INTERIM REPORT

FIRST QUARTER 2017

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 QUARTER 2017

REVENUE

€ (thousands)	First quarter 2017	%	First quarter 2016	%	Change 2017/2016	%
Total revenue	341,940	100.0	302,247	100.0	39,693	13.1
Italy	76,723	22.4	63,760	21.1	12,963	20.3
International	265,217	77.6	238,487	78.9	26,730	11.2

KEY CONSOLIDATED P&L DATA

€ (thousands)	First quarter 2017	% of revenue	First quarter 2016	% of revenue	Change 2017/2016	%
Revenue	341,940	100.0	302,247	100.0	39,693	13.1
EBITDA[1]	117,707	34.4	98,975	32.7	18,732	18.9
Operating income	107,271	31.4	90,155	29.8	17,116	19.0
Net income	78,515	23.0	65,478	21.7	13,037	19.9

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

KEY CONSOLIDATED B/S DATA

€ (thousands)	31 March 2017	31 December 2016	Change 2017/2016	%
Net financial position[2]	(105,649)	(198,771)	93,122	(46.8)
Shareholders' equity	996,677	903,940	92,737	10,3

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

The financial results obtained in the first quarter of the year testify to the continued growth of the group also in 2017, with revenues and profitability increasing significantly. Consolidated revenue is € 341.9 million, up by 13.1% compared to the same period of the preceding year. International sales grow by 11.2%. EBITDA, at 34.4% of sales, is € 117.7 million, an increase of 18.9% over the first quarter of 2016 and operating income, at 31.4% of sales, is € 107.3 million, an increase of 19.0%. Net income, at 23.0% of sales, is € 78.5 million, an increase of 19.9% over the first quarter of 2016.

Net financial position at 31 March 2017 records a net debt of € 105.6 million compared to net debt of € 198.8 million at 31 December 2016. Shareholders' equity increases to € 996,7 million.

CORPORATE DEVELOPMENT NEWS

In January the European Union Commission granted the European marketing authorization for its orphan medicinal product Cystadrops® 3.8mg/mL. Cystadrops® is the first eye-drop solution containing cysteamine hydrochloride approved in the European Union for "the treatment of corneal cystine crystal deposits in adults and children from 2 years of age with cystinosis". The European Commission had granted Cystadrops® orphan drug designation in November 2008. Cystadrops® eye-drop solution was developed specifically for cystinosis patients by Orphan Europe (Recordati Group). Cystinosis is a rare congenital lysosomal storage disorder recognized as a severe life threatening condition. It is characterized by an accumulation of cystine crystals which negatively affects all organs in the body, especially the kidneys and eyes. Cystinosis benefits from systemic treatment with cysteamine orally administered. However, oral cysteamine does not adequately address ocular cystinosis because of the non-vascularization of cornea. Without a proper, continued, local eye treatment, cystine crystals accumulate in the cornea, leading to severe consequences and possibly to blindness in the long term.

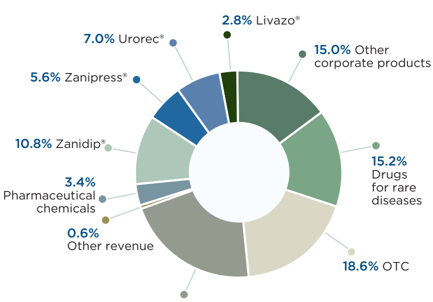
In February an exclusive worldwide licensing agreement covering the know-how developed by the Meyer Hospital in Florence (Italy) for the development of a treatment for pre-term babies affected by retinopathy of prematurity (ROP) was signed. The treatment is currently being investigated in a phase II clinical trial by the Meyer Hospital, while Recordati will complete the clinical development and the regulatory steps necessary to obtain the marketing approval for the drug. Retinopathy of prematurity (ROP) is a potentially blinding eye disorder that primarily affects premature infants weighing about 1.25 kg or less that are born before 31 weeks of gestation This disorder, which usually develops in both eyes, is a rare condition, however presenting as one of the most common causes of visual loss in childhood that can lead to lifelong vision impairment and blindness.

Furthermore, within the deal, Recordati shall support other Meyer projects in the rare disease area over a period of three years based on a mutually agreed plan. This collaboration between public and private institutions recognizes the important results obtained by the internal research conducted by the pediatric hospital in Florence.

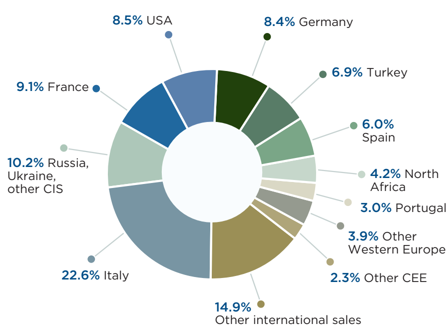
REVIEW OF OPERATIONS

Net consolidated revenue in the first quarter of 2017 is € 341.9 million, up 13.1% over the same period of the preceding year, with an increase in international sales of 11.2% to € 265.2 million, which represent 77.6% of total sales. Pharmaceutical sales are € 330.3 million, up by 13.2%. Pharmaceutical chemicals sales are € 11.6 million, up by 10.4%, and represent 3.4% of total revenues. The first quarter 2017 revenues include those generated by the Italian company Italchimici S.p.A. and the Swiss company Pro Farma AG, acquired in 2016 and consolidated respectively as from 1 June and 1 July of that year, for an amount of € 15.8 million. Excluding these acquisitions sales growth would have been of 7.9%.

SALES BY BUSINESS



PHARMACEUTICAL SALES



The group's pharmaceutical business, which represents 96.6% of total revenue, is carried out in the main European markets, including Central and Eastern Europe, in Russia, Turkey, North Africa, the United States of America, Canada, Mexico and in some South American countries 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 quarter of 2017 is shown in the table below.

€ (thousands)	First quarter 2017	First quarter 2016	Change 2017/2016	%
Zanidip® (lercanidipine)	36,917	35,004	1,913	5.5
Zanipress® (lercanidipine+enalapril)	19,063	17,840	1,223	6.9
Urorec® (silodosin)	23,841	22,080	1,761	8.0
Livazo® (pitavastatin)	9,562	8,927	635	7.1
Other corporate products*	81,031	60,619	20,412	33.7
Drugs for rare diseases	52,133	46,029	6,104	13.3

** Include the OTC corporate products for an amount of € 29.8 million in 2017 and € 20.2 million in 2016 (+47.3%).*

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 quarter 2017	First quarter 2016	Change 2017/2016	%
Direct sales	18,496	18,714	(218)	(1.2)
Sales to licensees	18,421	16,290	2,131	13.1
Total lercanidipine sales	**36,917**	**35,004**	**1,913**	**5.5**

Lercanidipine direct sales are down by 1.2% mainly due to lower sales in Algeria. Sales increase mainly in Germany and in Turkey, and in Switzerland sales are made directly to the market by our subsidiary there as from September of the preceding year. Sales to licensees, which represent 49.9% of total lercanidipine sales, are up by 13.1%.

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 28 countries.

€ (thousands)	First quarter 2017	First quarter 2016	Change 2017/2016	%
Direct sales	14,151	12,319	1,832	14.9
Sales to licensees	4,912	5,521	(609)	(11.0)
Total lercanidipine+enalapril sales	**19,063**	**17,840**	**1,223**	**6.9**

Direct sales of Zanipress® in the first quarter of 2017 are up by 14.9% mainly due to the performance of the product in Germany, Italy and France. Sales to licensees represent 25.8% of total Zanipress® sales and are down by 11.0%.

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 34 countries with sales of € 23.8 million in the first quarter of 2017, up 8.0% mainly due to the good performance of the product in Italy, France and Russia.

Sales of Livazo® (pitavastatin), a statin indicated for the reduction of elevated total and LDL cholesterol, in Spain, Portugal, Ukraine, Greece, Switzerland, Russia and Turkey, are € 9.6 million in the first quarter of 2017, up by 7.1% due to the performance of the product mainly in Spain and in Switzerland and to the launch in Turkey.

In the first quarter of 2017 sales of other corporate products totaled € 81.0 million, up by 33.7% compared to the same period of the preceding year. These 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®, Ruflor®/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®, a product for menopausal symptoms, Muvagyn® a topical product for gynecological use and Virirec® (alprostadil), a topical product for erectile dysfunction.

Our specialties indicated for the treatment of rare and orphan diseases, marketed directly throughout Europe, in the Middle East, in the U.S.A., Canada, Mexico and in some South American countries and through partners in other parts of the world, generated sales of € 52.1 million in the first quarter of 2017, up by 13.3% due to the good performance of the business in all areas.

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

€ (thousands)	First quarter 2017	First quarter 2016	Change 2017/2016	%
Italy	74,752	61,542	13,210	21.5
Russia, other C.I.S. countries and Ukraine	33,741	19,180	14,561	75.9
France	29,932	28,504	1,428	5.0
U.S.A.	27,980	25,780	2,200	8.5
Germany	27,716	24,195	3,521	14.6
Turkey	22,723	22,482	241	1.1
Spain	19,777	18,359	1,418	7.7
North Africa	13,802	15,844	(2,042)	(12.9)
Portugal	9,975	9,821	154	1.6
Other Western European countries	12,790	8,335	4,455	53.4
Other C.E.E. countries	7,729	7,839	(110)	(1.4)
Other international sales	49,377	49,820	(443)	(0.9)
Total pharmaceutical revenue	330,294	291,701	38,593	13.2

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 quarter 2017	First quarter 2016	Change 2017/2016	%
Russia (RUB)	1,808,489	1,319,596	488,893	37.0
Turkey (TRY)	84,448	68,932	15,516	22.5
U.S.A. (USD)	30,430	29,036	1,394	4.8

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

Sales of pharmaceuticals in Italy are up by 21.5% compared to those of the same period of the preceding year thanks to the revenues generated by Italchimici S.p.A., consolidated as from 1 June 2016, for a total of € 13.3 million. Worth mentioning is the good performance of Urorec® and Zanipril® and the significant growth of the treatments for rare diseases.

Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) is € 33.7 million, up by 75.9% compared to the same period of the preceding year and includes estimated currency exchange gains of € 7.8 million. Sales in Russia, in local currency, are RUB 1,808.5 million, up by 37.0% over the same period of the preceding year thanks to the growth of all the main products including the corporate products Procto-Glyvenol®, Urorec®, Zanidip®, Tergynan®, Polydexa® and Isofra®. Sales generated in Ukraine and in the C.I.S. countries, mainly Kazakhstan and Belarus, are growing and have reached € 4.1 million.

Pharmaceutical sales in France are up by 5.0% due mainly to the good performance of Urorec®, methadone and Zanextra® and to the strong growth of the treatments for rare diseases.

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 quarter of 2017 are € 28.0 million, up by 8.5%. The main products are Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers and Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency.

In Germany sales are up by 14.6% mainly thanks to the significant sales growth of Ortoton® (methocarbamol), Zanipress®, lercanidipine, Recosyn®, Citrafleet® and Urorec®.

Sales in Turkey are up by 1.1% and include an estimated negative currency exchange effect of € 4.4 million. In local currency sales of our Turkish subsidiary grow by 22.5% thanks to the good performance of all the corporate products, in particular Urorec®, Zanipress® and Lercadip®, Procto-Glyvenol® and Gyno Lomexin®, as well as the launch of Livazo®, and of the local products Mictonorm® (propiverine), Kreval® (butamirate) and Cabral® (phenyramidol).

In Spain sales are € 19.8 million, up by 7.7% mainly due to the performance of Virirec®, Livazo®, Urorec® and Casenlax®. Sales of treatments for rare diseases are also growing significantly.

Sales in North Africa are € 13.8 million, down by 12.9%, 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 quarter of 2017, in local currency, are up by 7.2%.

Sales in Portugal are up by 1.6% thanks mainly to the good performance of the local product Egostar®, a vitamin D3 supplement.

Sales in other countries in Western Europe, up by 53.4%, comprise sales of products for the treatment of rare diseases by Orphan Europe in these countries and sales generated by the Recordati subsidiaries in the United Kingdom, Ireland, Greece and Switzerland. The increase in sales is to be attributed mainly to the revenues generated by the Swiss company Pro Farma which was consolidated as from 1 July 2016, and to direct sales in the market of Zanidip®, Zanipress® and Urispas® which were previously sold by licensees. Worth mentioning is the good performance of the Greek subsidiary.

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 quarter of 2017 overall sales are down by 1.4% due to the performance of the Polish subsidiary. Sales of the treatments for rare diseases in these countries are up by 11.0%.

Other international sales are substantially stable 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, Orphan Europe's exports worldwide excluding the U.S.A., and Recordati Rare Diseases exports.

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 quarter of 2016:

€ (thousands)	First quarter 2017	% of revenue	First quarter 2016	% of revenue	Change 2017/2016	%
Revenue	341,940	100.0	302,247	100.0	39,693	13.1
Cost of sales	(105,809)	(30.9)	(93,701)	(31.0)	(12,108)	12.9
Gross profit	236,131	69.1	208,546	69.0	27,585	13.2
Selling expenses	(88,621)	(25.9)	(79,565)	(26.3)	(9,056)	11.4
R&D expenses	(23,167)	(6.8)	(22,276)	(7.4)	(891)	4.0
G&A expenses	(17,133)	(5.0)	(16,040)	(5.3)	(1,093)	6.8
Other income (expense), net	61	0.0	(510)	(0.2)	571	n.s.
Operating income	107,271	31.4	90,155	29.8	17,116	19.0
Financial income (expense), net	(1,784)	(0.5)	(2,524)	(0.8)	740	(29.3)
Pretax income	105,487	30.8	87,631	29.0	17,856	20.4
Provision for income taxes	(26,972)	(7.9)	(22,153)	(7.3)	(4,819)	21.8
Net income	78,515	23.0	65,478	21.7	13,037	19.9
Attributable to:						
Equity holders of the parent	78,505	23.0	65,471	21.7	13,034	19.9
Minority interests	10	0.0	7	0.0	3	42.9

Revenue for the period is € 341.9 million, an increase of € 39.7 million compared to the first quarter of 2016. For a detailed analysis please refer to the preceding “Review of Operations”.

Gross profit is € 236.1 million with a margin of 69.1% on sales, an increase over that of the same period of the preceding year due to the further growth of products with higher margins.

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 € 23.2 million, up by 4.0% compared to those recorded in the first quarter of 2016 due to the advancement of development programs. G&A expenses are up by 6.8% but diminish as percent of sales to 5.0%.

Net financial charges are € 1.8 million, a decrease of € 0.7 million compared to the same period of the preceding year due to the higher currency exchange rate gains as compared to those in the first quarter of 2016.

The effective tax rate during the period is 25.6%, substantially in line with that of the same period of the preceding year.

Net income at 23.0% of sales is € 78.5 million, an increase of 19.9% over the same period of the preceding year.

NET FINANCIAL POSITION

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

€ (thousands)	31 March 2017	31 December 2016	Change 2017/2016	%
Cash and short-term financial investments	219,767	138,493	81,274	58.7
Bank overdrafts and short-term loans	(17,140)	(15,689)	(1,451)	9.2
Loans – due within one year	(40,282)	(40,428)	146	(0.4)
Net liquid assets	162,345	82,376	79,969	97.1
Loans – due after one year (1)	(267,994)	(281,147)	13,153	(4.7)
Net financial position	(105,649)	(198,771)	93,122	(46.8)

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

At 31 March 2017 the net financial position shows a net debt of € 105.6 million compared to net debt of € 198.8 million at 31 December 2016.

RELATED PARTY TRANSACTIONS

Tax liabilities shown in the consolidated balance sheet at 31 March 2017 include those payable to the controlling company FIMEI S.p.A. for an amount of € 8.6 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.

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

The group's business continued to perform very well during April and for the full year 2017 the expectation is to achieve sales of around € 1,250 million, EBITDA of around € 425 million, EBIT of around € 380 million and net income of around € 275 million.

Milan, 4 May 2017

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

Consolidated financial statements at 31 march 2017

The consolidated financial statements are presented in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and 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 31 MARCH 2017

INCOME STATEMENT

€ (thousands)	First quarter 2017	First quarter 2016
Revenue	341,940	302,247
Cost of sales	(105,809)	(93,701)
Gross profit	236,131	208,546
Selling expenses	(88,621)	(79,565)
R&D expenses	(23,167)	(22,276)
G&A expenses	(17,133)	(16,040)
Other income (expense), net	61	(510)
Operating income	107,271	90,155
Financial income (expense), net	(1,784)	(2,524)
Pretax income	105,487	87,631
Provision for income taxes	(26,972)	(22,153)
Net income	78,515	65,478
Attributable to:		
Equity holders of the parent	78,505	65,471
Minority interests	10	7
Earnings per share		
Basic	€ 0.382	€ 0.319
Diluted	€ 0.375	€ 0.313

Earnings per share (EPS) are based on average shares outstanding during each year, 205,512,000 in 2017 and 205,253,629 in 2016, net of average treasury stock which amounted to 3,613,156 shares in 2017 and to 3,871,527 shares in 2016.
Diluted earnings per share is calculated taking into account stock options granted to employees.

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 MARCH 2017

ASSETS

€ (thousands)	31 March 2017	31 December 2016
Non-current assets		
Property, plant and equipment	107,517	110,202
Intangible assets	274,085	279,884
Goodwill	555,144	556,566
Other investments	25,071	19,199
Other non-current assets	5,426	5,428
Deferred tax assets	36,218	37,231
Total non-current assets	1,003,461	1,008,510
Current assets		
Inventories	158,147	158,800
Trade receivables	244,272	205,988
Other receivables	26,627	30,974
Other current assets	8,337	5,481
Fair value of hedging derivatives (cash flow hedge)	12,223	12,497
Short-term financial investments, and cash equivalents	219,767	138,493
Total current assets	669,373	552,233
Total assets	1,672,834	1,560,743

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 MARCH 2017

EQUITY AND LIABILITIES

€ (thousands)	31 March 2017	31 December 2016
Shareholders' equity		
Share capital	26,141	26,141
Additional paid-in capital	83,719	83,719
Treasury stock	(61,108)	(76,761)
Hedging reserve (cash flow hedge)	(5,820)	(7,420)
Translation reserve	(81,046)	(78,309)
Other reserves	39,118	35,295
Retained earnings	989,293	756,004
Net income for the year	78,505	237,406
Interim dividend	(72,245)	(72,245)
Group shareholders' equity	996,557	903,830
Minority interest	120	110
Shareholders' equity	996,677	903,940
Non-current liabilities		
Loans – due after one year	280,217	293,644
Staff leaving indemnities	21,734	21,675
Deferred tax liabilities	29,788	27,659
Other non-current liabilities	2,515	2,515
Total non-current liabilities	334,254	345.493
Current liabilities		
Trade payables	133,834	124,644
Other payables	80,386	77,957
Tax liabilities	38,678	20,432
Other current liabilities	786	562
Provisions	27,624	27,977
Fair value of hedging derivatives (cash flow hedge)	3,173	3,621
Loans – due within one year	40,282	40,428
Bank overdrafts and short-term loans	17,140	15,689
Total current liabilities	341,903	311,310
Total equity and liabilities	1,672,834	1,560,743

RECORDATI S.P.A. AND SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2017

€ (thousands)	First quarter 2017	First quarter 2016
Net income for the period	78,515	65,478
Gains/(losses) on cash flow hedges	1,600	(941)
Gains/(losses) on translation of foreign financial statements	(2,737)	(5,355)
Other gains/(losses)	3,834	(2,264)
Income and expense for the period recognized directly in equity	2,697	(8,560)
Comprehensive income for the period	81,212	56,918
Attributable to:		
Equity holders of the parent	81,202	56,911
Minority interests	10	7

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 31.12.2015	26,141	83,719	(35,061)	(3,290)	(66,918)	42,543	685,587	198,792	(61,606)	85	869,992
Allocation of 2015 net income:											
- Retained earnings							198,792	(198,792)			
Change in the reserve for share based payments						454	8				462
Purchase of own shares			(10,918)								(10,918)
Disposal of own shares			136				(52)				84
Other changes							(6)				(6)
Comprehensive income for the year				(941)	(5,355)	(2,264)		65,471		7	56,918
Balance at 31.3.2016	26,141	83,719	(45,843)	(4,231)	(72,273)	40,733	884,329	65,471	(61,606)	92	916,532
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:											
- Retained earnings							237,406	(237,406)			
Change in the reserve for share based payments						(11)	1,001				990
Disposal of own shares			15,653				(5,093)				10,560
Other changes							(25)				(25)
Comprehensive income for the year				1,600	(2,737)	3,834		78,505		10	81,212
Balance at 31.3.2017	26,141	83,719	(61,108)	(5,820)	(81,046)	39,118	989,293	78,505	(72,245)	120	996,677

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2017

€ (thousands)	First quarter 2017	First quarter 2016
Operating activities		
Cash flow		
Net Income	78,515	65,478
Depreciation of property, plant and equipment	3,575	2,982
Amortization of intangible assets	6,861	5,838
Total cash flow	88,951	74,298
(Increase)/decrease in deferred tax assets	507	1,181
Increase/(decrease) in staff leaving indemnities	59	162
Increase/(decrease) in other non-current liabilities	91	237
	89,608	75,878
Changes in working capital		
Trade receivables	(38,284)	(45,279)
Inventories	653	4,466
Other receivables and other current assets	1,491	2,504
Trade payables	9,190	8,754
Tax liabilities	18,246	13,007
Other payables and other current liabilities	2,653	5,980
Provisions	(353)	50
Changes in working capital	(6,404)	(10,518)
Net cash from operating activities	83,204	65,360
Investing activities		
Net (investments)/disposals in property, plant and equipment	(2,535)	(4,807)
Net (investments)/disposals in intangible assets	(755)	(443)
Net (increase)/decrease in other non-current receivables	2	89
Net cash used in investing activities	(3,288)	(5,161)
Financing activities		
Medium/long term loans granted	30	28
Re-payment of loans	(10,728)	(6,231)
Increase in treasury stock	0	(10,918)
Decrease in treasury stock	10,560	84
Effect on shareholders' equity of application of IAS/IFRS	990	(239)
Other changes in shareholders' equity	(25)	(6)
Change in translation reserve	(920)	(4,776)
Net cash from/(used in) financing activities	(93)	(22,058)
Changes in short-term financial position	79,823	38,141
Short-term financial position at beginning of year *	122,804	215,676
Short-term financial position at end of period *	202,627	253,817

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

Notes to the consolidated financial statements for the period ended 31 march 2017

1. GENERAL

The consolidated financial statements at 31 March 2017 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 31 March 2017 the consolidation perimeter remained unchanged. The recognition in the accounts of the companies acquired in 2016, the Italian company Italchimici S.p.A. and the Swiss company Pro Farma AG with its Austrian subsidiary Pro Farma GmbH, is not yet definite, as allowed by IFRS3.

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 quarter consolidated 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 2016, 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.

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 quarter 2017 is € 341.9 million (€ 302.2 million in the same period of the preceding year) and can be broken down as follows:

€ (thousands)	First quarter 2017	First quarter 2016	Change 2017/2016
Net sales	339,269	297,500	41,769
Royalties	1,310	1,404	(94)
Up-front payments	389	2,410	(2,021)
Other revenue	972	933	39
Total revenue	**341,940**	**302,247**	**39,693**

4. OPERATING EXPENSES

Overall operating expenses in the first quarter 2017 are € 234.7 million, an increase as compared to the € 212.1 million in the same period of the preceding year and are analyzed by function. Personnel costs are € 68.8 million and include a cost for stock options of € 1.0 million. Total depreciation and amortization charges are € 10.4 million, an increase of € 1.6 million over those of the first quarter 2016.

Other income (expense) comprises non-recurring events, operations and matters which are not often repeated in the ordinary course of business. In the first quarter of 2017 the net amount is other income of € 0.1 million.

5. FINANCIAL INCOME AND EXPENSE

In the first quarter of 2017 and in the same period of 2016 financial items record a net expense of € 1.8 million and € 2.5 million respectively and are comprised as follows:

€ (thousands)	First quarter 2017	First quarter 2016	Change 2017/2016
Currency exchange gains (losses)	913	118	795
Interest expense on loans	(2,127)	(1,955)	(172)
Net interest income (expense) on short-term financial position	(523)	(620)	97
Interest cost in respect of defined benefit plans	(47)	(67)	20
Total financial income (expense), net	**(1,784)**	**(2,524)**	**740**

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 2016	79,409	223,397	64,871	7,007	374,684
Additions	219	622	669	1,027	2,537
Disposals	0	(2)	(37)	0	(39)
Other changes	(710)	2,194	877	(4,226)	(1,865)
Balance at 31 March 2017	78,918	226,211	66,380	3,808	375,317
Accumulated depreciation					
Balance at 31 December 2016	39,286	175,238	49,958	0	264,482
Depreciation for the period	645	1,959	971	0	3,575
Disposals	0	(2)	(35)	0	(37)
Other changes	(13)	(168)	(39)	0	(220)
Balance at 31 March 2017	39,918	177,027	50,855	0	267,800
Carrying amount at					
31 March 2017	39,000	49,184	15,525	3,808	107,517
31 December 2016	40,123	48,159	14,913	7,007	110,202

The additions during the period are € 2.5 million and refer mainly to investments in the Italian plants and in the headquarters building (€ 1.2 million).

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 2016	331,194	190,565	18,221	16,732	556,712
Additions	9	526	51	169	755
Disposals	(48)	0	0	0	(48)
Other changes	512	724	75	(1,033)	278
Balance at 31 March 2017	331,667	191,815	18,347	15,868	557,697
Accumulated amortization					
Balance at 31 December 2016	141,883	118,577	16,368	0	276,828
Amortization for the period	4,096	2,653	112	0	6,861
Disposals	(48)	0	0	0	(48)
Other changes	74	24	(127)	0	(29)
Balance at 31 March 2017	146,005	121,254	16,353	0	283,612
Carrying amount at					
31 March 2017	185,662	70,561	1,994	15,868	274,085
31 December 2016	189,311	71,988	1,853	16,732	279,884

8. GOODWILL

Net goodwill at 31 March 2017 amounts to € 555.1 million, a decrease of € 1.4 million as compared to that at 31 December 2016, and is attributed to the operational areas, which represent the same number of cash generating units:

- France: € 45.8 million;
- Russia: € 30.2 million;
- Germany: € 48.8 million;
- Portugal: € 32.8 million;
- Treatments for rare diseases business: € 110.6 million;
- Turkey: € 64.0 million;
- Czech Republic: € 13.1 million;
- Romania: € 0.2 million;
- Poland: € 15.5 million;
- Spain: € 58.1 million;
- Tunisia: € 22.1 million;
- Italy: € 105.3 million;
- Switzerland: € 8.6 million.

The recognition in the accounts of the goodwill associated with the companies acquired in 2016, the Italian company Italchimici S.p.A. and the Swiss company Pro Farma AG with its Austrian subsidiary Pro Farma GmbH, is not yet definite, as allowed by IFRS3.

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 31 March 2017 resulted in an overall net decrease of € 1.4 million, compared to that at 31 December 2016, to be attributed to the acquisitions in Turkey (decrease of € 3.1 million), Russia (increase of € 1.1 million) and Poland (increase of € 0.6 million).

In compliance with IFRS 3 goodwill is no longer amortized. Instead, it shall be 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 31 March 2017 other investments amount to € 25.1 million and increase by € 5.9 million compared to those at 31 December 2016.

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 31 March 2017 the overall fair value of the 9.554.140 shares held is of € 12.9 million. The € 0.3 million decrease in value compared to that at 31 December 2016 is booked as a loss for the period recognized directly in equity, net of the relative tax effect, and shown on the statement of comprehensive income.

This account also comprises € 12.1 million relative to 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 2016 the value of the investment was increased by € 6.2 million to bring it in line with its fair value. This amount, net of its tax effect, is booked to equity and shown on the statement of comprehensive income.

10. DEFERRED TAX ASSETS AND LIABILITIES

At 31 March 2017 deferred tax assets are € 36.2 million, a net decrease of € 1.0 million compared to those at 31 December 2016. Deferred tax liabilities are € 29.8 million, an increase of € 2.1 million compared to those at 31 December 2016, mainly due to the tax effect on the increase in value attributed to Erytech Pharma S.A..

11. SHAREHOLDERS' EQUITY

Shareholders' Equity at 31 March 2017 is € 996.7 million, an increase of € 92.7 million compared to that at 31 December 2016 for the following reasons:

- net income for the period (increase of € 78.5 million);
- cost of stock option plans set-off directly in equity (increase of € 1.0 million);
- disposal of 793,500 own shares in treasury stock to service the stock option plans (increase of € 10.6 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 (increase of € 1.6 million);
- application of IAS/IFRS (increase of € 3.8 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 € 2.8 million).

The Italian subsidiary of Orphan Europe is 99% owned giving rise to a minority interest of € 120.0 thousand.

As at 31 March 2017 the Company has two 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 and the 2014-2018 plan under which options were granted on 29 July 2014 and on 13 April 2016. 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 31 March 2017 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2017	Options granted during 2017	Options exercised during 2017	Options cancelled or expired	Options outstanding at 31.3.2017
Date of grant						
9 February 2011	6.7505	597,500	-	(65,000)	-	532,500
8 May 2012	5.3070	1,425,000	-	(112,500)	-	1,312,500
17 April 2013	7.1600	120,000	-	(25,000)	-	95,000
30 October 2013	8.9300	155,000	-	-	-	155,000
29 July 2014	12.2900	4,530,000	-	(375,000)	(25,000)	4,130,000
13 April 2016	21.9300	3,973,000	-	(216,000)	-	3,757,000
Total		10,800,500	-	(793,500)	(25,000)	9,982,000

At 31 March 2017, 3,097,762 own shares are held as treasury stock, a decrease of 793,500 shares as compared to those at 31 December 2016. The change is to be attributed to the disposal of 793,500 shares for an overall value of € 10.6 million to service the exercise of stock options issued under the stock option plans. The overall purchase cost of the shares held in treasury stock is € 61.1 million with an average unit price of € 19.73.

12. LOANS

At 31 March 2017 medium and long-term loans are € 320.5 million. The net reduction of € 13.6 million compared to those at 31 December 2016 is determined by reimbursements during the period for an amount of € 10.7 million and by a decrease of € 2.9 million arising from the conversion of loans in foreign currency.

The main long-term loans outstanding are:

a) 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 31 March 2017 of the swap generated a liability of € 0.05 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.

b) 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 31 March 2017 of the swap generated a liability of € 0.05 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.

c) A loan granted to the subsidiary Recordati Ilaç on 30 November 2015 by ING Bank for an amount of 5.9 million Turkish lira to be repaid on 22 March 2018. Main terms are: fixed interest rate of 13.25%, quarterly payment of interest accrued and reimbursement of the entire principal at expiry date. The conversion of the debt at 31 March 2017 gave rise to a reduction of € 0.1 million compared to 31 December 2016 due to the devaluation of the Turkish Lira and the overall equivalent value of the debt is € 1.5 million.

d) 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 31 March 2017 is of € 34.7 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 31 March 2017 of the swap covering € 25.0 million generated a liability of € 0.5 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.

e) 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 31 March 2017 is of € 22.4 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 31 March 2017 generated a liability of € 0.5 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.

f) 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 31 March 2017 is of € 16.6 million, resulting in a reduction of the liability by € 1.9 million as compared to that at 31 December 2016, of which € 0.9 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.

g) Privately placed guaranteed senior notes privately placed 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 31 March 2017 resulted in a reduction of the liability by € 1.0 million as compared to that at 31 December 2016 due to the devaluation 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 31 March 2017 the measurement at fair value of the hedging instruments generated an overall positive amount of € 11.6 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.

h) 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 € 18.6 million at 31 March 2017. 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 31 March 2017 generated a liability of € 0.2 million recognized directly in equity and under current liabilities as 'Fair value of hedging derivatives (cash flow hedge)' (see Note 17). The loan agreement 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.

i) 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 31 March 2017 resulted in a decrease of the liability by € 0.9 million as compared to that at 31 December 2016 due to the devaluation 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.

j) 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. The residual amount of the loan amounts to € 40.8 million at 31 March 2017. 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 31 March 2017 generated a liability of € 1.9 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 31 March 2017 is of € 21.7 million and is measured as prescribed by IAS 19.

14. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities at 31 March 2017 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 € 158.1 million, a decrease of € 0.7 million compared to those stated at 31 December 2016.

Trade receivables at 31 March 2017 are € 244.3 million, an increase of € 38.3 million compared to that at 31 December 2016 due to the significant increase in sales. Trade receivables are stated net of a € 15.6 million provision for doubtful accounts which reflects the collection risk connected with certain customers and geographic areas. Days sales outstanding are 58.

Other receivables, at € 26.6 million, decrease by € 4.3 million compared to those at 31 December 2016 mainly due to the reduction of tax receivable.

Other current assets are € 8.3 million and refer mainly to prepaid expenses.

16. CURRENT LIABILITIES

Trade payables, which include the accrual for invoices to be received, are € 133.8 million.

Other payables are € 80.4 million, an increase of € 2.4 million compared to those at 31 December 2016, and relate mainly to amounts owed to personnel and social security institutions. This account also includes:

- € 6.2 million to be paid to U.S. health insurance institutions by Recordati Rare Diseases;
- € 4.3 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;
- € 5.9 million to be paid to the “Krankenkassen” (German health insurance) by Recordati Pharma GmbH;

Tax payables are € 38.7 million, an increase of € 18.2 million compared to those at 31 December 2016.

Provisions are € 27.6 million, a decrease of € 0.4 million compared to those at 31 December 2016.

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

At 31 March 2017 the fair value of hedging derivatives recognized under current assets is of € 12.2 million.

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 September 2016 give rise to a € 11.6 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 € 7.8 million, and that covering the $ 25 million tranche of the loan, provided by UniCredit, yielded a € 3.8 million positive value change.

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 31 March 2017 the fair value of the hedging instruments is of € 0.6 million, recognized directly in equity.

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 € 3.2 million liability at 31 March 2017 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 (€ 1.9 million), Banca Nazionale del Lavoro (€ 0.2 million), ING Bank (€ 0.5 million), UniCredit (€ 0.5 million), Intesa Sanpaolo (€ 0.05 million) and Banca Nazionale del Lavoro covering the new loan of € 25 million (€ 0.05 million).

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

Short term financial investments, cash and cash equivalents at 31 March 2017 are € 219.8 million, an increase of € 81.3 million compared to those at 31 December 2016. 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 € 17.1 million at 31 March 2017 and are comprised mainly of temporary use of lines of credit, current account overdrafts and interest accrued on existing loans. At 31 March 2017 a total of 20 million Turkish Lira, for an equivalent amount of € 5.1 million, were drawn down on the revolving line of credit obtained in July 2015 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. 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 31 March 2017 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
First quarter 2017				
Revenues	289,807	52,133	-	341,940
Expenses	(206,099)	(28,570)	-	(234,669)
Operating income	**83,708**	**23,563**	**-**	**107,271**
First quarter 2016				
Revenues	256,218	46,029	-	302,247
Expenses	(186,669)	(25,423)	-	(212,092)
Operating income	69,549	20,606	-	90,155

** Includes the pharmaceutical chemicals operations*

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated **	Consolidated accounts
31 March 2017				
Non-current assets	780,603	197,787	25,071	1,003,461
Inventories	139,082	19,065	-	158,147
Trade receivables	208,123	36,149	-	244,272
Other current assets	30,976	3,988	12,223	47,187
Short-term investments, cash and cash equivalents	-	-	219,767	219,767
Total assets	**1,158,784**	**256,989**	**257,061**	**1,672,834**
Non-current liabilities	48,422	3,163	282,669	334,254
Current liabilities	236,836	44,472	60,595	341,903
Total liabilities	**285,258**	**47,635**	**343,264**	**676,157**
Net capital employed	**873,526**	**209,354**		
31 December 2016				
Non-current assets	788,083	201,228	19,199	1,008,510
Inventories	140,939	17,861	-	158,800
Trade receivables	174,540	31,448	-	205,988
Other current assets	32,782	3,673	12,497	48,952
Short-term investments, cash and cash equivalents	-	-	138,493	138,493
Total assets	**1,136,344**	**254,210**	**170,189**	**1,560,743**
Non-current liabilities	48,602	2,926	293,965	345,493
Current liabilities	213,723	37,848	59,739	311,310
Total liabilities	**262,325**	**40,774**	**353,704**	**656,803**
Net capital employed	**874,019**	**213,436**		

* *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.

21. LITIGATION AND CONTINGENT LIABILITIES

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

On 29 September 2006 the Company received a notice of tax assessment from the Internal Revenue Service stating certain additional taxes for the fiscal year 2003 in the amount of: corporate tax of € 2.3 million, IRAP of € 0.2 million and VAT of € 0.1 million and additional tax liabilities of € 2.6 million. The Company believed no amount was due as it considered the assessment flawed both from a legitimacy as well as a substantive point of view, and was supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first degree judgement before the Provincial Tax Commission was concluded partially in the Company's favour with decision n. 539/33/07 dated 11 October 2007, filed on 16 October 2007. An appeal was filed against that judgment with the Regional Tax Commission of Milan firstly by the Milan office of the Tax Authorities with notice served on 8 November 2008 and secondly by the Company with notice served on 7 January 2009. With a decision dated June 10, 2009 n. 139/32/09, filed on November 27, 2009 the Regional Tax Commission of Milan rejected the interlocutory appeal presented by the Company and accepted the principal appeal of the Agenzia delle Entrate di Milano (Inland Revenue of Milan). On the basis of that decision, the claims included in the above mentioned tax assessment for the year 2003 have been essentially fully confirmed and the Company has paid all amounts due. On 26 May 2010 the Company appealed that decision before the Corte Suprema di Cassazione (Supreme Court of Cassation). On 20 April 2017 the hearing for the discussion of the appeal was held.

On 24 September 2014 the Italian Tax Police (Guardia di Finanza) visited Recordati S.p.A. as part of the general tax inspection regarding IRES (corporate income tax) and IRAP (regional value added tax) for the years 2010 through 2012. The 2010 inspection was concluded with a formal notice of assessment issued on 23 September 2015 in which the tax inspectors considered a cost item for services rendered for an amount of € 50,000 not to be sufficiently documented and therefore not deductible for income tax purposes. On 19 October 2015 the Company applied for a voluntary assessment procedure, which ended with the payment of the taxes and penalties owed by the Company.

On 26 July 2016, on the basis of the same tax audit of the Company above mentioned, the Italian Tax Police issued a Tax Audit Report for the 2011 tax year, and subsequent notice of assessment issued by the Internal Revenue Service, which, based on the issues raised in the Tax Audit Report, disallowed costs for services rendered for an amount of € 50,000 - an issue with regard to which a notice of assessment was already issued for 2010 - being not sufficiently documented. On 15 December 2016 the Company settled the dispute by accepting the remark in the notice of assessment without any challenging.

In December 2015 the same Italian Tax Police (Guardia di Finanza) notified the Company of their intention to commence a general income tax inspection covering the years 2009 through 2014 involving the group companies which reside in Ireland and in Luxembourg, Recordati Ireland Ltd and Recordati S.A. Chemical and Pharmaceutical Company respectively. The declared intention of the inspection is to evaluate the operational context of the foreign companies in order to verify whether said companies are in reality only formally localized abroad but are substantially managed/administered from Italy. After having analysed the documents and completed the investigation process, the Italian Tax Police preliminarily revealed to Recordati Ireland Ltd., on 13 February 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 € 95 million, against taxes of € 44 million already paid in Ireland. Similarly, the Italian Tax Police preliminarily revealed to Recordati S.A. Chemical and Pharmaceutical Company, on 22 February 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 € 5.5 million. On 28 February 2017 the Italian Tax Police (Guardia di Finanza) prescribed the extension of the income tax inspection to include the year 2015. The Company, supported in its position by professional opinion, maintains that the companies under inspection operate in such a way as to justify the correctness of the fiscal policy adopted. Therefore, no provisions are made in the consolidated accounts as a result of the above mentioned inspections, also in consideration of available information at this stage of the activity.

RECORDATI S.P.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 MARCH 2017

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
RECORDATI S.A. Chemical and Pharmaceutical Company Holding company	Luxembourg	82,500,000.00	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 PORTUGUESA LDA Dormant	Portugal	24,940.00	Euro	Line-by-line
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA Dormant, 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
RECORDATI S.A. Marketing and sales of pharmaceuticals	Switzerland	2,000,000.00	CHF	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
ORPHAN EUROPE NORDIC A.B. 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

PERCENTAGE OF OWNERSHIP												
Recordati S.p.A. *(Parent)*	Recordati S.A. *(Lux)*	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.	Pro Farma AG	Total
100.00											100.00
68.447	31.553										100.00
100.00											100.00
99.94	0.06										100.00
98.00	2.00										100.00
	99.398					0.602					100.00
	100.00										100.00
	100.00										100.00
	100.00										100.00
			100.00								100.00
	55.00			45.00							100.00
3.33	96.67										100.00
0.95	99.05										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

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
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
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
ORPHAN EUROPE BENELUX 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	8,738,000.00	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	50,000.00	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. (1) Marketing of pharmaceuticals	Italy	7,646,000.00	EUR	Line-by-line
PRO FARMA AG (1) Marketing of pharmaceuticals	Switzerland	3,000,000.00	CHF	Line-by-line
PRO FARMA GmbH (1) Marketing of pharmaceuticals	Austria	35,000.00	EUR	Line-by-line

(1) Acquired in 2016

PERCENTAGE OF OWNERSHIP

Recordati S.p.A. *(Parent)*	Recordati S.A. *(Lux)*	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.	Pro Farma AG	Total
					100.00						100.00
						100.00					100.00
						100.00					100.00
						100.00					100.00
						99.00					99.00
					99.46	0.54					100.00
			100.00								100.00
0.08	99.92										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

Declaration by the manager responsible for preparing the company's financial reports

The manager responsible for preparing the company's financial reports Fritz Squindo declares, pursuant to paragraph 2 of Article 154-bis of the Consolidated Law on Finance, that the accounting information contained in this report corresponds to the document results, books and accounting records.

Milan, 4 May 2017

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

RECORDATI

HEADQUARTERS

Via Matteo Civitali, 1 - 20148 Milano, Italy
Ph +39 02 48787.1 - Fax +39 02 40 073 747

www.recordati.com

FOR FURTHER INFORMATION PLEASE CONTACT:

Investor Relations
Ph +39 02 48787.393
Fax +39 02 48787.225
e-mail: inver@recordati.it