ANNUAL REPORT 2016

RECORDATI

FINANCIAL HIGHLIGHTS

REVENUE

€ (thousands)	2016	%	2015	%	Change 2016/2015	%
TOTAL REVENUE	**1,153,942**	**100.0**	**1,047,676**	**100.0**	**106,266**	**10.1**
Italy	237,615	20.6	211,570	20.2	26,045	12.3
International	916,327	79.4	836,106	79.8	80,221	9.6

KEY CONSOLIDATED P&L DATA

€ (thousands)	2016	% of revenue	2015	% of revenue	Change 2016/2015	%
Revenue	1,153,942	100.0	1,047,676	100.0	106,266	10.1
EBITDA[1]	371,217	32.2	317,000	30.3	54,217	17.1
Operating income	327,423	28.4	278,517	26.6	48,906	17.6
Net income	237,431	20.6	198,803	19.0	38,628	19.4

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

KEY CONSOLIDATED BALANCE SHEET DATA

€ (thousands)	31 December 2016	31 December 2015	Change 2016/2015	%
Net financial position[2]	(198,771)	(88,737)	(110,034)	124.0
Shareholders' equity	903,940	869,992	33,948	3.9

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

PER SHARE DATA

€	2016		2015	Change 2016/2015	%
Net income[3]	1.152		0.968	0.184	19.0
Shareholders' equity[3]	4.404		4.234	0.170	4.0
Dividend	0.70	[4]	0.60	0.10	16.7
SHARES OUTSTANDING:					
- average during the year	206,117,418		205,270,094		
- at December 31	205,233,894		205,439,798		

[3] Net income per share is based on average shares outstanding during the year net of average treasury stock. Average treasury stock amounted to 3,007,738 shares in 2016 and 3,855,062 shares in 2015. Shareholders' equity per share is based on total shares outstanding at year end net of treasury stock. Treasury stock amounted to 3.891.262 shares at 31 December 2016 and 3,685,358 shares at 31 December 2015.

[4] Proposed by the Board of Directors.

In 2016, following a long illness, the Chairman and Chief Executive Officer of the company, Mr. Giovanni Recordati, passed away on August 15. Mr. Giovanni Recordati has been Chief Executive Officer of the company since 1990 as well as Chairman of the Board of Directors since 1999. Under his management the group grew vigorously becoming a well-known international pharmaceutical player with subsidiaries in Europe, North America, South America and North Africa as well as developing a presence in the rare disease segment.

The Board of Directors, at a meeting convened urgently, resolved to appoint Alberto Recordati Chairman of the Board of Directors of the company and Andrea Recordati Vice Chairman and Chief Executive Officer. In particular, Andrea Recordati, Chief Operating Officer since 2013 in charge of all the commercial and production activities of the group, has been granted all the powers for the ordinary and extraordinary management of the company, including the direction and coordination activities regarding all companies belonging to the group. It is the intention of the Directors to proceed along the lines of the development strategy outlined by Giovanni Recordati with the objective of continuing the growth of the group

Regarding the group's financial performance, the results obtained in 2016 confirm the sustained growth of the group, with a significant increase of both revenues and profitability. All business segments and the main corporate products, as well as the consolidation of the two acquired companies, contributed to these results. Group consolidated revenue for 2016 is € 1,153.9 million, up 10.1% over the preceding year. International sales are € 916.3 million, up 9.6% and now represent 79.4% of total revenue. Operating income, at 28.4% of sales, is € 327.4 million, a growth of 17.6% compared with the preceding year. This result includes non recurring expenses of € 12.8 million due to charges for organizational restructuring and ancillary costs related to the recent acquisitions of Italchimici S.p.A. and Pro Farma AG as well as the write-down of certain intangible assets. Net income is € 237.4 million, an increase of 19.4%, with a further improvement as margin on sales which is now 20.6%. At 31 December 2016 the group's net financial position records net debt of € 198.8 million compared to net debt of € 88.7 million at 31 December 2015, including the acquisition of Italchimici S.p.A. and Pro Farma AG, the distribution of dividends and share buy-backs that accounted for a total amount of more than € 300 million during the period. Shareholders' equity further increased to € 903.9 million.

In 2016 a number of initiatives were pursued in line with the group's strategy of continued growth and development.

During May 100% of the share capital of Italchimici S.p.A., an Italian pharmaceutical company with operational headquarters in Milan was acquired. The value of the transaction (enterprise value) was of around € 130 million and was be funded from existing liquidity. Italchimici, with over 40 years of history and revenues in 2015 of € 46 million, is a consolidated firm in the Italian pharmaceutical market with well-known products. The company offers therapeutical solutions mainly in the gastroenterological and respiratory areas which consist of both pharmaceutical products as well as food supplements and medical devices to improve the health and well-being of patients. The main brands in its extensive product portfolio are Reuflor (lactobacillus reuteri), Peridon (domperidone) and Lacdigest (tilactase) in the gastroenterological offering and Aircort (budesonide) among the respiratory products.

In July 100% of the share capital of Pro Farma AG, a Swiss pharmaceutical company with headquarters in Zug, was acquired. The value of the transaction (enterprise value) is of CHF 16 million and was funded from existing liquidity. Pro Farma, with 2016 revenues of around CHF 10 million, markets proprietary and in-licensed specialties in selected therapeutic areas which include both prescription and OTC drugs. The main brands are Lacdigest (tilactase), Tretinac (isotretinoin) and Urocit (potassium citrate). Furthermore, the company offers distribution and promotion services to other pharmaceutical companies. The acquisition of Pro Farma represents an excellent base on which to develop our operations in Switzerland where Recordati has recently started to sell its product portfolio directly to the market. Furthermore, the main product Lacdigest will contribute to the enhancement of our presence in gastroenterology.

Also during July, a partnership with AP-HP (Assistance Publique – Hopitaux de Paris) was finalized under which AP-HP will grant an exclusive world-wide license to Orphan Europe (a Recordati company) for the development and commercialization of an innovative product for the treatment of acute decompensation episodes in patients affected by Maple Syrup Urine Disease (MSUD), a severe metabolic disorder.

At the beginning of August Recordati and Gedeon Richter signed an exclusive license agreement to commercialize cariprazine, a novel atypical antipsychotic in Western Europe and in Algeria, in Tunisia and in Turkey. Cariprazine was discovered by Richter scientists and was launched in the U.S.A. in March 2016 under the trademark of Vraylar™. In March 2016, the European Medicines Agency (EMA) started the evaluation of Richter's marketing authorization application for cariprazine for the treatment of schizophrenia. Schizophrenia is a chronic and disabling disorder that has a worldwide prevalence approaching 1%. It imposes significant burden on patients, their families, and society. Symptoms fall into three broad categories: positive symptoms (hallucinations, delusions, thought disorders, and movement disorders), negative symptoms (such as loss of motivation and social withdrawal), and cognitive symptoms (problems with executive functioning, focusing, and working memory). Cariprazine is an orally active and potent dopamine D_3/D_2 receptor partial agonist with preferential binding to D_3 receptors and partial agonist at serotonin 5-HT_{1A} receptors.

Going forward we will continue to develop the business internationally, both by growing the existing product portfolio as well as through acquisitions of products or companies, with the objective of enhancing our presence in selected markets. The development of the segment dedicated to treatments for rare diseases and its expansion into new markets will continue to be a priority. Our group already makes these treatments available through its own organizations throughout Europe, in the Middle East, in the U.S.A. and in some Latin American countries. Furthermore, we will continue to dedicate resources to research and development and strong emphasis will be placed on the enrichment of our product portfolio both through the development and launch of pipeline products as well as through the acquisition of new specialties.

We believe that the strict implementation of our strategy will enable us to be optimistic regarding the future, and we count, as always, on the entrepreneurship and determination of our management team, the professional skills of our employees and the trust of our shareholders. We would like to express our gratitude to all of them for their support during 2016.

DIVIDENDS

Based on the results obtained, the Board of Directors of the parent company will propose to the shareholders a dividend of € 0.35 per share, in full balance of the interim 2016 dividend of € 0.35, to be paid to all shares outstanding at ex-dividend date, excluding those in treasury stock, as from 26 April 2017 (record date 25 April 2017), with ex-dividend on 24 April 2017 (against presentation of coupon no. 19). The full 2016 dividend is therefore of € 0.70 per share (€ 0.60 per share in 2015).

RESEARCH AND DEVELOPMENT

In 2016 research and development activities were concentrated on programs in rare diseases and urology and a number of projects aimed at the further investigation of the clinical profile of our products were advanced. An agreement was signed with Gedeon Richter for the commercialization of cariprazine, an innovative antipsychotic drug. Regarding activities in treatments for rare diseases, marketing approval was received for Cystadrops®, cysteamine gel based eye drops for the ocular manifestations in patients suffering from cystinosis. Furthermore, activities progressed for the pharmaceutical and clinical development of new formulations of carglumic acid and hemin. Partnerships were finalized for the development of therapies to benefit patients suffering from severe conditions such as Maple Syrup Urine Disease (MSUD) and cystic fibrosis. Collaborations with research institutes were initiated for the advancement of new projects, one of which is a new therapeutic approach in Retinopathy of Prematurity (ROP).

PRODUCT DEVELOPMENT PIPELINE

NAME	ORIGINATOR	INDICATION	DEVELOPMENT STATUS
CYSTADROPS®	Recordati	Corneal cysteine crystal deposits in patients with cystinosis	Approved in EU in January 2017
FORTACIN™	Plethora Solutions	Premature ejaculation	Variation of EU approval completed
REAGILA®	Gedeon Richter	Schizophrenia	Filed in EU
methadone		Treatment of cancer-related pain in cases of resistance or intolerance to opioids	Filed in France
GRASPA®	Erytech	Acute lymphoblastic leukemia (ALL) in patients with first recurrence of Philadelphia chromosome negative ALL	Pre-filing in EU
		Acute myeloid leukemia (AML) in patients >65 unfit for chemotherapy	Phase II b
CARBAGLU®	Orphan Europe (Recordati)	Hyperammonaemia due to NAGS deficiency and to the main organic acidemias	Development of new formulations in EU and USA Pre-filing in the USA for the organic acidemias indication
REC 0438	Recordati/UFPeptides	Overactive bladder in patients with spinal lesions	Phase I completed EU
REC 0545	Orphan Europe (Recordati)/AP-HP	Acute decompensation episodes in MSUD	Formulation development Clinical development planning

The introduction in the pipeline of new products, both through our discovery programs as well as through alliances with other research companies and institutions, has been of fundamental importance also in 2016 to enrich our pipeline and ensure the group's future growth. At the same time, important and intense registration and regulatory activities were carried out to obtain marketing approvals for Recordati products in new territories.

Research and development activities during 2016 are summarized in the following paragraphs.

Urology and andrology

In-house urology projects

Recordati's discovery programs in urology are primarily focused on the search for innovative treatments to address micturition disorders, which are frequent in the elderly, but also afflict groups of patients suffering from rare conditions such as micturition disorders affecting patients with *spina bifida* suffering from neurological hyperactive bladder.

REC 0438 represents a class of compounds to be potentially used in these patients who require repeated daily treatment, often with brief and variable efficacy and therefore not easily tolerated. REC 0438 would be administered by intravesical means in patients who must repeatedly use self-catheterization methods to empty their bladder. The objective of the treatment is to reduce incontinence episodes which have an important impact of patients' quality of life. Following the completion of the study conducted in healthy volunteers to whom single doses of up to 4 mg were administered, in 2016 the compound was also tested in adult patients with spinal lesions of a post-traumatic nature to whom a dose of up to 1 mg was administered. The data confirmed the optimal tolerability of the product also in patients subject to self-catheterization. The drug is well tolerated locally, it is not absorbed and accumulation is not expected.

Urorec® (silodosin)

In 2016 a single center clinical trial was conducted at the Federico II university in Naples to evaluate, using urodynamic testing, the efficacy of silodosin in reducing bladder neck obstruction in patients with benign prostatic hyperplasia who are slated for surgery. Results are expected during 2017. Preliminary observations in Japan involving an analogous patient population showed a significant and long-lasting reduction of the obstruction, so much so that at the end of the trial 44% of the men with BPH decided against surgery and continued treatment with silodosin.

During the year the results of the extensive European phase IV study (SiRE: EudraCT number: 2011-000045-20), conducted on more than 1,000 patients suffering from benign prostatic hypertrophy, that confirmed the efficacy of silodosin in relieving the BPH symptoms considered to be the most annoying, in particular nocturia, through the evaluation of the patients' micturition diaries, were published (Int J Urol. 2016;23:572-9).

Registration in new markets of silodosin (Urorec® and Silodyx™) was an ongoing activity also in 2016. Marketing authorization was obtained in Switzerland and a marketing authorization request was filed in Australia.

Vitaros®/ Virirec® (alprostadil cream)

Vitaros® is the first topically applied cream formulation for the treatment of erectile dysfunction, indicated for men 18 and older who are not able to achieve or maintain an erection satisfactory for sexual intercourse. The product, on the market in Spain since 2015, was classified as reimbursable in this country in 2016. In 2016 it was launched in other European countries (Ireland, Czech Republic, Portugal, Slovacchia and Poland). The protocol for a post-authorization study to be initiated in 2017 is being defined by various marketing authorization holders in Europe.

Fortacin™ (lidocaine+prilocaine)

Fortacin™ is an easy-to-use fast acting topical spray formulation of lidocaine and prilocaine for the treatment of premature ejaculation. Premature ejaculation is a common form of sexual dysfunction in men. Epidemiological studies conducted in the U.S.A. and in Europe indicate a prevalence of 20% to 30% in men of all ages. In view of its upcoming commercialization in a number of European countries, during 2016 the protocol for a post-authorization study (Drug Utilization Study) was defined to evaluate the utilization of the drug in clinical practice through the monitoring of prescription databases.

Cardiology and metabolic disorders

Zanidip®/Zanipress® (plain lercanidipine/lercanidipine+enalapril)

In confirmation of the continued clinical interest in our anti-hypertensive drug lercanidipine, an original calcium channel blocker fully developed by Recordati (used in monotherapy or in association with enalapril), during 2016 a cumulative analysis of the extensive clinical and post-marketing experience with this product was made with the objective of updating and harmonizing the information directed at the medical community in Europe and in extra European countries, while also taking into account the results of the important international study FELT ("FELT" study: EudraCT number: 2009-015988-13; https://www.clinicaltrialsregister.eu/ctr-search/search?query=FELT+Recordati). This study conducted in 1,039 patients with moderate hypertension, to whom doses of 20 mg of lercanidipine combined with 20 mg of enalapril were administered, demonstrated the efficacy of the combination of these two drugs.

Livazo® (pitavastatin)

Pitavastatin is a latest generation statin indicated for the reduction of elevated total and LDL cholesterol in patients suffering from primary hypercholesterolemia and combined dyslipidemia. During 2016 a change in the Summary of Product Characteristics, to include the results of clinical trials which show the reduced potential of pitavastatin in inducing diabetes in patients treated chronically for hypercholesterolemia, was approved at European level. Both a prospective clinical trial conducted on 1,269 patients with glucose intolerance treated with doses of 1 mg and 2 mg for more than two years, as well as the meta-analysis of controlled clinical trials involving 4.815 non-diabetic patients treated for at least 12 weeks, were positively appraised.

Psychiatry

Reagila® (cariprazine)

In 2016 an agreement was signed between Recordati and Gedeon Richter for the commercialization of cariprazine, a novel antipsychotic drug, in Western Europe and in Algeria, in Tunisia and in Turkey and for the development of a pediatric clinical program in Europe.

Cariprazine is an orally active and potent dopamine D_3/D_2 receptor partial agonist with preferential binding to D_3 receptors and partial agonist at serotonin 5-HT_{1A} receptors. It was approved by the Food and Drug Administration (FDA) in 2015 and launched in the United States in March 2016 and is currently under review by the European Medicines Agency (EMA) for the treatment of schizophrenia, including negative symptoms.

Schizophrenia is psychic disorder characterized by a severe alteration of behavior and perception (hallucinations) and thought (delusions) disturbances. The delusions and hallucinations are also referred to as positive or productive symptoms which are accompanied by negative symptoms, characterized by apathy, loss of affectivity and poor ideation which are responsible for the patient's loss of contact with reality and his or her withdrawal into a world incomprehensible to others.

Other therapeutic areas

Methadone

Following the completion of the phase III-b study EQUIMETH2 conducted in France in 18 clinical centers specialized in the treatment of cancer related pain, an application was submitted to the French authorities for the approval of the use of methadone for this condition. The application is currently under review.

Lomexin® (fenticonazole)

Fenticonazole is a topical antimycotic drug originated by Recordati. The validity of this original product for the treatment of candida vulvovaginitis was confirmed by the successful completion in 2016 of a new decentralized

European approval process which involved a number of European countries. Recordati's production site in Campoverde di Aprilia (Italy) where the active ingredient fenticonazole nitrate is produced, obtained the Certification of Conformity in the European Pharmacopeia for this compound.

Treatments for rare diseases

Recordati is expanding its commitment to the discovery and development of treatments for rare diseases, and has a number of projects in the pipeline in various phases, from new formulations to phase III and post-approval studies. Furthermore, various collaborations with the best Universities worldwide are in place with the objective of finding new therapeutic uses for the current treatments as well as to promote research and development in the more relevant areas (metabolic diseases, neonatology).

Carbaglu® (carglumic acid)

This product is an orphan drug approved by the European Medicines Agency (EMA) and by the Food and Drug Administration (FDA) for the treatment of hyperammonaemia due to N-Acetyl Glutamate Synthase (NAGS) deficiency. NAGS deficiency is an extremely rare inherited metabolic disorder affecting the urea cycle which leads to accumulation of ammonia in the blood. If not adequately and quickly treated, hyperammonaemia causes irreversible brain damage, coma, and eventually death. Carbaglu® is the only existing specific treatment for this genetic disorder which requires life-long treatment. In 2011 Carbaglu® obtained approval in Europe for the extension of its use to treat hyperammonaemia due to the three main organic acidemias (OA): isovaleric acidemia, methylmalonic acidemia and propionic acidemia. In July 2014 Carbaglu® was granted Orphan Drug Designation (ODD) by the FDA for its use in the treatment or organic acidemias and is currently in a pre-filing phase in the U.S.A. for this indication.

Recordati is developing a new formulation of Carbaglu® to be administered intravenously for the treatment of patients in an acute decompensation phase when oral administration is not possible due to the critical condition of the patient. Currently a tolerability phase I study in healthy volunteers is ongoing testing increasing doses of the product administered intravenously. Furthermore, a new oral formulation is under development with the objective of increasingly satisfying patients' needs.

Cystadrops® (cysteamine hydrochloride)

Nephropathic cystinosis is a generalized congenital disorder which affects all body organs and benefits from systemic treatment with cysteamine (Cystagon®) orally administered. Cystinosis also affects the eyes and without quick, continued and proper treatment, cystine crystals accumulate in the cornea. Cystagon® does not adequately address ocular cystinosis due to the poor vascularization of the cornea. The accumulation of cystine crystals in the cornea results in visual disturbances such as photophobia (sensitivity to light), retinal damage and frequent corneal ulceration and eye infections that can degenerate causing corneal erosion and consequent blindness. Cystadrops® are gel based eye drops containing cysteamine chlorhydrate developed by Recordati for the specific treatment of the ocular manifestations of cystinosis. This treatment acts directly on the accumulations of cystine crystals in the eyes and therefore reduces, and eventually eliminates, the crystals improving the symptoms.

Following the positive outcome of the clinical development a Marketing Authorization Application was filed with the European Medicines Agency (EMA) to obtain the new indication. The application was positively appraised and in January 2017 marketing approval in the European Union was received for Cystadrops® to treat patients aged over two years affected by cystinosis.

Graspa® (L-asparaginase)

Asparagine is a tumor growth factor for some blood tumors, and the enzyme L-asparaginase has been shown to possess a powerful antitumor activity, due to its capacity to degrade asparagine in plasma thus making it

unavailable to the neoplastic cells which are unable to produce it. As the enzyme is highly toxic, part of the patient population does not tolerate the treatment protocols that include the use of L-asparaginase well and thus is not able to receive appropriate treatment. For these patients (mainly relapsed patients, senior and elderly adults) an important medical need is currently not adequately met.

Graspa® is a new alternative for asparaginase administration originated by the French biotechnology company Erytech Pharma: it is L-asparaginase encapsulated in homologous (hemo-compatible) human red blood cells (erythrocytes). GRASPA® reduces the toxicity and hypersensitivity issues associated with L-asparaginase treatments, while effectively suppressing the plasmatic bioavailability of asparagine.

Following the completion of the phase III study GRASPALL, which investigated the efficacy and safety of Graspa® (L-asparaginase encapsulated in human hemocompatible erythrocytes) in the treatment of acute lymphoblastic leukemia (ALL) an initial Marketing Authorization Application was submitted to the European Medicines Agency (EMA). The agency requested further information and therefore, a second application is currently in preparation to include further data requested by the Agency that is expected to be submitted during 2017. Within the same clinical development program in onco-hematology the phase II-b study GRASPA-AML for the evaluation of the efficacy and safety of Graspa® in the treatment of acute myeloid leukemia (AML) in association with chemotherapy, is ongoing.

REC 0545

In July 2016 a partnership with AP-HP (Assistance Publique – Hopitaux de Paris) was finalized under which AP-HP for the development and commercialization of an innovative product for the treatment of acute decompensation episodes in patients affected by Maple Syrup Urine Disease (MSUD), a severe metabolic disorder.

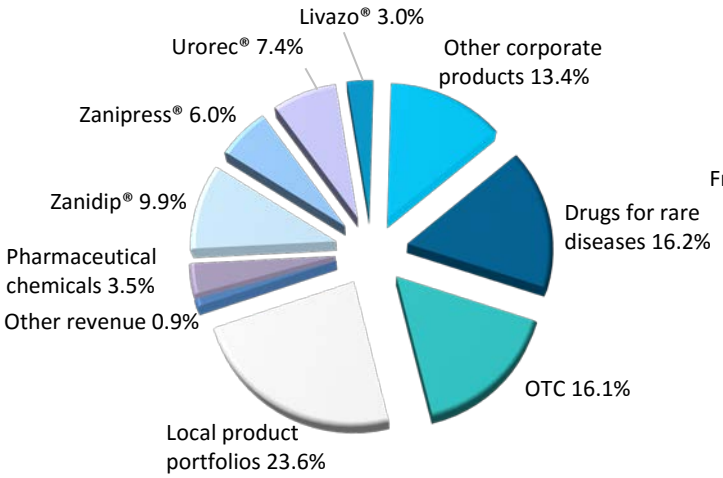
Maple syrup urine disease (MSUD), also called branched-chain ketoaciduria, is a rare metabolic disorder affecting branched-chain amino acids (leucine, isoleucine and valine) which results in a build up of these amino acids and their metabolites. This build-up manifests with severe symptoms affecting all organs right from the beginning of a newborn's life which, if not adequately diagnosed and treated result in the child's death. Even when chronically treated, patients may be subject to acute metabolic decompensation episodes that manifest with severe neurological symptoms which if not addressed can be life-threatening.

Various therapeutic approaches exist but to date none is specifically approved for the management of the acute phases. Preliminary data show that REC 0545 acts quickly on the build up levels of the amino acids and their metabolites, thus considerably reducing symptoms and patient mortality.

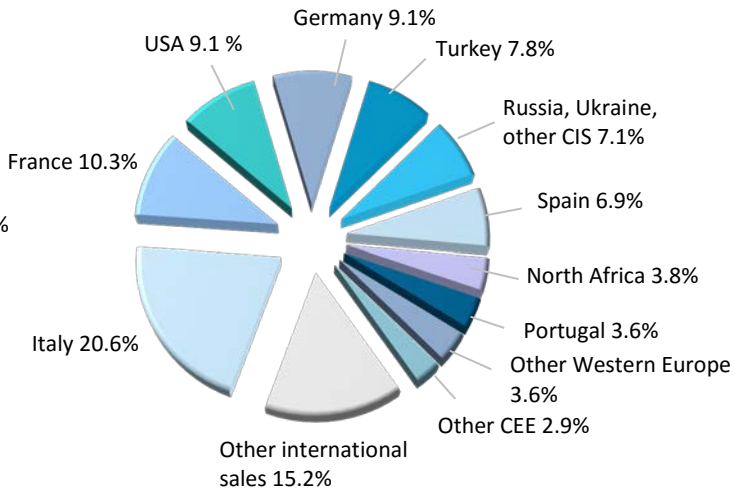
REVIEW OF OPERATIONS

Net consolidated revenue in 2016 is € 1,153.9 million, up 10.1% over the preceding year, with an increase in international sales of 9.6% to € 916.3 million, which represent 79.4% of total sales. Pharmaceutical sales are € 1,113.8 million, up by 10.1%. Pharmaceutical chemicals sales are € 40.2 million, up by 11.4%, and represent 3.5% of total revenues. The 2016 revenues include those generated by the Italian company Italchimici S.p.A. and the Swiss company Pro Farma AG, acquired in May and July and consolidated respectively as from 1 June and 1 July, for an amount of € 27.7 million. Excluding the new acquisition sales growth would have been of 7.5%.

Sales by business



Pharmaceutical sales



PHARMACEUTICALS

The group's pharmaceutical business, which represents 96.5% of total revenue, is carried out in the main European markets, including Central and Eastern Europe, in Russia and other C.I.S., in Turkey, in Tunisia, in the United States of America, in Mexico and in some South American countries through our own subsidiaries and, in the rest of the world, mainly through licensing agreements with pharmaceutical companies of high standing. We have gradually extended our international presence through the acquisition of existing marketing organizations with the aim to add our proprietary products, and those obtained under multi-territorial licenses, to the local portfolios.

Corporate products

The performance of products sold directly in more than one market (corporate products) during 2016 is shown in the table below.

€ (thousands)	2016	2015	Change 2016/2015	%
Zanidip® (lercanidipine)	113,999	115,707	(1,708)	(1.5)
Zanipress® (lercanidipine+enalapril)	69,075	65,675	3,400	5.2
Urorec® (silodosin)	85,197	68,275	16,922	24.8
Livazo® (pitavastatin)	35,130	28,418	6,712	23.6
Other corporate products*	215,546	199,289	16,257	8.2
Drugs for rare diseases	186,806	153,130	33,676	22.0

* Include the OTC corporate products for an amount of € 61.4 million in 2016 and € 55.1 million in 2015 (+11.5%).

Zanidip® (lercanidipine) is Recordati's original calcium channel blocker for the treatment of hypertension available in 101 countries. Our lercanidipine based products are sold directly to the market by our own marketing organizations in Western Europe as well as in Central and Eastern Europe, in Turkey and in North Africa. In the other markets they are sold by licensees, and in some of those aforementioned co-marketing agreements are in place.

€ (thousands)	2016	2015	Change 2016/2015	%
Direct sales	62,150	60,570	1,580	2.6
Sales to licensees	51,849	55,137	(3,288)	(6.0)
Total lercanidipine sales	**113,999**	**115,707**	**(1.708)**	**(1.5)**

Direct sales of lercanidipine based products are up by 2.6% mainly due to sales in Switzerland, previously out licensed and, since September 2016, handled directly by our subsidiary in this country. Sales increase in the U.K., in Turkey, Italy and Poland. Sales to licensees, which represent 45.5% of total lercanidipine sales, are down mainly due to the reduction of sales by our licensee in Venezuela and the change in Switzerland from licensed out to directly sold in the market.

Zanipress® is a specialty also indicated for the treatment of hypertension developed by Recordati which consists of a fixed combination of lercanidipine with enalapril. This product is marketed successfully by Recordati or by its licensees in 28 countries.

€ (thousands)	2016	2015	Change 2016/2015	%
Direct sales	51,815	47,808	4,007	8.4
Sales to licensees	17,260	17,867	(607)	(3.4)
Total lercanidipine+enalapril sales	**69,075**	**65,675**	**3,400**	**5.2**

Direct sales of Zanipress® in 2016 are up by 8.4% mainly due to the performance of the product in Italy, Turkey and Germany. This product is marketed in Italy by Recordati and Innova Pharma with the brands Zanipril® and Lercaprel® and by co-marketers Italfarmaco and Polifarma with the brands Coripren® and Atover® respectively. Sales recorded in 2016 by Zanipril® and Lercaprel® are € 16.2 million, up by 11.4%. Overall the product has achieved a market share of 33.1%. In France the lercanidipine/enalapril fixed combination is marketed by Bouchara Recordati and by Pierre Fabre under their respective brands Zanextra® and Lercapress®. Sales of Zanextra® are € 10.5 million, up by 1.5%. Overall the product has achieved a market share of 25.4%. In Germany, Recordati Pharma sells Zanipress®, which recorded sales of € 9.1 million, up by 17.1%. The lercanidipine/enalapril

fixed combination is also sold by Berlin Chemie (Menarini group) as Carmen ACE® and by Meda as Zaneril®. Overall this product is the second largest in its class with a market share of 40.1%. In Portugal, where sales of Zanipress® are € 3.8 million (-7.0%), and in Spain where sales of Zanipress®, Lercapress® and Coripren® are € 3.8 million (+5.3%), generic versions of the product are present in the market. The lercanidipine/enalapril fixed combination is also sold by our marketing organizations in Turkey with sales of € 6.6 million (+13.3%), in Greece, Switzerland, Ireland, Russia and other C.I.S. and in North Africa. Sales to licensees, which represent 25.0% of total sales, are down by 3.4% and include the effect of the change in Switzerland from licensed out to directly sold in the market.

Urorec® (silodosin) is a drug indicated for the treatment of the symptoms of benign prostatic hyperplasia (BPH, enlargement of the prostate). BPH manifests with problems linked to urination and the prevalence of the disorder is increasing with the ageing of the population, it is frequent in men over the age of fifty and its symptoms significantly reduce quality of life. Clinical evidence shows that patients receiving silodosin benefited from a significant reduction of symptoms associated with BPH and an improvement in quality of life within the first week of treatment. Silodosin was originated by Kissei (Japan) and was obtained under license by Recordati for the development and marketing in Europe and a further 18 countries in the Middle East and Africa. Currently the product is successfully marketed in 34 countries and has achieved a share of 19.8% of the alpha blocker segment of the BPH market in the 17 main European countries. Silodosin based products are sold directly by our subsidiaries under the brand Urorec® and by licensees under the brand Silodyx™ and generated sales in 2016 of € 85.2 million, up by 24.8%. Urorec® is doing particularly well in Italy achieving sales in 2016 of € 22.5 million (+16.5%). The product is also well accepted by physicians in France and in Spain where sales are € 13.8 million (+19.2%) and € 8.1 million (+11.8%) respectively. Urorec® is also growing significantly in Turkey where it was launched in 2012 and generated sales of € 8.9 million (+29.5%) in 2016.

Livazo® (pitavastatin) is a latest generation statin indicated for the reduction of elevated total and LDL cholesterol. Controlled clinical trials show that pitavastatin induces a reduction in LDL-cholesterol (the “bad” cholesterol that contributes to formation of atherosclerotic plaques) and an increase in HDL-cholesterol (the “good” cholesterol that is removed from the arterial walls), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications. Furthermore, presents an excellent safety profile due to the lower likelihood of drug-drug interactions than that of most other statins. Thanks to these properties pitavastatin can be regarded as an effective and safe treatment of dyslipidemia. Pitavastatin was licensed by Recordati from the Japanese pharmaceutical company Kowa for the European market, Russia and the other C.I.S. countries and Turkey. The drug is sold by our marketing organizations in Spain, Portugal, Switzerland, Greece, Russia and Ukraine. Sales generated in 2016, including sales to co-marketers in Spain, Portugal and Greece, are € 35.1 million, up by 23.6%, and have achieved a share of 7.6% of the statins market in the four main countries.

Other corporate products include specialties obtained from Recordati’s original research, through the acquisition of product rights for various markets and through license agreements for multiple territories. The following paragraphs describe their characteristics and sales generated.

- Tergynan® is a fixed combination of different active ingredients with antimicrobial, anti-inflammatory, antiprotozoal and antimycotic activity for the treatment and prevention of gynecological infections. Sales of this product in 2016 are € 24.4 million, up by 7.8%, and are generated mainly in Russia where, in local currency, this product’s sales grow by 20.7%.

- CitraFleet® and PhosphoSoda®, belonging to the Spanish company Casen Fleet acquired during 2013, are bowel cleansers used in preparation for any diagnostic procedure which requires emptying of the intestines, such as colonoscopy or X-rays. In 2016 sales of CitraFleet® are € 22.1 million and those of PhosphoSoda® are € 5.4 million. Fleet enema and Casenlax®, two other gastrointestinal products, generated sales of € 10.8

million and € 7.2 million respectively.

- Polydexa®, Isofra® and Otofa® are combination products for the treatment of ENT infections sold mainly in Russia. In 2016 sales of Polydexa® are € 20.6 million, those of Isofra® are € 12.2 million while Otofa® generated sales of € 4.4 million. Overall sales are up compared to the preceding year despite the devaluation of the Russian rouble. In local currency sales of these products grow significantly in Russia.

- The Hexa line of products comprises biclotymol based antibacterial treatments of the oral cavity sold under the brands Hexaspray®, Hexalyse®, Hexapneumine® and Hexarhume®. Overall sales of these products in 2016 are € 18.6 million, an increase of 6.2%, and are generated mainly in France and North Africa.

- Procto-Glyvenol® (tribenoside), indicated for the treatment of internal and external hemorrhoids, is marketed by Recordati in the following countries: Poland, Russia, Turkey, Romania, Czech Republic, Slovakia, Ukraine, Portugal, the Baltic states and Cyprus. Sales in the market of this product in 2016 are € 17.0 million, up by 17.8%.

- Lomexin® (fenticonazole), an original Recordati product, is an internationally and widely used broad-spectrum antimycotic indicated for the treatment of dermatological and gynecological infections caused by fungi, mould, yeast and gram positive bacteria. Sales of this product for 2016 are € 16.9 million, down by 2.4% over the preceding year.

- Flavoxate is an antispasmodic for the treatment of urinary incontinence, originated by Recordati, which is marketed under the brands Genurin® and Urispas®. Sales of this product in 2016 are € 10.7 million, up by 4.9%.

- TransAct® LAT, a transdermal patch containing 40 mg of flurbiprofen indicated for the symptomatic relief of localized pain involving the musculoskeletal system, obtained under license from Amdipharm, is sold on the Italian and Portuguese markets. Sales of this product are € 10.7 million (+2.3%) in 2016.

- Rupatadine is a systemic antihistamine indicated for the treatment of allergies and in particular allergic rhinitis. Under license from Uriach, it is marketed in Italy and Germany as Rupafin® and in France as Wystamm®. Sales of all brands of rupatadine in 2016 total € 10.5 million (+4.5%).

- Kentera® is an oxybutynin transdermal patch indicated for the symptomatic treatment of disorders of the lower urinary tract such as incontinence, increased urinary frequency and urgency, obtained under license from Allergan (previously Actavis and before that Watson Pharmaceuticals) and marketed in 17 countries. Sales of Kentera® are € 8.6 million (+19.8%) in 2016.

- Lopresor® (metoprolol) is a selective beta blocker for the treatment of different cardiovascular disorders, in particular hypertension and angina pectoris, marketed in Greece and in other European markets. Sales of this product in 2016 are € 6.1 million and are generated mostly in Greece and in Germany.

- Abufene® and Muvagyn® are gynaecological products indicated for menopausal symptoms. Sales of these products in 2016 are € 4.9 million and € 2.9 million respectively.

- Vitaros®/Virirec® (alprostadil) is a topically applied cream formulation of alprostadil for the treatment of erectile dysfunction obtained under license from the US pharmaceutical company Apricus Biosciences in 2014. The first launch took place in Spain in 2015 and during 2016 the product was launched in Portugal, Poland, the Czech Republic, Slovakia and Ireland. Sales generated in 2016 are € 1.3 million.

Treatments for rare diseases

The Recordati group operates in the rare disease segment worldwide through its dedicated subsidiaries Orphan Europe and Recordati Rare Diseases who share the conviction that each person with a rare disease has the right to the best possible treatment. Our organizations work closely with specialists, healthcare professionals, patients' families and patient groups to meet the needs of people affected by these diseases and to spread the scarce knowledge available.

Orphan Europe is a leading orphan drug pharmaceutical group in Europe dedicated to the research, development and marketing of treatments for rare diseases. It is one of the groups with the most orphan drugs on the European market. The group has been operating for 25 years and markets treatments mostly for inborn errors of metabolism. It has worldwide coverage through its subsidiaries and through the presence of dedicated highly trained representatives and commercial agreements. Furthermore, a direct distribution and packaging system is able to deliver very small numbers of specialist products to people around the world at short notice. Recordati has progressively and successfully intensified its commitment to treatments for rare diseases also in the U.S.A. where Recordati Rare Diseases Inc. offers a portfolio of products for the treatment of a number of rare diseases the most important of which is Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria.

Our specialties indicated for the treatment of rare and orphan diseases are marketed directly all over Europe, in Turkey, in the Middle East, in the U.S.A., Canada and in some Latin American countries, and mainly through partners in other parts of the world. The main products in the segment dedicated to rare disease treatments are Panhematin®/Normosang® (human haemin) indicated for the treatment of acute attacks of hepatic porphyria; Carbaglu® (carglumic acid) indicated for the treatment of hyperammonaemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and due to any of the three main organic acidaemias; Cosmegen® (dactinomycin) used mainly in the treatment of three rare cancers (Wilms' tumor, childhood rhabdomyosarcoma and choriocarcinoma); Pedea®/Neoprofen® (i.v. ibuprofen) used in the treatment of a serious congenital cardiac malformation, the persistence of *patent ductus arteriosus* (PDA); Cystadane® (betaine anhydrous) for the treatment of homocystinuria and Cystagon® (cysteamine bitartrate) for the treatment of proven nephropathic cystinosis.

Sales of these products in 2016 total € 186.8 million, an increase of 22.0% due to the good performance of the business in all markets.

Pharmaceutical sales by geographical area

The pharmaceutical sales by geography of the Recordati subsidiaries are broken down as follows:

€ (thousands)	2016	2015	Change 2016/2015	%
Italy	229,920	204,847	25,073	12.2
France	115,052	110,590	4,462	4.0
U.S.A.	101,117	82,091	19,026	23.2
Germany	101,097	94,753	6,344	6.7
Turkey	86,321	74,073	12,248	16.5
Russia, other C.I.S. countries and Ukraine	79,512	72,382	7,130	9.9
Spain	76,441	71,981	4,460	6.2
North Africa	42,343	43,686	(1,343)	(3.1)
Portugal	40,279	39,346	933	2.4
Other Western European countries	40,064	28,502	11,562	40.6
Other C.E.E. countries	32,531	30,926	1,605	5.2
Other international sales	169,101	158,443	10,658	6.7
Total pharmaceutical sales	**1,113,778**	**1,011,620**	**102,158**	**10.1**

Both years include sales as well as income from up-front payments, royalties and miscellaneous items.

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

Local currency (thousands)	2016	2015	Change 2016/2015	%
Russia (RUB)	4,928,638	4,038,461	890,177	22.0
Turkey (TRY)	267,560	211,079	56,481	26.8
United States of America (USD)	114,983	91,118	23,865	26.2

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

ITALY

The Recordati group offers a broad range of medications in this country through its organizations Recordati S.p.A., Innova Pharma S.p.A., Orphan Europe Italy S.r.l. and as from 2016 Italchimici S.p.A.. In addition to its historic and established presence in the cardio metabolic field, the Italian product portfolio also boasts quality medicines in urology, in gastroenterology and in pain control as well as treatments for rare diseases mainly of metabolic origin.

€ (thousands)	2016	2015	Change 2016/2015	%
Prescription pharmaceuticals [(a)]	174,739	160,131	14,608	9.1
Self-medication pharmaceuticals [(b)]	55,181	44,716	10,465	23.4
Pharmaceuticals, Italy	**229,920**	**204,847**	**25,073**	**12.2**

(a) Prescription pharmaceuticals include both reimbursable and non-reimbursable drugs.
(b) Self-medication pharmaceuticals include OTC products and other pharmaceuticals not requiring a prescription.

The performance of the main products in Italy is the following:

€ (thousands)	Indication	2016	2015	Change 2016/2015	%
Cardicor®	heart failure	23,411	20,250	3,161	15.6
Peptazol®	gastric ulcers	22,563	23,651	(1,088)	(4.6)
Urorec®	benign prostatic hyperplasia	22,489	19,308	3,181	16.5
Zanedip®/Lercadip®	hypertension	18,762	18,407	355	1.9
Zanipril®/Lercaprel®	hypertension	16,218	14,554	1,664	11.4
Rextat®/Lovinacor®	hypercholesterolemia	13,098	11,953	1,145	9.6
Tora-Dol®	pain	12,514	12,202	312	2.6

Sales of prescription pharmaceuticals in Italy are up by 9.1%, as compared to the preceding year due to the good performance of the main products as well as the consolidation of sales generated by Italchimici S.p.A. as from 1 June. Urorec® and Zanipril®/Lercaprel® show strong growth and sales of both Cardicor® (bisoprolol) and the statins Rextat® and Lovinacor® (lovastatin) are developing significantly. Sales of Peptazol® (pantoprazole) were affected by generic competition. Sales of products for the treatment of rare diseases are up by 35.3%.

Sales of self-medication products are € 55.2 million, significantly up compared to the preceding year, and have benefited from the consolidation of Italchimici's self-medication products, in particular of Reuflor®, a lactobacillus based food supplement. Alovex™, indicated for the treatment of oral cavity aphthae, is our best-selling self-medication product with sales of € 7.3 million and remains market leader with a share of 29.6%. Proctolyn® (treatment of haemorrhoids) with sales of € 6.8 million, up by 5.0%, also remains market leader. TransAct® LAT (a transdermal patch containing 40 mg of flurbiprofen indicated for the symptomatic relief of localized pain involving the musculoskeletal system) generated sales of € 6.5 million. Dentosan®, a line of oral care products, generated sales of € 5.1 million and sales of Eumill® (eye drops) at € 5.0 million are up by 28.5% thanks to the product line extension. Sales of Imidazyl® (eye drops) are down by 5.5%, mainly of the antihistamine formulation, due to a bland allergy season.

FRANCE

Laboratoires Bouchara Recordati S.A.S. is solidly established in the French pharmaceutical market thanks to a number of prescription drugs and a line of OTC products which are well-known in France. Orphan Europe S.A.R.L., the largest company in the Orphan Europe group dedicated exclusively to treatments for rare diseases, is based in France.

The 2016 revenue realized by our subsidiaries in France is € 115.1 million, up by 4.0% compared to the preceding year. Below is the performance of the main products:

€ (thousands)	Indication	2016	2015	Change 2016/2015	%
Methadone	drug addiction	29,903	28,139	1,764	6.3
Urorec®	benign prostatic hyperplasia	13,774	11,560	2,214	19.2
Zanextra®	hypertension	10,452	10,300	152	1.5
Hexa line	antibacterial	8,822	8,231	591	7.2
Neocodion®	cough	6,468	6,620	(152)	(2.3)
Zanidip®/lercanidipine	hypertension	5,480	5,623	(143)	(2.5)

Methadone, a synthetic opioid analgesic used as a substitute for heroin in somatic abstinence syndromes, in disintoxication from opiates and in maintenance programs, is Laboratoires Bouchara Recordati's most important product. In addition to methadone, sales of Urorec® are also growing significantly. The Hexa line, the main brand in the OTC line of products indicated for the treatment of ENT disorders, grows by 7.2%. Sales of drugs for the treatment of rare diseases, up by 28.1%, are growing significantly.

UNITED STATES OF AMERICA

The group's pharmaceutical business in the U.S.A. is dedicated mainly to the marketing of products for the treatment of rare diseases through our subsidiary Recordati Rare Diseases Inc.. The main products are Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers and Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency. Sales in 2016 are € 101.1 million, up by 23.2%, thanks to the good performance of the main products.

GERMANY

Recordati Pharma GmbH is one of the most esteemed German pharmaceutical companies in the field of orthopedics. Over time it has developed a strong presence in orthopedics and offers first class product to specialists in this field. An important part of the Recordati Pharma operations is linked to its traditional presence in the gastroenterological area and in particular in the treatment of inflammatory intestinal diseases which consist mainly of Crohn's disease and ulcerative colitis. Operations in the segment dedicated to rare diseases in this country are carried out by Orphan Europe Germany GmbH.

Sales generated by our subsidiaries in Germany are € 101.1 million, an increase of 6.7% compared to the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2016	2015	Change 2016/2015	%
Ortoton®	muscle relaxant	31,075	27,776	3,299	11.9
Claversal®	ulcerative colitis	12,487	12,588	(101)	(0.8)
Zanipress®	hypertension	9,110	7,777	1,333	17.1
Corifeo®/lercanidipine	hypertension	7,247	7,137	110	1.5
Recosyn®	musculo-skeletal	6,148	6,271	(123)	(2.0)
Mirfulan®	healing ointment	6,202	5,992	210	3.5
Lipotalon®	anti-inflammatory	5,139	4,968	171	3.4

The significant sales increase is to be attributed to the growth of Ortoton® (methocarbamol) and to the success of our own generic version of lercanidipine. Sales of Zanipress® are also growing significantly thanks to the award of tenders for the supply of this product to the German regional health care schemes. The overall sales of self-medication products in Germany are € 17.2 million, up by 2.2% compared to the preceding year. Sales of the treatments for rare diseases in this country are up by 23.9%.

TURKEY

Recordati Ilaç, the group's Turkish subsidiary, is one of the 30 leading pharmaceutical companies in Turkey and grows faster than the market. It continues to strengthen its position on the Turkish pharmaceutical market and has a strong consolidated presence in the fields of urology, cardiology, gynecology and in physical medicine and

rehabilitation. Recordati Ilaç has undertaken an important investment program for the construction of a new production plant in Cerkezkoy which was declared GMP compliant by the Turkish authorities in March. The new production site will manufacture a number of different products with a total capacity of 80 million packs annually.

Sales in Turkey are € 86.3 million, up by 16.5%, and were impacted by the devaluation of the Turkish Lira which generated a negative currency exchange effect estimated at € 7.5 million. In local currency, sales in Turkey increase by 26.8%.

The following table shows sales of the main products in local currency.

TRY (thousands)	Indication	2016	2015	Change 2016/2015	%
Mictonorm®	urinary incontinence	48,247	35,057	13,190	37.6
Cabral®	muscle relaxant	45,308	38,122	7,186	18.9
Lercadip®	hypertension	45,163	37,824	7,339	19.4
Urorec®	benign prostatic hyperplasia	29,623	20,698	8,925	43.1
Kreval®	cough	25,522	20,819	4,734	22.8
Zanipress®	hypertension	22,016	17,586	4,430	25.2
Ciprasid®	anti-infective	21,058	17,941	3,117	17.4
Procto-Glyvenol®	hemorrhoids	14,926	12,962	1,964	15.2

Worth mentioning is the good performance of the corporate products, mainly Urorec®, Lercadip® and Zanipress®.

RUSSIA, OTHER C.I.S. COUNTRIES AND UKRAINE

The success of Rusfic LLC, Recordati Ukraine LLC and FIC Médical S.A.R.L., our organizations which operate in Russia, in Ukraine and in other markets of the C.I.S., is largely based on the success of Tergynan®, a product indicated for the topical treatment of vaginal infections which is market leader in the class of anti-infective and antiseptic gynecological drugs, and of a well-known portfolio of self-medication products.

Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) is € 79.5 million, up by 9.9% compared to the preceding year despite an estimated negative currency exchange effect of € 6.0 million. Sales in Russia, in local currency, are RUB 4,928.6 million, up by 22.0% over the preceding year thanks to the growth of the main products in the portfolio.

The following table shows overall sales of the main products in Russia in local currency.

RUB (thousands)	Indication	2016	2015	Change 2016/2015	%
Tergynan®	gynaecological infections	1,197,550	992,532	205,018	20.7
Polydexa®	ear infections	1,109,687	851,001	258,686	30.4
Isofra®	nasal infections	790,440	640,540	149,900	23.4
Alfavit®	food supplement	632,324	560,630	71,694	12.8

Sales in Russia, in local currency, grew significantly more than the market. The main product in the Russian portfolio is Tergynan®, leader in its class with a growing market share. Market shares of Polydexa® and Isofra®

also increased. Sales of Alfavit®, the main brand of the five lines of self-medication products, grew significantly in 2016. Sales in Russia of the corporate products record significant growth, due mainly to Procto-Glyvenol® and Urorec® and to the introduction of Phosphosoda®.

Sales generated in the other C.I.S. countries, mainly Belarus, and in Ukraine are € 12.4 million, up by 5.4%.

SPAIN

Casen Recordati S.L., the Spanish subsidiary of the Recordati group with headquarters in Madrid and production facilities in Utebo (Zaragoza), markets an extensive and substantial portfolio of products. The main product is CitraFleet®, a bowel cleanser used in preparation for diagnostic procedures. In Spain, Orphan Europe Spain S.L. markets the portfolio of products for the treatment of rare diseases.

Revenues in Spain are € 76.4 million, up by 6.2% compared to the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2016	2015	Change 2016/2015	%
CitraFleet®	bowel cleansing	13,509	12,292	1,217	9.9
Livazo®	hypercholesterolemia	11,582	10,168	1,414	13.9
Urorec®	benign prostatic hyperplasia	8,083	7,233	850	11.8
Enema Casen	bowel cleansing	7,895	7,881	14	0.2
Cidine®	gastroprokinetic	5,429	5,077	352	6.9
Bi-OralSuero	rehydrating solution	5,328	4,798	530	11.0
Zanipress®	hypertension	3,057	2,906	151	5.2

The main product in the portfolio is CitraFleet®, a preparation for colonoscopy which is growing by 9.9%. Livazo® and Urorec® are performing well and the treatments for rare diseases record a 13.1% growth. Sales of Zanipress® grow despite competition from generic versions of the product helped by the promotion of the new higher dose formulation (lercanidipine 20mg+enalapril 20mg). Sales of Cidine® (cinitapride) are growing, despite the presence of generic competition, due to the strength of the brand.

NORTH AFRICA

Recordati has established a direct presence in North Africa, where it already operated successfully through its export business from France, with the acquisition of the Tunisian pharmaceutical company Opalia Pharma S.A. in 2013.

Overall sales in North Africa are € 42.3 million, down by 3.1%, and comprise both the export sales from Laboratoires Bouchara Recordati S.A.S. into these territories, in particular Algeria, and the sales generated by Opalia Pharma mainly in Tunisia. Opalia Pharma markets branded generic drugs with leading products in dermatology and in the gastrointestinal and respiratory therapeutic areas. Sales in Tunisia, in local currency, grow by 9.2% in 2016.

PORTUGAL

Jaba Recordati is well positioned in the Portuguese pharmaceuticals market, mainly in the cardiovascular, urological, gastrointestinal and pain control fields and in the market for OTC Products. In addition, the treatments

for rare diseases are available through Orphan Europe Portugal LDA.

Revenue generated by our subsidiaries in Portugal is € 40.3 million, up by 2.4%. The performance of the main products is listed below.

€ (thousands)	Indication	2016	2015	Change 2016/2015	%
Livazo®	hypercholesterolemia	7,400	7,227	173	2,4
TransAct® LAT	anti-inflammatory	4,131	3,924	207	5,3
Zanipress®	hypertension	3,834	4,124	(290)	(7,0)
Microlax®	laxative	2,939	2,839	100	3,5
Urorec®	benign prostatic hyperplasia	2,735	2,355	380	16,1

The corporate products Livazo®, TransAct® LAT and Urorec®, second product in the alpha-blocker market, are performing very well. The weakness of Zanipress® sales is due entirely to a reduction in price. Generic versions of the product are present in the Portuguese market as from 2014.

OTHER WESTERN EUROPEAN COUNTRIES

The Recordati group is also present with its own subsidiaries in the United Kingdom with Recordati Pharmaceuticals Ltd and Orphan Europe United Kingdom Ltd, in Ireland through its subsidiary Recordati Ireland Ltd, in Greece with Recordati Hellas Pharmaceuticals S.A. and in Switzerland through Recordati S.A. and the recently acquired Pro-Farma AG, present also in Austria, and with Orphan Europe Switzerland GmbH. Furthermore, Orphan Europe Nordic A.B. and Orphan Europe Benelux BVBA are present in the segment dedicated to treatments for rare diseases in Scandinavia and in the Netherlands.

Sales in the United Kingdom are € 8.9 million and relate mainly to products for the treatment of rare diseases which account for 62.6% of our revenues in this country. The other sales are generated mainly by lercanidipine based products.

Sales in Ireland recorded by Recordati Ireland are € 1.4 million, mainly generated by Urorec®, Kentera® and Zanidip®. Sales in Greece reported by Recordati Hellas Pharmaceuticals of € 11.3 million, up by 7.6% thanks to the good performance of Livazo®, Urorec®, Lopresor® and Lomexin®. Sales in Switzerland generated by Pro Farma AG and Recordati S.A. are € 8.2 million and refer mainly to Livazo®, Zanidip®, Lacdigest® (tilattase) e Tretinac® (tretinoin). Sales in other Western European countries also comprise sales of products for the treatment of rare diseases in a number of countries for a total of € 10.3 million.

OTHER CENTRAL AND EASTERN EUROPEAN COUNTRIES

The subsidiary in Poland, Recordati Polska Sp z o.o., markets a diversified product portfolio with an emphasis on the cardiovascular and urology therapeutic areas, in particular as regards benign prostatic hyperplasia, as well as in gynecology. The company's main product is Procto-Glyvenol® for the treatment of hemorrhoids. In addition, it promotes many other established local brands in the self-medication and wellness segment. Sales in Poland in 2016 are € 13.1 million, up by 3.6% thanks mainly to the good performance of Lercan® (lercanidipine) and to the launch of Vytaros®, the new product for erectile dysfunction. The Polish subsidiary's main product Procto-Glyvenol® generated sales of € 4.0 million, up by 14.1%.

Herbacos Recordati S.r.o., the group's subsidiary present in the Czech Republic and in Slovakia, successfully markets pharmaceutical products belonging to a number of therapeutic areas, including analgesic, anti-inflammatory and dermatological medicines, mainly belonging to the self-medication segment. Sales generated by Herbacos Recordati are € 12.9 million, up by 3.4% compared to the preceding year, thanks to the good performance of Procto-Glyvenol® and of Urorec® as well as to the launch of Vitaros®.

Recordati Romania S.R.L. promotes both prescription and OTC products successfully and the company's main product is Procto-Glyvenol®. Sales in Romania are € 4.4 million, up by 24.0% thanks to the good performance of Tergynan®, Lomexin® and of Procto-Glyvenol® as well as to the introduction of CitraFleet®.

Sales in these markets of the specialty products indicated for the treatment of rare and orphan diseases amount to € 2.2 million.

OTHER INTERNATIONAL SALES

Other international sales comprise the sales to, and other revenues from, our licensees for our corporate products, Laboratoires Bouchara Recordati's and Casen Recordati's export sales and Orphan Europe's sales in all other countries.

€ (thousands)	2016	2015	Change 2016/2015	%
Sales to international licensees	117,506	109,484	8,022	7.3
Laboratoires Bouchara Recordati exports (excluding North Africa)	15,090	14,908	182	1.2
Casen Recordati exports	5,603	6,558	(955)	(14.6)
Orphan Europe sales to licensees and exports	23,541	20,297	3,244	16.0
Other income	7,361	7,196	165	2.3
Total	**169,101**	**158,443**	**10,658**	**6.7**

Sales to international licensees grow by 7.3% thanks to the sales performance of silodosin (+50.5%) and of pitavastatin (+34.6%).

Sales outside France by our French subsidiary Laboratoires Bouchara Recordati are up by 1.2% while sales outside Spain by our Spanish subsidiary Casen Recordati are down by 14.6% as exported brands, mainly Phosphosoda® and Fleet Enema, are being progressively sold directly by Recordati's subsidiaries.

Revenue generated by our treatments for rare diseases in other countries, mainly in the Middle East, either directly or through licensees, are € 24.9 million, up by 19.9%, and include other income of € 1.4 million deriving mainly from the Pedea® license in China and the Carbaglu® license in Japan.

Other income refers to royalties and up-front payments related to license agreements.

PHARMACEUTICAL CHEMICALS

Recordati produces a number of active ingredients and intermediates for the pharmaceutical industry in its two pharmaceutical chemical production plants. Recordati's pharmaceutical chemicals business focuses on satisfying the requirements of the pharmaceutical business, striving for maximum product quality, strengthening its

presence in highly regulated markets (the United States, Europe and Japan), and on constantly guaranteeing maximum safety of its production processes, protection of the environment and health and safety in the workplace.

The Campoverde di Aprilia plant in Italy mainly supplies the active ingredients used in the preparation of the various pharmaceutical specialties produced by the company, but is also an established independent producer of a number of active and intermediate ingredients for the pharmaceutical industry internationally. It is one of the most important producers in the world of verapamil, phenytoin, papaverine and dimenhydrinate. Other pharmaceutical chemicals are produced on behalf of important pharmaceutical companies. In order to guarantee adequate and continuous supplies of the active ingredient lercanidipine, an important original Recordati drug, in 2005 a new and dedicated plant was constructed in Cork in Ireland. This facility boasts automated process control systems which ensure constant high quality production.

Sales of pharmaceutical chemicals, which comprise active substances produced in the Campoverde d'Aprilia plant for the international pharmaceutical industry, increase by 11.4% as compared to 2015. In particular, the products verapamil, papaverine and benidipine performed well.

The sales of active ingredients by geographical area are shown below:

€ (thousands)	2016	%	2015	%	Change 2016/2015	%
Italy	3,027	7.5	2,870	8.0	157	5.5
Europe (Italy excluded)	15,017	37.4	13,976	38.8	1,041	7.4
United States of America	9,708	24.2	8,812	24.4	896	10.2
America (U.S. excluded)	2,461	6.1	2,435	6.7	26	1.1
Australasia	8,799	21.9	6,104	16.9	2,695	44.2
Africa	1,152	2.9	1,859	5.2	(707)	(38.0)
Total	**40,164**	**100.0**	**36,056**	**100.0**	**4,108**	**11.4**

HEALTH, SAFETY AND ENVIRONMENT

The Recordati group recognizes the protection of the environment, safety in the workplace and prevention in general concerning all themes related to health, safety and the environment as one of its most important priorities.

Company policy is implemented through the careful organization of roles with regard to guaranteeing the safety and health of workers. A well-defined corporate organization combined with a systemic approach to the management of safety at the workplace ensures continuous improvement in management with the object of constantly reducing work-related and environmental risks.

In order to define an organization model specifically designed to address health and safety at the workplace, as well as protect the environment, the Company has internal procedures in place to regulate these issues entitled "Procedures for Prevention Management, Accident Management and Medical Services" and "Procedures for environmental management". The application of these standards is periodically verified through internal audits.

The following common characteristics and measures for risk prevention are present within the system for the management of health, safety and the environment that the Recordati group employs in both its pharmaceutical chemicals and its pharmaceutical plants: risk assessment, training and information for workers, proper maintenance standards, environmental protection systems designed to minimize environmental impacts, appropriate emergency measures and compliance with local legislation on the subject. The group monitors and analyses injuries and accidents that occur at the various production sites as well as any work related illness. For every accident an action plan aimed at preventing similar episodes is prepared and implemented. The results of these analyses of industrial accidents are periodically submitted to the Internal Audit Committee. Recordati employs a systematic approach to the management of health, safety and the environment, and sets itself the specific objective not only of compliance with the various national regulations in force at different production sites, but also of continuous improvement in the management of these matters.

Risk assessment is the principal tool used in the safety management system. It is used to define risk control factors along with the relative measures for prevention and protection to be adopted or monitored in order to reduce the risk to the health and safety of workers. The updating of the risk assessment document is a continuous activity, it records the sequence of the actions undertaken to improve the working environment and the activities in progress, and it also includes assessments of new activities or changes made to the work process.

Training, information and awareness of the workers are considered to be fundamental prevention tools in all matters related to health, safety and the environment. Health and safety training programs are implemented to ensure adequate competency of everyone within the whole company organization. The goal is to increase the attention placed by personnel on risks and the prevention measures put in place in order to reduce accident rates caused by human error, which is the main cause of accidents at the company. Training and the dissemination of information on the organization of safety in the company is provided for all employees and, thanks to the use of remote training, the operational forces in the field are also systematically involved.

Maintenance is one of the key prevention activities. Equipment, plant and machinery are subject to regular maintenance programmes performed by both internal and external resources.

Out-sourcing to third party contractors is managed by special internal procedures which include the verification that the contractor is suitable and the sharing of the "Single Interference Risk Assessment Document" in order to reduce, and if possible eliminate, potential interferences between the work activities of external firms and the normal operations of the company.

Particular attention is placed on all aspects of an environmental nature, in order to protect the environment and to prevent any form of pollution.

The environmental factor is controlled and managed in the pharmaceutical chemicals plants by an environmental management system that is part of the general management system. It includes the organizational structure, planned activities, responsibilities, practices, procedures and resources to formulate, implement, review and maintain the company's environmental policies.

The environmental management system goes beyond carefully ensuring that laws and regulations for preventing potential incidents from occurring are complied with. It involves a programme of continuous improvement in corporate conduct towards the surrounding environment.

In 2016 the Milan plant obtained an environmental authorization from the Municipality of Milan (for a duration of 15 years) for: atmospheric emission permits, discharge to underground permit for water used in the heating/cooling system and waste water permit for industrial water and rainwater.

In 2016 the Turkish site of Cerkezkoy officially obtained all necessary environmental permits for the start of production (atmospheric emissions, waste water, waste management) and during the same year the plant was successfully audited by the Technical Committee of the IFC (International Finance Corporation) on "Health, Safety and Environment".

FINANCIAL REVIEW

INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2015:

€ (thousands)	2016	% of revenue	2015	% of revenue	Change 2016/2015	%
Revenue	**1,153,942**	**100.0**	**1,047,676**	**100.0**	**106,266**	**10.1**
Cost of sales	(360,959)	(31.3)	(335,210)	(32.0)	(25,749)	7.7
Gross profit	**792,983**	**68.7**	**712,466**	**68.0**	**80,517**	**11.3**
Selling expenses	(304,435)	(26.4)	(293,204)	(28.0)	(11,231)	3.8
R&D expenses	(83,710)	(7.3)	(76,736)	(7.3)	(6,974)	9.1
G&A expenses	(64,784)	(5.6)	(58,980)	(5.6)	(5,804)	9.8
Other income (expense), net	(12,631)	(1.1)	(5,029)	(0.5)	(7,602)	151.2
Operating income	**327,423**	**28.4**	**278,517**	**26.6**	**48,906**	**17.6**
Financial income (expense), net	(10,141)	(0.9)	(13,080)	(1.2)	2,939	(22.5)
Pre-tax income	**317,282**	**27.5**	**265,437**	**25.3**	**51,845**	**19.5**
Provision for income taxes	(79,851)	(6.9)	(66,634)	(6.4)	(13,217)	19.8
Net income	**237,431**	**20.6**	**198,803**	**19.0**	**38,628**	**19.4**
Attributable to:						
Equity holders of the parent	237,406	20.6	198,792	19.0	38,614	19.4
Minority interests	25	0.0	11	0.0	14	127.3

In 2016 international revenues went from € 836.1 million to € 916.3 million, an increase of 9.6%, and represent 79.4% of total revenue. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2016	%	2015	%
Europe (Italy excluded)	674,066	73.6	616,464	73.7
United States of America	111,897	12.2	91,467	10.9
America (United States excluded)	21,641	2.4	18,904	2.3
Australasia	55,770	6.1	53,731	6.4
Africa	52,953	5.8	55,540	6.6
Total	**916,327**	**100.0**	**836,106**	**100.0**

Gross profit is € 793.0 million with a margin of 68.7% on sales, an increase over that of the preceding year due to the significant growth of products with relatively higher margins.

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

R&D expenses are € 83.7 million, up by 9.1% compared to those recorded in 2015 due to the advancement of development programs.

G&A expenses are up by 9.8% but remain unchanged as percent of sales.

Overall, labor cost in 2016 is € 270.4 million, an increase of 12.1% over 2015, with the cost per employee up by 8.6%.

Personnel and other human resources data at 31 December 2016 and 2015 are shown in the following table:

	2016	2015
Employees at year-end	**4,116**	**3,929**
Average age	42	42
Average service (years)	7.3	7.3
Labor productivity:		
Labor cost on net sales	23.4%	23.0%
Sales per employee (€ thousands) [(a)]	293.3	274.7
Value added per employee (€ thousands) [(a)]	161.6	146.4

Labor cost includes wages, related charges and additional costs.
(a) Data per employee for both years are computed on the average number of personnel, 3,935 in 2016 and 3,813 in 2015.

The 2016 human resources data include the personnel of the two companies acquired during the year, Italchimici S.p.A. and Pro Farma AG. The strengthening of our corporate organization continued in order to ensure the integration, monitoring and coordination of the foreign subsidiaries in accordance with our internationalization strategy. Personnel training and development represented a substantial portion of the group's efforts also in 2016. During the year the project aimed at identifying and evaluating personnel competencies within the group, with the objective of improving staff development and career planning, continued and the first results were obtained.

Other expenses net of other income are € 12.6 million and include non recurring expenses of € 12.8 million due to ancillary costs and charges for organizational restructuring related to the recent acquisitions of Italchimici S.p.A. and Pro Farma AG as well as the write-down of certain intangible assets.

Net financial charges are € 10.1 million, a decrease of € 2.9 million compared to the preceding year due mainly to the reduction of interest charges related to medium/long-term loans and to net foreign exchange gains as opposed to losses in the previous year.

The effective tax rate during the period is 25.2%, substantially in line with that of the preceding year.

Net income at 20.6% of sales is € 237.4 million, an increase of 19.4% over the preceding year.

FINANCIAL POSITION

The net financial position at 31 December 2016 records net debt of € 198.8 million compared to net debt of € 88.7 million at 31 December 2015.

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015	%
Cash and short-term financial investments	138,493	225,525	(87,032)	(38.6)
Bank overdrafts and short-term loans	(15,689)	(9,849)	(5,840)	59.3
Loans – due within one year	(40,428)	(34,469)	(5,959)	17.3
Net liquid assets	82,376	181,207	(98,931)	(54.5)
Loans – due after one year[(1)]	(281,147)	(269,944)	(11,203)	4.2
Net financial position	**(198,771)**	**(88,737)**	**(110,034)**	**124.0**

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

During the year dividends were distributed for an overall amount of € 133.7 million, of which € 61.5 million for the balance of the financial year 2015 dividend and € 72.2 for the interim financial year 2016 dividend. The acquisitions of the Italian pharmaceutical company Italchimici S.p.A. and the Swiss company Pro Farma AG accounted for € 128.1 million and € 14.4 million respectively. In addition, € 10 million were paid at the signing of an exclusive license agreement for the commercialization of cariprazine, a novel atypical antipsychotic drug. Share buy-backs during the year to service existing stock option plans accounted for an outlay of € 71.6 million.

An amount of € 20.9 million was invested in property, plant and equipment, mainly involving the Parent company's Milan headquarters and production sites (€ 7.8 million) and in Turkey by Recordati Ilaç for the completion of the activities related to the construction of a new production plant (€ 6.5 million).

Net working capital for operations at 31 December 2016 is € 149.7 million and is thus comprised:

€ (thousands)	31.12.2016	% of revenue	31.12.2015	% of revenue	Change 2016/2015	%
Trade receivables, net	205,988	17.9	177,219	16.9	28,769	16.2
Inventories	158,800	13.8	143,093	13.7	15,707	11.0
Other current assets	36,455	3.2	34,163	3.3	2,292	6.7
Current assets	**401,243**	**34.8**	**354,475**	**33.8**	**46,768**	**13.2**
Trade payables	124,644	10.8	106,597	10.2	18,047	16.9
Tax payable	20,432	1.8	14,592	1.4	5,840	40.0
Other current liabilities	106,496	9.2	102,710	9.8	3,786	3.7
Current liabilities	**251,572**	**21.8**	**223,899**	**21.4**	**27,673**	**12.4**
Net working capital for operations	**149,671**	**13.0**	**130,576**	**12.5**	**19,095**	**14.6**
Days of sales outstanding	61		59			
Inventories as % of cost of sales	43.7%		42.7%			

Details and comments relative to the different components are contained in the Notes to the financial statements.

RELATED PARTY TRANSACTIONS

Tax liabilities include an amount of € 1.3 million, computed by Recordati S.p.A. based on estimated taxable income, payable to the controlling company Fimei S.p.A. 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.

SUBSIDIARIES OUTSIDE THE EUROPEAN UNION

Pursuant to articles 36 and 39 of the Financial Markets Regulation concerning the listing conditions of companies with subsidiaries of significant relevance in their consolidated accounts, established and regulated under the laws of countries outside the European Union, we point out that at 31 December 2016 the provisions of art. 36 of the Financial Markets Regulation apply to the subsidiaries Recordati İlaç, Recordati Rare Diseases Inc. and Rusfic LLC and that the conditions indicated in the abovementioned art. 36 are fulfilled.

SIGNIFICANT OPERATIONS, PUBLICATION REQUIREMENTS DEROGATION

The company has decided to avail itself, as from 20 December 2012, of the faculty of derogation of the requirements to publish the information documents prescribed in the event of significant operations involving mergers, spin-offs, capital increases through contribution in kind, acquisitions and disposals, pursuant to article 70, paragraph 8 and article 71, paragraph 1-bis of the Issuers' Regulations enacted by Consob under Resolution n. 11971/1999 and following modifications.

FOURTH QUARTER 2016

€ (thousands)	IV quarter 2016	%	IV quarter 2015	%	Change 2016/2015	%
Revenue	**291,572**	**100.0**	**263,244**	**100.0**	**28,328**	**10.8**
Cost of sales	(93,658)	(32.1)	(83,562)	(31.7)	(10,096)	12.1
Gross profit	**197,914**	**67.9**	**179,682**	**68.3**	**18,232**	**10.1**
Selling expenses	(78,032)	(26.8)	(73,685)	(28.0)	(4,347)	5.9
R&D expenses	(23,512)	(8.1)	(21,513)	(8.2)	(1,999)	9.3
G&A expenses	(17,687)	(6.1)	(16,027)	(6.1)	(1,660)	10.4
Other income (expense), net	(3,666)	(1.3)	(2,987)	(1.1)	(679)	22.7
Operating income	**75,017**	**25.7**	**65,470**	**24.9**	**9,547**	**14.6**
Financial income (expense), net	(1,515)	(0.5)	(2,913)	(1.1)	1,398	(48.0)
Pretax income	**73,502**	**25.2**	**62,557**	**23.8**	**10,945**	**17.5**
Provision for income taxes	(18,388)	(6.3)	(16,259)	(6.2)	(2,129)	13.1
Net income	**55,114**	**18.9**	**46,298**	**17.6**	**8,816**	**19.0**
Attributable to:						
Equity holders of the parent	55,108	18.9	46,297	17.6	8,811	19.0
Minority interests	6	0.0	1	0.0	5	500.0

Revenues during the fourth quarter 2016 are € 291.6 million, an increase of 10.8% compared to the same period of the preceding year. Pharmaceutical sales are € 281.3 million, up by 11.0% compared to the fourth quarter 2015. Pharmaceutical chemicals revenue, at € 10.3 million, up by 4.2% compared to the same period of the preceding year.

Operating income, at 25.7% of sales, is € 75.0 million up by 14.6%. Other expenses net of other income are to be attributed to the write-down of certain intangible assets.

Financial charges decrease significantly due mainly to the revaluation of some currencies which have resulted in the realization net foreign exchange gains.

Net income increases by 19.0% and benefits significantly from the reduction of financial charges.

MAIN RISKS AND UNCERTAINTIES

The principal risk factors to which the Group is exposed are described below with an indication of the management strategies and policies pursued. They have been classified as follows:

- Risks associated with the external context
- Risks associated with strategy and operations
- Financial risks
- Legal and compliance risks

RISKS ASSOCIATED WITH THE EXTERNAL CONTEXT

Risks associated with changes in legislation and regulations governing the pharmaceutical sector

The pharmaceuticals sector is heavily regulated locally, nationally and internationally and this affects activities at all levels. Group sales consist mainly of products subject to medical prescription which are reimbursed by national healthcare services or other medical insurance schemes which are, however, prevalently of a public nature. While on the one hand this situation protects the Group from general economic trends, on the other it exposes it to changes in local legislation governing public spending on healthcare. For many years the Group has pursued a policy of diversifying and expanding its sales on several geographical markets and in products not reimbursed by public healthcare schemes in order to mitigate dependency on decisions by single national governments to control spending on pharmaceuticals. The pharmaceuticals sector is also exposed to national and international technical standards which regulate pharmaceutical research and development, production and promotion.

The Group implements a policy to constantly monitor changes in regulations on all the markets on which it operates, with dedicated organisational units in the Parent Company and in subsidiaries to implement efficient coordination mechanisms and information flows designed to identify and rapidly adopt the most appropriate response strategies.

Risks associated with business expansion into emerging markets

The policies pursued by the Group include the expansion of operations in countries with the highest potential for development and the strongest growth rates (for example Central and Eastern Europe, the Middle East and North Africa). Operations in those countries could present risks associated with political, economic, currency, regulatory and fiscal instabilities or discontinuities.

Recordati carefully assesses all growth opportunities in all geographies in order to mitigate exposure to these uncertainties and where possible it prefers to acquire local companies with a smaller outlay of capital, rather than other companies that are more exposed to country risk. Evaluations of new business opportunities undergo analysis and monitoring by top management with the further garrison by Regional Directors who are responsible for the overall supervision of the subsidiaries and for the coordination of the relative strategic activities, in collaboration with corporate structures.

Risks associated with market competition

The Group, like any company operating in the pharmaceuticals sector, is subject to competition from products which could determine a contraction in its market share. These consist of both new pharmaceuticals launched by competitors in the same therapeutic classes in which the Group is present and also generic versions of pharmaceuticals coming to market when patents expire.

While the Group monitors the market continuously to detect the introduction of competing pharmaceuticals as soon as possible, it also manages risk by pursuing a policy to progressively diversify and broaden the range of its product portfolio, in order to reduce dependency on a small number of strategic pharmaceuticals, and increase the presence in the product portfolio of OTC products and treatments for rare diseases.

RISKS ASSOCIATED WITH STRATEGY AND OPERATIONS

Risks associated with the internationalization of the Group

The Group currently operates in a growing number of countries and is therefore subject to risks arising from the complexity of conducting operations in delocalized areas.

In order to address this situation, the Group has put a management system in place with central units which integrate, monitor and co-ordinate the operations of local units on which operational and marketing powers are conferred to be exercised in compliance with guidelines and within limits indicated by the Group. Group policies and procedures have been formalized which provide corporate guidelines for the management of the main company processes which must be complied with by all subsidiaries.

Risks associated with the expiry of patents

The pharmaceuticals industry makes large investments in research and development and as a consequence it enjoys a high degree of protection on its intellectual properties. Therefore, the expiry of patents covering important pharmaceuticals in product portfolios and the consequent introduction onto the market of generic versions exposes companies to reductions in revenues which can be large.

In order to counter the reduction in revenues as a result of competition from generic pharmaceuticals, the Group is pursuing a diversification strategy based on the reinforcement of its pipeline, the launch of new products in the therapeutic areas of major interest and the expansion of its operations onto new markets with high growth rates.

Risks associated with investments in research and development

The competitive positioning of the Group depends on the continuous development of its product portfolio through the research and development of new molecules and pharmaceutical products in which it invests a substantial part of its resources. Given the complexity and long periods involved in these initiatives, it is not possible to be certain that investments in research and development will always produce the expected results, because the research conducted may fail or the necessary authorisations to market products may not be obtained or the pricing and reimbursement conditions may not be satisfactory.

In order to mitigate exposure to these risks, the Group constantly monitors the intermediate results generated at the various stages of the research and development process, in order to select and move forward only the most reliable initiatives that have the highest probability of an economic return and success. Furthermore, health technology evaluations have been introduced during the clinical development phases in order to effectively support the negotiations with the relevant authorities regarding reimbursement conditions for the products. Additionally, prudentially, the costs for investments in research and development are fully expensed in the accounting period in which they are incurred.

Risks associated with the launch of new products

A risk exists in the pharmaceuticals sector that delays in the development process, or in the issue of the necessary authorizations by regulatory authorities, may result in product launches occurring behind schedule with a consequent possible impact on the expected profitability of the product and/or delay in the achievement of growth targets.

In order to mitigate that risk Recordati pursues two policy lines. One is to broaden and balance its pipeline of products, implemented by acquiring pharmaceuticals that are already registered or are about to be registered, or of new products at different stages of development. The other is to pursue a plan of geographical diversification designed to limit dependence on the regulatory authorities of a single country.

Risks associated with pharmacovigilance

The Group, as a holder of drug marketing authorizations, must comply with regulations on pharmacovigilance. These regulations require that holders of marketing authorizations submit to the regulatory bodies information regarding drug safety, within the time limits and in the manner established by these, with particular regard to adverse reactions. The ascertainment of serious adverse drug reactions can expose the Group to the risk of restrictions being placed on the prescription of a drug, and in the most serious cases, authorization to market the product can be revoked.

In order to efficiently handle this risk and to comply with national regulations in the countries where the Group operates, Recordati has assigned specific pharmacovigilance responsibilities within its organizations and has put integrated systems in place to collect, assess, manage and submit the information required to the competent authorities. Following the introduction of even more stringent regulatory requirements internal organizations, instruments, training, procedures are constantly reinforced. Coordination with subsidiaries and partners has improved and includes centralized evaluation of all information relating to pharmacovigilance.

Risks associated with the production process

The Group has production plants which produce both intermediate products and active ingredients and also finished pharmaceutical products. Production activities are carried out in strict compliance with internationally established Good Manufacturing Practices (GMP) implemented through Standard Operating Procedures applicable to the pharmaceutical sector, and are submitted to monitoring and inspection by national and international relevant authorities. The Group's production sites are provided with adequate structures and qualified personnel to ensure that the production of medicinal specialties and active ingredients is carried out in compliance with good manufacturing practices (GMP) and with specific internal procedures and rules in force. In particular, the Group's main production site in Campoverde di Aprilia (Italy) regularly passes successfully inspections carried out by the Food and Drug Administration (FDA) and other national and international authorities.

Risks associated with interruption of the production process

Production is by its nature exposed to potential risks of interruption which, if they were to have significant or long lasting effects – caused for example by natural disasters, the revocation of production permits and licenses, malfunctioning of plant and equipment, interruptions in the supply of important raw materials or energy – could have adverse consequences on the continuity and regularity of sales.

In order to mitigate the effects of long lasting interruptions in production processes, the Group has an effective asset protection policy in place (through precise plant maintenance plans and adequate systems to automatically notice and put out fires) and has production plants with adequate capacity and flexibility to handle changed planning requirements. Furthermore, the Group uses only reliable suppliers, approved as complying with the relevant technical standards. It also constantly monitors the availability of raw materials and strategic excipients, in order to promptly identify potential local or worldwide "out-of-stock" situations and to take the necessary action (supply and/or production backups) to guarantee production autonomy. Furthermore, in order to reduce losses resulting from potential interruptions or damage to production cycles, the Group has taken out "All risk property" insurance policies which cover direct damages (such as damages to buildings, machines and goods) as well as indirect damages (such as loss of profit as a consequence of accidents).

Risks associated with health, safety and the environment

Chemical and pharmaceutical production is subject to obligations to comply with environmental, health and safety rules and regulations. To ensure the correct application of these rules and regulations, the Group has in place organizational units specifically dedicated to prevention, verification and continuous monitoring as regards compliance with the structural technical standards (related to equipment, plant, the workplace, chemical,

physical and biological agents) in addition to activities regarding health surveillance, security vigilance, workers training and information and the procurement of documents and certificates required by law. In particular, the environmental management system of the Group's main production plant, located at Campoverde di Aprilia, obtained certification from the accredited international body DNV (Det Norske Veritas, Italy) of compliance with the UNI EN ISO 14001:1996 standard in 2003, which was subsequently confirmed with certification for the UNI EN ISO 14001:2004 standard.

Risks associated with the management of information technology resources and data security

Today's pervasiveness of information technology for the management of business and the necessary connection between company information systems and external information infrastructures (web and networks) exposes said systems to potential risks, both related to the availability, integrity and confidentiality of the data as well as to the availability and efficiency of the information systems.

In order to guarantee effective operational continuity, the Group has implemented a disaster recovery and business continuity system which ensures the immediate replication of the principal legacy systems' workstations. Furthermore, the active safety of the company's data and software is guaranteed by multiple protection levels of a physical and logic nature, of both servers and clients. Finally, the company is periodically submitted to VAPT (Vulnerability Assessment and Penetration Test) analysis and to additional IT security audits undertaken by independent technicians. The outcome of this analysis has always shown the company's information systems to be adequately protected.

FINANCIAL RISKS

Credit Risk

Credit risk is exposure to potential losses resulting from commercial counterparties failing to meet their obligations. This risk is higher during long lasting periods of economic and financial hardship and as a result of exposure to geographical areas with specific dynamics and peculiarities (for example Russia and Tunisia).

The Group closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system.

Interest Rate Risk

The Group raises funds using debt and invests excess cash in money market and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Group's net financial charges. The significant expansion of the Group into countries with different economic dynamics from the Euro (for example Turkey, Russia and Tunisia) leads to an increase in risk. The Group's policy is to limit the risk arising from interest rate fluctuations by establishing medium/long-term fixed interest loans or variable interest loans. Variable interest loans are covered with derivative financial instruments (for example interest rate swaps) for the sole purpose of minimizing such fluctuations and not for speculation. This hedging policy limits the Group's exposure to the risk of fluctuations in interest rates.

Foreign Currency Risk

The Group operates in an international context and has assets and transactions denominated in foreign currency other than euro. It is therefore exposed to risks of foreign currency fluctuations which can affect is operating results and the value of its equity. The diversification strategy enacted by the Group results in a progressive higher exposure to trade transactions in foreign currency with respect to the Group's business volume. Many of the Recordati Group companies are exposed to a limited level of exchange risk linked to operations because in each country most of cash flows generated both by sales and by expenses are denominated in the currency of the relative country. For the sole purpose of hedging and not for speculation, the Group engages in forward contracts for the purchase and sale of currencies to cover amounts at risk.

Liquidity Risk

The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. The Group has at its disposal liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's loans and its financial assets are set out in notes 18, 21 and 30 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts at their natural due dates.

LEGAL AND COMPLIANCE RISKS

Risks associated with product liability

Despite careful compliance with standards and regulations, like any company operating in the pharmaceuticals sector, the Group could be exposed to risks of claims for damages caused by its pharmaceuticals. In order to meet those potential liabilities, the Group has taken out insurance policies to cover all the products marketed and under development. The maximum liability limits are considered adequate and are constantly monitored with the help of analyses and market research conducted by leading insurance brokers.

Risks associated with compliance

All operating and marketing activities performed by the Group, both in Italy and abroad, are performed in compliance with the legislation and regulations that apply in the geographical areas in which it operates, including national and international technical standards that apply to the pharmaceuticals sector which regulate pharmaceutical research and development, production, distribution and promotion. As concerns the regulation of drug promotion activities, the Group has formulated a set of ethical rules of conduct. All company personnel are continuously informed of those rules and monitoring, both internally and by independent certifiers, is performed constantly to ensure that they are properly observed. In compliance with Legislative Decree 231/2001 on the administrative liability of legal entities, the Italian companies in the Group have an "Organisation, Management and Control Model" that is continuously updated to comply with the latest amendments to the relevant legislation.

Regarding the risk of corruption, the Group is implementing a specific operational and behavioural plan for all its subsidiaries which defines the necessary measures to mitigate corruption risk.

Regarding anti-terrorism, the Group has implemented a Policy to monitor and handle transactions with counterparts residing in countries subject to sanctions or embargo.

Risks associated with legal action

It is always possible that the Group may be required to meet costs resulting from litigation of various types. In these cases, the Group may be called upon to pay extraordinary costs with consequences for operating and financial results. A detailed description of litigation in progress and the relative provisions made to meet future liabilities is given in notes 28 and 37 to the financial statements.

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

In January 2017 the European Union Commission granted the European marketing authorization for Cystadrops®, 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 granted Cystadrops® orphan drug designation in November 2008.

In February the signing of 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 announced. Furthermore, Recordati shall support, over a period of three years, other Meyer projects in the rare disease area based on a mutually agreed plan.

On 9 February 2017 the company announced its financial targets for 2017 and its three-year business plan. Including the contribution of further acquisitions which may be completed within the period under analysis, our financial performance expectations for the 2017-2019 period are the following:

For 2017, our targets are to achieve sales of around € 1,220 million, EBITDA of around € 410 million, operating income of around € 365 million and net income of around € 260 million.

For 2019, we expect to achieve sales of around € 1,450 million, EBITDA of around € 500 million, operating income of around € 450 million and net income of around € 325 million.

Group consolidated sales during the first two months of 2017 are particularly positive thanks to the good performance of all our business segments and thanks also to favourable seasonality factors in some countries.

Milan, 1 March 2017

Andrea Recordati
Vice Chairman and Chief Executive Officer

RECORDATI

CONSOLIDATED FINANCIAL STATEMENTS

Recordati S.p.A and Subsidiaries
Consolidated Financial Statements at and for the year ended 31 December 2016

The consolidated financial statements are presented in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Interpretation Reporting Committee (IFRIC) previously named Standing Interpretations Committee (SIC). The financial statements comply with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting standards were used in the preparation of the financial statements at 31 December 2015.

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

INCOME STATEMENT

€ (thousands)	Note	2016	2015
Revenue	3	**1,153,942**	**1,047,676**
Cost of sales	4	(360,959)	(335,210)
Gross profit		**792,983**	**712,466**
Selling expenses	4	(304,435)	(293,204)
R&D expenses	4	(83,710)	(76,736)
G&A expenses	4	(64,784)	(58,980)
Other income (expense), net	4	(12,631)	(5,029)
Operating income		**327,423**	**278,517**
Financial income (expense), net	5	(10,141)	(13,080)
Pretax income		**317,282**	**265,437**
Provision for income taxes	6	(79,851)	(66,634)
Net income		**237,431**	**198,803**
Attributable to:			
Equity holders of the parent		237,406	198,792
Minority interests		25	11
Earnings per share			
Basic		€ 1,152	€ 0.968
Diluted		€ 1,135	€ 0.951

Earnings per share (EPS) are based on average shares outstanding during each year, 206,117,418 in 2016 and 205,270,094 in 2015, net of average treasury stock which amounted to 3,007,738 shares in 2016 and 3,855,062 shares in 2015.
Diluted earnings per share is calculated taking into account stock options granted to company personnel.

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016

ASSETS

€ (thousands)	Note	31 December 2016	31 December 2015
Non-current assets			
Property, plant and equipment	7	110,202	108,987
Intangible assets	8	279,884	246,450
Goodwill	9	556,566	453,285
Other investments	10	19,199	32,444
Other non-current assets	11	5,428	4,549
Deferred tax assets	12	37,231	30,500
Total non-current assets		**1,008,510**	**876,215**
Current assets			
Inventories	13	158,800	143,093
Trade receivables	14	205,988	177,219
Other receivables	15	30,974	28,883
Other current assets	16	5,481	5,280
Fair value of hedging derivatives *(cash flow hedge)*	17	12,497	12,671
Short-term financial investments, cash and cash equivalents	18	138,493	225,525
Total current assets		**552,233**	**592,671**
Total assets		**1,560,743**	**1,468,886**

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016

EQUITY AND LIABILITIES

€ (thousands)	Note	31 December 2016	31 December 2015
Shareholders' equity			
Share capital		26,141	26,141
Additional paid-in capital		83,719	83,719
Treasury stock		(76,761)	(35,061)
Hedging reserve *(cash flow hedge)*		(7,420)	(3,290)
Translation reserve		(78,309)	(66,918)
Other reserves		35,295	42,543
Retained earnings		756,004	685,587
Net income for the year		237,406	198,792
Interim dividend		(72,245)	(61,606)
Group shareholders' equity	19	**903,830**	**869,907**
Minority interest		110	85
Shareholders' equity	20	**903,940**	**869,992**
Non-current liabilities			
Loans – due after one year	21	293,644	282,615
Staff leaving indemnities	22	21,675	18,895
Deferred tax liabilities	23	27,659	22,360
Other non-current liabilities	24	2,515	2,517
Total non-current liabilities		**345.493**	**326,387**
Current liabilities			
Trade payables	25	124,644	106,597
Other payables	26	77,957	72,351
Tax liabilities	27	20,432	14,592
Other current liabilities		562	959
Provisions	28	27,977	29,400
Fair value of hedging derivatives *(cash flow hedge)*	29	3,621	4,290
Loans – due within one year	21	40,428	34,469
Bank overdrafts and short-term loans	30	15,689	9,849
Total current liabilities		**311,310**	**272,507**
Total equity and liabilities		**1,560,743**	**1,468,886**

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RECORDATI S.p.A. AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

€ (thousands)	2016	2015
Net income for the year	237,431	198,803
Gains/(losses) on cash flow hedges	(4,130)	(2,607)
Gains/(losses) on translation of foreign financial statements	(11,391)	(10,604)
Other gains/(losses)	(9,259)	11,137
Income and expense for the year recognized directly in equity	**(24,780)**	**(2,074)**
Comprehensive income for the year	**212,651**	**196,729**
Attributable to:		
Equity holders of the parent	212,626	196,718
Minority interests	25	11

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN GROUP SHAREHOLDERS' EQUITY

€ (thousands)	Share capital	Add. paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Interim dividend	Mino-rity in-terest	Total
Balance at 31.12.2014	**26,141**	**83,719**	**(30,727)**	**(683)**	**(56,314)**	**29,865**	**627,240**	**161,187**	**(53,080)**	**74**	**787,422**
Allocation of 2014 net income:											
- Dividends							(13,318)	(88,926)	53,080		(49,164)
- Retained earnings							72,261	(72,261)			
Change in the reserve for share based payments						1,541	1,111				2,652
Purchase of own shares			(17,730)								(17.730)
Sale of own shares			13,396				(1,645)				11,751
Interim dividend									(61,606)		(61,606)
Other changes							(62)				(62)
Comprehensive income for the year				(2,607)	(10,604)	11,137		198,792		11	196,729
Balance at 31.12.2015	**26,141**	**83,719**	**(35,061)**	**(3,290)**	**(66,918)**	**42,543**	**685,587**	**198,792**	**(61,606)**	**85**	**869,992**
Allocation of 2015 net income:											
- Dividends							2,425	(125,516)	61,606		(61,485)
- Retained earnings							73,276	(73,276)			
Change in the reserve for share based payments						2,011	1,973				3,984
Purchase of own shares			(71,605)								(71,605)
Sale of own shares			29,905				(7,186)				22,719
Interim dividend									(72,245)		(72,245)
Other changes							(71)				(71)
Comprehensive income for the year				(4,130)	(11,391)	(9,259)		237,406		25	212,651
Balance at 31.12.2016	**26,141**	**83,719**	**(76,761)**	**(7,420)**	**(78,309)**	**35,295**	**756,004**	**237,406**	**(72,245)**	**110**	**903,940**

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RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

€ (thousands)	2016	2015
Operating activities		
Cash flow		
Net Income	237,431	198,803
Depreciation of property, plant and equipment	12,466	11,948
Amortization of intangible assets	25,466	26,535
Write-down of assets	5,862	0
Total cash flow	**281.225**	**237,286**
(Increase)/decrease in deferred tax assets	(5,637)	3,510
Increase/(decrease) in staff leaving indemnities	1,273	507
Increase/(decrease) in other non-current liabilities	(216)	(4,200)
	276,645	**237,103**
Changes in working capital		
Trade receivables	(20,509)	1,810
Inventories	(9,982)	(1,870)
Other receivables and other current assets	547	3,080
Trade payables	7,005	(5,939)
Tax liabilities	5,191	2,051
Other payables and other current liabilities	194	7,521
Provisions	(3,655)	3,616
Changes in working capital	**(21,209)**	**10,269**
Net cash from operating activities	**255,436**	**247,372**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(19,669)	(31,239)
Net (investments)/disposals in intangible assets	(17,272)	(2,451)
Acquisition of equity	(120,790) [(1)]	0
Net (increase)/decrease in equity investments	121	0
Net (increase)/decrease in other non-current receivables	(879)	194
Net cash used in investing activities	**(158,489)**	**(33,496)**
Financing activities		
Short-term financial position of companies acquired or disposed of	(21,675)	0
Medium/long term loans	50,128	52,043
Re-payment of loans	(33,977)	(66,234)
Purchase of Treasury stock	(71,605)	(17,730)
Sale of Treasury stock	22,719	11,751
Effect of application of IAS/IFRS	3,765	2,846
Other changes in equity	(71)	(62)
Dividends paid	(133,730)	(110,770)
Change in translation reserve	(5,373)	1,518
Net cash from/(used in) financing activities	**(189,819)**	**(126,638)**
Changes in short-term financial position	**(92,872)**	**87,238**
Short-term financial position at beginning of year *	215,676	128,438
Short-term financial position at end of period *	122,804	215,676

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

[(1)] Acquisition of **Italchimici S.p.A. (106,294)**: Working capital 2,859, Short-term financial position* 21,769, Fixed assets (36,448), Goodwill (105,303), Personnel leaving indemnity 1,507, Deferred tax liabilities 9,322.

Acquisition of **Pro Farma AG (14,496)**: Working capital (745), Short-term financial position* (94), Fixed assets (5.447), Goodwill (8,485), Deferred tax liabilities 275.

1. GENERAL

The consolidated financial statements at 31 December 2016 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in attachment 1.

During the year the consolidation perimeter changed following two acquisitions. In May the Italian pharmaceutical company Italchimici S.p.A., which offers therapeutical solutions mainly in the gastroenterological and respiratory areas which consist of both pharmaceutical products as well as food supplements and medical devices to improve the health and well-being of patients, was acquired. The recognition of this company in the accounts is not yet definite, and could be subject to change, as allowed by IFRS 3. The profit and loss accounts of Italchimici S.p.A. are consolidated as from 1 June 2016 and the consolidated cash flow statement includes the effect of the balance sheet accounts at 31 May 2016. In July the Swiss company Pro Farma AG and its Austrian subsidiary Pro Farma GmbH, which market proprietary and in-licensed specialties in selected therapeutic areas which include both prescription and OTC drugs, were acquired. The recognition of this company in the accounts is not yet definite, and could be subject to change, as allowed by IFRS 3. The profit and loss accounts of Pro Farma AG and its Austrian subsidiary Pro Farma GmbH are consolidated as from 1 July 2016 and the consolidated cash flow statement includes the effect of the balance sheet accounts at 30 June 2016.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and in compliance with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting policies applied in the preparation of the consolidated financial statements at 31 December 2015 were used in the preparation of the financial statements at 31 December 2016.

No significant changes in accounting policies were applied in the preparation of the consolidated financial statements.

The financial statements of the consolidated companies, prepared by the Board of Directors or the Sole Directors for submission to the respective Shareholders' meetings, have been reclassified and adjusted as required in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS). The criteria applied is consistent with that of the consolidated financial statements at 31 December 2015.

The financial statements have been prepared on the historical cost basis, except for the financial assets available for sale included under the line "Other investments", hedging derivatives (and the relative underlying hedged financial liability) for which their fair value has been applied as prescribed by IAS 39 and

defined benefit plans for which the actuarial valuation was carried out as prescribed by IAS 19.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared according to the same accounting policies adopted by the Company. Where necessary, adjustments are made to bring the accounting policies used in line with those used by the Company.

All intercompany transactions and balances between group enterprises, including unrealized gains, are eliminated on consolidation. Intragroup losses are also eliminated unless they indicate an impairment that requires recognition in the consolidated financial statements.

Subsidiaries are included in the consolidated financial statements from the effective date control is acquired up to the effective date control is transferred out of the group. When control is no longer exercised over a consolidated subsidiary, the results of the subsidiary are consolidated proportionally to the time period during which control was maintained.

The line-by-line consolidation method is applied using the following criteria:

a. The book value of investments in consolidated subsidiaries is eliminated against the relevant shareholders' equity while the assets and liabilities are consolidated on a line-by-line basis.
b. Intercompany payables and receivables and transactions, as well as intra-group profits and losses not yet realized, are eliminated.
c. Any excess of the cost of acquisition over the value of equity at the date of acquisition is recognized as goodwill.
d. Minority interests in the equity of consolidated subsidiaries are shown separately under equity, while minority interests in the net income of such companies are shown separately in the consolidated income statement.

The financial statements of foreign subsidiaries expressed in currencies other than Euro are translated into Euro as follows:
- Assets and liabilities, at year-end exchange rates;
- Shareholders' equity at historical exchange rates;
- Income and expense items at the average exchange rates for the year;
- The goodwill resulting from the acquisition of a foreign company is recognized in the currency of the country in question and translated at year-end exchange rates.

Translation differences arising from this process are shown in the consolidated statement of comprehensive income.

Balance sheet

Property, plant and equipment - Property, plant and equipment is stated at purchase cost less accumulated depreciation and any recognized impairment loss. Reviews are performed when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on *Impairment*). Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

Leasing - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments, and depreciated over their estimated useful life. The corresponding liability to the lessor is included in the balance sheet as a financial liability. Lease payments are apportioned between finance charges and reduction of the financial liability. Finance charges are charged directly in the income statement.

All other leases are classified as operating leases and the rentals payable are charged to income as per the terms of the relevant lease.

Intangible assets - An intangible asset is recognized only if it can be identified, if it is probable that it will generate future economic benefits and its cost can be measured reliably. Intangible assets are valued at purchase cost, net of amortization calculated on a straight line basis and on the basis of their estimated useful life which, however, cannot exceed 20 years. Patents, licenses and know-how are amortized as from the year of the first sale of relevant products. Amortization of distribution and license rights is calculated over the duration of the contract.

Goodwill - Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Transaction costs associated with the aggregation of companies are not considered acquisition costs and are recognized as expenses in the year they are incurred. Goodwill is recognized as an asset and reviewed annually in order to determine any impairment loss.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of remaining goodwill is included in the determination of the profit or loss on disposal.

Impairment - At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable

amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized as income immediately. Losses resulting from the impairment of goodwill cannot be reversed.

Investments in associates - An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

Other investments - Other investments are those described by IAS 39 as available-for-sale financial assets. They comprise equity instruments and are measured at fair value. If their market value is not available and their fair value cannot be reasonably determined, these investments are valued at cost and adjusted for loss of value (impairment) if required. The impairment cost is recognized in the income statement.

Receivables (included in non-current assets) - Receivables are stated at their nominal value and reduced by estimated irrecoverable amounts if and when necessary.

Inventories - Inventories are stated at the lower of cost or market, where the market value of raw materials and subsidiaries is their substitution cost while that related to finished goods and work-in-process is their net realizable value. Inventories of raw materials, supplies and promotional material are valued at their average acquisition cost including costs incurred in bringing the inventories to their location and condition at year end. Inventories of work-in-process and finished goods are valued at their average manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production.

Inventories are written-down if market value is lower than cost as described above or in the case of obsolescence resulting from slow moving stocks.

Trade receivables - Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents - Cash in banks on demand and highly liquid investments.

Non-current assets held for sale and discontinued operations - Comprise those components of an entity, whose operations and cash flows can be distinguished operationally and for financial reporting purposes, that either have been disposed of or that satisfy the criteria to be classified as held for sale.

A non-current asset (or disposal group) classified as held for sale is measured at the lower of fair value less costs to sell it and its carrying amount.

Non-current assets or disposal groups that are classified as held for sale are not depreciated.

Equity - Equity instruments issued by the Company are recorded at the proceeds received. Proposed dividend is recognized as a liability at the time of adoption of the dividend resolution at the annual shareholders' meeting. The cost and selling prices of treasury shares are recognized directly in equity and therefore gains and losses on sales are not recognized in the income statement.

Loans - Interest-bearing loans are recorded at the proceeds received, net of direct issue costs. Subsequently, loans are measured using the amortised cost method as prescribed by IAS 39. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

If the loans are covered using derivative instruments qualifying as fair value hedges, in accordance with IAS 39 these loans are measured at fair value as are their related derivative instruments.

Staff leaving indemnities - Employee benefits presented on the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liability recognised in the balance sheet for post-employment benefit plans is the present value of the defined benefit obligation, as adjusted for unrecognised actuarial gains and losses and unrecognized past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method.

Trade payables - Include payables arising from supply agreements and are stated at their nominal value.

Other payables - Include payables arising in the normal course of business (towards employees and third parties) and are stated at their nominal value.

Bank overdrafts and loans - Bank overdrafts and loans are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments - The Group uses derivative financial instruments to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivatives are measured at fair value at the end of each reporting period.

Hedging relationships are of two types, "fair value hedge" or "cash flow hedge". A "fair value hedge" is a hedge of the exposure to changes in the fair value of an asset or liability that is already recognized in the balance sheet. A "cash flow hedge" is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability or to a forecasted transaction.

The gain or loss from the change in fair value of a hedging instrument qualifying as a "fair value hedge" is recognized immediately in net profit or loss. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which also is recognized immediately in net profit or loss.

The gain or loss from the change in fair value of a hedging instrument qualifying as a "cash flow hedge" is recognized in the consolidated statement of comprehensive income.

The gain or loss from the change in fair value of a derivative financial instrument which does not qualify as a hedging instrument is recognized immediately in net profit or loss.

Provisions - Provisions are recognized when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Foreign currencies - Transactions in currencies other than the Euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period. Non-monetary assets and liabilities recorded at the rates of exchange prevailing on the dates of the transactions are not retranslated on the balance sheet date.

On consolidation, the assets and liabilities of the Group's foreign currency operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in the consolidated statement of comprehensive income and included in the Group's translation reserve. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

Income statement

Revenues - Revenues are recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and that the amount of revenue can be measured reliably. Revenue arising from the sale of goods is recognized when the enterprise has transferred the significant risks and rewards of ownership. These are stated net of discounts, rebates and returns. Revenues include income from royalties due on licensed out products and up-front payments received under licensing agreements.

Cost of Sales - Represents the cost of goods sold and includes the cost of raw materials, supplies and consumables, finished goods, and direct and indirect production expenses.

Selling expenses - Include all expenses incurred in connection with the products sold during the year, such as payroll and other costs for sales and marketing personnel, promotional expenses and all distribution costs. Promotional expenses for the launch of new products are recognized in the income statement in proportion to the revenues obtained during the launch period.

Research and development expenses - All research costs are expensed in the income statement in the year in which they are incurred in accordance with IAS 38. IAS 38 prescribes that development costs must be capitalized when technical and commercial feasibility is achieved. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines under IAS 38 are not met so that development costs are expensed as incurred. Research and development costs include amounts due under collaboration agreements with third parties.

Non-reimbursable government grants - Government grants towards investment in plant are recognized as income over the periods necessary to match them with the related costs and are stated in the balance sheet as deferred income. Research grants are booked on an accrual basis and are recognized in the income statement as other revenue.

Transactions involving share based payments – As prescribed by IFRS 2 stock option plans for the benefit of group employees are considered part of their remuneration, the cost of which is the fair value of the stock options at the date they are granted. This cost is recognized in the profit and loss linearly distributed over the vesting period and booked directly to equity.

Financial items - Include interest income and expense, foreign exchange gains and losses, both realized and unrealized, and differences arising from the valuation of securities.

Taxation - Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year and tax rates in force at the date of the balance sheet are applied.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Earnings per share - Earnings per share is the net profit for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the number of shares for the effects of all dilutive potential ordinary shares.

3. REVENUE

Net revenue for the years 2016 and 2015 is € 1,153.9 million and € 1,047.7 million respectively and can be broken down as follows:

€ (thousands)	2016	2015	Change 2016/2015
Net sales	1,139,444	1,032,447	106,997
Royalties	5,995	5,424	571
Up-front payments	4,158	5,748	(1,590)
Other revenue	4,345	4,057	288
Total revenue	**1,153,942**	**1,047,676**	**106,266**

Please refer to the Review of Operations for the analysis of net sales.

Revenue from up-front payments refers to the licensing out of corporate products and in 2016 are mainly

relative to agreements for the licensing of the lercanidipine+enalapril fixed combination (€ 1.3 million), pitavastatin (€ 1.1 million), ibuprofen (€ 0.5 million), lercanidipine (€ 0.5 million) and fenticonazole (€ 0.4 million).

Other revenue includes commissions of € 1.5 million received by FIC Médical for promotion services rendered to third parties in the countries belonging to the Commonwealth of Independent States (C.I.S.).

4. OPERATING EXPENSES

Total operating expenses for the years 2016 and 2015 are € 826.5 million and € 769.2 million respectively and are analyzed by function as follows:

€ (thousands)	2016	2015	Change 2016/2015
Cost of sales	360,959	335,210	25,749
Selling expenses	304,435	293,204	11,231
Research and development expenses	83,710	76,736	6,974
General and administrative expenses	64,784	58,980	5,804
Other (income) expense, net	12,631	5,029	7,602
Total operating expenses	**826,519**	**769,159**	**57,360**

Labor cost in 2016 is € 270.4 million, an increase of 12.1% compared to 2015, and includes charges of € 4.0 million related to stock option plans determined in accordance with IFRS 2.

Depreciation and amortization charges are € 37.9 million. Depreciation of property, plant and equipment is € 12.5 million, up by € 0.5 million as compared to the preceding year. Amortization of intangibles is € 25.4 million, a decrease of € 1.1 million compared to 2015.

The following table summarizes the most significant components of other income (expense) which comprises mainly non-recurring events, operations and matters which are not often repeated in the ordinary course of business.

€ (thousands)	2016	2015	Change 2016/2015
Write-down of intangible assets	(5,862)	0	(5,862)
Organizational restructuring charges	(4,678)	(2,637)	(2,041)
Ancillary costs related to acquisitions	(2,272)	0	(2,272)
Other write-downs	0	(1,074)	1,074
Others	181	(1,318)	1,499
Total other income (expense), net	**(12,631)**	**(5,029)**	**(7,602)**

The write-down of intangible assets concerns mainly the amounts paid up-front for the acquisition of distribution rights for the products Fortacin™ (lidocaine/prilocaine) and Vitaros® (alprostadil) for which the expected returns from their future commercialization have been revised. In particular, the value of Fortacin™ was written down by € 5.3 million, following the approval of a dosage form different from that originally planned, and Vitaros® by e 0.6 million.

Organizational restructuring charges refer entirely to the recently acquired company Italchimici S.p.A..

Ancillary costs comprise those incurred for the acquisitions of Italchimici S.p.A. and Pro Farma AG in the amounts of € 2.0 million and € 0.3 million respectively.

5. FINANCIAL INCOME AND EXPENSE

In 2016 and 2015 financial items recorded a net expense of € 10.1 million and € 13.1 million respectively which are comprised as follows:

€ (thousands)	2016	2015	Change 2016/2015
Exchange gains (losses)	1,708	(572)	2,280
Interest expense on loans	(8,086)	(8,700)	614
Net interest income (expense) on s/t financial position	(3,488)	(3,536)	48
Interest cost in respect of defined benefit plans	(275)	(272)	(3)
Total financial income (expense), net	**(10,141)**	**(13,080)**	**2,939**

The net exchange gains in 2016 as opposed to the losses in 2015 are mainly determined by the revaluation of some currencies, mainly the U.S. dollar and the Russian ruble.

The decrease in interest expense on loans is to be attributed mainly to the reimbursement of the notes due at the end of the preceding year and to the effect of the reduction in the cost of debt following the renegotiation of their conditions during the first half of 2015 (see Note 21).

6. PROVISION FOR INCOME TAXES

The provision for income taxes amounts to € 79.9 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies.

The current standard corporate income tax rate in Italy can be reconciled with the tax rate effectively incurred on consolidated pre-tax income, as follows:

	2016 %	2015 %
Standard income tax rate on pre-tax income of the parent company	27.5	27.5
Dividends from foreign subsidiaries	0.2	0.5
Consolidation effect	(4.3)	(4.3)
Other differences, net	0.7	0.4
Effective tax rate on income	**24.1**	**24.1**
IRAP	1.1	1.0
Effective tax rate, including IRAP	**25.2**	**25.1**

IRAP is levied only on the Italian companies and is computed applying a 4.14% rate to a broader taxable base calculated before the deduction of interest.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, amounts to € 110.2 million and € 109.0 million at 31 December 2016 and 2015 respectively. The composition and variation of property, plant and equipment are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
Cost					
Balance at 31.12.15	59,826	207,587	60,016	38,514	365,943
Additions	833	3,286	3,095	13,691	20,905
Disposals	0	(2,772)	(1,203)	(393)	(4,368)
Changes in reporting entities	0	0	525	0	525
Other changes	18,750	15,296	2,438	(44,805)	(8,321)
Balance at 31.12.16	**79,409**	**223,397**	**64,871**	**7,007**	**374,684**
Accumulated depreciation					
Balance at 31.12.15	37,332	172,201	47,423	0	256,956
Depreciation for the year	2,299	6,667	3,500	0	12,466
Disposals	0	(2,493)	(979)	0	(3,472)
Changes in reporting entities	0	0	247	0	247
Other changes	(345)	(1,137)	(233)	0	(1,715)
Balance at 31.12.16	**39,286**	**175,238**	**49,958**	**0**	**264,482**
Carrying amount at					
31 December 2016	**40,123**	**48,159**	**14,913**	**7,007**	**110,202**
31 December 2015	22,494	35,386	12,593	38,514	108,987

Additions during the year of € 20.9 million refer mainly to investments made by the Parent in the Milan production plant and headquarters for an amount of € 7.8 million and by the Turkish subsidiary Recordati Ilaç for an amount of € 6.5 million for the completion of the construction of a new production plant.

The conversion into Euros of property, plant and equipment booked in different currencies resulted in a net decrease of € 6.3 million compared to their value at 31 December 2015, of which € 5.5 million is due to the devaluation of the Turkish Lira and € 0.8 million is due to the devaluation of the Tunisian Dinar.

At 31 December 2016 property, plant and equipment held under financial leases amount to € 0.4 million and are held by the company in Tunisia Opalia Pharma.

8. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 31 December 2016 and 2015 amount to € 279.9 million and € 246.5 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31.12.15	318,997	147,558	16,981	7,667	491,203
Additions	212	1,022	1,082	15,492	17,808
Write-downs	(550)	(58)	0	(5,254)	(5,862)
Disposals	(79)	(210)	(88)	(916)	(1,293)
Changes in reporting entities	4,790	42,057	118	1,074	48,039
Other changes	7,824	196	128	(1,331)	6,817
Balance at 31.12.16	**331,194**	**190,565**	**18,221**	**16,732**	**556,712**
Accumulated amortization					
Balance at 31.12.15	122,768	105,905	16,080	0	244,753
Amortization for the year	15,651	9,192	623	0	25,466
Write-downs	0	0	0	0	0
Disposals	(46)	(101)	(270)	0	(417)
Changes in reporting entities	1,788	4,557	77	0	6,422
Other changes	1,722	(976)	(142)	0	604
Balance at 31.12.16	**141,883**	**118,577**	**16,368**	**0**	**276,828**
Carrying amount at					
31 December 2016	**189,311**	**71,988**	**1,853**	**16,732**	**279,884**
31 December 2015	196,229	41,653	901	7,667	246,450

All intangible assets have a finite useful life and are amortized over a period not exceeding 20 years.

The additions during the period include:

- € 10.0 million paid to Gedeon Richter at the signing of an exclusive license agreement for the commercialization of cariprazine, a novel atypical antipsychotic drug, in Western Europe, Algeria, Tunisia and Turkey.
- € 4.0 million for the second milestone due under the license agreement entered into in 2014 with Plethora Solutions Limited and Plethora Solutions Holdings Plc covering the commercialization of Fortacin™, a topical spray formulation of lidocaine and prilocaine for the treatment of premature ejaculation.

Following the revision of the expected future benefits to be derived from the commercialization of the relative products, the value of some intangible assets were written down. The reduction in value involved mainly Fortacin™, for an amount of € 5.3 million, and Vitaros® (alprostadil) for an amount of € 0.6 million (See Note 4).

The intangible assets belonging to the recently acquired company Italchimici S.p.A. at the date of acquisition are included under "Changes in reporting entities" for a net amount of € 36.3 million, of which € 35.0 million are relative to the Reuflor® brands, one of the company's main products for gastroenterological use.

"Changes in reporting entities" also include the value of Pro Farma AG's intangible assets for an amount of € 5.3 million. Of this amount € 2.3 million are relative to the allocation to Urocit®, a drug to prevent urinary calculosis, to bring its book value in line with its fair value calculated during the acquired assets and liabilities identification process. Based on the knowledge of the market in which the acquired company operates and taking into account the historical sales trend of the product, the useful life of the asset is estimated to be of

10 years.

The conversion into Euros of intangible assets booked in different currencies resulted in a net increase of € 5.9 million compared to their value at 31 December 2015, of which € 5.2 million is attributable to the revaluation of the Russian Ruble, € 2.1 million to the revaluation of the U.S. Dollar and € 1.4 million to the devaluation of the Turkish Lira.

9. GOODWILL

Goodwill at 31 December 2016 and 2015 amounted to € 556.6 million and € 453.3 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31.12.15	490,949
Change in reporting entities (Italchimici S.p.A.)	105,303
Change in reporting entities (Pro Farma AG)	8,485
Exchange rate adjustments	(10,507)
Balance at 31.12.16	**594,230**
Accumulated amortization	
Balance at 31.12.15	37,664
Changes during the year	0
Balance at 31.12.16	**37,664**
Carrying amount at	
31 December 2016	**556,566**
31 December 2015	453,285

As prescribed by IFRS 3, the value of the companies acquired during the year, Italchimici S.p.A. and Pro Farma AG, has been allocated.

The acquisition of Italchimici S.p.A. determined and increase of € 105.3 million. The entire difference between the amount paid and the book value of the assets and liabilities acquired was allocated to goodwill. The measurement of the fair value of the company's assets and liabilities at the date of acquisition did not result in the identification of any item to which allocate the amount paid the company. We believe that the value of the acquisition resides in its strategic nature and in the possibility of generating operating synergies. The allocation is not yet definite, as allowed by IFRS 3.

With respect to the Swiss company Pro Farma AG, the measurement of the fair value of the company's assets and liabilities at the date of acquisition resulted in the identification of an increased value of the intangible assets acquired, and in particular of Urocit®, the fair value of which is higher than its book value. Therefore, an amount of € 2.3 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to this intangible asset to bring its book value in line with its fair value (see Note 8.). An amount of € 0.3 million was allocated to the relative deferred tax liabilities and the remaining € 8.5 million were allocated to goodwill. The allocation is not yet definite, as allowed by IFRS 3.

The exchange rate adjustments are related to the goodwill associated with the acquisitions made in

countries having currencies different from the euro: goodwill calculated in local currency is translated into euros for the preparation of the consolidated financial accounts using the year-end exchange rates. An overall decrease of € 10.5 million as compared to 31 December 2015 resulted. In particular, the goodwill associated with the acquisitions in Turkey, Tunisia and Poland decreased respectively by € 11.2 million, € 2.4 million and € 0.5 million, while the goodwill associated with the acquisitions in Russia and in Switzerland increased respectively by € 3.5 million and € 0.1 million.

Net goodwill at 31 December 2015, amounting to € 556.6 million, relates to the following operational areas, which represent the same number of cash generating units:

- France: € 45.8 million;
- Russia: € 29.1 million;
- Germany: € 48.8 million;
- Portugal: € 32.8 million;
- Treatments for rare diseases business: € 110.6 million;
- Turkey: € 67.1 million;
- Czech Republic: € 13.1 million;
- Romania: € 0.2 million;
- Poland: € 14.9 million;
- Spain: € 58.1 million;
- Tunisia: € 22.2 million;
- Italy: € 105.3 million;
- Switzerland: € 8.6 million.

As reported in the preceding note 2 - *Summary of significant accounting policies* and as required by IFRS 3, goodwill is not amortized systematically but is subject to impairment tests to determine its recoverable value. Goodwill is allocated to the individual cash generating units identified on the basis of the business segments and the markets on which the companies acquired operate. A cash generating unit to which goodwill has been allocated shall be tested for impairment annually, and when there is any indication that it may be impaired, by comparing the carrying amount of the unit, including goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognize an impairment loss.

The recoverable amount was determined by calculating the value in use of the individual cash generating units.

The main hypotheses used for calculating the value in use concern the expected operating cash flows during the period assumed for the calculation, the discount rate and the growth rate.

Operating cash flow forecasts for the explicit period assumed for the calculation were taken from the 2017-2019 Business Plan approved by the Board of Directors of the Parent on 9 February 2017.

The discount rate used is the after-tax average weighted cost of capital which reflects current market valuations of the cost of money and the specific risk associated with the cash generating units. The growth rates used for the period subsequent to the explicit forecast period were prudently estimated and take into account the peculiarities of each country involved.

The following table shows the discount rates used for the impairment test for each of the main cash generating units.

Cash generating unit	Discount rate
France	4.34%
Russia	10.99%
Germany	3.80%
Portugal	8.82%
Business dedicated to treatments for rare diseases	4.34%
Turkey	12.48%
Czech Republic	4.31%
Poland	7.30%
Spain	5.30%
Tunisia	14.13%
Italy	6.53%
Switzerland	3.57%

The value in use, calculated according to the procedures described for each cash generating unit, was examined and approved by the Board of Directors. In all cases it was greater than the book value recognised in the financial statements at 31 December 2016 and therefore no loss in the value of goodwill was recognised.

10. OTHER INVESTMENTS

Investments in equity instruments of non-consolidated companies are as follows:

€ (thousands)	Balance sheet value		Percentage of equity owned	
	31.12.16	31.12.15	31.12.16	31.12.15
PureTech Health p.l.c., United Kingdom	13,216	21,218	4.0%	4.0%
Erytech Pharma S.A., France	5,922	11,043	4.9%	5.4%
Tecnofarmaci S.p.A., Italy	27	87	4.2%	4.2%
Codexis Inc., U.S.A.	22	5	n.s.	n.s.
Fluidigm Corp., U.S.A.	7	10	n.s.	n.s.
Consorzio C4T, Italy	1	77	n.s.	n.s.
Others	4	4	n.s.	n.s.
Total equity investments	**19,199**	**32,444**		

The main investment is that made in the U.K. company PureTech Health plc, specialized in investment in start-up companies dedicated to innovative therapies, medical devices and new research technologies. Starting 19 June 2015 the shares of the company were admitted to trading on the London Stock Exchange. At 31 December 2016 the overall fair value of the 9.554.140 shares held is of € 13.2 million. The € 8.0 million decrease in value compared to that at 31 December 2015 is booked as a loss for the period recognized directly in equity, net of the relative tax effect, and shown on the statement of comprehensive income.

Erytech Pharma S.A. is a French biopharmaceutical company focused on orphan oncology and rare diseases. The original investment of € 5.0 million consisted of a non-interest bearing loan which was converted into 431,034 shares in May 2013. The value of the investment was decreased by € 5.1 million as compared to

that at 31 December 2015 to take into account its fair value. The after-tax difference was booked to equity and recognized in the statement of comprehensive income.

11. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 31 December 2016 are € 5.4 million and refer mainly to guarantee deposits on rental and service contracts.

12. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2016 and 2015 amount to € 37.2 million and € 30.5 million respectively. The main deferred tax assets and their change are analyzed below.

€ (thousands)	2016	2015
Balance at 1 January	30.500	33,021
Additions	11.941	6,417
Utilizations	(5.210)	(8,938)
Balance at 31 December	**37.231**	**30,500**

€ (thousands)	Previous years' losses	Profit and loss temporary differences	Other	Total
Balance at 31.12.2015	4,377	13,799	12,324	30,500
Additions	1,444	5,536	4,961	11,941
Utilization	(3)	(4,658)	(549)	(5,210)
Balance at 31.12.2016	**5,818**	**14,677**	**16,736**	**37,231**

"Other" deferred tax assets refers mainly to temporary differences arising from the elimination of unrealized gains on intercompany transactions.

13. INVENTORIES

Inventories at 31 December 2016 and 2015 amount to € 158.8 million and € 143.1 million respectively, net of their respective obsolescence provisions of € 4.4 million and € 4.9 million. Composition of inventories is as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Raw materials and supplies	43,185	41,242	1,943
Intermediates and work-in-process	26,606	28,231	(1,625)
Finished goods	89,009	73,620	15,389
Total inventories	**158,800**	**143,093**	**15,707**

The increase is partly due the consolidation of the recently acquired companies, the effect of which is overall of € 5.7 million, at their respective consolidation dates.

14. TRADE RECEIVABLES

Trade accounts receivable at 31 December 2016 and 2015 amount to € 206.0 million and € 177.2 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2016 is € 14.8 million (€ 13.3 million at 31 December 2015) and is considered to be sufficient to cover potential losses of certain receivables which, due to the nature of the customers in question or the destination markets, may be difficult to collect. Average days of sales outstanding are 61, compared to 59 at 31 December 2015. Trade accounts receivable in the accounts of Italchimici S.p.A. and Pro Farma AG at their initial consolidation dates are of € 7.2 million and € 1.0 million respectively.

15. OTHER RECEIVABLES

Other receivables amount to € 31.0 million, an increase of € 2.1 million compared to those at 31 December 2015, and their breakdown is as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Tax receivable	18.756	22.278	(3.522)
Balances due from employees and agents	8.062	2.500	5.562
Other	4.156	4.105	51
Total other receivables	**30.974**	**28.883**	**2.091**

Tax receivable comprises value added tax (VAT) receivable (€ 10.3 million) and advance payments of income tax. Receivables from employees and agents comprise advances on expense accounts and other credits. Under "Other" are included advances paid to suppliers and other parties and to computed credits under licensing-in agreements. The initial consolidation of the companies recently acquired accounts for an overall amount of € 2.3 million.

16. OTHER CURRENT ASSETS

At 31 December 2016 other current assets amount to € 5.5 million (€ 5.3 million at 31 December 2015) and relate mainly to prepaid expenses.

17. FAIR VALUE OF HEDGING DERIVATIVES

At 31 December 2016 the value of hedging derivatives included under this account is of € 12.5 million.

The cross currency rate swaps covering the cash flows related to the notes issued and privately placed on 30 September 2014, for an amount of $ 75 million, measured at fair value at 31 December 2016 give rise to a € 12.0 million asset which represents the potential benefit of a lower value in euros of the future dollar denominated capital and interest flows, in view of the revaluation of the foreign currency subsequent to the moment in which the loan and hedging instrument were negotiated. In particular, the change in fair value of the hedging instrument covering the $ 50 million tranche of the loan, provided by Mediobanca, was positive for an amount of € 8.0 million, and that covering the $ 25 million tranche of the loan, provided by UniCredit, yielded a € 4.0 million positive value change.

In November 2016, following two loan agreements undersigned by the U.S. company Recordati Rare Diseases and the Parent for a nominal total of $ 70 million (corresponding to the two tranches of the notes issued by Recordati Rare Diseases in 2013), two cross currency swaps were provided by Unicredit which

effectively convert the loan into a total of € 62.9 million, of which € 35.9 million at a fixed interest rate of 1.56% per year corresponding to the tranche expiring in 2023 and € 27.0 million at a fixed interest rate of 1.76% per year for the tranche expiring in 2025. At 31 December 2016 the fair value of the hedging instruments is of € 0.5 million, recognized directly in equity.

18. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

A break down is shown in the following table.

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Short term time deposits	21,323	52,520	(31,197)
Deposits in bank current accounts	117,130	172,965	(55,835)
Cash on hand	40	40	0
Total short term financial investments, cash and cash equivalents	**138,493**	**225,525**	**(87,032)**

Short term time deposits have maturities of six months or less.

At 31 December 2016 cash and cash equivalents are denominated in euro (92.8 million), in pounds sterling (19.0 million, mainly in the U.K. subsidiaries) and in U.S. dollars (12.1 million, mainly in the U.S. subsidiary Recordati Rare Diseases).

19. SHAREHOLDERS' EQUITY

Share capital – At 31 December 2016 the issued and fully paid share capital consists of 209,125,156 ordinary shares with a par value of € 0.125 each for a total of € 26,140,644.50 and remains unchanged compared to the preceding year.

As at 31 December 2016 the Company has two stock option plans in favor of certain group employees in place, the 2010-2013 plan, under which options were granted on 9 February 2011, on 8 May 2012, on 17 April 2013 and on 30 October 2013 and the 2014-2018 plan under which options were granted on 29 July 2014 and on 13 April 2016. The strike price of the options is the average of the parent company's listed share price during the 30 days prior to the grant date. Stock options are vested over a period of five years and those not exercised within the eighth year of the date of grant expire. Options cannot be exercised if the employee leaves the company before they are vested.

Stock options outstanding at 31 December 2016 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2016	Options granted during 2016	Options exercised during 2016	Options cancelled or expired	Options outstanding at 31.12.2016
Date of grant						
9 February 2011	6.7505	1,372,500	-	(770,000)	(5,000)	597,500
8 May 2012	5.3070	*2,285,000	-	(850,000)	(10,000)	1,425,000
17 April 2013	7.1600	142,500	-	(22,500)	-	120,000
30 October 2013	8.9300	270,000	-	(90,000)	(25,000)	155,000
29 July 2014	12.2900	5,735,000	-	(980,000)	(225,000)	4,530,000
13 April 2016	21.9300	-	3,973,000	-	-	3,973,000
Total		**9,805,000**	**3,973,000**	**(2,712,500)**	**(265,000)**	**10,800,500**

* An increase of 25,000 options compared to those at 31 December 2015 following the recalculation of options cancelled.

Additional paid-in capital – At 31 December 2016 additional paid-in capital is € 83.7 million, unchanged compared to the preceding year.

Treasury stock – At 31 December 2016, 3,891,262 shares are held as treasury stock, an increase of 205,904 shares compared to those held at 31 December 2015. The change is due to the sale of 2,712,500 shares, for an amount of € 22.7 million, to service the exercise of options granted to company employees under the stock option plans, and to the purchase of 2,918,404 shares for an amount of € 71.6 million. The total cost incurred for the purchase of current treasury stock is € 76.8 million and the average purchase price per share is € 19.73.

Hedging reserve – In accordance with IAS 39, the assets resulting from the measurement at market value of the cross currency rate swaps qualifying as cash flow hedges, the counterpart of the recognition in the income statement offsetting the valuation at year-end exchange rates of the covered foreign exchange loan, and the liabilities resulting from the measurement at market value of the interest rate swaps qualifying as cash flow hedges are recognized directly in equity as a hedging reserve. At 31 December 2016 this fair value measurement gives rise to a net liability, after-tax, of € 7.4 million.

Other reserves – These amount to € 35.3 million at 31 December 2016, a decrease of € 7.2 million compared to those at 31 December 2015. Other reserves include the statutory reserve of the parent company in the amount of € 5.2 million, reserves for grants received for a total of € 15.4 million and reserves for amounts booked directly to equity in application of international accounting and reporting standards. The application of IFRS 2 and IAS 19 resulted in positive recordings of € 7.9 million and € 0.5 million respectively. The recognition of the after-tax gains associated with the investments in Puretech Health and in Erytech Pharma determined an overall positive effect of € 6.3 million (of which € 5.7 million attributable to Puretech Health and € 0.6 million to Erytech Pharma).

Retained earnings and net income for the year – These amount to € 756.0 million at 31 December 2016 and increase by € 70.4 million as compared to 31 December 2015. Net income for the year is € 237.4 million, an increase of 19.4% compared to the € 198.8 million 2015 net income.
The shareholders' equity of the Italian companies includes untaxed reserves of € 101.1 million, net of € 16.6 million withholding tax already paid, and their distribution is subject to taxation under fiscal law. In accordance with IAS 12 deferred taxes are not recognized on these reserves until their distribution is resolved.

Interim dividend – During the year the Board of Directors of Recordati S.p.A. resolved to distribute an interim dividend for 2016 of € 0.35 per share, for a total amount of € 72.2 million.

20. MINORITY INTEREST

All consolidated companies are 100% owned except for the Italian subsidiary of Orphan Europe which is 99% owned and the Tunisian company Opalia Pharma which is 90% owned. The latter has however been 100% consolidated by applying the anticipated acquisition method allowed by IAS 32. Consequently, the amount estimated for the acquisition of the remaining 10% (€ 2.5 million) was recognized as a liability since the transfer of this quota is covered by contractual agreements which provide for reciprocal put and call options between the parties which have a high probability of being exercised. Subsequent variations of this estimate will be recognized in a shareholders' equity reserve. This accounting method is not detrimental to the rights of the minority shareholders during the period until all capital shares are transferred.

21. LOANS

At 31 December 2016 medium and long-term loans total € 334.1 million. The net increase of € 17.0 million compared to 31 December 2015 was determined by the granting of new loans for an amount of € 50.1 million, reimbursements during the year of € 34.0 million and the effect of the conversion of loans in foreign currency which generated an increase of € 0.9 million.

The composition of medium and long-term loans at 31 December 2016 and 2015 is shown in the following table:

€ (thousands)	31.12.2016	31.12.2015
Loans granted to Recordati S.p.A.:		
Guaranteed senior notes issued by Recordati S.p.A. privately placed with international institutional investors in 2014: $ 50 million at a fixed interest rate of 4.28% repayable semi-annually starting 2022 through 2026, transformed with cross currency rate swap into a € 37.3 million loan at a fixed interest rate of 2.895%, $ 25 million at a fixed interest rate of 4.51% repayable semi-annually starting 2023 through 2029, transformed with cross currency rate swap into a € 18.7 million loan at a fixed interest rate of 3.15%.	*70,860	68,571
Loan granted by Centrobanca, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2012 through 2022	*40,778	47,574
Loan granted by UniCredit, at variable interest rate partly covered by an interest rate swap, repayable in semi-annual installments starting 2015 through 2020	*34,669	44,557
Loan granted by Banca Nazionale del Lavoro, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2015 through 2018	*24,781	37,156
Loan granted by ING Bank, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2016 through 2020	*26,160	29,880
Loan granted by Banca Nazionale del Lavoro, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2019 through 2020	*24,950	-
Loan granted by Intesa Sanpaolo, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2019 through 2021	*24,925	-
Loans granted to other Group companies:		
Guaranteed senior notes issued by Recordati Rare Diseases Inc. (U.S.) privately placed with international institutional investors in 2013: $ 40 million at a fixed interest rate of 4.55% due 2023 (10 year bullet) $ 30 million at a fixed interest rate of 4.70% due 2025 (12 year bullet)	*65,896	63,744
Loan granted by IFC-World Bank to Recordati Ilaç for an amount of TRY 71.6 million, at variable interest rate, repayable in quarterly installments starting 2016 through 2022	*18,215	22,197
Loan granted by ING Bank to Recordati Ilaç for an amount of TRY 5.9 million, at a fixed interest rate of 13.25%, repayable in a single installment in 2018	1,586	1,851
Various loans granted to Opalia Pharma S.A. due within 2019	890	1,167
Various interest-free loans granted to Casen Recordati due within 2021	335	387
Loan granted to Opalia Recordati due within 2021	27	-
Total amortized cost of loans	**334,072**	**317,084**
Portion due within one year	40,428	34,469
Portion due after one year	293,644	282,615

* Net of direct issue costs for a total of € 2.0 million amortized using the effective interest method (private placement by Recordati S.p.A. € 0.3 million, Centrobanca € 0.1 million, Banca Nazionale del Lavoro € 0.2 million, UniCredit € 0.3 million, ING Bank € 0.1 million, Banca Nazionale del Lavoro € 0.1 million, Intesa Sanpaolo € 0.1 million, private placement by Recordati Rare Diseases € 0.5 million, IFC-World Bank € 0.3 million).

At 31 December 2016, the repayment schedule of long-term debt due after 31 December 2017 is as follows:

€ (thousands)	
2018	41,771
2019	48,583
2020	39,312
2021	18,414
2022 and subsequent years	145,564
Total	**293,644**

The average effective interest rate at 31 December 2016, applying the rates resulting from the hedging instruments, is 2.68%.

In December 2016 a loan agreement with Banca Nazionale del Lavoro was undersigned by the Parent company for an amount of € 25.0 million, disbursed net of expenses and commissions of € 0.1 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 40 basis points and a duration of 4 years with semi-annual repayments of capital from March 2019 through September 2020. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.41%. The measurement at fair value at 31 December 2016 of the swap generated a liability of € 0.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 29). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions were amply fulfilled.

Also in December 2016 a loan agreement with Intesa Sanpaolo was undersigned by the Parent company for an amount of € 25.0 million, disbursed net of expenses and commissions of € 0.1 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 60 basis points and a duration of 5 years with semi-annual repayments of capital from June 2019 through December 2021. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.68%. The measurement at fair value at 31 December 2016 of the swap generated a liability of € 0.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 29). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions were amply fulfilled.

The other main long-term loans outstanding are:

a) A loan agreement with ING Bank undersigned by Recordati Ilaç on 30 November 2015 for an amount of 5.9 million Turkish lira to be repaid on 22 March 2018. Main terms are: fixed interest rate of 13.25%, quarterly payment of interest accrued and reimbursement of the entire principal at expiry date. The conversion of the loan into euros at 31 December 2016 resulted in an amount of € 1.6 million, a reduction of the liability by € 0.3 million as compared to that at 31 December 2015 due to the devaluation of the Turkish lira with respect to the currency exchange rate at consolidation.

b) A loan agreement with UniCredit undersigned by the Parent company in May 2015 for an amount of € 50.0 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 80 basis points and a duration of 5 years with semi-annual repayments of capital from November 2015 through May 2020. The residual amount of the loan at 31 December 2016 is of € 34,7 million. The loan is partly covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges on a portion of the debt from variable to a fixed rate of 1.734%. The measurement at fair value at 31 December 2016 of the swap covering € 25.0 million generated a liability of € 0.5 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 29). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:
   - the ratio of consolidated net debt to EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
   - the ratio of consolidated operating income to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

   The above conditions were amply fulfilled.

c) A loan agreement with ING Bank for an amount of € 30.0 million, originally undersigned by the Parent company on 8 January 2014, was re-negotiated on 12 June 2015 with only the interest rate being changed. Main terms are: variable interest rate equivalent to the six months' euribor plus a spread of 85 basis points (as opposed to the 190 basis points in the previous agreement), and reimbursement of principal at the end of every six months starting July 2016 through January 2020. The debt outstanding at 31 December 2016 is of € 26.2 million. The loan was simultaneously covered with an interest rate swap qualifying as a cash flow hedge transforming the interest payable on the entire debt to a fixed interest rate of 1.913% following the above mentioned re-negotiation. The fair value measurement of the swap at 31 December 2016 generated a liability of € 0.6 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 29). The ING Bank loan agreement contains covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:
   - the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
   - the ratio of consolidated operating income to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

   The above conditions are amply fulfilled.

d) A loan agreement with IFC-World Bank undersigned by the subsidiary Recordati Ilaç on 16 October 2014 for an amount of 71.6 million Turkish lira to finance the construction of a new production plant. Main terms are: variable interest rate equivalent to the three months' trlibor plus a spread of 162 basis points, 8-year duration and reimbursement of principal at the end of every three months starting November 2016 through August 2022. The debt outstanding at 31 December 2016 is of € 18.2 million,

a reduction of € 4.0 million compared to that at 31 December 2015, of which € 3.1 million due to the devaluation of the Turkish lira with respect to the currency exchange rate at consolidation. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions were amply fulfilled.

e) Privately placed guaranteed senior notes privately placed by the Parent company on 30 September 2014 for an amount of $ 75 million in two tranches: $ 50 million at a fixed interest rate of 4,28% to be reimbursed bi-annually as from 30 March 2022 through 30 September 2026, and $ 25 million at a fixed interest rate of 4.51% to be reimbursed bi-annually as from 30 March 2023 through 30 September 2029. The conversion of the loan into euros at 31 December 2016 resulted in an increase of the liability by € 2.3 million as compared to that at 31 December 2015 due to the revaluation of the U.S. dollar with respect to the currency exchange rate at consolidation. The loan was simultaneously covered with two currency rate swaps transforming the overall debt to € 56.0 million, of which € 37.3 million at a fixed interest rate of 2.895% on the 12-year tranche and € 18.7 million at a fixed interest rate of 3.15% on the 15-year tranche. At 31 December 2016 the measurement at fair value of the hedging instruments generated an overall positive amount of € 12.0 million recognized directly to equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current assets (see Note 17). The note purchase agreement covering the senior guaranteed notes issued by Recordati S.p.A. includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled.

f) A loan agreement with Banca Nazionale del Lavoro undersigned by the Parent Company on 30 September 2013 for an amount of € 50 million, cashed-in net of expenses and commissions of € 0.6 million. Main terms are: variable interest rate equivalent to the six months' euribor plus a spread (which following a re-negotiation of the agreement was reduced from 200 to 70 basis points as from 1 April 2015) and 5-year duration with reimbursement of principal in 8 installments due at the end of every six months starting March 2015 through September 2018. The residual amount of the loan amounts to € 24.8 million at 31 December 2016. The loan was simultaneously covered with an interest rate swap qualifying as a cash flow hedge transforming the interest payable on the entire debt to a fixed interest which now stands at 1.6925% following re-negotiation. The measurement at fair value of the swap at 31 December 2016 generated a liability of € 0.3 million recognized directly in equity and under current liabilities as 'Fair value of hedging derivatives (cash flow hedge)' (see Note 29). The loan agreement contains covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions are amply fulfilled.

g) Senior guaranteed notes issued by Recordati Rare Diseases Inc. privately placed with U.S. investors on 13 June 2013 to fund the acquisition of a portfolio of products for the treatment of rare and other diseases sold mainly in the United States of America. The loan comprises two series of notes for a total of $ 70 million, of which $ 40 million ten-year bullet and 4.55% coupon and $ 30 million twelve-year bullet and 4.70% coupon. The conversion of the loan into euros at 31 December 2016 resulted in an increase of the liability by € 2.1 million as compared to that at 31 December 2015 due to the revaluation of the U.S. dollar. The note purchase agreement covering the senior guaranteed notes issued by Recordati Rare Diseases Inc. includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:
   - the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
   - the ratio of consolidated operating income to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

   The above conditions were amply fulfilled.

h) A loan agreement with Centrobanca undersigned by the Parent company on 30 November 2010 to fund a three-year research and investment program. The loan, for which Centrobanca received funding from the European Investment Bank, amounts to € 75.0 million of which € 30.0 million were cashed in during 2010 and € 45.0 million in the first quarter of 2011, net of the € 0.3 million expenses. The main terms and conditions provide for a variable interest rate and a duration of 12 years with semi-annual repayments of capital from June 2012 through December 2022. The residual amount of the loan amounts to € 40.8 million at 31 December 2016. During the month of June 2012 interest on the whole loan was covered with an interest rate swap qualifying as a cash flow hedge. The current interest rate on the loan is 2.575%. The measurement at fair value of the hedging instrument at 31 December 2016 generated a liability of € 2.0 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 29). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:
   - the ratio of consolidated net debt to consolidated net equity must be less than 0.75;
   - the ratio of consolidated net debt to consolidated EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
   - the ratio of consolidated EBITDA to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

   The above conditions were amply fulfilled.

22. STAFF LEAVING INDEMNITIES

This provision at 31 December 2016 and 2015 is € 21.7 million and € 18.9 million respectively and reflects the Group's obligation towards its employees determined in accordance with IAS 19. The roll forward of this fund is as follows:

€ (thousands)	2016	2015
Balance at 1 January	18,895	18,388
Additions	1,660	1,914
Utilization	(688)	(1,138)
Change in reporting entities	1,507	-
Change in fair value	301	(269)
Balance at 31 December	**21,675**	**18,895**

The main part of this liability is to be attributed to the staff leaving indemnity fund (TFR, *trattamento fine rapporto*) in the Italian companies. The value of this fund as measured in accordance with IAS 19 amounts to € 14.3 million. The remaining part of this provision comprises employee benefit plans in the French subsidiary Laboratoires Bouchara Recordati (€ 3.4 million), in the U.S. subsidiary Recordati Rare Diseases (€ 1.9 million) and in the Orphan Europe group companies (€ 0.9 million). The fair value calculation made using actuarial parameters updated at 31 December 2016 determined an adjustment of € 0.3 million compared to the value of the funds at 31 December 2015 which is recognized in the statement of comprehensive income net of the tax effect, as prescribed by the relevant accounting principle.

23. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2016 are € 27.7 million, a net increase of € 5.3 million over the balance at 31 December 2015. The roll forward of this account is as follows:

€ (thousands)	2016	2015
Balance at 1 January	22,360	21,553
Additions	1,094	5,056
Utilization	(5,392)	(4,249)
Changes in reporting entities	9,597	-
Balance at 31 December	**27,659**	**22,360**

Utilization during the year includes the deferred tax liability reductions of € 2.3 million and € 1.8 million resulting from the decrease in value of the holdings in Puretech Health plc and Erytech Pharma S.A. respectively as compared to that at 31 December 2015.

Changes in reporting entities refer mainly to the tax effect of € 10.1 million relative to the value allocated to the products sold under the Reuflor® brand.

At 31 December 2016 no deferred tax liabilities were calculated on subsidiaries' undistributed earnings because no significant additional tax would have to be paid by the group in the event of these dividend distributions as they are essentially exempt from dual income taxation.

24. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2016 are € 2.5 million which refer to the amount due for the acquisition of a further 10% of the share capital of Opalia Pharma which, based on the put and call options in place contractually, should occur not before 2018.

25. TRADE PAYABLES

Trade accounts payable, which are entirely of a commercial nature and include allocations for invoices to be received, at 31 December 2016 and 2015 amount to € 124.6 million and € 106.6 million respectively. The initial consolidation of the recently acquired companies accounts overall for an amount of € 11.0 million.

26. OTHER PAYABLES

Other accounts payable at 31 December 2016 and 2015 amount to € 78.0 million and € 72.4 million respectively. Their composition is as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Personnel	28,554	25,982	2,572
Social security	14,253	13,530	723
Agents	963	846	117
Balance due for the acquisition of equity	0	586	(586)
Other	34,187	31,407	2,780
Total other payables	**77,957**	**72,351**	**5,606**

The line "Other" includes:

- € 6.6 million due by Recordati Rare Diseases Inc. to the U.S. healthcare insurance schemes;
- € 3.5 million to be paid to the "Krankenkassen" (German healthcare schemes) by Recordati Pharma GmbH;
- € 4.4 million which results from a mandatory discount of 1.83% on the retail selling price of reimbursed medicines and the contribution in substitution of a 5% price reduction on selected products to be paid by the Italian companies to the Italian regional healthcare systems.

In July the last price installment of € 0.6 million for the acquisition of the Polish company Farma Project was paid. The effect arising from the consolidation of Italchimici S.p.A. and Pro Farma AG is overall of € 5.0 million.

27. TAX LIABILITIES

Tax liabilities at 31 December 2016 and 2015 amount to € 20.4 million and € 14.6 million respectively and include tax provisions computed by the companies on the basis of estimated taxable income, net of tax advances already paid, and withholding taxes payable.

28. PROVISIONS

Provisions in place at 31 December 2016 amount to € 28.0 million and include tax provisions and other provisions for future contingencies which are uncertain as to timing and value. The following tables contain their composition and changes.

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Tax	4,852	4,362	490
Other	23,125	25,038	(1,913)
Total provisions	**27,977**	**29,400**	**(1,423)**

€ (thousands)	2016	2015
Balance at 1 January	29,400	25,784
Additions	3,281	10,237
Change in reporting entities	2,232	-
Utilization	(6,936)	(6,621)
Balance at 31 December	**27,977**	**29,400**

The additions during the year are related mainly to accruals for organizational restructuring following the acquisition of Italchimici S.p.A.. Total provisions at year end are mainly comprised by those booked by the Parent and the other Italian companies (€ 16.9 million), by the companies in France (€ 3.2 million), in Spain (€ 2.7 million) and in the U.S.A. (€ 2.0 million).

29. FAIR VALUE OF HEDGING DERIVATIVES

The interest rate swaps covering the cash flows related to medium and long-term loans measured at fair value at 31 December 2016 give rise to a € 3.6 million 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 liability refers to the interest rate swaps covering the interest rate risk on loans granted by Centrobanca (€ 2.0 million), Banca Nazionale del Lavoro (€ 0.3 million), ING Bank (€ 0.6 million), by UniCredit (€ 0.5 million), by Intesa Sanpaolo (€ 0.1 million) and by the new loan of € 25 million granted by Banca Nazionale del Lavoro (€ 0.1 million).

30. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans at 31 December 2016 are € 15.7 million and comprise mainly overdrafts, temporary use of lines of credit by foreign subsidiaries and by interest due on existing loans. At 31 December 2016, a total of 20 million Turkish Lira, for an equivalent amount of € 5.4 million, were drawn down on the revolving line of credit obtained in July 2015 by Recordati Ilaç, the subsidiary in Turkey, for a maximum amount of 40 million Turkish Lira. This short-term financing instrument, which has 24 months maximum duration, provides flexibility by combining the fact that it's non-revocable with the variability of the draw-downs based on specific financial needs. The agreement contains financial covenants in line with those already in place for other loans.

31. ACQUISITION OF COMPANIES

The following table summarizes the effects of the consolidation at the date of acquisition of Italchimici S.p.A., the Italian company of which the group acquired 100% of the share capital on 31 May 2016.

€ (migliaia)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
Non-current assets			
Property, plant and equipment	126	0	126
Intangible assets	36,322	0	36,322
Current assets			
Inventories	4,919	0	4,919
Trade receivables	7,227	0	7,227
Other receivables	2,099	0	2,099
Tax receivable	156	0	156
Other current assets	215	0	215
Short-term financial investments, cash and cash equivalents	25,681	0	25,681
Non-current liabilities			
Loans – due after one year	(1,507)	0	(1,507)
Deferred tax liabilities	(9,322)	0	(9,322)
Current liabilities			
Trade payables	(9,890)	0	(9,890)
Other payables	(4,775)	0	(4,775)
Tax liabilities	(578)	0	(578)
Provisions	(2,232)	0	(2,232)
Bank overdrafts and short-term loans	(47,450)	0	(47,450)
	991	**0**	**991**
Goodwill			105,303
Cost of the acquisition			**106,294**

The entire difference between the amount paid, adjusted contractually by € 1.3 million over the € 105,0 million paid at the closing, and the book value of the assets and liabilities acquired was allocated to goodwill. The measurement of the fair value of the company's assets and liabilities at the date of acquisition did not result in the identification of any item to which allocate the amount paid and it is deemed that the value of the acquisition resides in its strategic nature. The allocation is, however, not yet definite as allowed by IFRS 3.

Intangible assets acquired include the brands of Reuflor®, one of the main products in the portfolio, to which, following a recent extraordinary operation and based on independent third party estimates, the company allocated a value of € 36.0 million, of which € 35.0 million remained at the time of acquisition.

Bank loans acquired refer to short-term financing, which were immediately reimbursed following the acquisition using available liquidity and an intercompany loan.

The following table summarizes the effects of the consolidation at the date of acquisition of Pro Farma AG, the Swiss company of which the group acquired 100% of the share capital on 14 July 2016 and its Austrian subsidiary Pro Farma GmbH.

€ (migliaia)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
Non-current assets			
Property, plant and equipment	152	0	152
Intangible assets	3,002	2,293	5,295
Current assets			
Inventories	806	0	806
Trade receivables	1,033	0	1,033
Other receivables	175	0	175
Tax receivable	160	0	160
Other current assets	34	0	34
Short-term financial investments, cash and cash equivalents	1,929	0	1,929
Non-current liabilities			
Deferred tax liabilities	0	(275)	(275)
Current liabilities			
Trade payables	(1,152)	0	(1,152)
Other payables	(240)	0	(240)
Tax liabilities	(71)	0	(71)
Bank overdrafts and short-term loans	(1,835)	0	(1,835)
	3,993	**2,018**	**6,011**
Goodwill			8,485
Cost of the acquisition			**14,496**

An amount of € 2.3 million from the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to Urocit®, one of the company's main products. The remainder amounts to € 8.5 million, after deferred taxes of € 0.3 million arising from the value allocated to intangible assets, and was allocated to goodwill. The allocation is not yet definite, as allowed by IFRS 3.

Bank loans acquired refer to financing which at 31 December 2016 is fully reimbursed.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IFRS 7 hereunder are stated the balance sheet values and fair values at 31 December 2016 of financial assets and liabilities:

€ (thousands)	Book value	Fair value
Financial assets		
Short-term financial investments, cash and cash equivalents	138,493	138,493
Trade receivables	205,988	205,988
Equity investments	19,199	19,199
Other receivables	30,974	30,974
Fair value of hedging derivatives *(cash flow hedge)*	12,497	12,497
Financial liabilities		
Borrowings		
- loans at variable interest rates	18,214	18,214
- loans at variable interest rates covered with interest rate swaps	176,263	176,263
- loans at fixed interest rates	2,838	2,855
- loans at fixed interest rates covered with cross currency swaps	136,757	130,844
Trade payables	124,644	124,644
Other payables	98,389	98,389
Fair value of hedging derivatives *(cash flow hedge)*	3,621	3,621
Bank overdrafts and short-term loans	15,689	15,689

33. DISCLOSURE OF FINANCIAL RISKS

The Group constantly monitors the financial risks to which it is exposed in order to take immediate mitigating action when necessary. The objective of group financial policy is to achieve a balanced and prudent financial structure in order to fund growth, both organic and through business expansion.

As prescribed by IFRS 7 the main financial risks to which the Group is exposed are hereby disclosed.

Credit Risk – The Group closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. At 31 December 2016 the credit exposure is not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. In particular, at 31 December 2016, total trade receivables of € 220.8 million include € 20.4 million of receivables overdue by more than 90 days. Of these, € 1.1 million are receivables from Italian public hospitals which, despite their very long payment times, do not represent a significant risk situation. An allowance for doubtful accounts of € 14.8 million, which is considered to be sufficient to cover potential losses on collection, is in place.

Interest Rate Risk – The Group raises funds using debt and invests excess cash in money market and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Group's net financial charges. The Group's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or variable interest loans covered by derivative financial instruments, which are used to hedge risk and are never of a speculative nature, to minimize such fluctuations, as described in note 21. As a result of this policy and considering the current amount of net debt, it is believed that the change in current interest rates would not have a significant impact on net financial expenses.

Foreign Currency Risk – The Group is exposed to foreign currency exchange rate fluctuations which can affect its operating results and the value of its equity. All companies are subject to exchange rate fluctuations affecting trade and financial balances in currencies different from their own. In order to limit this risk, in some cases non speculative hedging instruments are negotiated.

As at 31 December 2016 positions in currencies different from the euro in companies in countries belonging to the European Monetary Union, not covered by hedging instruments, are the following:

net receivables of 1,570.9 million in Russian roubles;
net receivables of 5.0 million in U.S. dollars;
net receivables of 8.5 million in Tunisian dinars;
net receivables of 2.2 million in Swiss francs;
net receivables of 8.3 million in Romanian ron;
net receivables of 3.1 million in Polish zloty.

Among the companies in countries outside the European Monetary Union, at 31 December 2016 the main net exposure in currencies different from their own, and not covered by hedging instruments, is in Euros and is referred to the companies in the Czech Republic (net receivables of 3.2 million), in Tunisia (net receivables of 1.2 million), in Sweden (net receivables of 1.2 million) and in Turkey (net debt of 2.9 million).

For consolidation purposes the income statements and balance sheets of the group companies located outside the European Monetary Union are converted from their local currencies into Euros. At 31 December 2016 the net equity values of these companies are denominated mainly in U.S. dollars (108.7 million), in pounds sterling (18.3 million), in Swiss francs (8.8 million), in Turkish lira (166.7 million), in Czech crowns (306.3 million), in Romanian ron (5.1 million), in Russian roubles (2,016.7 million), in Polish zloty (4.3 million) and in Tunisian dinars (26.5 million). The effect of exchange rate variations on the conversion of these values is recognized in the consolidated statement of comprehensive income and booked to the translation reserve in shareholders' equity which, at 31 December 2016, is negative by € 78.3 million.

Liquidity Risk – The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for the its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. At 31 December 2016 the group has at its disposal a supply of liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's financial assets and its loans are set out in notes 18, 21 and 30 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of loans at their contractual due dates.

34. OPERATING SEGMENTS

The financial information reported by line of business and by geographical area, in compliance with IFRS 8 – *Operating segments*, is prepared using the same accounting principles and reporting standards used for the preparation and disclosure of the Group consolidated financial statements.

Based on the characteristics of their business, operational and strategic models two main business segments

can be identified, the pharmaceutical segment and the segment dedicated to treatments for rare diseases. The following table shows financial information for these two business segments as at 31 December 2016 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Rare diseases segment	Non-allocated	Consolidated accounts
2016				
Revenues	967,136	186,806	-	1,153,942
Expenses	(723,075)	(103,444)	-	(826,519)
Operating income	**244,061**	**83,362**	**-**	**327,423**
2015				
Revenues	894,546	153,130	-	1,047,676
Expenses	(678,899)	(90,260)	-	(769,159)
Operating income	**215,647**	**62,870**	**-**	**278,517**

* Includes the pharmaceutical chemicals operations

€ (thousands)	Pharmaceutical segment*	Rare diseases segment	Non-allocated **	Consolidated accounts
31 December 2016				
Non-current assets	788,083	201,228	19,199	1,008,510
Inventories	140,939	17,861	-	158,800
Trade receivables	174,540	31,448	-	205,988
Other current assets	32,782	3,673	12,497	48,952
Short-term investments, cash and cash equivalents	-	-	138,493	138,493
Total assets	**1,136,344**	**254,210**	**170,189**	**1,560,743**
Non-current liabilities	48,602	2,926	293,965	345,493
Current liabilities	213,723	37,848	59,739	311,310
Total liabilities	**262,325**	**40,774**	**353,704**	**656,803**
Net capital employed	**874,019**	**213,436**		
31 December 2015				
Non-current assets	649,934	193,837	32,444	876,215
Inventories	127,643	15,450	-	143,093
Trade receivables	150,600	26,619	-	177,219
Other current assets	28,857	5,306	12,671	46,834
Short-term investments, cash and cash equivalents	-	-	225,525	225,525
Total assets	**957,034**	**241,212**	**270,640**	**1,468,886**
Non-current liabilities	39,770	1,919	284,698	326,387
Current liabilities	192,761	31,139	48,608	272,508
Total liabilities	**232,531**	**33,058**	**333,306**	**598,895**
Net capital employed	**724,503**	**208,154**		

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

The pharmaceutical chemicals operations are considered part of the pharmaceutical segment as they are

prevalently dedicated to the production of active ingredients for this business, both from a strategic and organizational point of view.

The following table presents net revenues by geographic area:

€ (thousands)	2016	2015	Change 2016/2015
Europe	911,681	828,034	83,647
of which Italy	*237,615*	*211,570*	*26,045*
Australasia	55,770	53,731	2,039
America	133,538	110,371	23,167
Africa	52,953	55,540	(2,587)
Total revenue	**1,153,942**	**1,047,676**	**106,266**

The Group's production facilities are located almost exclusively in Europe and therefore non-current assets and Group investments are located for the most part in this area.

35. NET FINANCIAL POSITION

The following table summarizes the Company's net financial position:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Deposits in bank current accounts and cash on hand	117,170	173,005	(55,835)
Short-term time deposits	21,323	52,520	(31,197)
Liquid assets	**138,493**	**225,525**	**(87,032)**
Bank overdrafts and short-term loans	(15,689)	(9,849)	(5,840)
Loans - due within one year	(40,428)	(34,469)	(5,959)
Short term borrowings	**(56,117)**	**(44,318)**	**(11,799)**
Net current financial position	**82,376**	**181,207**	**(98,831)**
Loans - due after one year	(156,887)	(150,301)	(6,586)
Loan notes issued [(1)]	(124,260)	(119,643)	(4,617)
Non-current loans	**(281,147)**	**(269,944)**	**(11,203)**
Net financial position	**(198,771)**	**(88,737)**	**(110,034)**

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

36. RECONCILIATION BETWEEN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY AND NET INCOME AND GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND NET INCOME

The reconciliation between the parent company's shareholders' equity and net income and the Group consolidated shareholders' equity and net income is as follows:

€ (thousands)	Shareholders' equity		Net income for the year	
	31.12.2016	31.12.2015	2016	2015
Recordati S.p.A.	316,717	389,571	110,102	125,516
Consolidation adjustments:				
Margin in inventories	(29,090)	(25,662)	(3,428)	5,620
Related deferred tax	7,857	8,142	(285)	(1,732)
Other adjustments	(5,005)	(3,186)	(1,821)	(901)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already booked by Recordati S.p.A.	495,022	400,781	-	-
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	196,638	167,179	196,638	167,179
Dividends received from consolidated subsidiaries	-	-	(53,021)	(90,018)
Revaluation of holdings in controlled companies	-	-	(10,779)	(6,872)
Translation adjustments	(78,309)	(66,918)	-	-
Consolidated financial statements	**903,830**	**869,907**	**237,406**	**198,792**

37. LITIGATION AND CONTINGENT LIABILITIES

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

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

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

October 2015 the Company applied for a voluntary assessment procedure, which ended with the payment of the taxes and penalties owed by the Company.

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

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

RECORDATI S.p.A. AND SUBSIDIARIES

SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2016

ATTACHMENT 1.

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.P.A. *Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals*	Italy	26,140,644.50	Euro	Line-by-line
INNOVA PHARMA S.P.A. *Marketing and sales of pharmaceuticals*	Italy	1,920,000.00	Euro	Line-by-line
CASEN RECORDATI S.L. *Development, production, marketing and sales of pharmaceuticals*	Spain	238,966,000.00	Euro	Line-by-line
RECORDATI S.A. Chemical and Pharmaceutical Company *Holding company*	Luxembourg	82,500,000.00	Euro	Line-by-line
BOUCHARA RECORDATI S.A.S. *Development, production, marketing and sales of pharmaceuticals*	France	4,600,000.00	Euro	Line-by-line
RECORDATI PORTUGUESA LDA *Dormant*	Portugal	24,940.00	Euro	Line-by-line
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA *Dormant, holds pharmaceutical marketing rights in Brazil*	Brazil	166.00	BRL	Line-by-line
RECORDATI RARE DISEASES INC. *Development, production, marketing and sales of pharmaceuticals*	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD *Development, production, marketing and sales of pharmaceuticals*	Ireland	200,000.00	Euro	Line-by-line
RECORDATI S.A. *Marketing and sales of pharmaceuticals*	Switzerland	2,000,000.00	CHF	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. *Development, production, marketing and sales of pharmaceuticals*	France	14,000,000.00	Euro	Line-by-line
RECORDATI PHARMA GmbH *Marketing and sales of pharmaceuticals*	Germany	600,000.00	Euro	Line-by-line
RECORDATI PHARMACEUTICALS LTD *Marketing and sales of pharmaceuticals*	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. *Marketing and sales of pharmaceuticals*	Greece	10,050,000.00	Euro	Line-by-line
JABA RECORDATI S.A. *Marketing and sales of pharmaceuticals*	Portugal	2,000,000.00	Euro	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. *Marketing of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. *Marketing of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S. *Holding company*	France	57,000,000.00	Euro	Line-by-line
ORPHAN EUROPE SWITZERLAND GmbH *Marketing and sales of pharmaceuticals*	Switzerland	20,000.00	CHF	Line-by-line
ORPHAN EUROPE MIDDLE EAST FZ LLC *Marketing and sales of pharmaceuticals*	United Arab Emirates	100,000.00	AED	Line-by-line
ORPHAN EUROPE NORDIC A.B. *Marketing and sales of pharmaceuticals*	Sweden	100,000.00	SEK	Line-by-line
ORPHAN EUROPE PORTUGAL LDA *Marketing and sales of pharmaceuticals*	Portugal	5,000.00	Euro	Line-by-line
ORPHAN EUROPE S.A.R.L. *Development, production, marketing and sales of pharmaceuticals*	France	320,000.00	Euro	Line-by-line
ORPHAN EUROPE UNITED KINGDOM LTD *Marketing and sales of pharmaceuticals*	United Kingdom	50,000.00	GBP	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
ORPHAN EUROPE GERMANY GmbH *Marketing and sales of pharmaceuticals*	Germany	25,600.00	Euro	Line-by-line
ORPHAN EUROPE SPAIN S.L. *Marketing and sales of pharmaceuticals*	Spain	1,775,065.49	Euro	Line-by-line
ORPHAN EUROPE ITALY S.R.L. *Marketing and sales of pharmaceuticals*	Italy	40,000.00	Euro	Line-by-line
ORPHAN EUROPE BENELUX BVBA *Marketing and sales of pharmaceuticals*	Belgium	18,600.00	Euro	Line-by-line
FIC MEDICAL S.A.R.L. *Marketing of pharmaceuticals*	France	173,700.00	Euro	Line-by-line
HERBACOS RECORDATI s.r.o. *Development, production, marketing and sales of pharmaceuticals*	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o. *Marketing and sales of pharmaceuticals*	Slovakia	33,193.92	Euro	Line-by-line
RUSFIC LLC *Marketing and sales of pharmaceuticals*	Russian Federation	3,560,000.00	RUB	Line-by-line
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. *Marketing of pharmaceuticals*	Turkey	10,000.00	TRY	Line-by-line
RECORDATI ROMÂNIA S.R.L. *Marketing and sales of pharmaceuticals*	Romania	5,000,000.00	RON	Line-by-line
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. *Development, production, marketing and sales of pharmaceuticals*	Turkey	120,875,367.00	TRY	Line-by-line
RECORDATI POLSKA Sp. z o.o. *Marketing and sales of pharmaceuticals*	Poland	4,500,000.00	PLN	Line-by-line
ACCENT LLC *Holds pharmaceutical marketing rights*	Russian Federation	20,000.00	RUB	Line-by-line
RECORDATI UKRAINE LLC *Marketing of pharmaceuticals*	Ukraine	1,031,896.30	UAH	Line-by-line
CASEN RECORDATI PORTUGAL Unipessoal Lda *Marketing and sales of pharmaceuticals*	Portugal	100,000.00	Euro	Line-by-line
OPALIA PHARMA S.A. *Development, production, marketing and sales of pharmaceuticals*	Tunisia	8,738,000.00	TND	Line-by-line
OPALIA RECORDATI S.A.R.L. *Marketing of pharmaceuticals*	Tunisia	20,000.00	TND	Line-by-line
RECORDATI RARE DISEASES S.A. DE C.V. *Marketing of pharmaceuticals*	Mexico	50,000.00	MXN	Line-by-line
RECORDATI RARE DISEASES COLOMBIA S.A.S.[(1)] *Marketing of pharmaceuticals*	Colombia	150,000,000.00	COP	Line-by-line
ITALCHIMICI S.p.A. [(2)] *Marketing of pharmaceuticals*	Italy	7,646,000.00	EUR	Line-by-line
PRO FARMA AG [(2)] *Marketing of pharmaceuticals*	Switzerland	3,000,000.00	CHF	Line-by-line
PRO FARMA GmbH [(2)] *Marketing of pharmaceuticals*	Austria	35,000.00	EUR	Line-by-line

[(1)] Established in 2015
[(2)] Acquired in 2016

Consolidated companies	PERCENTAGE OF OWNERSHIP											
	Recordati S.p.A. *(Parent)*	Recordati S.A. *(Lux)*	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Casen Recordati S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Pro Farma AG	Total
INNOVA PHARMA S.P.A.	100.00											100.00
CASEN RECORDATI S.L.	68.447	31.553										100.00
RECORDATI S.A. Chemical and Pharmaceutical Company	100.00											100.00
BOUCHARA RECORDATI S.A.S.	99.94	0.06										100.00
RECORDATI PORTUGUESA LDA	98.00	2.00										100.00
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA		99.398					0.602					100.00
RECORDATI RARE DISEASES INC.		100.00										100.00
RECORDATI IRELAND LTD		100.00										100.00
RECORDATI S.A.		100.00										100.00
LABORATOIRES BOUCHARA RECORDATI S.A.S.				100.00								100.00
RECORDATI PHARMA GmbH		55.00			45.00							100.00
RECORDATI PHARMACEUTICALS LTD	3.33	96.67										100.00
RECORDATI HELLAS PHARMACEUTICALS S.A.	0.95	99.05										100.00
JABA RECORDATI S.A.					100.00							100.00
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.					100.00							100.00
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.					100.00							100.00
RECORDATI ORPHAN DRUGS S.A.S.		90.00	10.00									100.00
ORPHAN EUROPE SWITZERLAND GmbH						100.00						100.00
ORPHAN EUROPE MIDDLE EAST FZ LLC						100.00						100.00
ORPHAN EUROPE NORDIC A.B.						100.00						100.00
ORPHAN EUROPE PORTUGAL LDA						100.00						100.00
ORPHAN EUROPE S.A.R.L.						100.00						100.00
ORPHAN EUROPE UNITED KINGDOM LTD							100.00					100.00
ORPHAN EUROPE GERMANY GmbH							100.00					100.00
ORPHAN EUROPE SPAIN S.L.							100.00					100.00
ORPHAN EUROPE ITALY S.R.L.							99.00					99.00

Consolidated companies	PERCENTAGE OF OWNERSHIP											
	Recordati S.p.A. *(Parent)*	Recordati S.A. *(Lux)*	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Casen Recordati S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Pro Farma AG	Total
ORPHAN EUROPE BENELUX BVBA						99.46	0.54					100.00
FIC MEDICAL S.A.R.L.				100.00								100.00
HERBACOS RECORDATI s.r.o.	0.08	99.92										100.00
RECORDATI SK s.r.o.								100.00				100.00
RUSFIC LLC				100.00								100.00
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş.									100.00			100.00
RECORDATI ROMÂNIA S.R.L.		100.00										100.00
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş.					100.00							100.00
RECORDATI POLSKA Sp. z o.o	100.00											100.00
ACCENT LLC		100.00										100.00
RECORDATI UKRAINE LLC		0.01		99.99								100.00
CASEN RECORDATI PORTUGAL Unipessoal Lda					100.00							100.00
OPALIA PHARMA S.A.		90.00										90.00
OPALIA RECORDATI S.A.R.L.				1.00						99.00		100.00
RECORDATI RARE DISEASES S.A. DE C.V.		99.998					0.002					100.00
RECORDATI RARE DISEASES COLOMBIA S.A.S. [1]					100.00							100.00
ITALCHIMICI S.p.A. [2]	100.00											100.00
PRO FARMA AG [2]	100.00											100.00
PRO FARMA GmbH [2]											100.00	100.00

[1] Established in 2015
[2] Acquired in 2016

ATTACHMENT 2.

Type of service	Provider of the service	Recipient	Fees Amounts in €
Accounting audit	Auditor of Parent Company	Parent Company	103,800
Accounting audit	Auditor of Parent Company	Subsidiaries	29,000
Accounting audit	Network of auditor of Parent Company	Subsidiaries	507,166
Due diligence	Auditor of Parent Company	Parent Company	76,000
Due diligence	Network of auditor of Parent Company	Parent Company	139,319
Tax compliance	Network of auditor of Parent Company	Subsidiaries	87,305
Signature on returns and attestations	Auditor of Parent Company	Parent Company	26,000
Signature on returns and attestations	Network of auditor of Parent Company	Subsidiaries	41,108
Other services	Network of auditor of Parent Company	Subsidiaries	907

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

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

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

- the adequacy with respect to the Company structure,
- and the effective application,

of the administrative and accounting procedures applied in the preparation of the Company's consolidated financial statements at and for the year ended 31 December 2016.

2. The undersigned moreover attest that:

2.1. the consolidated financial statements at 31 December 2016:

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

2.2. The report on operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

Milan, 1 March 2017

Signed by
Andrea Recordati
Vice Chairman and Chief Executive Officer

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