Recordati S.p.A

"2016 Preliminary Consolidated Results and 2017-2019 Business Plan Conference Call"

Thursday, February 09, 2017, 16:00 CET

MODERATORS: ANDREA RECORDATI, VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER

FRITZ SQUINDO, CHIEF FINANCIAL OFFICER

MARIANNE TATSCHKE, DIRECTOR, INVESTOR RELATIONS

OPERATOR: Ladies and gentlemen, welcome and thank you for joining the 2016 Preliminary Consolidated Results and 2017-2019 Business Plan Conference Call. Now, I would like to turn the conference over to Mrs. Marianne Tatschke. Please go ahead, madam.

MARIANNE TATSCHKE: Good morning or good afternoon to everyone. This is our conference call to present our preliminary full year 2016 results and our new business plan. Here with us today are, Mr. Andrea Recordati, Chief Executive Officer and Vice President of the company, as well as Fritz Squindo, CFO.

I will hand the meeting over to Andrea, who will introduce the proceedings. Thank you.

ANDREA RECORDATI: Very short introduction. Just wanted to thank everybody for being here, for those of who are present in the room and those who are obviously connected via conference call. Like Marianne said, we are going to present the 2016 preliminary results and following which would be Mr. Squindo presenting, and I will present myself the Business Plan 2017-2019. Okay, so I will pass on to Fritz Squindo.

FRITZ SQUINDO: Thank you, Andrea. Good afternoon or good morning to everybody. We are today announcing our preliminary result for the full year, which show margin…sales growth and margin expansion and we are very pleased by this performance in 2016.

Consolidated revenue we will see here, we are using our normal presentation. Revenue is €1,153.9 million which are up by 10.1% and double-digit growth in our revenue line. This line in includes €27.7 million, which are linked to the acquisition and consolidation of the new

acquired company Italchimici S.p.A., in Italy and Pro Farma in Switzerland.

Excluding this part, the sales…the organic growth would have been 7.5%. Then we continue to have solid organic growth driven by the good performance of our corporate product. We will see later on driven by the Orphan business development, and driven also by strong performance in some emerging markets, such as Turkey and Russia.

This excellent sales performance which is, as I said, is mainly driven by organic development portfolio, also allow us to a further improvement in our margin. Now, we have an EBITDA at 33.2% which is up in absolute value by 17.1%.

Operating income at €327.4 million which is 28.4% of sales are up by 17.6%; let me underline that in this operating income there was…in this result, we have included no recurrent expenses for €12.6 million which are linked to the cost related to the acquisition of Italchimici, cost related to the reorganization of Italchimici, and we have also included write-down of some intangible asset in the last quarter, in the fourth quarter 2016.

If we exclude the EBIT margin, if you exclude this extraordinary or non-recurring cost, the operating margin would have been close to 30%, very solid performance with a further expansion in our margin. And the net income at 20s.6% is €237.4 million. And here we have an increase of 19.4% over 2015.

Solid financial performance, but we are also very pleased in 2016 for important agreements we have closed, we have signed, for a further development of the company. First of all, the two acquisitions, the

acquisition of the Italchimici, company in Italy which has consolidated our business in Italy.

We have also bought a company in Switzerland, and now we have one subsidiary in Switzerland of around €15 million sales which combine both the sales acquired through the acquisition of Pro Farma and the existing portfolio sold by a previous license is with…is in Switzerland, now we have the right to sell direct. Then we have another important subsidiary in Switzerland. This is in term of M&A.

In term of agreement for enhancing the pipeline, we have signed agreement for the commercialization of Cariprazine in August. This will be; as we will see during the presentation of Andrea Recordati, an important driver for the future development of our corporate portfolio. We have also signed some agreement in the Orphan arena.

And in this case we've signed an agreement for the MSUD, which is an orphan disease, in collaboration with Assistance Publique-Hopitauxde Paris which is an important…another product in our pipeline. And this is the first deal in one building…in our building an important franchise in the orphan arena.

We have also always in the Orphan arena, in January, obtained the approval of the CYSTADROPs, which is an orphan drug for the treatment of ocular manifestations of cystinosis event. Very positive result from the financial point of view, but also for the development enhancing [ph] of the pipeline, a further development that we want to add in our company.

Let’s now comment quickly the main products, the performance of the main products. Lercanidipine franchise continues to be stable; slightly growing the combination, the plain [ph] is essentially stable. Urorec is

growing by around 25%, Livazo pitavastatin by 23.6%. The other corporate products, which comprise 19 products, of which eight…six are OTC products which established product…very well established in the market which continued to grow by 8.2%, and this is mainly driven by the performance of…mainly because of the performance of the Russian portfolio…the business in Russia, and also the cross-selling of the portfolio of [indiscernible] outside the Spanish market.

Let me underline again that in the other corporate product we have these OTC corporate products which are up by 11.5%. Drugs for rare diseases, orphan treatment for rare disease…orphan disease we have an organic growth in this business by 22%, very excellent performance of the main product in our portfolio.

Let's now have a look on the portfolio [ph]. This is our product portfolio, presentation of portfolio. No major changes, but as I said, we are diversifying the portfolio, but all the major products are growing and are contributing to the performance of this 10.1% increase in sales in 2016.

Composition of revenue by geography, Italy now is growing by 12.2% which is also due to the consolidation of Italchimici, but also excluding the Italchimici the Italian business is growing. France is growing by 4%, driven by a local product which is methadone, plus the good performance of our corporate product. In particular we are talking about Urorec and Zanextra. Zanextra is the brand name of the combination of lercanidipine and enalapril in France.

USA, USA is growing in local currency by 26.2%, this is our business in the USA, which is representing only by the treatment of rare diseases. This growth is mainly driven by volume, and in particular, we have a significant growth of the corporate product which is Carbaglu which is a

product belonging to the Orphan Europe portfolio. We have obtained the approval, now we are launching with a real good success in the US market.

Then we have Germany which is growing by 6.7% with a very solid performance of Orthotone, which is a local product. Turkey…in local currency it is growing by 26.8% and we are doing…this is mainly driven by volume and we are very pleased by the performance of all our portfolio both local products and corporate products in Turkey.

Then we have a performance growth also in Spain. We have this…more decrease in North Africa which is mainly driven to some…the decrease of the business in Algeria is not linked to our acquisition in Tunisia. Our acquisition in Tunisia is growing, and we are very pleased by the development of all the portfolio, in particular by the development of the corporate products in Tunisia.

To add corporate products to an existing geography is the way in which we can create value, following the acquisition, and we are doing this job also in Tunisia. Portugal is growing. And then overall, we have our pharmaceutical business which is growing by 10.1%.

Next, we can comment, this is our presentation of the breakdown by geography and no major changes in this chart; we have the Italian business which represents 20%-21%. But then we have our presence, which is a balanced one, in all the other major pharmaceutical businesses in Europe.

Let's now move on our P&L analysis. Revenue has been already commented, I would like to underline that the gross profit is slightly growing also is margin. This is driven by the product mix because we are

growing the business, which has a higher margin compared to the other part of the business.

SG&A expense is at 32% as a percentage of revenue. We continue leveraging our organization, because we are growing organically, mainly without important significant addiction in term of cost, in term of infrastructure.

R&D, we continue to invest in the region of 7.3%, you will see in our Business Plan, we have continued to believe that R&D is an important source for our development, and we will continue to invest in the R&D.

Our net income, as I said we have non-recurrent cost for €12.6 million in our P&L which is, as I said, due to cost for the acquisition of the two companies, plus some write-down of intangible assets that we have in…that we decided to do in the second…the last quarter of the year. Let me repeat, we have a very solid performance in term of operating income, 17.6% growth and even more in our net income 19.4%.

In term of EBIT margin by segment; EBIT margin in the treatment of rare disease is 44.6%, in line with what we have achieved in the first nine months and slightly increased compared to 2015. But also the same in primary and specialty care, 25.2 and 26 if we exclude non-recurrent expenses, it's important to underline that we are growing both the business, the margin of the business because we are not only growing the treatment for rare disease margin, but also the prime and specialty care business, driven by mainly the leveraging of the sales force and the SG&A, is grown…profitability in 2016.

Financial position, we have a net financial position at the end of the year close to €200 million, €198.8 million, which…let me underline that in the

last quarter, we bought share for around €60 million, this is the reason why…the reason why in the last quarter our net financial position increased a bit more than expected, if we exclude this acquisition of…buyback. We…but for sure this is a very solid financial position.

Our net financial position is half of our EBITDA, and we have, let me say, underline that we have spent during the year around €3 million for both the payment of dividend, the acquisition of Italchimici, the acquisition of Pro Farma, and also the acquisition of our share, mainly in the last quarter of the year which means that we continue to have a cash conversion which is 101%, compared to our net income.

Solid financial position, generation of cash and very solid financial result with a further expansion of our margin during 2016.

Now, I finished my presentation. I will let the floor to Andrea to present the [technical difficulty].

ANDREA RECORDATI: Okay. Thank you, Fritz. So the presentation…next slide, presentation has been divided in three sections. First section is, concentrating and focusing on the strategy of the Group. Second section is, focusing on sales development and the main assumptions behind the sales development of our franchises. And clearly, last but not least, we will look at the financial projection at the end of the presentation.

Moving on to strategy; so we have had a successful group strategy, it is been proved successful by the results that we have achieved in the last 15 years, and we plan to pursue the strategy in the future. We plan to pursue the strategy by growing organically our portfolio, like Fritz pointed out very clearly, we are leveraging our best, and to the maximum our current sales force organization and we still believe there is space to grow our

current portfolio, both in the rare disease drugs and in the specialty care and primary care segment through organic development.

We are clearly looking into reinforcing our product pipeline, I will give you some more details on this in the next few slides; both in primary and mainly specialty care, in the traditional business and obviously, in the rare disease drug.

And we obviously want to keep on utilizing our bolt-on acquisition strategy. So we are planning to reinforce our presence in our key markets. Key markets which are for the moment, the focus is going to be placed, especially on France, Germany, Poland and in the UK.

France and Germany, because we want to grow more than the market, and what we expect the market growth is going to be in the next few [ph] years.

Poland because we feel that we still don't have enough critical mass, so we are looking for further acquisitions to build more critical mass.

And the UK, where we were present once, but not present anymore, we just had some residual sales that we do of our lercanidipine [ph] franchise managed by a very small structure. We want to re-enter the market if business case is sound and sustainable, due to the arrival of cariprazine our schizophrenia drug, which we believe we can promote on the market with a small sales force…specialty sales force.

And as I said, the treatment for rare diseases, we want to develop a global presence. So keep on expanding and entering new markets like we did in 2016, we entered South America, we entered Mexico, Colombia, Brazil and we also entered the North America, Canada where we are not present

until the end of last year. So we want to move on and keep on expanding globally.

Next slide; so we perceive ourselves as an important European player in primary and specialty care, and a partner of choice for rare diseases, because we have a very strong infrastructure for rare diseases, organization, infrastructure that covers Europe especially, but building up in the US and very strongly in Vienna, probably one of the strongest in Vienna. So we want to keep on building this presence and our rare disease.

And, like I mentioned before, we want to keep on growing organically. We want to accelerate, again, like I mentioned before our growth in the European markets, especially in the main markets that I mentioned in the previous slide. We want to keep on obviously pursuing growth in the emerging markets, especially Russia and Turkey where we are having extremely good results, notwithstanding the devaluation of the currency that we've seen basically [technical difficulty].

But if you look at the actual local value growth, we are still growing extremely strong, like Fritz pointed out previously. In Russia, we grew 22% last year in local currency and nearly 27% in Turkey. And we are seeing this kind of signs and volume growth also in the first part of this year, even though; obviously we are talking only about one month of actual and an estimation of the second month of the year.

I think that it's very important to say that we demonstrated that…we pursue our strategies with conviction. We've been saying that we wanted to start diversifying our primary, specialty care product portfolio, moving more towards specialty products in the year to come and the cariprazine agreement that we signed with Gedeon Richter is a substantial

demonstration of this. This is a product for schizophrenia, present in a very specialistic [ph] segment of the market of CNS, a neurological disorder, and so it is a good first step to reinforce our presence in the specialty area.

And clearly, we want to keep on, like we have done in the past, like I mentioned before, keep on buying products and companies that we feel that we need to reinforce our current businesses or enter new markets where we are not present.

So going into the strategy for treatment for rare diseases, more or less the same thing, we want to keep on growing organically our business. We have a very good infrastructure, present in most European markets, in the US, we are going to South America, and we are in MENA. So we want to keep on growing organically our current product portfolio, which we think still has space to grow. We want to fully exploit the product that was mentioned before by Fritz, which is Cystadrops.

This is a new treatment that was developed in-house, its cysteamine eye drops. So it's for use in the treatment of cystinosis, but in ocular manifestations. And we just got approval from EMA. So we are preparing now to roll out this product in the different…by launching in the different markets, and we believe this is going to be one of the main drivers of growth in the next three years for our rare disease business.

Obviously, we want to advance our product pipeline. We really have some products in our pipeline. We have, obviously, Graspa, which I'm sure all of you know and have looked at already. We expect filing of this product in 2017. We want to reinforce our Carbaglu franchise. Carbaglu is our original drug in the rare disease business. It's one of our original drugs in the rare disease business and it's the most important one.

So we are looking at…we already sell it in the US in one indication, which is NAGS. And now we are in the process of filing for the approval also in organic acidaemias in the US, which should take place towards the end of 2017. And this should obviously expand further the market for this product in the US. Not the least, we also want to keep on doing…we are actually doing activities on the life cycle management of the product by developing new formulations to go and capturing new segments in this treatment. So, we are developing specifically an IV formulation and a [indiscernible].

As mentioned before by Fritz, we closed an agreement last year with the hospitals of Paris for treatment in Maple syrup urine disease with a product that we think is a great addition to our pipeline and it's currently in development, and it will come in the years to come. Plus, we also closed two new pipeline additions to our pipeline for the rare disease drugs. One is for a rare pharmacological condition and another one is in the area of cystic fibrosis. So, we are currently and vigorously reinforcing our pipeline. I would like to also add that we have currently negotiations on the table for other products to reinforce out pipeline at this stage.

And as I mentioned before, we entered South America and Canada last year, and now we are putting our attention to enter Southeast Asia with the rare disease business, in order to also be present directly in this market, where we are not present directly at the moment.

Going on with strategy on research and development, okay, the plan includes about 8% of investments in R&D. I think it's interesting, it's more…it's clear if we divide this investments, just to explain what we are doing between our two main businesses, obviously primary and specialty care and rare diseases.

So in primary and specialty care, we are focusing on the development of products…developing products in the area of specialty care, rather less in primary on the European business, to reinforce this important business, which is still an extremely important cash generating business for our total Group. And we are working on different projects in the primary and specialty care businesses on lifecycle management of some of our key assets, both corporate, but also on a local level.

We have some important products in some of our countries, which are sold only in those countries; methadone in France, Orthotone and Claversal in Germany, these are couple of examples. So we are progressing on lifecycle management activities to introducing formulations that reinforces franchises and protection before the arrival of generics and so forth and expand the market.

Regarding rare diseases, as mentioned before, again, we are planning to follow a strategy of going global more and more, entering new markets and reinforcing ourselves in markets we are already present. We are doing internally new product developments. Cystadrops is an example. Another product that I would mention further on in the presentation is another example.

And obviously, we are also doing lifecycle management activities on some of our key assets, like I mentioned before Carbaglu with IV formulation and indication expansion in the US and [indiscernible]. More importantly, which I think was demonstrated by the previous slide that we are pursuing, as I said, the replenishment and reinforcement of the product pipeline by looking for you know, to basically do partnerships with research institutions, by the companies and diverse sources like discovery companies.

On this point, I think it's important to say on the full area, for the moment in the plan we'll put 8% of sales, dedicated to R&D activities. It goes without saying that if we have interesting opportunities, which we feel have a sustainable and credible business plan behind them, we are obviously ready to also increase these investments in R&D, within traditional kind of parameters for a Group like Recordati. So we are not exaggerating, but we believe that reinforcing the pipeline is key for the future development of the Group. So we are planning to if the opportunity arises to increase these investments.

Also it's important to say that unlike in primary and specialty care, when we look for new products in the rare disease segment, we are also starting to look for products in early stage of clinical development, products which are yet early stage clinical development, but which tend to already have some clinical evidence, and this first part of the clinical development, which supports, or at least kind of down-sizes the risk in the business and R&D.

Next slide, which takes me to the assumptions for the sales development of the business plan. So we will start from lercanidipine, clearly still our most important franchise for our clinical products. What we can say about this? We can say that basically our Zanidip franchise which is mono-molecules or the pure lercanidipine franchise, has stabilized sales through a variety of activities that we do at local level in different countries, enter new countries, growth in emerging markets of this products and we are estimating to basically maintain stability in sales in the years to come around €110 million.

Considering both brands and generics, it's a very important point; we sell more or less 70% of lercanidipine molecule, the API consumption of the product basically in the main market value.

Zanipress, our combination product, which has a market exclusivity in the main markets basically this year, but [indiscernible] just at the end of last year, and which lost it .in some countries, such as Spain and Portugal, already in 2013. In this case, we foresee that we can maintain more or less 30% or better.

The generic competition is going to take about 30% of our market by 2019. This is a definitely challenging kind of objective, but we believe this is achievable. It's achievable because it's a smaller market than the Zanidip market, once Zanidip went off the patent, so less attractive for generic players. A lot of generic players had entered the market following the patent expiry in 2010, have actually exited the market, because for a variety of reasons which would take whole presentation to explain.

The strategy country-by-country and what we've done, but more or less, we've seen that the API producers of the generic Lercanidipine have reduced their production and therefore, supply to the generic manufacturers. This means that obviously, there is less interest also for the actual generic players on the market to pursue the lercanidipine and enalapril combination.

We are launching a new formulation. We are in the process of launching…started already launching a new formulation that as far as we know is not being registered by the generic manufacturers and we don't foresee this to be the case in the short to medium term. And over the years, like I mentioned before, we acquired competencies, market by market, because every market is different, every market has generics.

The way generics are pushing each market is different across Europe. We've managed to basically build some and acquire some kind of skills to kind of you know, manage the penetration in some markets, and in some cases, even taking back market share from them. Also very important to remember is that we are still growing with lercanidipine in emerging markets, such as Turkey and Russia and in other countries.

Urorec, an important part of our portfolio, this product was launched as a BPH product [indiscernible] launched in 34 markets. As you can see, again, the product is still growing and we expect it to grow and surpass the €100 million sales mark in 2019. We have more or less an average market share of 10% of all the BPH market in the 17 main countries where we launched. The product is extremely well received by the doctors and the prescribers and more or less every country where we've launched, the product it is still performing very well.

Livazo pitavastatin, a statin product obviously, was launched in six markets. We have 7.5% market share average in the four main markets in the statin market. We think this is actually a very good result, considering this is one of the most highly competitive market regarding promotion and also due to a lot of products being out of patent and there are plenty of generics on the market.

So we think that we did extremely well achieving this sort of market share. We launched in September in Russia. So we believe that this is going to be a further driver of growth of this product. And we are launching in 2017 in Turkey, where we have a very strong commercial organization and we have good possibilities of growth also in this market. So we are expecting this product to grow from an approximate €35 million last year to €50 million in 2019.

Other corporate products, which were mentioned also before by Fritz in his presentation, this panel of products includes about 19 products, of which 6 are OTC. As Fritz showed, the OTC segment of this portfolio is going extremely well, into double-digit growth last year, 11.5%, to €61 million. It's, let's say, established products kind of part of our portfolio.

As you can see, it's an important part of our portfolio, because it's more than €200 million in sales last year and we are planning to grow it to €250 million in sales. But many of these products are non-reimbursed products. So out of paid products, the patients used to buy them and a lot of them are present in Russia and Turkey, where we see very strong volume growth. And so, we feel confident we can achieve this result. The main drivers would be Russia and also the expansion of our Casen-Recordati portfolio, which are the products that we bought with the Casen acquisition in Spain a few years ago.

OTC business, OTC business, as you've seen, from Fritz's presentation, OTC, if you take all our OTC business units across our countries, account for more or less 16% of our total sales. So we believe this is still an important part of our business that we need to maintain and grow in the future. It's also a way to diversify the risk from the pricing pressures that we see on the more traditional prescription, reimbursed products. So we want to keep on pursuing this opportunity to develop within the European market.

We are also looking into cross-selling some of these brands in more countries. We have very good brands in some of the single country that we think we can bring in other countries and cross-selling in more countries, obviously, where there is sound business case. Our basic expectation is to grow in line with the GDP growth in individual countries.

And, however, if we look at the acquisition, let's say [indiscernible] our expectation for the total growth of the business, we are aiming for double-digit growth also on the back of acquisition of single products to reinforce our business…your OTC businesses in respective countries or multi-country as well, [indiscernible] if we can find them, we would like to find products which are present in more than one market with strong brands. And so we are expecting double-digit growth for this.

Into the pipeline products, cariprazine [indiscernible] this is a product I mentioned before, schizophrenia drug. In addition to our specialty care portfolio, we have a lot of hope and expectation from this product, due to its novel and attractive and strong with a neat clinical profile. We took the right for this product at the end of 2016 for Western Europe and Algeria, Tunisia and Turkey. Why only these countries? Because Gedeon Richter, which is obviously the originator of the drug, is extremely strong in Central Eastern Europe, CIS and Russia.

So obviously they plan to sell the product themselves in these countries. It's a novel antipsychotic treatment for schizophrenia, which I mentioned before. The product is currently in registration with EMA. We expect to have the registration sometime after the first half of this year. So we expect second half approval. And we included some sales in the plan.

But considering that after approval, we have to go through all the national regulatory process to try to drive reimbursement and so forth, we don't expect to launch the drug until the end of 2018. So we will have very small sales in 2018 in the plan, and then we will start ramping up sales in 2019. The expectation is for this drug to reach more or less €100 million of sales per year when it reaches peak sales.

Fortacin, this is an easy to use fast-acting topical spray formulation of lidocaine and prilocaine for the treatment of premature ejaculation. We have the rights over this drug in Europe, Russia, Commonwealth, CIS, Turkey and certain countries in North Africa. We just recently finished a variation of the EU approval following the decision to commercialize a canister with fewer dosages than the one that have already been registered before. I think it was commercially planned to launch a canister with such a high number of doses. We expect to launch the product in 2017.

And we expect this product to reach about €20 million to €30 million of sales, when we will reach peak sales. This is a difficult product to forecast. It's a difficult product to forecast because there is no real reference markets. The only other product that recently entered this market was a CNS, the right product Triligin [ph] and due to the, let's say, kind of connotations and the perceived side effects and so forth of CNS products, we believe that it's very difficult to compare our product with this one, because ours is a pure topical spray, much easier in kind of use, with no side effects, while obviously, the CNS drug that works on the central nervous system has a completely different profile from this point of view. So we feel that we might have some upside on this forecast that we just presented of peak sales of €20 million, €30 million, but its bit early days to say.

Treatment for rare diseases, as you can see, this business is growing from just about €200 million last year to €250 million in 2019. The sales projections at the moment are based only on the current portfolio, okay. We have no new products in here. Most of the new products that I mentioned before are coming all really towards the end of the plan or even after the plan. So they are not actually included in these numbers. We expect to grow overall sales in any case by double-digit on an annual basis.

As I said before, Cystadrops is…we planned…we believe Cystadrops would be the main driver of growth for this franchise, together also with also with the entry of Carbaglu in the organic academies indication in the US. We expect the filing to be by the end of 2017 like I mentioned before. In 2016, this portfolio was…the US component of this portfolio was more or less 55% of total sales of the portfolio. We plan to reach 60% in 2019. So in 2019, the US should be 60% of the total franchise, US sales.

Going on to the rare disease product pipeline and getting into few more specifics regarding some of the key products in the pipeline. The initial sales of Graspa are in the plan, in the indication of ALL, which is Acute Lymphoblastic Leukemia, but very, very initial sales, because we believe if obviously everything goes well, to be able to sustain this product on only towards the end of the plan and we are expecting more or less €25 million to €30 million of peak sales once outside of the plan, because obviously we are going to starting to sell at the end of the plan, but more or less peak sales of €25 million to €30 million.

Included in the plan are also initial sales, but again, like I mentioned before, very initial sales for the products that I mentioned before, the treatment for MSUD, the treatment for retinopathy and for cystic fibrosis in oral intervention for acute infectious exacerbations associated with cystic fibrosis.

Last but not least, product that was not mentioned before, the product that is actually coming out from our original research in Recordati, it's a product which is called REC 0438. This product is a nociceptin analogue and we are developing it for orphan, let's say or rare disease…orphan condition in urinary incontinence associated in pediatric patients suffering from congenital small [ph] formation called spina bifida. This is another

product that is in the pipeline and is being progressed in development.

It takes me to the last slide regarding the sales development assumptions. Of course, we were saying that like I mentioned before, we will continue to pursue our bolt-on acquisition strategy, which has obviously served us so well in the last 16 years, and I repeat bolt-on, which has been at least a factor, like I said before, and so we have included a component of this in our plan and which is based on the reinvestment of the cash flow generated after the payment of dividends in the two years of the plan. So it should be quite easy for you to calculate it.

We are planning obviously to spend this money to reinforce our primary and specialty care businesses in the countries that I mentioned before, or in acquisition of products, rights for specialty care products. And we are obviously looking to invest in the pipeline replenishment for rare diseases. But we are also willing to look at opportunities on acquisition of companies in the rare disease segment, obviously upon reasonable valuation, which we know very well is not very easy these days.

Into the financial projections, the financial projections, so basically our plan assumes margins achieved in 2016, so incidence on sales to be sustainable over the plan period. We project our calculation based on current exchange rates. You can take January 2017 as the reference. We assume, like I mentioned before, that we will continue with our dividend policy of more or less 60% payout dividend of consolidate net income. And the cash flow after payment of dividends would be entirely reinvested for the growth of the Group. We have included, like I mentioned before, the bolt-on acquisitions.

It takes me to the numbers, you already saw it on the press release, I think. So we are planning to grow EBIT and EPS, earnings per share, to continue to grow double-digit in the years to come. Here we show a growth from €1,154 million in 2016 to approximately €1,450 million in 2019. Our EBITDA is going to grow from €371 million to €500 million approximately. This also is obviously growth in nominal value, but it's also growth in incidence, was crazy, but it is a growth. We are seeing for example that in our 2017 target were I mean at more or less 33%, 33.5% of EBITDA incidence on top-line, while in the 2019 targets we are looking at 34.5% of top-line.

Operating income is following more or less the same trend, going from €327 million to €450 million. Net income is going from €235 million to €325 million in 2019. We believe, like I mentioned before, this graph to be challenging, but attainable. I think we've demonstrated in the past that we never kind of over stretched ourselves, but we also believe that we have to set ourselves challenging objectives, because the Company needs to carry on the growth curve that it has seen first. And so, we think these are essentially challenging objectives and once again obtainable. I hope I was clear enough.

Q&A

MARIANNE TATSCHKE: Okay, the operator, please can you open the question and answer period. We will be taking questions both from the floor here in Milan, as well as from people that are listening in on the conference call. So we will try and alternate questions as we go along. So, could you please start with the first questions? Okay, there is a question from the floor.

MASSIMO VECCHIO: Good afternoon, Masimo Vecchio from Mediobanca. The question on Asia, I saw your targeting growth in the rare diseases. Is it…given the

peculiarity of the area different, from the growth that you are doing in other parts of the world, do you see more risk or less risk and can we expect to see that level of [indiscernible] also outside rare diseases, so for your standard business et cetera?

ANDREA RECORDATI: For a moment our…okay, clearly we sell in this side of the world, we really sell our primary and specialty care products, not with a direct presence, but through partners. We do not plan to enter this market, in this geographical region with our primary and specialty care business.

Regarding the rare disease segment, this is a strategic kind of event, in the sense that we are in the process of evaluating. We went to South America following, let's call it a due diligence and various kind of close analysis and detailed analysis of the market we wanted to enter, because as I mentioned before, we entered in three markets and we entered in those three markets because within South America landscape they were the ones, we perceived was the biggest potential for rare disease drugs. Today, I'm not in a position to tell you which countries we are entering in Southeast Asia, we know there's potential in those countries. Markets are very different. We need to analyze them. So this is a strategic intent for our three year plan. So, it's not something we are going to do tomorrow.

Then I can say that we basically took…recruited at the end of last year, let's say, a manager, which is in charge, which is actually based in Malaysia, from the rare disease area from another corporation in the segment, in charge of putting together this plan in 2017 in order to basically [technical difficulty].

MASSIMO VECCHIO: Second question, if I may, at what multiples on sales you expect to do your acquisitions, or put it in another way, in 2019 how much of that sales is [multiple speakers].

ANDREA RECORDATI: Three times sales, okay. I made it easier for you to calculate now.

MASSIMO VECCHIO: Good, last question, are you taking any action or what's your view on developing…improving diagnostic tests to increase…

ANDREA RECORDATI: It's not our area of expertise. We perceive it to be a totally different segment in healthcare. So for the moment, we are not looking at this as a segment where we want to enter in any…

MASSIMO VECCHIO: Even partnership or anything?

ANDREA RECORDATI: No.

MASSIMO VECCHIO: If they give as it is and the choice is…

ANDREA RECORDATI: There are companies which are specialized in this area. There are some areas maybe in the rare disease drugs, which there is innovation going on, on the diagnosis of rare disease, systems to diagnose rare diseases, which is…as you know, it's one of the most difficult areas about this rare disease segment is actually diagnosing, giving the instruments to the doctors, physicians to actually find a patient. So obviously we are monitoring this area for some of our key products, in the sense that we have looked in the past, but we haven't actually done any partnerships for the moment, but we have looked in the past of products that would help improve the diagnosis of the diseases which are obviously treated by our products. But for the moment we haven't done anything I think tangible came out it.

MASSIMO VECCHIO: Okay, thank you very much.

MARIANNE TATSCHKE: Shall we take a question from people listening-in?

ANDREA RECORDATI: Yes.

MARIANNE TATSCHKE: Hello, operator.

OPERATOR: Yes, the next question is from Jo Walton, Credit Suisse. Please go ahead.

JO WALTON: Thank you. Just a couple of questions, please. Firstly, you highlighted that in your rare disease business that you had a lot of expertise in particular in MENA and in Europe. And this is going perhaps a little bit more along the lines of the last question. You've got to identify the patients you have got to get them on your product and then pricing is clearly crucial. I wonder if you could address a little bit more about…what some of your skill-sets are and why somebody would say rare disease in development would go to you rather than, let's say, go to a Shire or Genzyme division of Sanofi or BioMarin, in terms of licensing out their product and what you feel the opportunities are in terms of pricing in rare diseases? And in particular, if we look at something like your Cystagon product, it does appear that there are other competing products, like the Procysbi products in the US. And I just wonder, if you could address that as well, please. The rest of the Cystagon franchise and its opportunities.

ANDREA RECORDATI: Why do we…Jo, hi. Nice to hear you, I was expecting you to be the first one to ask a question on the conference call group. Jo, the first question is, why do we perceive ourselves as an attractive partner, for example, compared to Genzyme or Shire in the MENA region specifically? Am I correct?

JO WALTON: No, not so much the MENA region, you…

ANDREA RECORDATI: In general?

JO WALTON: Yes, in general. But you identified in particular that you had strength in the MENA region and I wondered what those were?

ANDREA RECORDATI: We have strength, because we are present…we have been present in the MENA region with our orphan drug, let's call it subsidiary, which is based in Dubai but serves most of the region through a dedicated sales force and so forth. I mean, Orphan Europe has been recognized to be one of the infrastructure wise…commercial infrastructure wise main European players. Obviously, we are not comparable to a Genzyme and/or Shire, Jo, and that, you know better than I do.

But we still feel that we have the opportunity because the unmet medical need, a number of products, the specialization in pediatric metabolic disorder that we are very strong in. There is still enough space for all companies, basically operating in this segment to find opportunities for new products. I don't have to tell you that there is more or less…from memory I remember, 7,000 orphan diseases that have been recognized and more or less 400 to 500 products are actually serving them. So a lot of unmet medical need.

And we are successful…commercially we are a successful operator in the company, in the segment. Clearly, more in Europe, MENA, in the US we are just starting. Let's say, but we feel that we are in a good position. And I think this is also demonstrated by the fact that we've added some products to our pipeline recently, products that we perceive have good potential.

Next, I hope that satisfies your question, Jo.

JO WALTON: Yes, thank you.

ANDREA RECORDATI Regarding pricing, in the rare disease.

JO WALTON: [Not audible].

ANDREA RECORDATI: No, sorry can you just kind of…because you asked quite a lot of questions Jo. Can you just like reformulate the question on pricing?

JO WALTON: You had a number of low priced products, where your competitors have had very high prices, and you've been very disciplined in your pricing, particularly with your existing products. But I am wondering how you are thinking about rare disease pricing going forward. Whether we will be seeing you in some of the much higher priced rare disease segments of the market, and whether you are seeing any particular price pressures in that rare disease space?

ANDREA RECORDATI: It's a very difficult question to answer, Jo. I mean, we feel that they will be due to obviously the situation that we've seen in recent…in the recent…especially in the last year in the US, with the attention that was put on the price increases, hikes done by some, let's say, [indiscernible] some companies that kind of you know, took it a bit too far with price increases which obviously kind of puts a spot line on the whole sector. So my feeling is that we are going to see a slowdown in this kind of a product increase in prices on a regular basis, beyond reasonable amounts.

We are already present with some products; I am not going to get into specifics, because [inaudible]. We are already present in some of the high priced product segment, Carbaglu. I can make an example, which is Carbaglu. Carbaglu is definitely a high priced product segment product. And obviously, like you said before, we are going to keep on being

disciplined, especially considering the attention which is put on the subject especially in the US by not only [inaudible]. Is that satisfactory answer?

JO WALTON: Yes, thank you.

ANDREA RECORDATI: Okay, there is another one, I think.

MARIANNE TATSCHKE: Competing products with Cystagon?

ANDREA RECORDATI: Well, Cystagon, we have seen…Cystagon, as you know, we don't have…first of all…product that we've licensed in. You know, that we don't sell direct in the US. Mylan has a product in the US and countries outside of Europe. We have the rights for Europe and MENA, and some countries in Eastern Europe. We've already had the raptor [ph] come in with [indiscernible] in the European market, starting with Germany really few years ago, more or less it started. They have…took some sales, but as you also know their pricing is…I can't remember how many times higher than ours, but I believe 10…more than 10 times, more than the Cystagon price. So obviously, this poses kind of difficulty to once penetrate the market, considering obviously that yes, we are talking about rare disease drugs, but the payers are still careful also in this area, obviously to kind of you know, give too much leeway to this products which are so high priced, when there is a very valid alternatives on the market like Cystagon is.

JO WALTON: Thank you.

ANDREA RECORDATI: Thank you.

MARIANNE TATSCHKE: Shall we take a question from the floor now, please.

MARTINO DE AMBROGGI: Good afternoon. Martino De Ambroggi, Equita. If I understand correctly, 2019 plan includes some bolt-on acquisitions. Just a very rough indication of what could be the guidance like-for-like, the first? Second, I was referring to acquisitions, I remember the old rule of thumb was one times EBITDA, is the maximum leverage…financial leverage you could eventually be able to reach. Is it changing or not? And if looking at your presentation, it seems you are replicating the winning strategy you had over the past few years. Maybe something is changing, correct me if I am wrong, but the most evident is the acceleration in the buyback, €60 million in one quarter, I don't know, if it's something that…

ANDREA RECORDATI: Okay, I will start from the last question.

COMPANY REPRESENTATIVE: Yes.

ANDREA RECORDATI: [Inaudible] last question, which is this one. The buyback of stocks was linked to the stock option plan i.e., we have to buy…

MARTINO DE AMBROGGI: As usual…

ANDREA RECORDATI: As usual, as we are not buying stocks, because we are plan to do something…

MARTINO DE AMBROGGI: So we are not using treasury shares for exchange in case of yield, no.

ANDREA RECORDATI: No, we are using them actually because in 2017 with one of the few tranches of our stock option plan would become vested, and so we have to obviously be ready to kind of be able to pay them to our employees…that is the share.

Regarding the…I am not going to tell you the number that we put in our plan, that would make it too easy for you for the bolt-on acquisition kind of…of the acquisition component of our plan. But I think I kind of made it very clear, where you can see more or less, you know, our one-to-one and basically, we are a 100% cash conversion, okay, after payment of dividend, you know, one to one, because Walter is actually going nodding like that, and getting widened out [ph], and the professor [ph] is like…I am going to watch what I am saying.

And…so I think we are getting early indication, we stated that we will keep…we are going to keep on paying 60% of our consolidated income in dividend, okay. And the rest would be reinvested in the growth of the company. So you can run your models, you know our company very well. You know, that more or less the multiple today is three-times sales for an acquisition of an asset [indiscernible] approximate number that would more or less around this number. Let it be a single asset as a product, or an acquisition of a company. Obviously, there is exceptions that go both way. So I think this gives you an idea of what we put in our plan.

MARIANNE TATSCHKE: We could also look at it, from the point of view of how much of the growth is like-for-like which is more than half.

FRITZ SQUINDO: So we put approximately…yes, this is a good point. Let's say that in the cumulated annual growth that we…you can see in our top line, and we more or less 50% of that is organic, I cannot be clearer than that.

MARTINO DE AMBROGGI: No, it is okay, that's enough. And the last question is on pricing assumption underline your guidance, what the environment today and what your assumption. Thank you?

ANDREA RECORDATI: The environment, I think I mentioned it before when I replied to Jo Walton. And obviously, the environment is the one that we have…in the US is, we perceive that in the US you will not be able to do what some companies, let's say, did in the last few years, which was over-stretched their price increases to unreasonable levels, okay. So we think that there is a lot of attention [ph] on this subject, we believe that there will be a slowdown, but they would basically…if they will increase the price, they will increase in a very reasonable levels.

Regarding Trump, if you are asking what Trump is going to do, that is an impossible question to answer. Honestly, I have no idea, and I think that most of the world has no idea. So it's very difficult to predict, okay. But we also have to remember that the pharmaceutical, biotech industry in the US is an extremely important part of…component of the economy. And so, everybody realizes…the US is the source of innovation [technical difficulty]. So I think there would be you know, a lot of attention on not breaking [ph] this machine.

Regarding Europe, we face the same identical kind of reality that we've been facing until now. So, yes, we believe that there will be pricing pressure it depends also, if you are looking at primary and specialty care, if you are looking at rare disease drug and so forth. Rare disease drugs [inaudible] there is any kind of danger in pricing pressure in this segment. Regarding the primary and specialty care, [inaudible] balance country-by-country, every country has it is own policies, and…

MARIANNE TATSCHKE: Leverage, whether it's going to be staying at one-times EBITDA or…

FRITZ SQUINDO: Okay, we have included the acquisition of the free cash flow generation during the period, which means that as Andrea said, we have the free cash

flow generation and we…but we believe that, we could go above this, but this is linked to the opportunity. We have always said that we have a very solid financial position. We have now EBITDA…net financial position which is half of net of the EBITDA. We expect in this business plan to have the same level of debt at the end of the period which means that even less than half of the EBITDA. Then we could also think of different acquisition, but this will be on top of this business plan, because we have decided to include, because that this is part of our business model.

In our business model, there is primarily the reinvestment of the free cash flow. We have achieved our results over the last 10 years. We are investing the free cash flow and not increasing the debt. But we have also this opportunity, but these are mainly linked to opportunity to be found in the M&A arena. For sure, we have a commitment for achieving this target to invest free cash flow. Based on the opportunity, based on deal that we can close, we can go ahead of this, because we have in our projection a very low level of debt. One-time EBITDA, could be but we have no internal clear objective in term of debt. We are prudent, we have been prudent always in the past. The decision to go ahead or not is mainly driven by real strategic deal that we can close.

ANDREA RECORDATI: Remember that we do bolt-on acquisitions, not only because we don't want to spend a lot of money and take a lot…big financial risk, but also because we believe that the strategy with bolt-on acquisition is preferable in our case due to the quick integration that we can do obviously. A lot of implications [ph] across the board, from headcount, restructuring costs.

Your pricing point, I think that is important maybe, because maybe just to give you an idea. But I think that we can say that the majority of the growth that you see in our top line is driven by volume, okay…very very limited kind of price, kind of…

MARIANNE TATSCHKE: James question.

JAMES VANE-TEMPEST: Yes, hi. Thank you. It's James Vane-Tempest from Jefferies. I just have three questions, please. If I can come back to the capital allocation question, the net financial position increasing by over €100 million last year. If for whatever reason you don't find any particular acquisition, clearly the capital and efficiency will increase. So given the dividend payout was increased from 50% some years ago to 60%, you know, [inaudible] potentially consider increasing that dividend if the cash power increases on the balance sheet? And second question is, I am just looking at the margin in your business plan, I am looking to have stable margins over the period. Just given how profitable rare diseases are for the company at the moment. Just wondering whether, in your plan you are assuming some margin contraction or whether there is an element of conservatism on your side thinking about margins in 2019? And then the final question is, just thinking about your R&D strategy. I think, I heard in the presentation you said that you may look to and license more earlier stage products. My understanding is you would often go through [ph] products, where they have already proven in some markets, essentially have a low risk. So is there a change in terms of risk appetite for your R&D? Thank you.

ANDREA RECORDATI: Okay, a lot of questions again. So first one, regarding…I will start from the last one. R&D strategy, three is, again we have to differentiate between primary and specialty care [inaudible]. Obviously the risk associated with the development of Orphan drug or rare disease drugs is risky from the point of view of actually [inaudible] final result of one. But at the same time, the financial risk is much lower, due to the fact that obviously patient pool are much smaller, and you need to run trials on much smaller patient pools.

And I also would like to specify that when I speak of early stage, I am not talking about like preclinical you know, early stage preclinical product and so forth. I am talking about early stage clinical products. We also have examples of where we look at products in preclinical, but let's say that our main focus will be to rather than looking for products which have finished Phase II or mainly at the end of Phase III, like we have done in the past, we are more on the Phase III area, we are going to start also looking at stuff in Phase 1, okay.

Regarding…what was the question?

FRITZ SQUINDO: The dividend policy,

ANDREA RECORDATI: Dividend policy, no, we have no plan of changing this. I understand that you are…maybe Fritz, and say something else, but we have plans of paying more dividends, in case we don't reinvest our money efficiently in the mergers and acquisition kind of area. So for the moment, no we have no plans to do that. And I think that's fair enough. And the margin evolution, I really don't get your question?

MARIANNE TATSCHKE: No, but we said it's sustainable. You do the math under growing, what are…if it is sustainable, and it should grow because we have a growing business.

JAMES VANE-TEMPEST: [Inaudible]

MARIANNE TATSCHKE: Yes, then to remain sustainable, something has to contract that which we made.

JAMES VANE-TEMPEST: Yes, I will try and rephrase the question. Your rare diseases business suddenly at the nine months whereas 47% margin business, and it is growing double digits. So you know, looking at the rest of the business, you know, considering your organic growth target, then by default I imagine margins should be going up over the period unless there is some other cost which [indiscernible]. So just wondering, considering your guidance, how we should think margin level in the period?

FRITZ SQUINDO: Okay, then we expect to have sustainable…we can say slightly growing our margin, which include also acquisition. We can't predict clearly what could be the development of our organic business and here we have our business plan, for sure, we cannot have a clear prediction regarding what could be the increase in term of sales and margin based on acquisition.

Regarding the two businesses, we believe that essentially we could expect to keep the two businesses at the same level of profitability, because there are different dynamics in the two businesses. In the orphan business, we expect to invest more in R&D. Then for sure, we have the opportunity to growing the business in the portfolio, but on the other hand, we are seeing that we have a program in our pipeline and even if the cost for the development in the rare disease is lower than the traditional one, we have in any case to finance this clinical development for this program, because we believe that the driver for the growth in the orphan business, based on the price that we have, impossible M&A, acquisition, we expect to be mainly the development of the portfolio, the development of the pipeline, and then we expect to increase our R&D expenses. In particular, we expect to increase overall in the business, but in particular in the orphan business.

Regarding the primary and specialty care, we expect…we have the opportunity to launch cariprazine, and then we have included in our

business plan all the costs, which are mainly variable cost. We don't expect to increase the number of our sales force, but we expect to change the organizational structure of our sales force, but we have included all the costs that we have to spend for the successful launch of cariprazine in our business plan.

ANDREA RECORDATI: Which includes margin access costs, which include pre-marketing costs which are already starting now, you know, when we know that we are going to launch product at the end of…second half of 2019 in the first market, or maybe also some…in some market also in early 2018. Difficult to predict them, but we have already a lot of costs which are obviously…so we are going to add very little top-line for cariprazine, but we are going to carry in the first three years of this plan a lot of costs associated for this product. It's a market that…a segment where we are not present, but we need to do a lot of pre-marketing activity and marketing activities following the launch in order to have ourselves known. You know that obviously it's still a competitive market, even though it's a specialty care segment, with some of established products, but the product in the first two years is not going to bring any bottom line.

JAMES VANE-TEMPEST: Thank you. One quick follow-up, if I can, and that is, when you consider the specialty areas, CNS is obviously a relatively new area, are there any specialty areas you are not in, which you would quite like to be in, in terms of thinking about the business you are not able to….

ANDREA RECORDATI: First of all, finding products in [indiscernible] but finding products in the primary and specialty area is not [indiscernible] I mean, usually companies that develop these products they tend to kind of keep the right for themselves. Cariprazine was a lucky kind of an [technical difficulty]. Luckily, we made an agreement, we negotiated agreement, there were other competitors that were waiting for this product and we managed to

bring it home. But, it's an area basically where products don't come out that often.

So like we've always been in the past, we are opportunistic. I mean, obviously, we'd look at everything, we evaluate everything. We have a bit of experience in CNS because we had a very big franchise for citalopram in Italy for many, many years, [indiscernible] product. So we have the expertise in-house also for the evaluation of the schizophrenia drug, because we have always expertise in-house and R&D, regulatory department for this sort of drug, neurological drug. So it's very difficult to say how we want to kind of reinforce ourselves in the specialty area or we want to go in there. Clearly, we try and look for products within some countries where we are already present in specialty areas, but more based on product that we acquired in the acquisitions that we've done over the years.

You know, specialty areas can be in also sub-areas of cardiovascular, of gastrointestinal and so forth. So obviously when we look for products, we try and look for products that can have a synergistic effect on promotion, based on the fact that we already have a structure….promotional structural that already work in those segments, or can easily target those segments. I think that we also have to be very opportunistic, because that's the nature of the game.

MARIANNE TATSCHKE: Is there any questions from people listening-in, please?

OPERATOR: There are no questions from the conference call.

MARIANNE TATSCHKE: Thank you. Is there…are there any further questions from the…yes.

BRUNO PERMUTTI: Yes, good afternoon, Bruno Permutti from Banca IMI. Two questions. First one relates to the timing of the possible acquisitions. Looking at your 2017 targets and comparing them with the 2019 targets, it seems that most of the acquisition you factor in your plan will come in 2018-2019. I wanted to understand if this is correct.

ANDREA RECORDATI: It's confirmed. We have no acquisitions in 2017 in our plan; we have acquisitions in 2018 and 2019.

BRUNO PERMUTTI: Okay.

ANDREA RECORDATI: That doesn't mean that we are not going to have any acquisition in 2017, but prudently in the plan we structured it so.

BRUNO PERMUTTI: Okay, thank you. And the second one was related to the numbers of the last quarter. I guess that in addition to the purchase of the treasury share, you probably had an increase in net working capital. I wanted to understand this…this is correct or not. And in case…what is the reason and if it is something that will be absorbed in the next quarters?

FRITZ SQUINDO: Okay. Regarding the financial position at the end of the year, we will disclose all the number in the beginning of March, when we present the full-year result with the report. If you compare…I cannot give you the final number, but we have not seen increase in the working capital, we have seen the normal increase in the working capital which is linked to development of the Company. We are growing 10% our revenue and therefore we expect in this range also the working capital to increase.

If you compare the financial position to the financial position at the end of September, then the working capital was particularly favorable, due not to the normal working capital, mainly to some fiscal tax credits, tax advance

payments which are more important in the last part of the year. Then the working capital, including also [indiscernible] in payable which are linked to the tax issue are different…have a different distribution during the year. Then it's very favorable at the end of September. And we had to pay some important accounts payable…advance payment in the last quarter. Then we have a normal increase in the working capital, we have this share buyback. And therefore, we will arrive to this net financial position again.

BRUNO PERMUTTI: Thank you. A follow-up question from me, did you apply for patent box and do you expect any benefit from it?

FRITZ SQUINDO: We applied for the patent box. We are in discussion with the [indiscernible]. Frankly speaking, we don't know, we have applied, we hope to have …we could have some important benefits, because we are a research Company and this is the spirit of rules, it's to give benefit to a Company which has a strong investment in the R&D, but we haven't included major impact in our business plan, because we have to start the discussion with [indiscernible] and the people which are involved in this.

ANALYST: [Indiscernible] from Goldman Sachs. I have one very quick question. Does your plan for EBIT in terms of 2017 and 2019 include integration costs or is it ex integration costs?

FRITZ SQUINDO: Sorry, I did not get your question.

ANALYST: For the M&A integration costs, are they part of your plan, or they are not part of your plan?

FRITZ SQUINDO: M&A cost in term of…no, we have included an overall impact which include both, revenue and costs. We have not included in this business plan extraordinary costs, which could be linked to the acquisition. Then

we will see then, if there is, in 2018, some acquisition for which we have a restructuring, and then this is not included in our business plan.

ANDREA RECORDATI: I want to say, it's made impossible to kind of predict something like this in three-year plan, because we don't know what we are going to buy, and if it's got a product, it's going to be a franchise, if it's going to be a company with structure that we need to restructure it, just for the top line.

OPERATOR: Excuse me, sir, there is a question from the conference call [multiple speaker] from Jo Walton, please go ahead.

JO WALTON: Thank you. Just three quick ones, of the 10% sales growth that you saw in 2016, I wonder if you could roughly breakout what was organic, and what was the first time contribution from Italchimici? Secondly, looking at your 2017 forecasts, it looks like you are expecting about 10% growth for the Orphan Europe business. But this is a business that grew 22% in 2016. So is there some particular reason why that will not grow as fast in 2017? And the third question, just if you could help us with your assessment of the current market environment in both Turkey and Russia, where you have been growing very strongly. Do you believe that the rate of local currency growth that you've seen in 2016 can be replicated in 2017?

FRITZ SQUINDO: First question was, we have included in…are included in the…our objective in term of revenue in 2017, around €20 million-€22 million which are linked to the acquisition of Italchimici which means that the organic growth in our objective for 2017 is in the region of 4%, which is, let me say lower than what we expect for the full year, for the other year because we expect in 2017 the entry of the generic competition for the combination, and therefore, we have to manage competition and we expect for the franchise, you have seen in the presentation, the franchise of lercanidipine, including the combination to decrease in 2016. That's the

main reason for this lower level of organic growth that we have projected in 2017.

JO WALTON: And in 2016, what was the contribution roughly?

FRITZ SQUINDO: As I said in the conference call, in 2016, the contribution of Italchimici and the Pro Farma business was in the region was €27 million which means, that excluding this in 2016, the organic growth would have been 7.5%.

JO WALTON: Thank you; I missed that on the call.

ANDREA RECORDATI: 7.6% organic growth in 2016.

JO WALTON: Thank you.

FRITZ SQUINDO: Regarding the other question was, Turkey, Russia…

MARIANNE TATSCHKE: No, and then also the growth for Orphan Europe was 22% in 2016, implied 10% growth in 2017 or in the plan. So why are we not going to grow that far?

ANDREA RECORDATI: Because we are cautious, Jo.

FRITZ SQUINDO: Because in our Orphan business, sometime the growth is also linked to identification of new patients, this was essentially the case in the US market for Carbaglu. And we don't expect to be able every year to identify to add to our Orphan business the same number of new patient [ph]. There is a difference in the business model, the Orphan business compared to the primary and specialty care. It's also linked to identification, particularly in the extra…ultra rare businesses that we have,

based on the Carbaglu, and also our Cystadane business that is mainly driven by identification of new patients.

Then in our business plan, we had included a normal level, why, I can say that we expect and we think the 22% organic growth of the business in 2016 was a bit extraordinary, linked to some number of patient that we have been able to identify as I said, in particular, in the US market. And then we believe that could be even the same case in 2017, but it's difficult, as Andrea said, to forecast at this level of new patients, which are very rare and difficult to find. And then we believe that.

Overall, we expect our business in the rare disease to be able to grow double-digits. This is our objective. If we are able to identify more patients, could be a bit more, but I think double-digit has been the history, we have been growing the business over the last 10 years, and we expect this could be a challenging objective and to confirm and to have 22% organic growth every year, we believe is not achievable.

MARIANNE TATSCHKE: And Russia and Turkey market environment, currency growth.

ANDREA RECORDATI: Yes, regarding the market environment, again it's a bit of a difficult question, as I said that we know the situation in these countries. However, we have no clear signs that we should be expecting any negative impact on our business in these countries, for reasons which are obviously linked to the realization that the government of these countries has no interest in pushing out foreign investments by factoring in one way or another. So we still believe like we showed with our numbers that we are going to achieve high strong volume growth in these countries. We just opened the factory…new factory in Turkey as well, which we invested $50 million over the last few years on building. And so, we believe this country, obviously it's a difficult situation. No, one has a crystal ball, but we don't

foresee in our plan and we honestly don't foresee any issues for our business in these countries.

JO WALTON: Thank you.

MARIANNE TATSCHKE: Regarding the currency.

ANDREA RECORDATI: Regarding the currency, the question is what…do we expect it to be value more or…

JO WALTON: No, there was no question. Well, I was only looking for your local currency growth, you know, what you were expecting to see in those local markets?

FRITZ SQUINDO: No, here again, we have achieved extraordinary result in 2016, 26% and 22%. We are projecting double-digit growth, we believe are sustainable. And then as usual we will try to do our best to exceed our target. But we cannot project in the business plan 2017-2019 a 20%-25% local organic growth with the current portfolio. We have done a very solid and extraordinary performance. We try to do our best in the future. In our business plan we have projected a double-digit growth, but not to the same extent that we have achieved in 2016.

JO WALTON: Thank you.

MARIANNE TATSCHKE: Any further questions? Okay, if there are no further questions from the floor or from people listening in. I think, we will close it here. Thanks for attending and goodbye to everyone.

ANDREA RECORDATI: Thank you very much everybody.