37,674**	**691,333**	**1,029,170**
Net capital employed	**1,179,211**	**209,286**		

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

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

22. LITIGATION AND CONTINGENT LIABILITIES

In December 2015 the Italian Tax Police (Guardia di Finanza) notified the Parent of their intention to commence a general income tax inspection covering the years 2009 through 2014 involving the group companies which reside in Ireland and in Luxembourg, Recordati Ireland Ltd and Recordati S.A. Chemical and Pharmaceutical Company respectively. The declared intention of the inspection is to evaluate the operational context of the foreign companies in order to verify whether said companies are in reality only formally localized abroad but are substantially managed/administered from Italy. On 28 February 2017 the Italian Tax Police (Guardia di Finanza) prescribed the extension of the income tax inspection to include the year 2015. After having analysed the documents and completed the investigation process, the Italian Tax Police finally revealed to Recordati Ireland Ltd., on 6 September 2017, their reasons for considering the Irish company subject to tax in Italy for corporate tax purposes in the reference period, resulting in an assessment of taxes allegedly owed to Italy, in the amount of € 109.4 million, against taxes of € 51.8 million already paid in Ireland. Similarly, the Italian Tax Police finally revealed to Recordati S.A. Chemical and Pharmaceutical Company, on 6 September 2017, their reasons for considering the Luxembourg company subject to tax in Italy for corporate tax purposes in the reference period, resulting in an assessment of taxes allegedly owed to Italy, in the amount of € 7.2 million. Recordati Ireland Ltd. and Recordati S.p.A. (as acquiring company by way of merger of Recordati S.A. Chemical & Pharmaceutical Company) filed their comments and observations on the findings reported in the above mentioned Tax Audits Reports within the legal deadlines. At the date of approval of the financial statements the tax reports and the said observations are still under review by the Tax Authorities (Agenzia delle Entrate). Although, as previously stated, the Group considers its fiscal conduct in this matter to be correct, it was deemed necessary to record, based on a more reliable evaluation of the risk involved in the ongoing assessments, a further provision of € 7.4 million in addition to the tax provision of € 22.1 million already created, penalties and interest included.

RECORDATI S.P.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 30 JUNE 2018

ATTACHMENT 1.

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.p.A. Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals	Italy	26,140,644.50	Euro	Line-by-line
INNOVA PHARMA S.p.A. Marketing and sales of pharmaceuticals	Italy	1,920,000.00	Euro	Line-by-line
CASEN RECORDATI S.L. Development, production, marketing and sales of pharmaceuticals	Spain	238,966,000.00	Euro	Line-by-line
BOUCHARA RECORDATI S.A.S. Development, production, marketing and sales of pharmaceuticals	France	4,600,000.00	Euro	Line-by-line
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA Holds pharmaceutical marketing rights in Brazil	Brazil	166.00	BRL	Line-by-line
RECORDATI RARE DISEASES Inc. Development, production, marketing and sales of pharmaceuticals	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD Development, production, marketing and sales of pharmaceuticals	Ireland	200,000.00	Euro	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. Development, production, marketing and sales of pharmaceuticals	France	14,000,000.00	Euro	Line-by-line
RECORDATI PHARMA GmbH Marketing and sales of pharmaceuticals	Germany	600,000.00	Euro	Line-by-line
RECORDATI PHARMACEUTICALS LTD Marketing and sales of pharmaceuticals	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. Marketing and sales of pharmaceuticals	Greece	10,050,000.00	Euro	Line-by-line
JABA RECORDATI S.A. Marketing and sales of pharmaceuticals	Portugal	2,000,000.00	Euro	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. Marketing of pharmaceuticals	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. Marketing of pharmaceuticals	Portugal	50,000.00	Euro	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S. Holding company	France	57,000,000.00	Euro	Line-by-line
ORPHAN EUROPE SWITZERLAND GmbH Marketing and sales of pharmaceuticals	Switzerland	20,000.00	CHF	Line-by-line
ORPHAN EUROPE MIDDLE EAST FZ LLC Marketing and sales of pharmaceuticals	United Arab Emirates	100,000.00	AED	Line-by-line
RECORDATI AB Marketing and sales of pharmaceuticals	Sweden	100,000.00	SEK	Line-by-line
ORPHAN EUROPE PORTUGAL LDA Marketing and sales of pharmaceuticals	Portugal	5,000.00	Euro	Line-by-line
ORPHAN EUROPE S.A.R.L. Development, production, marketing and sales of pharmaceuticals	France	320,000.00	Euro	Line-by-line
ORPHAN EUROPE UNITED KINGDOM LTD Marketing and sales of pharmaceuticals	United Kingdom	50,000.00	GBP	Line-by-line
ORPHAN EUROPE GERMANY GmbH Marketing and sales of pharmaceuticals	Germany	25,600.00	Euro	Line-by-line

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

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
ORPHAN EUROPE SPAIN S.L. Marketing and sales of pharmaceuticals	Spain	1,775,065.49	Euro	Line-by-line
ORPHAN EUROPE ITALY S.R.L. Marketing and sales of pharmaceuticals	Italy	40,000.00	Euro	Line-by-line
RECORDATI BVBA Marketing and sales of pharmaceuticals	Belgium	18,600.00	Euro	Line-by-line
FIC MEDICAL S.A.R.L. Marketing of pharmaceuticals	France	173,700.00	Euro	Line-by-line
HERBACOS RECORDATI s.r.o. Development, production, marketing and sales of pharmaceuticals	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o Marketing and sales of pharmaceuticals	Slovakia	33,193.92	Euro	Line-by-line
RUSFIC LLC Marketing and sales of pharmaceuticals	Russian Federation	3,560,000.00	RUB	Line-by-line
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S. Marketing of pharmaceuticals	Turkey	10,000.00	TRY	Line-by-line
RECORDATI ROMÂNIA S.R.L. Marketing and sales of pharmaceuticals	Romania	5,000,000.00	RON	Line-by-line
RECORDATI ILAÇ Sanayi Ve Ticaret A.S. Development, production, marketing and sales of pharmaceuticals	Turkey	120,875,367.00	TRY	Line-by-line
RECORDATI POLSKA Sp. z o.o. Marketing and sales of pharmaceuticals	Poland	4,500,000.00	PLN	Line-by-line
ACCENT LLC Holds pharmaceutical marketing rights	Russian Federation	20,000.00	RUB	Line-by-line
RECORDATI UKRAINE LLC Marketing of pharmaceuticals	Ukraine	1,031,896.30	UAH	Line-by-line
CASEN RECORDATI PORTUGAL Unipessoal Lda Marketing and sales of pharmaceuticals	Portugal	100,000.00	Euro	Line-by-line
OPALIA PHARMA S.A. Development, production, marketing and sales of pharmaceuticals	Tunisia	9,656,000.00	TND	Line-by-line
OPALIA RECORDATI S.A.R.L. Marketing of pharmaceuticals	Tunisia	20,000.00	TND	Line-by-line
RECORDATI RARE DISEASES S.A. DE C.V. Marketing of pharmaceuticals	Mexico	16,250,000.00	MXN	Line-by-line
RECORDATI RARE DISEASES COLOMBIA S.A.S. Marketing of pharmaceuticals	Colombia	150,000,000.00	COP	Line-by-line
ITALCHIMICI S.p.A. Marketing of pharmaceuticals	Italy	7,646,000.00	EUR	Line-by-line
RECORDATI AG Marketing of pharmaceuticals	Switzerland	3,000,000.00	CHF	Line-by-line
PRO FARMA GmbH Marketing of pharmaceuticals	Austria	35,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES CANADA Inc. (1) Marketing of pharmaceuticals	Canada	350,000.00	CAD	Line-by-line
RECORDATI RARE DISEASES JAPAN K.K. (2) Marketing of pharmaceuticals	Japan	10,000,000.00	JPY	Line-by-line
NATURAL POINT S.r.l. (3) Marketing of pharmaceuticals	Italy	10,400.00	EUR	Line-by-line

(1) Established in 2017
(2) Established in 2018
(3) Acquired in 2018

PERCENTAGE OF OWNERSHIP										
Recordati S.p.A. *(Parent)*	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Casen Recordati S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.S.	Opalia Pharma S.A.	Recordati AG	Total
					100.00					100.00
					99.00					99.00
				99.46	0.54					100.00
		100,00								100,00
100.00										100.00
						100.00				100.00
		100.00								100.00
							100.00			100.00
100.00										100.00
			100.00							100.00
100.00										100.00
100.00										100.00
0.01		99.99								100.00
			100.00							100.00
90.00										90.00
		1.00						99.00		100.00
99.998					0.002					100.00
			100.00							100.00
100.00										100.00
100.00										100.00
									100.00	100.00
100.00										100.00
					100.00					100.00
100.00										100.00

Attestation in respect of the consolidated financial statements under article 154-bis of legislative decree 58/98

1. The undersigned, Andrea Recordati, in his capacity as Vice Chairman and Chief Executive Officer of the Company, and Fritz Squindo, as the Manager responsible for the preparation of the Company's financial statements, pursuant to the provisions or Article 154-bis, clauses 3 and 4, of Legislative Decree no. 58 of 1998, hereby attest 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 Company's half year consolidated condensed financial statements at 30 June 2018

2. The undersigned moreover attest that:

   2.1 the condensed consolidated financial statements at 30 June 2018:
   - have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002;
   - correspond to the amounts shown in the Company's accounts, books and records; and
   - provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

   2.2 The related interim management report includes a reliable analysis of the significant events affecting the Company during the first six months of the current fiscal year, and the impact of such events on the Company's consolidated condensed financial statements as well as a description of the main risks and uncertainties for the second half of the year in addition to a reliable analysis of the information on the significant related party transactions.

Milan, 26 July 2018

Signed by

Andrea Recordati
Vice Chairman and Chief Executive Officer

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

RECORDATI

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