

**DISTRIBUTION OF AN INTERIM  
DIVIDEND BY RECORDATI S.P.A. FOR THE  
FINANCIAL YEAR 2017 IN ACCORDANCE  
WITH ARTICLE 2433-BIS OF THE ITALIAN  
CIVIL CODE**

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**DIRECTORS' REPORT ON THE  
DISTRIBUTION OF AN INTERIM  
DIVIDEND TO THE SHAREHOLDERS OF  
RECORDATI S.P.A.**

## Directors' considerations on the distribution of an interim dividend

An interim dividend may be distributed if the conditions specified in the relative legislation (Art. 2433-*bis* of the Italian Civil Code) are met.

Recordati S.p.A. ("Recordati") is in possession of the requirements to exercise that right for the following reasons:

- a) the financial statements are subject by law to a statutory audit in accordance with the provisions of special laws for entities of public interest;
- b) payment of interim dividends is permitted by Art. 29 of the Corporate By-Laws;
- c) the external auditors have issued a positive opinion on the financial statements for the previous year, which were subsequently approved by the shareholders;
- d) no losses relating to the current year or to prior years have been incurred since the last financial statements were approved.

The distribution of the dividend must be approved by the Board of Directors on the basis of financial statements and a report showing that the capital, operating and financial position of the Company would allow that distribution to be made. Additionally, an opinion of the external auditors on those documents must be obtained.

Art. 2433-*bis* of the Italian Civil Code also states that the amount of an interim dividend cannot be greater than the lower of the net income earned at the end of the previous financial year, less the amounts allocated to the statutory or by-law reserves, and the reserves available for distribution.

In Recordati's case, the distribution of an interim dividend is based on the accounts at 30 June 2017 for the six month period ended on that date, as prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Union, in force at 30 June 2017.

The available reserves resulting from the accounts at 30 June 2017 amounted to € 368,592 thousand, while the net income available at 30 June 2017 amounted to € 90,824 thousand consisting of the net income earned, since an amount equal to one fifth of the share capital had already been allocated to the statutory reserve and no other obligations for allocations to reserves existed.

A summary of the relevant data for determining the amount of the interim dividend distributable is attached in the following table:

• net income at 30 June 2017	€ 90,824 thousand
• net income available	€ 90,824 thousand
• reserves available at 30 June 2017	€ 368,592 thousand
• interim dividend distributable (maximum amount)	€ 90,824 thousand
• interim dividend per share	€ 0.42

In accordance with Art. 2433-*bis*, paragraph 4 of the Italian Civil Code, the interim dividend distributable cannot exceed € 90,824 thousand, corresponding to the part of the net income for the period that may be distributed on an interim basis.

Taking into account the above, and in the light of the information reported in the following pages concerning the operating, capital and financial performance of Recordati S.p.A. and the Group at 30 June 2017, the Board of Directors intends to distribute an interim dividend amounting to € 0.42 on each share outstanding on the ex dividend date on 20 November 2017, to be paid from 22 November 2017 (record date of 21 November 2017).

Milano, 26 October 2017

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

## Operating and financial review of Recordati S.p.A. in the first six months of 2017

The financial statements of Recordati S.p.A. at 30 June 2017 show net income of € 90.824 thousand.

The items in the income statement are given below with the relative percentage of revenue and the change compared with the first six months of the previous year:

€ (thousands)	First half 2017	% of revenue	First half 2016	% of revenue	Change 2017/2016	%
<b>Revenue</b>	<b>186,143</b>	<b>100.0</b>	<b>177,199</b>	<b>100.0</b>	<b>8,944</b>	<b>5.0</b>
Cost of sales	(76,737)	(41.2)	(74,860)	(42.3)	(1,877)	2.5
<b>Gross profit</b>	<b>109,406</b>	<b>58.8</b>	<b>102,339</b>	<b>57.7</b>	<b>7,067</b>	<b>6.9</b>
Selling expenses	(25,463)	(13.7)	(27,017)	(15.2)	1,554	(5.8)
R&D expenses	(11,675)	(6.3)	(13,654)	(7.7)	1,979	(14.5)
G&A expenses	(15,111)	(8.1)	(14,820)	(8.4)	(291)	2.0
Other income (expense), net	(852)	(0.5)	(2,379)	(1.3)	1,527	(64.2)
<b>Operating income</b>	<b>56,305</b>	<b>30.2</b>	<b>44,469</b>	<b>25.1</b>	<b>11,836</b>	<b>26.6</b>
Dividends	60,050	32.3	53,021	29.9	7,029	13.3
Financial (expense)/income, net	(3,633)	(1.9)	(2,398)	(1.3)	(1,235)	51.5
<b>Pretax income</b>	<b>112,722</b>	<b>60.6</b>	<b>95,092</b>	<b>53.7</b>	<b>17,630</b>	<b>18.5</b>
Provision for income taxes	(21,898)	(11.8)	(14,264)	(8.1)	(7,634)	53.5
<b>Net income</b>	<b>90,824</b>	<b>48.8</b>	<b>80,828</b>	<b>45.6</b>	<b>9,996</b>	<b>12.4</b>

Revenue in the first six months of 2017 was € 186,143 thousand, an increase of 5.0% compared with the same period of the previous year.

Total R&D costs came to € 11,675 thousand accounting for 6.3% of revenue.

Operating income was € 56,305 thousand, amounting to 30.2% of revenue.

Net income of € 90,824 thousand was up by € 9,996 thousand compared with the first six months of the preceding year.

## NET FINANCIAL POSITION

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

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Cash and cash equivalents and current receivables	65,664	206,672	(141,008)
Short-term borrowings	(428,724)	(360,213)	(68,511)
<b>Net current financial position (1)</b>	<b>(363,060)</b>	<b>(153,541)</b>	<b>(209,519)</b>
Loans and receivables – due after one year	13,263	16,396	(3,133)
Borrowings – due after one year (2)	(364,811)	(264,214)	(100,597)
<b>Net financial position</b>	<b>(714,608)</b>	<b>(401,359)</b>	<b>(313,249)</b>

(1) This includes the current portion of the medium to long-term borrowings

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

The net financial position at 30 June 2017 is a debt of € 714.6 million compared with a debt of € 401.4 million at 31 December 2016. Dividends were distributed in the period totaling € 72.1 million and \$ 284.2 million (€ 252.8 million) were paid, net of withholding tax, for the acquisition from AstraZeneca of the European marketing rights for the products Seloken®/Seloken® ZOK (metoprolol succinate) and the fixed combination Logimax® (metoprolol succinate and felodipine).

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

## MANAGEMENT REVIEW

The “Management Review” section of the interim financial report of the Recordati Group for the first half of 2017 (pages 12 to 22 of this document) may be consulted for further information on operations and finance.

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

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

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

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

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

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

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

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

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

- the financial position of the Acquiring Company resulting after recognition of entries relating to the merger by acquisition of the Acquired Company calculated on the basis of the original financial positions of the two Companies at 31 December 2016;
- details of movements that occurred in the financial statements of the Acquired Company during the course of 2017 before the merger contract was filed.



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

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

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

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

## SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

The Company's business performance was in line with expectations and, in the absence of events which are unforeseeable at present, no specific significant events were observed occurring subsequent to the reporting date of 30 June, which might affect the positive performance in the first six months of the year, for the achievement of the results forecast for 2017.

These results are forecast to be much greater than the interim dividend currently being approved.

The above information has been confirmed by the operating results of the Company to 30 September 2017.

Page 22 of this document may be consulted for a report and discussion of subsequent events and the business outlook for the Group.

Milan, 26 October 2017

on behalf of the Board of Directors  
The Vice Chairman and CEO  
Andrea Recordati

# MANAGEMENT REVIEW

## HIGHLIGHTS

### First half 2017

#### REVENUE

€ (thousands)	First half 2017	%	First half 2016	%	Change 2017/2016	%
<b>Total revenue</b>	<b>650,868</b>	<b>100.0</b>	<b>587,864</b>	<b>100.0</b>	<b>63,004</b>	<b>10.7</b>
Italy	142,415	21.9	122,267	20.8	20,148	16.5
International	508,453	78.1	465,597	79.2	42,856	9.2

#### KEY CONSOLIDATED P&L DATA

€ (thousands)	First half 2017	% of revenue	First half 2016	% of revenue	Change 2017/2016	%
Revenue	650,868	100.0	587,864	100.0	63,004	10.7
EBITDA <sup>(1)</sup>	224,032	34.4	188,074	32.0	35,958	19.1
Operating income	203,198	31.2	170,216	29.0	32,982	19.4
Net income	146,987	22.6	122,718	20.9	24,269	19.8

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

#### KEY CONSOLIDATED B/S DATA

€ (thousands)	30 June 2017	31 December 2016	Change 2017/2016	%
Net financial position <sup>(2)</sup>	(356,317)	(198,771)	(157,546)	79.3
Shareholders' equity	991,124	903,940	87,184	9.6

<sup>(2)</sup> 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 2017

#### REVENUE

€ (thousands)	Second quarter 2017	%	Second quarter 2016	%	Change 2017/2016	%
<b>Total revenue</b>	<b>308,928</b>	<b>100.0</b>	<b>285,617</b>	<b>100.0</b>	<b>23,311</b>	<b>8.2</b>
Italy	65,692	21.3	58,507	20.5	7,185	12.3
International	243,236	78.7	227,110	79.5	16,126	7.1

#### KEY CONSOLIDATED P&L DATA

€ (thousands)	Second quarter 2017	% of revenue	Second quarter 2016	% of revenue	Change 2017/2016	%
Revenue	308,928	100.0	285,617	100.0	23,311	8.2
EBITDA <sup>(1)</sup>	106,325	34.4	89,099	31.2	17,226	19.3
Operating income	95,927	31.1	80,061	28.0	15,866	19.8
Net income	68,472	22.2	57,240	20.0	11,232	19.6

<sup>(1)</sup> 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 underline the continued growth of the group, with revenues and profitability increasing significantly. Consolidated revenue is € 650.9 million, up by 10.7% compared to the same period of the preceding year. International sales grow by 9.2%. EBITDA, at 34.4% of sales, is € 224.0 million, an increase of 19.1% over the first half of 2016 and operating income, at 31.2% of sales, is € 203.2 million, an increase of 19.4%. Net income, at 22.6% of sales, is € 147.0 million, an increase of 19.8% over the first half of 2016.

Net financial position at 30 June 2017 records a net debt of € 356.3 million compared to net debt of € 198.8 million at 31 December 2016. During the period dividends were distributed and the acquisition of the marketing rights to the metoprolol based products from AstraZeneca was concluded for an overall disbursement of € 324.9 million. Shareholders' equity increases to € 991.1 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.

In May Recordati signed an 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. The transaction was successfully concluded on 30 June (on 10 July for part of the transaction related to Romania). The consideration for the acquisition of the assets is of \$ 300 million (€ 267 million). In addition, royalties for the use of the existing product brands will be due to AstraZeneca for an agreed period. Overall net sales in Europe in 2016 of the brands object of the transaction are of around € 100 million. Metoprolol succinate is a beta-blocker mainly indicated for the control of a range of conditions including hypertension, angina pectoris, disturbances of cardiac rhythm, maintenance treatment after myocardial infarction, and functional heart disorders with palpitations. It is a widely used drug in all European countries which will enable us to reinforce our product portfolios in a number of our European subsidiaries, in particular

in Poland, France and Germany. Furthermore, existing sales of the metoprolol brands will provide the base to enter new markets and thus complete our European geographical footprint. Recordati has significant experience in the marketing of treatments for cardiovascular disease with an existing portfolio of medicines for hypertension and related conditions as well as an established salesforce across European markets.

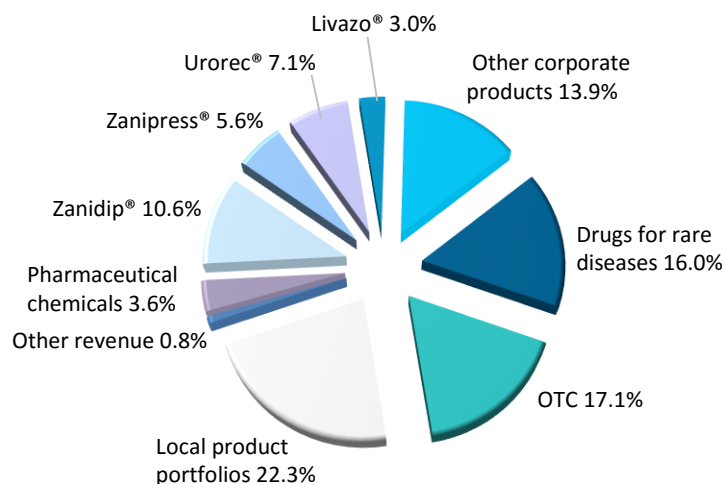
On May 31, 2017, Recordati S.p.A. issued and privately placed a bond for a total of € 125.0 million with Pricoa Capital Group. The main terms and conditions provide for a 2.07% fixed interest rate and a duration of 15 years with repayment in annual installments starting on 31 May 2025. The transaction, the object of which is to provide the necessary liquidity to support the growth of the group, was able to take advantage of the favorable market conditions.

In June Recordati signed an exclusive license agreement with MimeTech, an Italian development stage company founded by scientists from the University in Florence, for the development and subsequent commercialization on a global basis of a low molecular weight peptidomimetic of human nerve growth factor (NGF) for the treatment of neurotrophic keratitis, which already received an Orphan Drug Designation in the EU. Additional indications linked to NGF defects are also contemplated in the scope of the partnership. Under the terms of the agreement Recordati made an upfront payment upon signature of the contract and further milestone payments shall be linked to the development process and commercial performance. Neurotrophic keratitis is a rare degenerative corneal disease which in its more severe forms affects less than one person out of 10,000 worldwide, and is initiated by an impairment of trigeminal nerve. Impairment or loss of corneal sensory innervation is responsible for corneal epithelial defects, ulcer, and perforation. The most common causes of loss of corneal innervation are: viral infection (herpes simplex and herpes zoster keratoconjunctivitis), chemical burns, physical injuries, and corneal surgery. Neuroma, meningioma, and aneurysms may also determine a compression of the trigeminal nerve or ganglion and produce an impairment of corneal sensitivity. Furthermore, systemic diseases such as diabetes, multiple sclerosis, and leprosy may decrease sensory nerve function or damage sensory fibers compromising corneal sensitivity. The corneal epithelium is the first cell layer of the disease showing changes and defects, with poor predisposition to self-healing. The progression of the disease may lead to corneal ulcers, melting, and perforation leading to dramatic impairment to patients' sight.

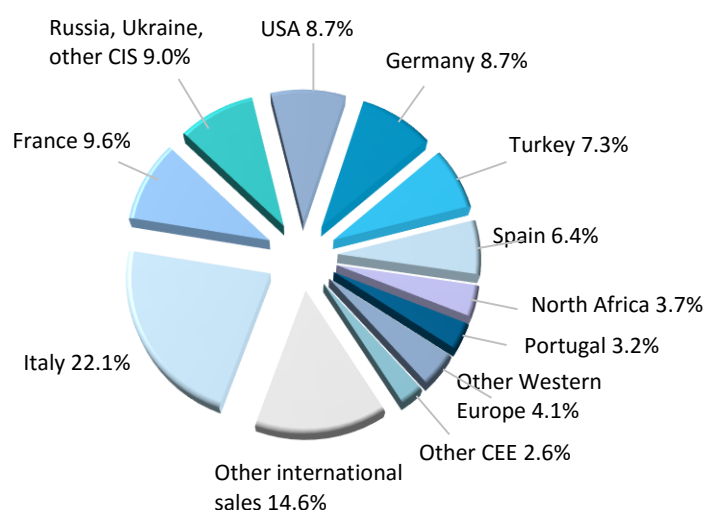
## REVIEW OF OPERATIONS

Net consolidated revenue in the first half of 2017 is € 650.9 million, up 10.7% over the same period of the preceding year, with an increase in international sales of 9.2% to € 508.5 million, which represent 78.1% of total sales. Pharmaceutical sales are € 627.7 million, up by 10.8%. Pharmaceutical chemicals sales are € 23.1 million, up by 9.3%, and represent 3.6% of total revenues. The first half 2017 revenues include those generated by the Italian company Italmobiliare 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 € 25.2 million. Excluding these acquisitions sales growth would have been of 6.4%.

### Sales by business



### Pharmaceutical sales



The group's pharmaceutical business, which represents 96.4% 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 half of 2017 is shown in the table below.

€ (thousands)	First half 2017	First half 2016	Change 2017/2016	%
Zanidip® (lercanidipine)	69,191	63,677	5,514	8.7
Zanicipress® (lercanidipine+enalapril)	36,318	34,959	1,359	3.9
Urorec® (silodosin)	46,510	42,721	3,789	8.9
Livazo® (pitavastatin)	19,438	17,747	1,691	9.5
Other corporate products*	144,681	119,012	25,669	21.6
Drugs for rare diseases	104,115	95,300	8,815	9.2

\* Include the OTC corporate products for an amount of € 54.5 million in 2017 and € 40.3 million in 2016 (+35.3%).

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 half 2017	First half 2016	Change 2017/2016	%
Direct sales	37,186	33,258	3,928	11.8
Sales to licensees	32,005	30,419	1,586	5.2
<b>Total lercanidipine sales</b>	<b>69,191</b>	<b>63,677</b>	<b>5,514</b>	<b>8.7</b>

Lercanidipine direct sales are up by 11.8% mainly due to the sales in Switzerland which are made directly to the market by our subsidiary there as from September of the preceding year. Sales increase mainly in Germany and

in France, where the brand Lercan<sup>®</sup> is now sold directly by our subsidiary following the termination of the license agreement with Pierre Fabre. Sales to licensees, which represent 46.3% of total lercanidipine sales, are up by 5.2%.

Zanipress<sup>®</sup> 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 29 countries.

€ (thousands)	First half 2017	First half 2016	Change 2017/2016	%
Direct sales	28,509	24,924	3,585	14.4
Sales to licensees	7,809	10,035	(2,226)	(22.2)
<b>Total lercanidipine+enalapril sales</b>	<b>36,318</b>	<b>34,959</b>	<b>1,359</b>	<b>3.9</b>

Direct sales of Zanipress<sup>®</sup> in the first half of 2017 are up by 14.4% mainly due to the performance of the product in Germany, France and Switzerland. Sales to licensees represent 21.5% of total Zanipress<sup>®</sup> sales and are down by 22.2%.

Urorec<sup>®</sup> (silodosin) is a specialty indicated for the treatment of symptoms associated with benign prostatic hyperplasia (BPH). Currently the product has been successfully launched in 35 countries with sales of € 46.5 million in the first half of 2017, up 8.9% mainly due to the good performance of the product in Italy, France and Russia.

Sales of Livazo<sup>®</sup> (pitavastatin), a statin indicated for the reduction of elevated total and LDL cholesterol, in Spain, Portugal, Ukraine, Greece, Switzerland, Russia and Turkey, are € 19.4 million in the first half of 2017, up by 9.5% due to the performance of the product mainly in Spain, Greece and Switzerland and to the launch in Turkey.

In the first half of 2017 sales of other corporate products totaled € 144.7 million, up by 21.6% compared to the same period of the preceding year. These comprise both prescription and OTC products and are: Lomexin<sup>®</sup> (fenticonazole), Urispas<sup>®</sup> (flavoxate), Kentera<sup>®</sup> (oxybutynin transdermal patch), TransAct<sup>®</sup> LAT (flurbiprofen transdermal patch), Rupafin<sup>®</sup>/Wystamm<sup>®</sup> (rupatadine), Lopresor<sup>®</sup> (metoprolol), Procto-Glyvenol<sup>®</sup> (tribenoside), Tergynan<sup>®</sup> (fixed association of anti-infectives) as well as CitraFleet<sup>®</sup>, Casenlax<sup>®</sup>, Fleet enema, Phosphosoda<sup>®</sup>, Rufflor<sup>®</sup>/Reuteri<sup>®</sup> (lactobacillus Reuteri) and Lacidigest<sup>®</sup> (tilactase), gastroenterological products, Polydexa<sup>®</sup>, Isofra<sup>®</sup> and Otofa<sup>®</sup>, ENT anti-infective products, the Hexa line of products indicated for seasonal disorders of the upper respiratory tract, Abufene<sup>®</sup>, a product for menopausal symptoms, Muvagyn<sup>®</sup> a topical product for gynecological use and Virirec<sup>®</sup> (alprostadi), 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 € 104.1 million in the first half of 2017, up by 9.2% 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 half 2017	First half 2016	Change 2017/2016	%
Italy	138,749	117,952	20,797	17.6
France	60,063	57,202	2,861	5.0
Russia, other C.I.S. countries and Ukraine	56,407	35,708	20,699	58.0
U.S.A.	54,709	52,845	1,864	3.5
Germany	54,341	48,052	6,289	13.1
Turkey	45,706	45,110	596	1.3
Spain	40,197	37,568	2,629	7.0
North Africa	23,144	26,692	(3,548)	(13.3)
Portugal	20,378	19,791	587	3.0
Other Western European countries	25,606	16,845	8,761	52.0
Other C.E.E. countries	16,519	16,158	361	2.2
Other international sales	91,907	92,761	(854)	(0.9)
<b>Total pharmaceutical revenue</b>	<b>627,726</b>	<b>566,684</b>	<b>61,042</b>	<b>10.8</b>

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 2017	First half 2016	Change 2017/2016	%
Russia (RUB)	2,958,631	2,337,402	621,229	26.6
Turkey (TRY)	169,152	138,269	30,883	22.3
U.S.A. (USD)	60,987	60,233	754	1.3

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

Sales of pharmaceuticals in Italy are up by 17.6% compared to those of the same period of the preceding year thanks to the revenues generated by Italcimici S.p.A., consolidated as from 1 June 2016, for a total of € 20.4 million. Worth mentioning is the good performance of Urorec® and Cardicor® (bisoprolol) and the significant growth of the treatments for rare diseases.

Pharmaceutical sales in France are up by 5.0% due mainly to the good performance of Urorec®, methadone and Zanextra®, in addition to the sales of Lercan® (lercanidipine) which is now sold directly by our subsidiary following the termination of the license agreement with Pierre Fabre. The treatments for rare diseases are also growing strongly.

Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) is € 56.4 million, up by 58.0% compared to the same period of the preceding year and includes estimated currency exchange gains of € 9.3 million. Sales in Russia, in local currency, are RUB 2,958.6 million, up by 26.6% 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 € 8.1 million.

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 2017 are € 54.7 million, up by 3.5%. The main products are Panhematin<sup>®</sup> (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Cosmegen<sup>®</sup> (dactinomycin for injection) used in the treatment of three rare cancers and Carbaglu<sup>®</sup> (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency.

In Germany sales are up by 13.1% mainly thanks to the significant sales growth of Zanipress<sup>®</sup>, Ortoton<sup>®</sup> (methocarbamol), lercanidipine, Citrafleet<sup>®</sup>, Recosyn<sup>®</sup> and Urorec<sup>®</sup>.

Sales in Turkey are up by 1.3% and include an estimated negative currency exchange effect of € 8.5 million. In local currency sales of our Turkish subsidiary grow by 22.3% thanks to the good performance of all the corporate products, in particular Lercadip<sup>®</sup>, Urorec<sup>®</sup>, Procto-Glyvenol<sup>®</sup>, Zanipress<sup>®</sup> and Gyno Lomexin<sup>®</sup>, as well as the launch of Livazo<sup>®</sup>, and of the local products Mictonorm<sup>®</sup> (propiverine), Kreval<sup>®</sup> (butamirate), Pankreoflat<sup>®</sup> (pancreatin, dimeticone) and Cabral<sup>®</sup> (phenyramidol).

In Spain sales are € 40.2 million, up by 7.0% mainly due to the performance of Virirec<sup>®</sup>, Livazo<sup>®</sup>, Urorec<sup>®</sup> and Casenlax<sup>®</sup>. Sales of treatments for rare diseases are also growing significantly.

Sales in North Africa are € 23.1 million, down by 13.3%, 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<sup>®</sup> and Calperos<sup>®</sup> (calcium, vitamin D3) in Algeria. Sales in Tunisia in the first half of 2017, in local currency, are up by 13.1%.

Sales in Portugal are up by 3.0% thanks mainly to the good performance of the local product Egostar<sup>®</sup>, a vitamin D3 supplement.

Sales in other countries in Western Europe, up by 52.0%, 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 the corporate products Zanidip<sup>®</sup>, Zanipress<sup>®</sup> and Urispas<sup>®</sup> 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 half of 2017 overall sales are up by 2.2% thanks to the good performance of the subsidiaries in Romania and the Czech Republic. Sales of the treatments for rare diseases in these countries are up by 26.2%.

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 half of 2016:

€ (thousands)	First half 2017	% of revenue	First half 2016	% of revenue	Change 2017/2016	%
<b>Revenue</b>	<b>650,868</b>	<b>100.0</b>	<b>587,864</b>	<b>100.0</b>	<b>63,004</b>	<b>10.7</b>
Cost of sales	(196,742)	(30.2)	(180,472)	(30.7)	(16,270)	9.0
<b>Gross profit</b>	<b>454,126</b>	<b>69.8</b>	<b>407,392</b>	<b>69.3</b>	<b>46,734</b>	<b>11.5</b>
Selling expenses	(168,521)	(25.9)	(155,215)	(26.4)	(13,306)	8.6
R&D expenses	(47,152)	(7.2)	(41,626)	(7.1)	(5,526)	13.3
G&A expenses	(33,841)	(5.2)	(31,798)	(5.4)	(2,043)	6.4
Other income (expense), net	(1,414)	(0.2)	(8,537)	(1.5)	7,123	(83.4)
<b>Operating income</b>	<b>203,198</b>	<b>31.2</b>	<b>170,216</b>	<b>29.0</b>	<b>32,982</b>	<b>19.4</b>
Financial income (expense), net	(6,991)	(1.1)	(5,978)	(1.0)	(1,013)	16.9
<b>Pretax income</b>	<b>196,207</b>	<b>30.1</b>	<b>164,238</b>	<b>27.9</b>	<b>31,969</b>	<b>19.5</b>
Provision for income taxes	(49,220)	(7.6)	(41,520)	(7.1)	(7,700)	18.5
<b>Net income</b>	<b>146,987</b>	<b>22.6</b>	<b>122,718</b>	<b>20.9</b>	<b>24,269</b>	<b>19.8</b>
Attributable to:						
Equity holders of the parent	146,967	22.6	122,704	20.9	24,263	19.8
Minority interests	20	0.0	14	0.0	6	42.9

Revenue for the period is € 650.9 million, an increase of € 63.0 million compared to the first half of 2016. For a detailed analysis please refer to the preceding "Review of Operations".

Gross profit is € 454.1 million with a margin of 69.8% on sales, an increase over that of the same period of the preceding year due to the further growth of products with higher margins.

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 € 47.2 million, up by 13.3% compared to those recorded in the first half of 2016 due to the initiation of new development programs and, in particular, the agreement with MimeTech for the development and subsequent marketing on a global basis of a new compound for the treatment of neurotrophic keratitis, for which an amount of € 7.0 million was due up-front at the signing of the contract.

G&A expenses are up by 6.4% but diminish as percent of sales to 5.2%.

Net other expense is significantly reduced as compared to that of the same period of the preceding year due to the extraordinary costs incurred in the first half of 2016 following the acquisition of the Italian company Italchimici S.p.A..

Net financial charges are € 7.0 million, an increase of € 1.0 million compared to the same period of the preceding year due to the higher currency exchange rate losses.

The effective tax rate during the period is 25.1%, substantially in line with that of the same period of the preceding year.

Net income at 22.6% of sales is € 147.0 million, an increase of 19.8% 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 2017	31 December 2016	Change 2017/2016	%
Cash and short-term financial investments	85,759	138,493	(52,734)	(38.1)
Bank overdrafts and short-term loans	(19,925)	(15,689)	(4,236)	27.0
Loans – due within one year	(41,579)	(40,428)	(1,151)	2.8
Net liquid assets	24,255	82,376	(58,121)	(70.6)
Loans – due after one year <sup>(1)</sup>	(380,572)	(281,147)	(99,425)	35.4
<b>Net financial position</b>	<b>(356,317)</b>	<b>(198,771)</b>	<b>(157,546)</b>	<b>79.3</b>

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

At 30 June 2017 the net financial position shows a net debt of € 356.3 million compared to net debt of € 198.8 million at 31 December 2016. During the period dividends were distributed for a total of € 72.1 million and an amount of \$ 284.2 million (€ 252.8 million), net of withholding tax, was paid for the acquisition from AstraZeneca of the European marketing rights to the products Seloken<sup>®</sup>/Seloken<sup>®</sup> ZOK (metoprolol succinate) and associated Logimax<sup>®</sup> fixed dose combination (metoprolol succinate and felodipine).

On May 31, 2017, Recordati S.p.A. issued and privately placed a bond for a total of € 125.0 million with Pricoa Capital Group. The main terms and conditions provide for a 2.07% fixed interest rate and a duration of 15 years with repayment in annual installments starting on 31 May 2025. The transaction, the object of which is to provide the necessary liquidity to support the growth of the group, was able to take advantage of the favorable market conditions.

## RELATED PARTY TRANSACTIONS

Tax liabilities shown in the consolidated balance sheet at 30 June 2017 include those payable to the controlling company FIMEI S.p.A. for an amount of € 3.4 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 2017 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 2016:

€ (thousands)	Second quarter 2017	% of revenue	Second quarter 2016	% of revenue	Change 2017/2016	%
<b>Revenue</b>	<b>308,928</b>	<b>100.0</b>	<b>285,617</b>	<b>100.0</b>	<b>23,311</b>	<b>8.2</b>
Cost of sales	(90,933)	(29.4)	(86,771)	(30.4)	(4,162)	4.8
<b>Gross profit</b>	<b>217,995</b>	<b>70.6</b>	<b>198,846</b>	<b>69.6</b>	<b>19,149</b>	<b>9.6</b>
Selling expenses	(79,900)	(25.9)	(75,650)	(26.5)	(4,250)	5.6
R&D expenses	(23,985)	(7.8)	(19,350)	(6.8)	(4,635)	24.0
G&A expenses	(16,708)	(5.4)	(15,758)	(5.5)	(950)	6.0
Other income (expense), net	(1,475)	(0.5)	(8,027)	(2.8)	6,552	(81.6)
<b>Operating income</b>	<b>95,927</b>	<b>31.1</b>	<b>80,061</b>	<b>28.0</b>	<b>15,866</b>	<b>19.8</b>
Financial income (expense), net	(5,207)	(1.7)	(3,454)	(1.2)	(1,753)	50.8
<b>Pretax income</b>	<b>90,720</b>	<b>29.4</b>	<b>76,607</b>	<b>26.8</b>	<b>14,113</b>	<b>18.4</b>
Provision for income taxes	(22,248)	(7.2)	(19,367)	(6.8)	(2,881)	14.9
<b>Net income</b>	<b>68,472</b>	<b>22.2</b>	<b>57,240</b>	<b>20.0</b>	<b>11,232</b>	<b>19.6</b>
Attributable to:						
Equity holders of the parent	68,462	22.2	57,233	20.0	11,229	19.6
Minority interests	10	0.0	7	0.0	3	42.9

Net revenue is € 308.9 million, up by 8.2% over the second quarter 2016. Pharmaceutical sales are € 297.4 million, up by 8.2%. Pharmaceutical chemical sales are € 11.5 million, up by 8.1%.

Gross profit is € 218.0 million with a margin of 70.6% on sales, an increase over that of the same period of the preceding year due to the further growth of products with higher margins.

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 € 24.0 million, up by 24.0% compared to those recorded in the second quarter of 2016 due to the initiation of new development programs and, in particular, the agreement with MimeTech for the development and subsequent marketing on a global basis of a new compound for the treatment of neurotrophic keratitis, for which an amount of € 7.0 million was due up-front at the signing of the contract.

G&A expenses are up by 6.0% but diminish as percent of sales to 5.4%.

Net other expense is significantly reduced as compared to that of the same period of the preceding year due to the extraordinary costs incurred in the second quarter of 2016 following the acquisition of the Italian company Italcimici S.p.A..

Net financial charges are € 5.2 million, an increase of € 1.8 million compared to the same period of the preceding year due to the higher currency exchange rate losses.

Net income at 22.2% of sales is € 68.5 million, an increase of 19.6% over the same period of the preceding year.

## SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

During July Gedeon Richter Plc. was granted marketing authorization from the European Commission for Reagila® (cariprazine), a novel antipsychotic for the treatment of schizophrenia in adult patients, valid for all European Union Member States. In August 2016 Richter and Recordati signed an exclusive license agreement to commercialize cariprazine in Western Europe, Algeria, Tunisia and Turkey.

The group's business continued to perform very well during July and for the full year 2017, including the consolidation as from this month of the sales of the metoprolol based products acquired from AstraZeneca, the expectation is to achieve sales of between € 1,290 and 1,300 million, EBITDA of between € 450 and 460 million, EBIT of between € 400 and 410 million and net income of between € 290 and 295 million.

# INTERIM FINANCIAL STATEMENTS OF RECORDATI S.P.A. AT 30 JUNE 2017

RECORDATI S.p.A.  
INCOME STATEMENTS FOR THE PERIODS ENDED  
30 JUNE 2017 AND 30 JUNE 2016

## Income statement

Amounts in euro	Notes	First half 2017	First half 2016
<b>Revenue</b>	<b>3</b>	<b>186,046,253</b>	<b>177,162,628</b>
Other revenues and income	4	369,548	496,886
<b>Total revenue</b>		<b>186,415,801</b>	<b>177,659,514</b>
Raw materials costs	5	(51,662,147)	(49,611,317)
Personnel costs	6	(41,139,796)	(42,871,195)
Amortization	7	(4,922,355)	(4,741,901)
Other operating expenses	8	(33,749,873)	(35,014,829)
Changes in inventories	9	1,363,481	(951,055)
<b>Operating income</b>		<b>56,305,111</b>	<b>44,469,217</b>
Income from investments	10	60,050,000	53,021,232
Financial expense, net	11	(3,633,142)	(2,398,009)
<b>Pre-tax income</b>		<b>112,721,969</b>	<b>95,092,440</b>
Provision for income taxes	12	(21,898,000)	(14,264,000)
<b>Net income for the period</b>		<b>90,823,969</b>	<b>80,828,440</b>
<b>Earnings per share</b>			
Basic		0.441	0.394
Diluted		0.434	0.387

Basic earnings per share is calculated on average shares outstanding in the relative periods, consisting of 205,984,391 shares in 2017 and 205,297,564 in 2016. The figures are calculated net of average treasury stock held, which amounted to 3,140,765 shares in 2017 and 3,827,592 shares in 2016.

Diluted earnings per share is calculated taking into account new shares authorized but not yet issued.



RECORDATI S.p.A.

BALANCE SHEETS at 30 JUNE 2017 and at 31 DECEMBER 2016

## Assets

Amounts in euro	Notes	30 June 2017	31 December 2016
<b>Non-current assets</b>			
Property, plant and equipment	13	43,972,803	44,850,587
Intangible assets	14	194,971,294	25,516,643
Investments	15	770,782,031	621,143,621
Loans and receivables	16	13,262,954	16,396,325
Deferred tax assets	17	391,974	3,721,972
<b>Total non-current assets</b>		<b>1,023,381,056</b>	<b>711,629,148</b>
<b>Current assets</b>			
Inventories	18	56,307,849	54,944,368
Trade receivables	19	74,462,291	53,100,706
Other receivables	20	7,887,909	10,556,382
Other current assets	21	3,013,867	539,034
Fair value of hedging derivatives (cash flow hedges)	22	8,128,996	12,497,477
Other short-term receivables	23	35,645,754	119,856,750
Short-term financial investments, cash and cash equivalents	24	30,017,824	86,814,873
<b>Total current assets</b>		<b>215,464,490</b>	<b>338,309,590</b>
Non-current assets held for sale	25	87,166,857	0
<b>Total assets</b>		<b>1,326,012,403</b>	<b>1,049,938,738</b>

RECORDATI S.p.A.

BALANCE SHEETS at 30 JUNE 2017 and at 31 DECEMBER 2016

## Equity and Liabilities

Amounts in euro	Notes	30 June 2017	31 December 2016
<b>Equity</b>			
Share capital	26	26,140,645	26,140,645
Additional paid-in capital	26	83,718,523	83,718,523
Treasury stock	26	(25,047,986)	(76,761,059)
Statutory reserve	26	5,228,129	5,228,129
Other reserves	26	220,128,503	237,931,918
Revaluation reserve	26	2,602,229	2,602,229
Interim dividend	26	0	(72,245,319)
Net income for the period	26	90,823,969	110,102,226
<b>Total equity</b>		<b>403,594,012</b>	<b>316,717,292</b>
<b>Non-current liabilities</b>			
Loans	27	372,940,413	276,711,756
Personnel leaving indemnities	28	10,947,302	11,236,914
Other non-current liabilities	29	2,514,640	0
<b>Total non-current liabilities</b>		<b>386,402,355</b>	<b>287,948,670</b>
<b>Current liabilities</b>			
Trade payables	30	38,547,961	44,515,223
Other current payables	31	21,982,924	19,567,259
Tax liabilities	32	22,675,599	4,396,667
Other current liabilities	33	0	788
Provisions	34	18,398,549	12,958,448
Fair value of hedging derivatives (cash flow hedges)	35	5,687,370	3,621,403
Loans – due within one year	36	36,818,182	36,818,182
Bank overdrafts and short-term loans	37	1,846,759	1,777,678
Other short-term borrowings	38	390,058,692	321,617,128
<b>Total current liabilities</b>		<b>536,016,036</b>	<b>445,272,776</b>
<b>Total equity and liabilities</b>		<b>1,326,012,403</b>	<b>1,049,938,738</b>

**RECORDATI S.p.A.**
**STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED 30 JUNE 2017 AND 30 JUNE 2016**

€ (thousands)

	First half 2017	First half 2016
<b>Net income for the period</b>	<b>90,824</b>	<b>80,828</b>
Gains on cash flow hedges	3,089	173
<b>Income for the year recognized directly in equity</b>	<b>3,089</b>	<b>173</b>
<b>Comprehensive income for the period</b>	<b>93,913</b>	<b>81,001</b>

**RECORDATI S.p.A.**
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

€ (thousands)	Share capital	Addition- al paid-in capital	Treasury stock	Statutory reserve	Sundry reserves	<u>Other reserves</u> Fair value hedging instrument reserve	IAS comp- liance reserve	Revaluat- ion reserves	Interim dividend	Net (loss)/ income for the period	Total
<b>Balance at 31 December 2015</b>	<b>26,141</b>	<b>83,718</b>	<b>(35,061)</b>	<b>5,228</b>	<b>147,599</b>	<b>(3,289)</b>	<b>98,723</b>	<b>2,602</b>	<b>(61,605)</b>	<b>125,515</b>	<b>389,571</b>
Allocation of 2015 net income as per shareholders' resolution of 13.4.2016:											
to reserves					2,425					(2,425)	0
dividends to shareholders									61,605	(123,090)	(61,485)
Sales of treasury stock			18,734		(4,385)						14,349
Purchase of treasury stock			(10,918)								(10,918)
Comprehensive income for the period						173				80,828	81,001
Stock Options							1,561				1,561
<b>Balance at 30 June 2016</b>	<b>26,141</b>	<b>83,718</b>	<b>(27,245)</b>	<b>5,228</b>	<b>145,639</b>	<b>(3,116)</b>	<b>100,284</b>	<b>2,602</b>	<b>0</b>	<b>80,828</b>	<b>414,079</b>
<b>Balance at 31 December 2016</b>	<b>26,141</b>	<b>83,718</b>	<b>(76,761)</b>	<b>5,228</b>	<b>142,842</b>	<b>(7,419)</b>	<b>102,509</b>	<b>2,602</b>	<b>(72,245)</b>	<b>110,102</b>	<b>316,717</b>
Allocation of 2016 net income as per shareholders' resolution of 11.4.2017:											
dividends to shareholders									72,245	(110,102)	(37,857)
to reserves					(34,280)						(34,280)
Merger gain					29,813						29,813
Sales of treasury stock			51,713		(25,128)						26,585
Purchase of treasury stock											0
Comprehensive income for the period						3,089				90,824	93,913
Stock Options							1,980				1,980
Reserve for adjustments to financial instruments							5,986				5,986
Recordati SA Lux IAS reserve							737				737
<b>Balance at 30 June 2017</b>	<b>26,141</b>	<b>83,718</b>	<b>(25,048)</b>	<b>5,228</b>	<b>113,247</b>	<b>(4,330)</b>	<b>111,212</b>	<b>2,602</b>	<b>0</b>	<b>90,824</b>	<b>403,594</b>

## RECORDATI S.p.A.

## CASH FLOW STATEMENTS FOR THE PERIODS ENDED 30 JUNE 2017 AND 30 JUNE 2016

€ (thousands)	First half 2017	First half 2016
<b>Operating activities</b>		
Net income for the period	90,824	80,828
Income from investments	(60,050)	(53,021)
Depreciation of property, plant and equipment	3,320	3,206
Amortization of intangible assets	1,602	1,536
(Increase)/decrease in deferred tax liabilities	37	453
Increase/(decrease) in personnel leaving indemnities	(290)	(63)
Other provisions	5,440	88
Dividends received	60,050	21
Trade receivables	(21,297)	(14,634)
Other receivables and other current assets	385	(2,623)
Inventories	(1,363)	951
Trade payables	(6,014)	208
Other payables and other current liabilities	1,760	(743)
Tax liabilities	18,279	4,629
<b>Net cash from operating activities</b>	<b>92,683</b>	<b>20,836</b>
<b>Investing activities</b>		
Net (investments)/disposals in property, plant and equipment	(2,442)	(3,094)
Net (investments)/disposals in intangible assets	(171,057)	(938)
Net (increase)/decrease in equity investments	(971)	(105,000)
Net (increase)/decrease in other non-current assets	3,133	3,120
Net (increase)/decrease for the merger pursuant to Art. 2505 of Civil Code of Recordati S.A. Chemical and Pharmaceutical Co.	(105,834)	0
Net (increase)/decrease in assets held for sale	(87,166)	0
<b>Net cash used in investing activities</b>	<b>(364,337)</b>	<b>(105,912)</b>
<b>Financing activities</b>		
Loans – due after one year	124,964	0
Dividends distributed	(72,137)	(61,485)
(Purchase)/sale of treasury stock	26,585	3,431
Effect on shareholders' equity of application of IAS/IFRS	959	811
Repayment of loans	(18,236)	(14,501)
<b>Net cash from/(used in) financing activities</b>	<b>62,135</b>	<b>(71,744)</b>
<b>CHANGE IN SHORT-TERM FINANCIAL POSITION</b>	<b>(209,519)</b>	<b>(156,820)</b>
Short-term financial position at beginning of year *	(116,723)	(931)
Short-term financial position at end-of-year *	(326,242)	(157,751)

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

## RECORDATI S.p.A.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

### 1. GENERAL

These separate interim financial statements at 30 June 2017 comprise the income statement, the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and these notes to the interim financial statements.

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements at 30 June 2017 have been prepared in condensed form, in compliance with IAS 34 "Interim financial reporting". The interim financial statements do not therefore include all the information required of annual financial statements and must 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 endorsed by the EU in accordance with Regulation No. 1606/2002.

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 the disclosure of contingent assets and liabilities at the reporting date of the interim financial statements. If in the future such estimates and assumptions, which are based on management's best judgment, deviate from the actual circumstances, they will be modified in accordance with the changes in the circumstances.

These measurement activities, and especially the more complex calculations such as those required to identify impairment loss, are carried out in depth only for the preparation of the year-end 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.

### 3. REVENUE

Revenue came to € 186,046 thousand in the first six months of 2017 (€ 177,163 thousand in the same period of 2016) and was composed as follows:

€ (thousands)	First six months 2017	First six months 2016	Change 2017/2016
Net sales	180,774	174,221	6,553
Royalties and up-front payments	389	506	(117)
Revenue from services	4,883	2,436	2,447
<b>Total revenue</b>	<b>186,046</b>	<b>177,163</b>	<b>8,883</b>

### 4. OTHER REVENUES AND INCOME

Other revenues in the first six months of 2017 amounted to € 370 thousand compared with € 497 thousand in the first six months of 2016. It includes employees charges for the use of hired cars, other indemnities, non-recurring income, exceptional receivables and gains on the sale of non-current assets.

### 5. RAW MATERIALS COSTS

Costs for raw materials amounted to € 51,662 thousand in the first six months of 2017 (€ 49,611 thousand in the same period of 2016) and were composed as follows:

€ (thousands)	First six months 2017	First six months 2016	Change 2017/2016
Raw materials and goods for resale	44,432	42,986	1,446
Packaging materials	4,218	3,590	628
Others and consumables	3,012	3,035	(23)
<b>Total</b>	<b>51,662</b>	<b>49,611</b>	<b>2,051</b>

### 6. PERSONNEL COSTS

Personnel costs amounted to € 41,140 thousand (€ 42,871 thousand in the same period of 2016) and were composed as follows:

€ (thousands)	First six months 2017	First six months 2016	Change 2017/2016
Wages and salaries	28,918	28,677	241
Social security costs	9,092	9,085	7
Salary resulting from stock option plans	989	811	178
Other costs	2,141	4,298	(2,157)
<b>Total personnel costs</b>	<b>41,140</b>	<b>42,871</b>	<b>(1,731)</b>

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

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

## 7. DEPRECIATION AND AMORTIZATION

Depreciation and amortization amounted to € 4,922 thousand in the first six months of 2017 (€ 4,742 thousand in the same period of 2016) and was composed as reported below:

### Amortization of intangible assets

€ (thousands)	First six months 2017	First six months 2016	Change 2017/2016
Patent rights and marketing authorizations	208	209	(1)
Distribution, license, trademark and similar rights	1,394	1,327	67
<b>Total</b>	<b>1,602</b>	<b>1,536</b>	<b>66</b>

### Depreciation of property, plant and equipment

€ (thousands)	First six months 2017	First six months 2016	Change 2017/2016
Industrial buildings	553	558	(5)
General plant	257	238	19
Accelerated depreciation machinery	1,242	1,223	19
Normal depreciation machinery	577	504	73
Miscellaneous laboratory equipment	417	373	44
Office furnishings and machines	23	20	3
Electronic equipment	239	278	(39)
Vehicles for internal transport	12	12	0
<b>Total</b>	<b>3,320</b>	<b>3,206</b>	<b>114</b>

## 8. OTHER OPERATING EXPENSES

Other operating expenses amounted to € 33,750 thousand in the first six months of 2017 (€ 35,015 thousand in the same period of 2016). They were composed as follows:

€ (thousands)	First six months 2017	First six months 2016	Change 2017/2016
Services	26,652	26,073	579
Lease expenses	1,419	1,511	(92)
Provisions	0	106	(106)
Sundry expenses	5,679	7,325	(1,646)
<b>Total</b>	<b>33,750</b>	<b>35,015</b>	<b>(1,265)</b>

Other operating expenses include the following:

- the item services mainly includes costs incurred for scientific meetings and publications, market research, expenses for medical and scientific communications, advertising, clinical and drugs trials and professional advice;
- the item lease expenses is composed mainly of car hire expenses;
- expenses consisting of “pay-back” costs.

## 9. CHANGES IN INVENTORIES

Changes in inventories recorded a net decrease of € 1,363 thousand in the first six months of 2017 (an increase of € 951 thousand in the same period of 2016). The item was composed as follows:

€ (thousands)	First six months 2017	First six months 2016	Change 2017/2016
Raw materials	942	2,671	(1,729)
Supplies	386	(1,135)	1,521
Intermediates and work-in-process	1,691	(883)	2,574
Finished goods	(1,656)	(1,604)	(52)
<b>Total</b>	<b>1,363</b>	<b>(951)</b>	<b>2,314</b>

## 10. INCOME FROM INVESTMENTS

Income from investments amounted to € 60,050 thousand (€ 53,021 thousand in the same period of 2016) and related to dividends declared by subsidiaries.

## 11. FINANCIAL INCOME (EXPENSE), NET

Net financial income (expense) showed net expense of € 3,633 thousand for the first six months of 2017 (€ 2,398 thousand in the same period of 2016). The main items are summarized in the table below.



€ (thousands)	First six months 2017	First six months 2016	Change 2017/2016
Losses for elimination of investments	(43)	0	(43)
Foreign exchange gains (losses)	(889)	(134)	(755)
Interest income from subsidiaries	548	1,023	(475)
Interest expense payable to subsidiaries	(1,340)	(234)	(1,106)
Interest expense on loans	(2,152)	(2,083)	(69)
Net interest on short-term financial positions	634	(591)	1,225
Bank charges	(329)	(289)	(40)
Interest cost in respect of defined benefit plans (IAS 19)	(62)	(90)	28
<b>Total</b>	<b>(3,633)</b>	<b>(2,398)</b>	<b>(1,235)</b>

Interest income from subsidiaries relates to interest of € 412 thousand on loans granted to subsidiaries and to € 136 thousand from the centralized cash pooling treasury system in operation at the Parent Company since 2007 on the basis of which monthly interest receivable and payable is recognized at market rates.

Interest expense paid to subsidiaries relates to loans granted by subsidiaries and amounted to € 1,089 thousand and to the centralized cash pooling system amounting to € 251 thousand.

Interest expense in respect of personnel leaving indemnities (Italian *trattamento fine rapporto* scheme) relates to the interest cost component of the adjustment to the relative provision in compliance with IAS 19.

## 12. TAXES

Taxes recognized in the income statement in the first six months of 2017 amounted to € 21,898 thousand (€ 14,264 thousand in the same period of 2016). They were composed as follows:

€ (thousands)	First six months 2017	First six months 2016	Change 2017/2016
Current taxation:			
IRES (corporate income tax)	19,536	11,967	7,569
IRAP (regional tax on production)	2,325	1,844	481
<b>Total current taxation</b>	<b>21,861</b>	<b>13,811</b>	<b>8,050</b>
Deferred taxation:			
Movement in deferred tax assets/liabilities, net	(92)	(98)	6
Use of prior years deferred tax assets/liabilities	129	551	(422)
<b>Total deferred tax (assets)/liabilities</b>	<b>37</b>	<b>453</b>	<b>(416)</b>
<b>Total</b>	<b>21,898</b>	<b>14,264</b>	<b>7,634</b>

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

### 13. PROPERTY, PLANT AND EQUIPMENT

Property plant and equipment, net of accumulated depreciation, at 30 June 2017 and at 31 December 2016 amounted to € 43,973 thousand and € 44,851 thousand respectively. Changes in this item are given below.

€ (thousands)	Property and buildings	Plant and machinery	Other fixtures	Construction in progress	Total property, plant and equipment
<b>Cost of acquisition</b>					
Balance at 31.12.16	38,387	155,491	35,854	6,549	236,281
Additions	152	577	180	1,622	2,531
Disposals	(77)	(679)	(670)	0	(1,426)
Reclassifications	307	3,338	965	(4,610)	0
<b>Balance at 30.06.17</b>	<b>38,769</b>	<b>158,727</b>	<b>36,329</b>	<b>3,561</b>	<b>237,386</b>
<b>Accumulated depreciation</b>					
Balance at 31.12.16	28,973	131,671	30,786	0	191,430
Depreciation for the period	553	2,077	691	0	3,320
Disposals	(57)	(612)	(669)	0	(1,338)
Reclassifications	0	0	0	0	0
<b>Balance at 30.06.17</b>	<b>29,469</b>	<b>133,136</b>	<b>30,808</b>	<b>0</b>	<b>193,413</b>
<b>Carrying amount</b>					
<b>at 30 June 2017</b>	<b>9,300</b>	<b>25,591</b>	<b>5,521</b>	<b>3,561</b>	<b>43,973</b>
at 31 December 2016	9,414	23,820	5,068	6,549	44,851

Depreciation for the period amounted to € 3,320 thousand and was calculated on all depreciable assets using rates which are held to be representative of the estimated useful life of the assets.

### 14. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 30 June 2017 and at 31 December 2016 amounted to € 194,971 thousand and € 25,517 thousand respectively. Changes in this item are given below.

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Assets under construction and advances	Total intangible assets
<b>Cost of acquisition</b>					
Balance at 31.12.16	30,575	41,468	13,234	2,099	87,376
Additions	0	6	0	171,051	171,057
Disposals	0	0	0	0	0
Reclassifications	0	717	0	(717)	0
<b>Balance at 30.06.17</b>	<b>30,575</b>	<b>42,191</b>	<b>13,234</b>	<b>172,433</b>	<b>258,433</b>
<b>Accumulated amortization</b>					
Balance at 31.12.16	26,964	21,661	13,234	0	61,859
Amortization for the period	208	1,394	0	0	1,602
Disposals	0	0	0	0	0
Reclassifications	0	0	0	0	0
<b>Balance at 30.06.17</b>	<b>27,172</b>	<b>23,055</b>	<b>13,234</b>	<b>0</b>	<b>63,461</b>
<b>Carrying amount</b>					
<b>at 30 June 2017</b>	<b>3,403</b>	<b>19,136</b>	<b>0</b>	<b>172,433</b>	<b>194,971</b>
at 31 December 2016	3.611	19.807	0	2.099	25.517

All intangible assets have a defined useful life and are amortized over a period not exceeding 20 years. An agreement was concluded with AstraZeneca during the period for the acquisition of the European marketing rights for the products Seloken®/Seloken® ZOK (metoprolol succinate) and the fixed combination Logimax® (metoprolol succinate and felodipine). Metoprolol succinate is a beta-blocker for the control of hypertension, angina pectoris and cardiac insufficiency.

The cost for the acquisition of the brands was € 258.1 million, of which € 87.1 million was classified as assets held for sale in accordance with IFRS 5 (note 25).

## 15. INVESTMENTS

Investments amounted to € 770,782 thousand at 30 June 2017 (€621,144 at 31 December 2016). Movements in the item are shown in the table in Attachment 1.

The percentage of ownership and the number of shares or quotas possessed are reported in Attachment 2.

The change is due to the following:

- the cross-border merger by acquisition of the former subsidiary Recordati S.A. Chemical and Pharmaceutical Company, as a result of which the amount for investments increased by € 137,445 thousand;
- an increase of € 992 thousand due to the application of IFRS 2 which requires an increase in the value of investments corresponding to the cost of stock options granted to the employees of subsidiaries;
- an increase of € 312 thousand in the value of the investment in the United States concern Puretech Ventures as a result of its valuation at 30 June 2017;
- increases in the value of the investments in Opalia Pharma and Puretech Ventures, amounting to € 1,927 thousand and € 7,991 thousand respectively, following initial adjustments made to balances resulting from the aforementioned merger;

- acquisition of an investment in the Canadian subsidiary Recordati Rare Diseases Canada Inc amounting to € 245 thousand;
- an increase in the investment in Recordati Rare Diseases Mexico amounting to € 804 thousand;
- disposal of the investment in Recordati Portuguesa LDA amounting to € 78 thousand.

## 16. LOANS AND RECEIVABLES (non-current)

Non-current loans and receivables amounted to € 13,263 thousand at 30 June 2017 (€ 16,396 thousand at 31 December 2016) and related mainly to a long-term loan granted to Casen Recordati S.L. in 2014, due in 2020, with a remaining balance at 30 June 2017 of € 12,000 thousand.

We also report a long-term loan to Opalia Pharma S.A. due in 2019, with a remaining balance at 30 June 2017 of € 1,081 thousand.

## 17. DEFERRED TAX ASSETS

At 30 June 2017 these amounted to € 392 thousand (€ 3,722 thousand at 31 December 2016), a decrease of € 3,330 thousand.

## 18. INVENTORIES

Inventories at 30 June 2017 and at 31 December 2016 amounted to € 56,308 thousand and € 54,944 thousand respectively, as shown in the following table:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Raw materials, ancillary materials, consumables and supplies	12,818	11,490	1,328
Intermediates and work-in-process	13,784	12,093	1,691
Finished goods	29,706	31,361	(1,655)
<b>Total</b>	<b>56,308</b>	<b>54,944</b>	<b>1,364</b>

## 19. TRADE RECEIVABLES

Trade receivables at 30 June 2017 and at 31 December 2016 amounted to € 74,463 thousand and € 53,101 thousand respectively as shown below:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Trade receivables from subsidiaries	28,187	18,820	9,367
Trade receivables from others:			
Italy	39,604	28,460	11,144
Abroad	7,833	7,014	819
	<b>75,624</b>	<b>54,294</b>	<b>21,330</b>
less:			
Allowance for doubtful accounts	(1,161)	(1,193)	32
<b>Total trade receivables</b>	<b>74,463</b>	<b>53,101</b>	<b>21,362</b>

## 20. OTHER RECEIVABLES

Other receivables at 30 June 2017 amounted to € 7,888 thousand (€ 10,556 thousand at 31 December 2016). The composition is given in the following table:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Tax income	758	1,426	(668)
From parent companies	7	19	(12)
From subsidiaries	3,143	744	2,399
Advances to employees and agents	1,254	6,556	(5,302)
Others	2,726	1,811	915
<b>Total other receivables</b>	<b>7,888</b>	<b>10,556</b>	<b>(2,668)</b>

## 21. OTHER CURRENT ASSETS

Other current assets amounted to € 3,014 thousand (€ 539 thousand at 31 December 2016) and related mainly to prepaid expenses. More specifically, these consisted of premiums paid in advance to insurance companies for policies and advance payments for various services, as well as the payment made in June of the annual payback quota based on the negotiated agreement concluded with AIFA (Italian Medicines Agency) on 29/9/2015.

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

The market value (fair value) at 30 June 2017 of the currency rate swaps, entered into by the Company to hedge a bond issued for \$ 75 million on 30 September 2014, totaled € 8,129 thousand (€ 12,497 thousand at 31 December 2016). That value represents the potential benefit resulting from a lower value in euro of the future cash flows in United States dollars in terms of principal and interest, due to an appreciation of the foreign currency with respect to the time of finalizing the loan and acquiring the hedge instruments. More specifically, the fair value of the derivative to hedge the \$ 50 million tranche of the loan granted by Mediobanca was positive by € 5,449 thousand, while that of the instrument to hedge the \$ 25 million tranche of the loan granted by Unicredit was positive by € 2,680 thousand.

## 23. OTHER SHORT-TERM RECEIVABLES

Other short-term receivables amounted to € 35,646 thousand (€ 119,857 thousand at 31 December 2016), and all consisted of amounts due from subsidiaries.

These receivables are mainly attributable to a cash pooling treasury system in operation at the Parent Company and to loans granted to some Group companies. Interest is paid on these receivables at short-term market rates.

The decrease is mainly due to the elimination of loans to and receivables from the former subsidiary Recordati S.A. Chemical and Pharmaceutical Company, following the cross-border merger by acquisition of that subsidiary, which had amounted to € 21,000 thousand for loans granted and to € 49,174 thousand of receivables relating to the cash pooling scheme.

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

Short-term financial investments and cash and cash equivalents amounted to € 30,018 thousand at 30 June 2017 (€ 86,815 thousand at 31 December 2016) and consisted of current account and short-term bank deposits.

Adequate funding was maintained in order to support the growth strategies of the Group.

## 25. NON-CURRENT ASSETS HELD FOR SALE

In accordance with the provisions of IFRS 5, part of the international marketing rights purchased from AstraZeneca amounting to € 87,166 thousand, which will be sold to a Group company before the end of the year, have been recognized within non-current assets held for sale.

## 26. SHAREHOLDERS' EQUITY

A summary of the changes in the shareholders' equity accounts is reported in the relative statement. In accordance with Legislative Decree No. 6/2003, which amended the Italian Civil Code, the table contained in Attachment 3 has been provided which gives the composition of reserves on the basis of availability for use and distribution.

*Share capital* - The share capital at 30 June 2017 amounting to € 26,140,644.50 was fully paid up and consists of 209,125,156 ordinary shares with a par value of € 0.125 each. It remained unchanged over the first six months of 2017.

At 30 June 2017 the Company had two stock option plans in place in favor of certain Group employees, the 2010-2013 plan with options granted on 9 February 2011, 8 May 2012, 17 April 2013 and 30 October 2013 and the 2014-2018 plan with options granted on 29 July 2014 and 13 April 2016. The exercise price of the options is the average of the company's listed share price during the 30 days prior to the grant date. The options vest over a period of five years and options not exercised within the eighth year of the date of grant expire. Options cannot be exercised if the employee leaves the Company before they are vested.

Details of stock options outstanding at 30 June 2017 are given in the table below:

	Strike price (€)	Options outstanding at 1.1.2017	Options granted during 2017	Options exercised during 2017	Options cancelled and expired	Options outstanding at 30.6.2017
<b>Grant date</b>						
9 February 2011	6.7505	597,500	-	(360,500)	-	237,000
8 May 2012	5.3070	1,425,000	-	(760,000)	-	665,000
17 April 2013	7.1600	120,000	-	(47,500)	(5,000)	67,500
30 October 2013	8.9300	155,000	-	(50,000)	-	105,000
29 July 2014	12.2900	4,530,000	-	(1,187,500)	(137,500)	3,205,000
13 April 2016	21.9300	3,973,000	-	(216,000)	(180,000)	3,577,000
<b>Total</b>		<b>10,800,500</b>	<b>-</b>	<b>(2,621,500)</b>	<b>(322,500)</b>	<b>7,856,500</b>

#### *Additional paid-in capital*

Additional paid-in capital at 30 June 2017 amounted to € 83,718,523 and was unchanged compared with 31 December 2016.

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

#### *Treasury stock*

At 30 June 2017 treasury shares held in portfolio numbered 1,269,762 down by 2,621,500 compared with 31 December 2016. The change is due to the sale of 2,621,500 shares for valuable consideration of € 26,585 thousand in order to allow the exercise of stock options granted to employees as part of stock option plans. The expense incurred for the purchase of treasury shares held in portfolio totaled € 25,048 thousand at an average price per share of € 19.73.

#### *Statutory reserve*

This amounted to € 5,228 thousand and was unchanged compared with 31 December 2016.

#### *Other reserves*

Other reserves totaled € 220,129 thousand. Details are as follows:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Merger gain	29,813	0	29,813
Extraordinary reserve	61,995	121,403	(59,408)
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	99	0
Extraordinary VAT concession reserve	517	517	0
Research and investment grants	17,191	17,191	0
Non-distributable reserve for investments in southern Italy	3,632	3,632	0
International accounting standards reserve	111,212	102,509	8,703
<b>Total</b>	<b>224,459</b>	<b>245,351</b>	<b>(20,892)</b>
Fair value derivative instruments	(4,330)	(7,419)	3,089
<b>Total other reserves</b>	<b>220,129</b>	<b>237,932</b>	<b>(17,803)</b>

#### *Merger gain*

Following the merger by acquisition of the former subsidiary, Recordati S.A. Chemical and Pharmaceutical Company, as already reported in the relative section, a merger gain was recognized in “other reserves” within equity, amounting to € 29,813 thousand.

#### *Extraordinary reserve*

This amounted at 30 June 2017 and 31 December 2016 to € 61,995 thousand and € 121,403 thousand respectively. The reserve decreased by a total of € 59,408 thousand. On the one hand, a shareholders’ resolution dated 11 April 2017 declared a dividend consisting of the profit for the year and € 34,280 from the extraordinary reserve. On the other hand, following the allotment of treasury stock to Group employees who exercised their option rights under stock option schemes, a difference was generated between the amount paid by employees and the carrying amount of the treasury stock recognized in

the balance sheet amounting to € 25,128 thousand, which was charged as a decrease to the extraordinary reserve in accordance with international accounting standards.

*Reserve under Art. 13, paragraph 6 of Legislative Decree 124/1993*

This amounted to € 99 thousand at 30 June 2017 and was unchanged compared with 31 December 2016.

*Extraordinary VAT concession reserve*

This reserve (Laws 675/1977, 526/1982, 130/1983 and 64/1986), amounting to € 517 thousand, relates to special VAT allowances on investments and is unchanged compared with 31 December 2016.

*Research and investment grants*

These amounted to € 17,191 thousand, unchanged compared with 31 December 2016.

The grants are subject to taxation if they are used for purposes other than to cover losses, which, however, is not planned by the Company. The assets corresponding to the grants received from the Ministry of Industry and Commerce (formerly Asmez) have been mainly fully depreciated.

*Non-distributable reserve for investments in southern Italy*

This amounted to € 3,632 thousand and was unchanged compared with 31 December 2016.

*International accounting standards reserve*

This amounted to € 111,212 thousand (€ 102,509 thousand at 31 December 2016) and is composed as follows:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Reversal of fixed asset revaluations	40,479	40,479	0
Revaluation of investments	43,054	43,054	0
Inventories	463	463	0
Personnel leaving indemnities	(680)	(680)	0
Stock options	13,451	12,460	991
Adjustment to investments for stock options	7,722	6,733	989
Reserve to adjust entries for the merged company	737	0	737
Financial instrument adjustment reserve	5,986	0	5,986
<b>Total</b>	<b>111,212</b>	<b>102,509</b>	<b>8,703</b>

With regard to those items on which movements occurred in 2017 the amount of € 13,451 thousand relates to the personnel expense for stock options issued and granted after 7 November 2002 valued in accordance with IFRS 2.

The “reserve to adjust entries for the merged company”, amounting to € 737 thousand, originated as a result of the following two transactions:

- an increase in the value of the investment in the 90% controlled subsidiary Opalia Pharma S.A., in order to take account of the option to purchase the remaining 10% from non-controlling shareholders, with a consequent decrease in equity reserves and an increase in other non-current liabilities;



- a decrease in interest payable to the merged company Recordati S.A. Chemical and Pharmaceutical Company, following the alignment of the intercompany balances between the two companies, with a consequent increase in equity reserves.

The “Financial instrument adjustment reserve”, amounting to € 5,986 thousand, arose from the adjustment at the value date of the investment in Puretech Ventures, acquired as a result of the aforementioned merger.

#### *Revaluation reserve*

This amounted to € 2,602 thousand (unchanged compared with 31 December 2016) and consisted of revaluation balances within the meaning of Law 413/1991.

## 27. LOANS

The composition of medium to long-term loans at 30 June 2017 and 31 December 2016 is shown below:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Bond subscribed by the investor Pricoa Capital Group (Prudential)	65,720	71,151	(5,431)
Loan granted by Unicredit at a floating interest rate repayable in semi-annual installments by 2020.	30,000	35,000	(5,000)
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual installments by 2020.	22,500	26,250	(3,750)
Loan granted by BNL at a floating interest rate repayable in semi-annual installments by 2018.	18,750	25,000	(6,250)
Loan granted by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual installments by 2022	37,500	40,909	(3,409)
Loan granted by BNL at a floating interest rate repayable in semi-annual installments by 2020.	25,000	25,000	0
Loan granted by Banca Intesa at a floating interest rate repayable in semi-annual installments by 2021.	25,000	25,000	0
Loan granted by Recordati Rare Diseases at a fixed interest rate repayable in semi-annual installments by 2025.	61,339	66,407	(5,068)
Bond subscribed in euro with the investor Pricoa Capital Group (Prudential)	125,000	0	125,000
<b>Total amortized cost of loans</b>	<b>410,809</b>	<b>314,717</b>	<b>96,092</b>
Portion due within one year	(36,818)	(36,818)	0
<b>Portion due after one year</b>	<b>373,991</b>	<b>277,899</b>	<b>96,092</b>
Expenses relating to loans	(1,051)	(1,187)	136
<b>Total</b>	<b>372,940</b>	<b>276,712</b>	<b>96,228</b>

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

The conversion of the debt at 30 June 2017 determined a reduction in the liability of € 5,431 thousand compared with 31 December 2016, due to the depreciation of the United States dollar against the euro.

The loan was hedged at the same time by two currency rate swap transactions, which involved transformation of the debt into a total of € 56.0 million, at a fixed interest rate of 2.895% per annum for the tranche maturing in 12 years and at a fixed interest rate of 3.15% per annum for that maturing in 15 years. The measurement of the hedging instruments at fair value at 30 June 2017, was positive on aggregate by € 8,129 thousand and was recognized directly as an increase in equity and an increase in the asset item "Fair value of hedging derivatives – cash flow hedges" (see note 22).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

In May 2015, the Company signed a loan agreement with Unicredit for € 50 million, granted net of fees and commissions of € 0.4 million. The main terms and conditions of the loan are a floating interest rate equal to the six-month Euribor plus a spread of 80 basis points and a life of five years with semi-annual repayments of the principal from November 2015 and until May 2020. The remaining debt at 30 June 2017 was € 29.7 million. The loan is partially hedged by an interest rate swap (a cash flow hedge), with which a portion of the debt is transformed to a fixed interest rate of 1,734%. Measurement of the fair value of the derivative instrument at 30 June 2017 for the hedge of € 20.8 million was negative by € 344 thousand and this was recognized directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 34).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

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

The new terms and conditions are for a floating interest rate equal to the six-month Euribor plus a spread of 85 basis points (compared with 190 basis points under the previous agreement), while the semi-annual repayments of the principal from July 2016 and until January 2020 remain unchanged. The loan was fully hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 1.913% after the renegotiation described above. The measurement of the fair value of the derivative instrument at 30 June 2017 gave a negative result of -€ 490 thousand and this was recognized directly as a reduction in equity and an increase in the liability item "Fair value of hedging derivatives – cash flow hedges" (see note 34).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

On 30 September 2013, a loan agreement was signed with Banca Nazionale del Lavoro for € 50.0 million, disbursed net of expenses and commissions of € 0.6 million. The main terms and conditions were a floating interest rate equal to the six-month Euribor plus a spread (which, following a renegotiation between the parties, was reduced from 200 basis points to 70 basis points from 1 April 2015 and to 50 basis points from 29 March 2017) and a life of 5 years with semi-annual repayments of the principal by September 2018 commencing from March 2015. The loan was fully hedged with an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate which now stands at 1.4925% following the recent renegotiation. The measurement of the fair value of the derivative instrument at 30 June 2017 gave a negative result of -€ 231 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 34).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

On 30 November 2010, the Company signed a loan contract with Centrobanca (now UBI Banca), for a three-year program of investments in Research & Development. The loan, which Centrobanca (now UBI Banca) funded through a loan from the European Investment Bank, amounted to € 75.0 million of which € 30.0 million, net of expenses of € 0.3 million, was disbursed in 2010 and € 45.0 million in the first quarter of 2011. The main terms and conditions were a floating interest rate and a life of 12 years with repayment in semi-annual installments of the principal from June 2012 and through December 2022. The remaining debt at 30 June 2017 was € 37.4 million. In June 2012 the loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 2.575%. The measurement of the fair value of the derivative instrument at 30 June 2017 gave a negative result of -€ 1,566 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 34).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

On 23 December 2016, the Company signed a loan agreement with Banca Nazionale del Lavoro for € 25.0 million, disbursed net of fees and commissions of € 0.1 million. The main terms and conditions were a floating interest rate equal to the 6-month Euribor plus a spread of 40 basis points and a life of 4 years, with semi-annual repayments of the principal by September 2020 commencing from March 2019. The loan was fully hedged at the same time with an interest rate swap (a cash flow hedge), which transformed the whole

debt to a fixed interest rate of 0.41%. The measurement of the fair value of the derivative instrument at 30 June 2017 gave a negative result of -€ 43 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 34).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

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

The loan was fully hedged at the same time with an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 0.68%. The measurement of the fair value of the derivative instrument at 30 June 2017 gave a negative result of -€ 4 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 34).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

On 8 November 2016, the Company signed a loan agreement with the subsidiary Recordati Rare Diseases for a total loan of \$ 70.0 million divided into two tranches \$ 30 million at a fixed rate of 3.35% per annum, repayable in a single installment due on 13 June 2023 and \$ 40 million at a fixed rate of 3.50% per annum, repayable in a single installment due on 13 June 2025. The loan was fully hedged with two cross currency swap transactions, which involved transformation of the debt into a total of € 62.9 million, at a fixed interest rate of 1.56% per annum for the tranche maturing in 7 years and at a fixed interest rate of 1.76% per annum for that maturing in 9 years. The measurement of the fair value of the hedging instruments at 30 June 2017 gave a total negative result of -€ 3,010 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “Fair value of hedging derivatives – cash flow hedges” (see note 34).

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

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

## 28. PERSONNEL LEAVING INDEMNITIES AND OTHER BENEFITS

The balance at 30 June 2017 was € 10,947 thousand (€ 11,237 thousand at 31 December 2016), down by € 290 thousand.

## 29. OTHER NON-CURRENT LIABILITIES

The balance at 30 June 2017 stood at € 2,515 thousand (€ 0 thousand at 31 December 2016) and relates to the debt for the acquisition of the investment in Opalia Pharma held by the former subsidiary Recordati S.A. Chemical and Pharmaceutical Company, now merged by acquisition into Recordati S.p.A.

## 30. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include end-of-year provisions for invoices to be received at 30 June 2017 and at 31 December 2016 amounted to € 38,548 thousand and € 44,515 thousand, respectively.

The balances at 30 June 2017 were as follows:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Suppliers, subsidiaries	6,329	8,050	(1,721)
Suppliers, others	32,219	36,465	(4,246)
<b>Total trade payables</b>	<b>38,548</b>	<b>44,515</b>	<b>(5,967)</b>

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

## 31. OTHER CURRENT PAYABLES

At 30 June 2017 other accounts payable amounted to € 21,983 thousand (€ 19,567 thousand at 31 December 2016). They were composed as follows:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Subsidiaries	1,924	0	1,924
Employees	8,486	8,635	(149)
Social security	6,131	6,640	(509)
Commissions to agents	986	963	23
Other	4,456	3,329	1,127
<b>Total other payables</b>	<b>21,983</b>	<b>19,567</b>	<b>2,416</b>

The increase in payables to subsidiaries relates primarily to payables for co-promotion activities carried out by Italcimici S.p.A. and Innova Pharma S.p.A. employees.

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

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

Other payables include directors' remuneration accrued at 30 June and those for the debt to regions pursuant to Law 122 of 30 July 2010.

### 32. TAX LIABILITIES

Tax liabilities amounted to € 22,676 thousand at 30 June 2017 (€ 4,397 thousand at 31 December 2016). The item was composed as follows:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Liabilities payable to Fimei S.p.A. for IRES (corporate income tax)	3,411	1,285	2,126
Liabilities for current taxation	1,000	561	439
VAT liabilities	440	0	440
Liabilities for employee withholding taxes	12,676	2,517	10,159
Liabilities for self-employed withholding taxes	5,144	33	5,111
Other tax liabilities	5	1	4
<b>Total tax liabilities</b>	<b>22,676</b>	<b>4,397</b>	<b>18,279</b>

Payables to the parent company Fimei S.p.A. for IRES related to the balance for taxes for the period transferred by Recordati S.p.A. to its parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree No. 917/1986 as amended by Legislative Decree 344/2003.

The substantial increase in "liabilities for employee withholding taxes" relates to withholding taxes levied on the exercise of stock options that took place in May and June and which were paid in July and August.

The item "liabilities for self-employed withholding taxes" includes the withholding taxes levied when the payment was made for the Astrazeneca marketing rights which was paid in July.

### 33. OTHER CURRENT LIABILITIES

No other current liabilities existed at 30 June 2017. The item amounted to € 1 thousand at 31 December 2016.

### 34. PROVISIONS

Provisions amounted to € 18,398 thousand (€ 12,958 thousand at 31 December 2016) and consisted of tax and other provisions as reported in the table below.

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Tax	9,502	3,955	5,547
For agent customer indemnities	1,536	1,536	0
Other risks	7,360	7,467	(107)
<b>Total other provisions</b>	<b>18,398</b>	<b>12,958</b>	<b>5,440</b>

The increase is due to the accrual for tax litigation.

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

The balance at 30 June 2017 was € 5,687 thousand (€ 3,621 thousand at 31 December 2016).

The interest rate swaps to hedge the cash flows related to medium and long-term loans measured at fair value at 30 June 2017 gave rise to a € 2,678 thousand liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans. The fair value measurement relates to interest rate swaps entered into by the Company to hedge interest rates on loans granted by Centrobanca (€ 1,566 thousand), Banca Nazionale del Lavoro (€ 231 thousand), ING Bank (€ 490 thousand), Unicredit (€ 344 thousand), Banca Intesa (€ 4 thousand) and Banca Nazionale del Lavoro for a loan agreement signed in 2016 (€ 43 thousand).

The market value (fair value) at 30 December 2017 of two cross-currency swaps entered into to hedge currency risks on loans to the United States company Recordati Rare Diseases, for a total nominal value of \$ 70.0 million, was totally negative at -€ 3,010 thousand and was recognized directly as a reduction in equity.

### 36. LOANS – DUE WITHIN ONE YEAR

The portions of medium and long-term loans due within one year at 30 June 2017 and at 31 December 2016 amounted to € 36,818 thousand. The amounts remained unchanged during the first half and were composed as follows:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Loan granted for research by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual installments by 2022.	6,818	6,818	0
Loan granted by BNL at a floating interest rate repayable in semi-annual installments by 2018.	12,500	12,500	0
Loan granted by Unicredit at a floating interest rate repayable in semi-annual installments by 2020.	10,000	10,000	0
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual installments by 2020.	7,500	7,500	0
<b>Total</b>	<b>36,818</b>	<b>36,818</b>	<b>0</b>

### 37. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans at 30 June 2017 and at 31 December 2016 amounted to € 1,847 thousand and € 1,778 thousand, respectively. Those liabilities were composed as follows:

€ (thousands)	30.06.2017	31.12.2016	Change 2017/2016
Current account overdrafts	766	837	(71)
Interest on loans	142	149	(7)
Interest on bond debt	939	792	147
<b>Total</b>	<b>1,847</b>	<b>1,778</b>	<b>69</b>

### 38. OTHER SHORT-TERM PAYABLES

The balance on other short term payables consisted entirely of amounts due to subsidiaries and amounted to € 390,059 thousand (€ 321,617 thousand at 31 December 2016).

The liability is composed of € 321,425 thousand resulting from the centralized cash pooling treasury system and of € 68,634 thousand of loans received from subsidiaries.

We report that following the merger of Recordati S.A. Chemical and Pharmaceutical Company, on the one hand debts of € 50,007 thousand were assumed, while on the other hand the debt of € 11,673 thousand to the merged company existing at 31 December 2016 was cancelled.

### 39. LITIGATION AND CONTINGENT LIABILITIES

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

On 24 September 2014 the Company received a visit from the Milan Tax Police Unit of the *Guardia di Finanza* (finance police) as part of a general tax inspection for IRES (corporate income tax) and IRAP (regional tax on production) purposes (relating to the years 2010, 2011, 2012). The inspection was concluded for the year 2010 with a "Record of Findings" issued on 23 September 2015 with which the inspectors found that the cost for a provision of services amounting to € 50,000 was not sufficiently documented and therefore to be considered not deductible from taxable income. On 19 October 2015 the Company filed an application for full settlement of the findings by consent, concluded following



payment of the sums due. On 26 July 2016 as part of the tax inspection into the company mentioned above, the Milan Tax Police Unit of the *Guardia di Finanza* notified the Company of a “Record of Findings” for the financial year 2011, followed by a tax assessment by the tax authorities on the basis of which it found a cost of €50,000 for a provision of services – which had been appealed against also in the previous year – not sufficiently documented and therefore considered not deductible from taxable income. On 15 December 2016 the Company decided to comply with the tax assessment.

On 25 September 2017, again within the same tax audit of the Company above mentioned, the Italian Tax Police issued a Tax Audit Report for the 2012 tax year, which shall be followed up by a notice of assessment by the Internal Revenue Service, disallowing costs for services rendered for an amount of € 50,000 - an issue with regard to which notices of assessment were already issued for the previous tax periods - being not sufficiently documented and therefore not deductible for income tax purposes.

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 company Recordati S.A. Chemical and Pharmaceutical Company, that was merged into the Company in June 2017. The declared objective of the inspections was to assess the operating context of that foreign company in order to verify whether that company was in reality only formally located abroad, but in substance managed and administered from Italy. Furthermore, on 28 February 2017, the Italian Tax Police (*Guardia di Finanza*) extended its inspection to cover direct taxes for the tax year 2015. Once the stage consisting of the acquisition of documents on-site and analysis of that information was concluded, the *Guardia di Finanza* finally revealed to Recordati S.A. Chemical and Pharmaceutical Company, on 6 September 2017, the grounds that led it to consider that the Luxembourg company was liable to pay taxes in Italy on corporate income in the periods considered, with the consequent determination of claimed taxes due in Italy amounting to € 7.2 million. The Company, backed, amongst other things, by the opinion of professional advisors, confirms that, even following recent developments, the company inspected has good grounds to support the legitimacy of their tax conduct.

#### 40. SUBSEQUENT EVENTS

The Management Review of Operations may be consulted for events subsequent to 30 June 2017.

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

ATTACHMENT 1

€ (thousands)	Balance at 31 Dec 2016	Share capital sales and redemptions	Mergers	Acquisitions subscriptions	Initial adjustments	IFRS valuation	IFRS 2 Stock option valuation	Balance at 30 Jun 2017
Investments in subsidiaries								
Recordati S.A. – Luxembourg	221,343	-	(221,343)	-	-	-	-	0
Casen Recordati S.L. – Spain	192,463	-	77,362	-	-	-	261	270,086
Innova Pharma S.p.A. – Italy	10,561	-	-	-	-	-	2	10,563
Recordati Portuguesa LDA – Portugal	78	(78)	-	-	-	-	-	0
Bouchara Recordati S.a.s. – France	55,702	-	17	-	-	-	219	55,938
Recordati Pharmaceuticals Ltd. – United Kingdom	753	-	21,836	-	-	-	-	22,589
Recordati Hellas Pharmaceuticals S.A. – Greece	97	-	4,656	-	-	-	19	4,772
Herbacos Recordati s.r.o. – Czech Republic	15	-	19,557	-	-	-	17	19,589
Recordati Polska Sp. z.o.o. – Poland	19,311	-	-	-	-	-	57	19,368
Italchimici S.p.A. – Italy	106,294	-	-	-	-	-	-	106,294
Pro Farma AG – Switzerland	14,496	-	-	-	-	-	-	14,496
RRD Canada Inc. – Canada	-	-	-	245	-	-	-	245
RRD INC – United States	-	-	1,782	-	-	-	111	1,893
RRD Ukraine LLC – Ukraine	-	-	0	-	-	-	-	0
RRD S.A. DE C.V. – Mexico	-	-	10	804	-	-	4	818
RRD Comercio Medicamentos LTDA - Brazil	-	-	212	-	-	-	5	217
Recordati Ireland LTD - Ireland	-	-	632	-	-	-	75	707
Recordati SA - Switzerland	-	-	1,607	-	-	-	31	1,638
Recordati Orphan Drugs S.A.S.-France	-	-	52,588	-	-	-	131	52,719
Opalia Pharma S.A. - Tunisia	-	-	18,055	-	1,927	-	-	19,982
Recordati Romania Srl - Romania	-	-	1,463	-	-	-	9	1,472
Recordati Pharma GMBH - Germany	-	-	87,050	-	-	-	51	87,101
Accent LLC - Russia	-	-	66,707	-	-	-	-	66,707
	<b>621,113</b>	<b>(78)</b>	<b>132,191</b>	<b>1,049</b>	<b>1,927</b>	<b>0</b>	<b>992</b>	<b>757,194</b>
Investments in other companies:								
Tecnofarmaci S.CpA - in liquidation – Pomezia (Rome)	28	-	-	-	-	-	-	28
Sifir S.p.A. – Reggio Emilia	0	-	-	-	-	-	-	0
Consorzio Dafne – Reggello (Florence)	2	-	-	-	-	-	-	2
Consorzio Nazionale Imballaggi – Rome	0	-	-	-	-	-	-	0
Consorzio C4T – Pomezia (Rome)	1	-	-	-	-	-	-	1
DGT - United States	-	-	0	-	-	-	-	0
Codexis - United States	-	-	23	-	-	-	-	23
Puretech Ventures - United States	-	-	5,224	-	7,991	312	-	13,527
Fluidigim - United States	-	-	7	-	-	0	0	7
	<b>31</b>	<b>0</b>	<b>5,254</b>	<b>0</b>	<b>7,991</b>	<b>312</b>	<b>0</b>	<b>13,588</b>
<b>TOTAL</b>	<b>621,144</b>	<b>(78)</b>	<b>137,445</b>	<b>1,049</b>	<b>9,918</b>	<b>312</b>	<b>992</b>	<b>770,782</b>

RECORDATI S.p.A  
SUMMARY STATEMENT OF DIRECT INVESTMENTS

ATTACHMENT 2

€ (thousands)	Balance at 30 Jun 2017	Percentage ownership	Number of shares or quotas possessed
<b>Investments in subsidiaries</b>			
Casen Recordati S.L. – Spain	270.086	100,00	2.389.660
Innova Pharma S.p.A. – Italy	10.563	100,00	960.000
Bouchara – Recordati S.a.s. – France	55.938	100,00	10.000
Recordati Pharmaceuticals Ltd. – United Kingdom	22.589	100,00	15.000.000
Recordati Hellas Pharmaceuticals S.A. – Greece	4.772	100,00	1.005.000
Herbacos Recordati s.r.o. – Czech Republic	19.589	100,00	2.560
Recordati Polska Sp. z.o.o. – Poland	19.368	100,00	90.000
Italchimici S.p.A. – Italy	106.294	100,00	7.646.000
Pro Farma AG - Switzerland	14.496	100,00	30.000
RRD Canada Inc. – Canada	245	100,00	1.000
RRD INC – United States	1.893	100,00	100
RRD Ukraine LLC – Ukraine	0	0,01	1
RRD S.A. DE C.V. – Mexico	818	99,998	49.999
RRD Comercio de Medicamentos LTDA - Brazil	217	99,398	166
Recordati Ireland LTD - Ireland	707	100,00	200.000
Recordati SA - Switzerland	1.638	100,00	2.000
Recordati Orphan Drugs S.A.S. -France	52.719	90,00	51.300
Opalia Pharma S.A. – Tunisia	19.982	90,00	612.000
Recordati Romania Srl – Romania	1.472	100,00	500.000
Recordati Pharma GMBH - Germany	87.101	55,00	1
Accent LLC – Russia	66.707	100,00	1
	<b>757.194</b>		
<b>Investments in other companies:</b>			
Tecnofarmaci S.CpA. – in liquidation – Rome	28	4.18	79,500
Sifir S.p.A. – Reggio Emilia	0	0.04	1,304
Consorzio Dafne – Reggello (Florence)	2	1.16	1
Consorzio C4T – Rome	1	0.23	1,300
Consorzio Nazionale Imballaggi – Rome	0	n.s.	1
DGT - United States	0	n.s.	n,s,
Codexis - United States	23	n.s	5,203
Puretech Ventures - United States	13,527	n.s	9,554,140
Fluidigim - United States	7	n.s	1,019
	<b>13,588</b>		
<b>TOTAL</b>	<b>770,782</b>		

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

ATTACHMENT 3

€ (thousands)	Amount	Possibility of use	Amount available	Amount distributable without tax effects	Amount distributable with tax effects	Notes
Share capital	26,141					
Additional paid-in capital reserve	83,718	A B C	83,718	15,074	68,644	1
Revaluation reserve	2,602	A B C	2,602	0	2,602	
Statutory reserve	5,228	B	0	0	0	
By-law reserves	0					
Treasury stock reserve	(25,048)		(25,048)	(25,048)	0	
Other reserves						
Merger gain	29,813	A B C	29,813	0	0	
Extraordinary reserve	61,995	A B C	61,995	61,995	0	
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	A B C	99	0	99	
Research and investment grants	17,190	A B C	17,190	1,227	15,963	2
Extraordinary VAT concession reserve	517	A B C	517	0	517	
Southern Italy investment fund	3,632					
IAS reserve	106,882	A B C	106,882	106,882	0	
Interim dividends	0		0	0	0	
Net income for the period	90,824	A B C	90,824	90,824	0	
<b>Total shareholders' equity</b>	<b>403,594</b>		<b>368,592</b>	<b>250,954</b>	<b>87,825</b>	

**Legend:**

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

**Notes:**

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

## DECLARATION OF THE MANAGER APPOINTED TO PREPARE CORPORATE ACCOUNTING DOCUMENTS

The manager appointed to prepare the corporate accounting documents, Fritz Squindo, declares, in accordance with paragraph 2 Article 154-*bis* of the Consolidated Finance Act, that the accounting information contained in this financial report corresponds to the amounts shown in the Company's accounts, books and records.

Milano, 26 October 2017

Fritz Squindo  
*Manager appointed to prepare  
the corporate accounting documents*