

**PROPOSED ANNUAL REPORT  
AS AT AND FOR THE YEAR ENDED 31<sup>ST</sup>  
DECEMBER 2016**

## Review of operations

To Our Shareholders,

The Annual Report of the Parent Company for the year ended 31<sup>st</sup> December 2016, which we submit to you for your approval, reports net income of € 110,102,226.

The review of operations in the consolidated annual report attached to this report may be consulted for information on operations and growth strategies.

In order to facilitate comprehension a reclassified income statement is given below showing revenue (1) and expense by function:

€ (thousands)	2016	% of revenue	2015	% of revenue	Change 2016/2015	%
<b>Net revenue (1)</b>	<b>321,535</b>	<b>100.0</b>	<b>297,443</b>	<b>100.0</b>	<b>24,092</b>	<b>8.1</b>
Cost of sales	(138,757)	(43.2)	(137,854)	(46.4)	(903)	0.7
<b>Gross profit</b>	<b>182,778</b>	<b>56.8</b>	<b>159,589</b>	<b>53.6</b>	<b>23,189</b>	<b>14.5</b>
Selling expenses	(52,174)	(16.2)	(55,484)	(18.6)	3,310	(0.6)
R&D expenses	(24,645)	(7.7)	(22,519)	(7.6)	(2,126)	9.4
G&A expenses	(28,403)	(8.8)	(26,034)	(8.8)	(2,369)	9.1
Other income (expense), net	(2,960)	(0.9)	(3,108)	(1.0)	148	(4.8)
<b>Operating income</b>	<b>74,596</b>	<b>23.2</b>	<b>52,444</b>	<b>17.6</b>	<b>22,152</b>	<b>42.2</b>
Financial income (expense), net	(4,670)	(1.5)	(6,430)	(2.2)	1,760	(27.4)
Revaluation of investments	10,643	3.3	6,872	2.3	3,771	54.9
Dividends	53,021	16.5	90,018	30.3	(36,997)	(41.1)
<b>Pre-tax income</b>	<b>133,590</b>	<b>41.5</b>	<b>142,904</b>	<b>48.0</b>	<b>(9,314)</b>	<b>(6.5)</b>
Provision for income taxes	(23,488)	(7.3)	(17,388)	(5.8)	(6,100)	35.1
<b>Net income</b>	<b>110,102</b>	<b>34.2</b>	<b>125,516</b>	<b>42.2</b>	<b>(15,414)</b>	<b>12.3</b>

(1) The net revenue reported in the reclassified income statement includes research and industrial grants amounting to € 761 thousand, rents received amounting to € 55 thousand and other revenue of € 13 thousand, which in the statutory balance sheet are classified under Note 4 as Other revenue and income.

Net revenues were up 8.1% on the same period in the previous year due in particular to greater sales abroad.

Good growth was recorded in Italy in sales of the following prescription products: Urorec® (silodosin), a specialty indicated for the treatment of the symptoms of benign prostatic hypertrophy (BPH); Zanipril® (lercanidipine+enalapril), a pharmaceutical specialty developed by Recordati indicated for the treatment of hypertension; Cardicor® (bisoprolol), a drug belonging to the beta blocker class indicated for the treatment of chronic cardiac insufficiency.

Sales of pharmaceutical chemicals, consisting of the active ingredients produced at the Campoverde di Aprilia plant, amounting to € 40,164 thousand, were up 11.4% compared with 2015.

The reduction in selling expenses compared with the previous year is due in particular to a provision made in 2015 to cover the risk of reductions in National Health Service spending, which was partially offset by the

greater costs resulting from the impact, on an annual basis, of the negotiating procedure concluded with AIFA (Italian Medicines Agency) on 29<sup>th</sup> September 2015 with effect from the last quarter of 2015.

Total R&D costs totalled € 24,645 thousand accounting for 7.7% of net revenue.

General and administrative expenses were up on 2015 due to the expansion of central management units needed for the integration, monitoring and co-ordination of foreign subsidiaries as the Group implemented its international growth strategy.

Operating income of € 74,596 thousand was up 42.2% on the year before amounting to 23.2% of net revenues.

Net financial expenses came to € 4,670 thousand, down 27.4% on 2015 partly due above all to the net negative impact of foreign exchange differences compared with the previous year.

Net income of € 110,102 thousand was down € 15,414 thousand compared with the previous year, due in particular to lower income from investments, notwithstanding the significant increase in operating income.

A brief summary is given below of the net financial position, while further details are given in item 43 of the notes to the financial statements.

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Cash and cash equivalents and current receivables	206,672	180,701	25,971
Short-term borrowings	(360,213)	(214,700)	(145,513)
<b>Net current financial position</b>	<b>(153,541)</b>	<b>(33,999)</b>	<b>(119,542)</b>
Loans and receivables due after one year	16,396	22,357	(5,961)
Borrowings – due after one year <sup>(1)</sup>	(264,214)	(181,999)	(82,215)
<b>Net financial position</b>	<b>(401,359)</b>	<b>(193,641)</b>	<b>(207,718)</b>

<sup>(1)</sup> Including the recognition at fair value of derivative instruments to hedge foreign exchange rate risk (cash flow hedges).

Dividends were distributed during the year totalling € 133.7 million, including € 61.5 million for the balance on the 2015 dividend and € 72.2 million as an interim dividend relating to 2016 and the Italian company Italchimici S.p.A. was acquired for a payment of € 106.3 million and the Swiss company Pro Farma AG for a payment of € 14.5 million.

## OTHER INFORMATION

Treasury stock consisting of 2,712,500 shares was sold during the year for € 22,718 thousand, following the exercise of stock option rights by Group employees under the 2010-2013 and 2014-2018 stock option plans. A total of 2,918,404 shares were purchased for a total price of € 71,605 thousand. The Company held treasury stock consisting of 3,891,262 shares as at 31<sup>st</sup> December 2016 accounting for 1.86% of the share capital.

The section “Principal risks and uncertainties” in the review of operations in the consolidated annual report attached to this report may be consulted for an analysis and description of the principal risks and uncertainties to which the Company is exposed pursuant to paragraphs 1 and 2 of article 2428 of the Italian Civil Code.

The information required under paragraph three, point 6-*bis* of Art. 2428 of the Italian Civil Code concerning the Company’s objectives and policies in respect of financial risk management is fully reported in the notes to the financial statements.

In compliance with the requirements contained in Art. 4, paragraph 7 of the Regulation on related-party transactions adopted with Consob Resolution 17221 of 12<sup>th</sup> March 2010 and subsequent amendments, the Company reports that it has adopted “Regulations for related-party transactions”, the full text of which is available on the Company website at [www.recordati.it](http://www.recordati.it) (in the “Corporate Governance” section).

The Company has a secondary headquarters at 4 Via Mediana Cisterna, Campoverde di Aprilia (Latina).

Shares held by directors, statutory auditors, general managers and other key management personnel are reported in the Remuneration Report published in accordance with Art. 123-*ter* of the Consolidated Finance Act.

In compliance with Art. 37, paragraph two of the Markets Regulations adopted with Consob deliberation No. 16191 of 29<sup>th</sup> October 2007 as subsequently amended, we report that, although Recordati S.p.A. is controlled by Fimeì S.p.A., it is not subject to management and co-ordination by that company within the meaning of articles 2497 *et seq* of the Italian Civil Code. This is because Fimeì S.p.A. is a mere financial holding company with no operations of any kind and it does not exert any influence or conduct any activities which might affect the management decisions and organisation of Recordati S.p.A.

The Corporate Governance Report pursuant to article 123 *bis* of Legislative Decree 58/98, which contains information pursuant to article 89 *bis* of the Issuers’ Regulations, may be consulted on the Company website at [www.recordati.it](http://www.recordati.it), in the section “Corporate Governance”.

#### RELATED-PARTY TRANSACTIONS

As at 31<sup>st</sup> December 2016, intercompany accounts with Group companies and the parent company Fimeì S.p.A. consisted of payables of € 397,392 thousand and receivables of € 155,664 thousand. The most significant items are as follows:

- receivables of € 44,956 thousand for loans granted to Group companies;
- payables of € 85,590 thousand for loans received from Group companies;
- trade receivables of € 19,564 thousand from subsidiaries;
- trade payables to subsidiaries of € 8,083 thousand;
- receivables from subsidiaries for the management of the centralised cash pooling treasury system amounting to € 91,125 thousand;
- payables to subsidiaries for the management of the centralised cash pooling treasury system and for accounts held for them amounting to € 302,434 thousand.

Sales and services to Group companies in 2016 came to € 117,085 thousand.

Dividends were received during the year as follows: € 53,000 thousand from Recordati S.A. Chemical & Pharmaceutical Company, € 20 thousand from Recordati Pharmaceutical Ltd and € 1 thousand from Herbacos Recordati s.r.o.

Tax payables include those to the parent company Fimeì S.p.A. amounting to € 1,285 thousand, which relate to the following:

- receivables for tax refunds requested relating to an application for an IRES (corporate income tax) tax refund because it had not made an expense based deduction from IRAP (regional tax on production) relating to personnel expense for employees for the years 2007 until 2011 in accordance with Art. 2, paragraph 1-*quater* of Decree Law 201 of 2011;
- tax liabilities for current taxation relating to taxes for the year calculated on the basis of estimated taxable income. That liability was transferred by the Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.

The following summary is set out in the table below in compliance with Consob deliberation No. 15519 of 27<sup>th</sup> July 2006:

<b>Percentage of transactions with related parties</b> € (thousands)	<b>Total</b>	<b>Related parties</b> Amount	<b>%</b>
<b>Percentage of transactions or positions in the balance sheet with related parties</b>			
Trade receivables and other	63,657	19,583	30.76
Long-term financial assets	16,396	16,225	98.96
Short-term financial assets	119,856	119,856	100
Trade payables and other	68,479	9,368	13.68
Long-term financial liabilities	276,712	66,407	24.00
Short-term financial liabilities	358,435	321,617	89.73
<b>Percentage of transactions or positions in the income statement with related parties</b>			
Revenue	323,113	117,153	36.26
Income from investments	53,021	53,021	100
Costs of purchases and service provision	159,593	20,444	12.81
Financial income/(expense), net	(4,670)	(1,009)	21.61

Transactions and positions with related parties as a percentage of cash flows is basically the same as that for the income statement items because the transactions are conducted under normal market conditions.

#### SIGNIFICANT TRANSACTIONS, EXCEPTION TO DISCLOSURE OBLIGATIONS

The Company decided to take advantage, with effect from 20<sup>th</sup> December 2012, of the right not to comply with obligations to publish the reports required when significant extraordinary operations are performed consisting of mergers, demergers, share capital increases through contributions in kind, acquisitions and disposals, in accordance with Art. 70, paragraph 8 and with Art. 71, paragraph 1-*bis* of the Issuers' Regulations issued by Consob with Resolution No. 11971/1999 and subsequent amendments.

#### SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

The implementation of company policies, operations at the beginning of the current year, the potential of our products, the financial strength of the Company and the managerial capacities of our personnel lead us to forecast a positive result again in 2017, despite the general economic trends and the impact of the measures to contain spending on pharmaceuticals.

Milan, 1<sup>st</sup> March 2017

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

RECORDATI S.p.A.

INCOME STATEMENTS FOR THE YEARS ENDED  
31<sup>ST</sup> DECEMBER 2016 AND 31<sup>ST</sup> DECEMBER 2015

## Income statement

Amounts in euro	Notes	2016	2015
<b>Revenue</b>	3	<b>320,706,360</b>	<b>297,438,073</b>
Other income:	4	2,406,223	2,071,879
<b>Total income</b>		<b>323,112,583</b>	<b>299,509,952</b>
Raw materials costs	5	(92,531,130)	(97,503,869)
Personnel costs	6	(80,893,025)	(76,024,025)
Amortization	7	(9,426,053)	(9,116,144)
Other operating expenses	8	(67,061,983)	(68,261,145)
Changes in inventories	9	1,395,412	3,839,021
<b>Operating income</b>		<b>74,595,804</b>	<b>52,443,790</b>
Revaluations of investments	10	10,779,000	6,871,975
Impairment of investments	11	(135,908)	0
Income from investments	12	53,021,231	90,018,101
Financial income (expense), net	13	(4,669,901)	(6,430,321)
<b>Pre-tax income</b>		<b>133,590,226</b>	<b>142,903,545</b>
Taxes	14	(23,488,000)	(17,388,000)
<b>Net income for the year</b>		<b>110,102,226</b>	<b>125,515,545</b>

### Earnings per share (in euro)

Basic	0.534	0.611
Diluted	0.526	0.600

Basic earnings per share is calculated on average shares outstanding in the relative periods, consisting of 206,117,418 shares in 2016 and 205,270,094 in 2015. The figures are calculated net of average treasury stock held, 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 employees.

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BALANCE SHEETS as at 31ST DECEMBER 2016 and AS at 31ST DECEMBER 2015

## Assets

Amounts in euro	Notes	31 <sup>st</sup> December 2016	31 <sup>st</sup> December 2015
<b>Non-current assets</b>			
Property, plant and equipment	15	44,850,587	43,519,565
Intangible assets	16	25,516,643	27,047,560
Investments	17	621,143,621	487,769,166
Loans and receivables	18	16,396,325	22,430,839
Deferred tax assets	19	3,721,972	3,688,917
<b>Total non-current assets</b>		<b>711,629,148</b>	<b>584,456,047</b>
<b>Current assets</b>			
Inventories	20	54,944,368	53,548,956
Trade receivables	21	53,100,706	57,913,091
Other receivables	22	10,556,382	6,351,221
Other current assets	23	539,034	617,315
Fair value of hedging derivatives (cash flow hedges)	24	12,497,477	12,670,971
Other short-term receivables	25	119,856,750	46,986,497
Short-term financial investments, cash and cash equivalents	26	86,814,873	133,714,593
<b>Total current assets</b>		<b>338,309,590</b>	<b>311,802,644</b>
<b>Total assets</b>		<b>1,049,938,738</b>	<b>896,258,691</b>

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BALANCE SHEETS as at 31<sup>ST</sup> DECEMBER 2016 and as at 31<sup>ST</sup> DECEMBER 2015

## Equity and Liabilities

Amounts in euro	Notes	31 <sup>st</sup> December 2016	31 <sup>st</sup> December 2015
<b>Equity</b>			
Share capital	27	26,140,645	26,140,645
Additional paid-in capital	27	83,718,523	83,718,523
Treasury stock	27	(76,761,059)	(35,060,604)
Statutory reserve	27	5,228,129	5,228,129
Other reserves	27	237,931,918	243,032,301
Revaluation reserve	27	2,602,229	2,602,229
Interim dividend	27	(72,245,319)	(61,605,690)
Net income for the year	27	110,102,226	125,515,545
<b>Total shareholders' equity</b>		<b>316,717,292</b>	<b>389,571,078</b>
<b>Non-current liabilities</b>			
Loans	28	276,711,756	194,669,847
Personnel leaving indemnities	29	11,236,914	11,172,370
<b>Total non-current liabilities</b>		<b>287,948,670</b>	<b>205,842,217</b>
<b>Current liabilities</b>			
Trade payables	30	44,515,223	39,949,120
Other current payables	31	19,567,259	20,676,799
Tax liabilities	32	4,396,667	6,907,571
Other current liabilities	33	788	6,997
Provisions	34	12,958,448	14,315,189
Fair value of hedging derivatives (cash flow hedges)	35	3,621,403	4,289,865
Loans – due within one year	36	36,818,182	33,068,182
Bank overdrafts and short-term loans	37	1,777,678	1,758,054
Other short-term borrowings	38	321,617,128	179,873,619
<b>Total current liabilities</b>		<b>445,272,776</b>	<b>300,845,396</b>
<b>Total equity and liabilities</b>		<b>1,049,938,738</b>	<b>896,258,691</b>



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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31<sup>ST</sup> DECEMBER 2016 AND 31<sup>ST</sup> DECEMBER 2015

€ (thousands)	2016	2015
<b>Net income for the year</b>	<b>110,102</b>	<b>125,515</b>
Gains/(losses) on cash flow hedges	(4,130)	(2,607)
Valuation of the personnel leaving indemnity fund pursuant to IAS	(200)	161
19		
<b>Income (expense) for the year recognized directly in equity</b>	<b>(4,330)</b>	<b>(2,446)</b>
<b>Comprehensive income for the year</b>	<b>105,772</b>	<b>123,069</b>

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Statutory reserve	Other reserves	Other reserves Fair value hedging instruments	Other reserves IAS compliance	Revaluat. reserves	Interim dividend	Net (loss)/ income for the year	Total
<b>Balance as at 31<sup>st</sup> December 2014</b>	<b>26,141</b>	<b>83,718</b>	<b>(30,727)</b>	<b>5,228</b>	<b>162,557</b>	<b>(682)</b>	<b>92,251</b>	<b>2,602</b>	<b>(53,080)</b>	<b>88,926</b>	<b>376,934</b>
Allocation of 2014 net income as per shareholders' resolution of 15.4.2015:											
dividends to shareholders					(13,318)				53,080	(88,926)	(49,164)
Purchase of treasury stock			(17,730)								(17,730)
Sales of treasury stock			13,396		(1,645)						11,751
Dividends expired					5						5
Interim dividends									(61,605)		(61,605)
Comprehensive income for the year						(2,607)	161			125,515	123,069
IAS compliance as at 31 <sup>st</sup> December 2015 – Stock options								6,311			6,311
<b>Balance as at 31<sup>st</sup> December 2015</b>	<b>26,141</b>	<b>83,718</b>	<b>(35,061)</b>	<b>5,228</b>	<b>147,599</b>	<b>(3,289)</b>	<b>98,723</b>	<b>2,602</b>	<b>(61,605)</b>	<b>125,515</b>	<b>389,571</b>
Allocation of 2015 net income as per shareholders' resolution of 13.4.2016:											
to reserves					2,425					(2,425)	0
dividends to shareholders									61,605	(123,090)	(61,485)
Purchase of treasury stock			(71,605)								(71,605)
Sales of treasury stock			29,905		(7,187)						22,718
Dividends expired					5						5
Interim dividends									(72,245)		(72,245)
Comprehensive income for the year						(4,130)	(200)			110,102	105,772
IAS compliance at 31 <sup>st</sup> December 2016 – Stock options								3,986			3,986
<b>Balance as at 31<sup>st</sup> December 2016</b>	<b>26,141</b>	<b>83,718</b>	<b>(76,761)</b>	<b>5,228</b>	<b>142,842</b>	<b>(7,419)</b>	<b>102,509</b>	<b>2,602</b>	<b>(72,245)</b>	<b>110,102</b>	<b>316,717</b>

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CASH FLOW STATEMENT FOR THE YEARS ENDED 31ST DECEMBER 2016 AND 31ST DECEMBER 2015

€ (thousands)	2016	2015
<b>Operating activities</b>		
Net income for the year	110,102	125,515
Income from investments	(53,021)	(90,018)
Depreciation of property, plant and equipment	6,339	6,034
Amortization of intangible assets	3,087	3,082
Write-up/write-down of investments	(10,643)	(6,872)
(Increase)/decrease in deferred tax liabilities	950	(1,502)
Increase/(decrease) in personnel leaving indemnities	65	(952)
Other provisions	(1,357)	4,812
Increase/(decrease) in other non-current liabilities	0	(585)
Dividends received	53,021	90,018
Trade receivables	4,812	(2,084)
Other receivables and other current assets	(4,127)	732
Inventories	(1,395)	(3,839)
Trade payables	4,566	203
Other payables and other current liabilities	(1,115)	1,217
Tax liabilities	(2,511)	4,309
<b>Net cash from operating activities</b>	<b>108,773</b>	<b>130,070</b>
<b>Investing activities</b>		
Net (investments)/disposals in property, plant and equipment	(7,670)	(7,270)
Net (investments)/disposals in intangible assets	(1,556)	(922)
Net (increase)/decrease in equity investments	(120,790)	186
Net (increase)/decrease in other non-current assets	6,035	23,953
<b>Net cash used in investing activities</b>	<b>(123,981)</b>	<b>15,947</b>
<b>Financing activities</b>		
Loans – due after one year	113,292	49,971
Dividends distributed	(133,730)	(110,770)
(Purchase)/sale of treasury stock	(48,887)	(5,979)
Effect on shareholders' equity of application of IAS/IFRS	1,493	1,686
Repayment of loans	(32,752)	(65,672)
<b>Net cash from/(used in) financing activities</b>	<b>(100,584)</b>	<b>(130,764)</b>
<b>Change in short-term financial position</b>	<b>(115,792)</b>	<b>15,253</b>
Short-term financial position at beginning of year *	(931)	(16,184)
Short-term financial position at end-of-year *	(116,723)	(931)

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

## RECORDATI S.p.A.

# NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>st</sup> December 2016

### 1. GENERAL

The separate annual financial statements comprise the income statement, the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and these notes to the financial statements. In compliance with Legislative Decree No. 38 of 28<sup>th</sup> February 2005, – in implementation of the options provided for by Art. 5 of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19<sup>th</sup> July 2002 concerning International Accounting Standards – the separate company financial statements have been prepared applying the international accounting standards (IAS/IFRS) issued or revised by the International Accounting Standards Board and homologated by the European Union and also the regulations issued in implementation of Art. 9 of Legislative Decree No. 38/2005. The "IAS/IFRS" are intended as including all the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"), previously named the Standing Interpretations Committee ("SIC").

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on a historical cost basis, except for hedging derivatives (and the relative underlying hedged financial liability) for which their fair value has been applied and except for defined benefit plans for which the actuarial valuation was performed as prescribed by IAS 19.

The principal accounting policies adopted are set out below.

#### Balance sheet

*Property, plant and equipment* - Property, plant and equipment is stated at historical cost less accumulated depreciation and any recognised impairment loss. Subsequent costs are only capitalized when it is probable that the future economic benefits will flow to the Company. The costs for ordinary maintenance and repairs are recognized through profit and loss at the time at which they are incurred.

The carrying amount of property, plant and equipment is subject to impairment testing to measure any loss in value 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:

Industrial buildings	2.5% - 5.5%
Plant & machinery	10% - 17.5%
Other equipment	12% - 40%

The depreciation of an asset begins when it is installed and is ready for use or, in the case of self-constructed assets, when the assets have been completed and are ready for use.

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 it is recognized through profit or loss for the period.

*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 from the year of the first sale of the relative products. Amortization of distribution and license rights is generally calculated over the duration of the contract.

*Impairment* - At each balance sheet date, the Company 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the greater of net selling price and value in use. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of the 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 (or 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 (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not 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.

*Investments in subsidiaries* – Investments in subsidiaries are recognized at cost of acquisition adjusted for impairment.

Positive differences arising at the time of purchase between the acquisition cost and the quota of the equity at present values held in the subsidiary attributable to the Company are therefore included in the carrying amount of the investment.

Investments in subsidiaries are subject to impairment testing annually or more frequently if necessary in order to test for possible loss of value. Where evidence exists that the value of these investments has been impaired, this is recognized through profit or loss as an impairment loss. Where an impairment loss subsequently reverses or reduces, this is recognized in the income statement as a reversal of impairment within the limits of the cost of acquisition.

According to IFRS 2, stock option plans for the employees of subsidiaries constitute an increase in the value of the relative investments. That increase in value consists of the fair value of the options on the grant date and it is recognised as an increase in the investments at constant rates over the period between the grant and the vesting date, with the balancing entry recognized directly in equity.

*Receivables (included in non-current assets)* - Receivables are stated at their nominal value and reduced for impairment losses.

*Inventories* - Inventories are stated at the lower of cost or market value, 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 and supplies are valued at their average weighted 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 measured at their average weighted manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production, exclusive of general expenses.

Inventories are written-down if the 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.

*Equity* - Equity instruments issued by the Company are recorded at the amount of the proceeds received. The 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 amortized cost method as prescribed by IAS 39. The amortized cost is the amount of the liability on initial recognition net of capital repayments and transaction costs amortized using the effective interest rate method. If the loans are hedged 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.

*Personnel leaving indemnities* - Employee benefits presented in the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liabilities recognized in the balance sheet for post-employment benefit plans represent the present value of the defined benefit obligation, as adjusted for unrecognized 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. All actuarial gains and losses are recognized directly in the schedule of gains and losses stated in equity. Until 31<sup>st</sup> December 2006 the staff leaving indemnities of Italian companies were considered defined benefit plans. The regulations governing those indemnities were amended by Law 296 of 27<sup>th</sup> December 2006 (2007 Finance Act) and subsequent amendments made in early 2007. In view of those changes and for companies with at least 50 employees in particular, those indemnities are only to be treated as defined benefit plans for the amounts that matured prior to 1<sup>st</sup> January 2007 (and not yet paid at the balance sheet date), while subsequent to that date they are treated as a defined contribution plan.

*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 Company 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 derivative instrument qualifying as a "fair value hedge" is recognized immediately through 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 through 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 directly in equity.

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 through 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 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 translated on the balance sheet date.

## Income statement

The expenses are presented in the income statement "by nature". The choice of this method of presentation is based on the nature of the Company as both a holding and an operating company. The objective is to both optimise and simplify general accounting practices and all the relative compliance activity required by Italian tax regulations.

*Revenues* - Revenues are recognized when it is probable that the economic benefits associated with a transaction will flow to the Company 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.

*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 also prescribes that development costs must be capitalized if technical and commercial feasibility of the asset for development or sale have been established. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines for capitalization under IAS 38 are not met so that development costs are expensed as incurred during the year.

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. Non-reimbursable government grants, including those for research, are booked to the income statement on an accrual basis within the item "other revenue".

*Share based payment transactions* – According to IFRS 2, stock option plans for employees constitute a part of the remuneration of the beneficiaries, the cost of which is given by the fair value of the options on the grant date. It is recognized through profit and loss at constant rates over the period between the grant and the vesting date, with the balancing entry recognized directly in equity.

*Financial items* – These 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 through profit or loss, 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 Company intends to settle its current tax assets and liabilities on a net basis.

*Earnings per share* - Earnings per share is the net income 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 average weighted number of outstanding shares for the effects of all the potential dilutive ordinary shares.

### 3. REVENUE

In 2016 these came to € 320,706 thousand (€ 297,438 thousand in 2015), details of which are as follows:

€ (thousands)	2016	2015	Change 2016/2015
Net sales	314,270	291,203	23,067
Royalties and up-front payments	889	1,922	(1,033)
Revenue from services	5,547	4,313	1,234
<b>Total revenue</b>	<b>320,706</b>	<b>297,438</b>	<b>23,268</b>

Net sales revenue is as follows:

€ (thousands)	2016		2015	
	Italy	Abroad	Italy	Abroad
Pharmaceuticals	183,561	90,357	181,229	73,319
Pharmaceutical chemicals	2,708	37,144	2,420	33,187
Other	325	175	689	359
<b>Total revenue for net sales</b>	<b>186,594</b>	<b>127,676</b>	<b>184,338</b>	<b>106,865</b>

Revenue from pharmaceuticals in Italy was € 183.561 thousand, slightly up on the same period a year before. Prescription pharmaceuticals saw growth in sales of Urorec®, Zanipril® and Cardicor®. The review of operations may be consulted for further information on products.

Sales abroad in the pharmaceutical sector were up 23.2% on the year before due in particular to greater sales of lercanidipine, carglumic acid and tribenoside. Sales abroad in the chemical sector increased by 11.9% compared with the year before, due in particular to sales of verapamil and benidipine.

Net sales revenues included € 111,238 thousand (€ 97,254 thousand in 2015) for sales of products to subsidiaries:

€ (thousands)	2016	2015	Change 2016/2015
Recordati Ireland Ltd.	80,513	65,262	15,251
Innova Pharma S.p.A.	20,873	23,969	(3,096)
Laboratoires Bouchara Recordati S.a.s.	144	111	33
Casen Recordati S.L.	104	89	15
Jaba Recordati S.A.	2,615	3,249	(634)
Recordati Pharma GmbH	2,901	3,083	(182)
Recordati Ilac	497	503	(6)
Orphan Europe S.a.r.l.	2,959	812	2,147
Opalia Pharma S.A.	34	24	10
Recordati Hellas Pharmaceuticals S.A.	580	101	479
Herbacos Recordati s.r.o.	18	51	(33)
<b>Total</b>	<b>111,238</b>	<b>97,254</b>	<b>13,984</b>



All commercial transactions with subsidiaries took place under normal market conditions.

Revenues for royalties, up-front payments and services are composed as follows:

€ (thousands)	2016	2015	Change 2016/2015
Services and royalties to subsidiaries:			
Orphan Europe Italy S.r.l.	40	40	0
Innova Pharma S.p.A.	925	820	105
Recordati Ireland Ltd.	1,099	1,020	79
Laboratoires Bouchara Recordati S.a.s.	667	629	38
Recordati Pharma GmbH	226	193	33
Casen Recordati S.L.	267	218	49
Jaba Recordati S.A.	304	289	15
Recordati Ilaç	292	239	53
Recordati Hellas Pharmaceuticals S.A.	55	47	8
Herbacos Recordati sro	16	12	4
Recordati Romania S.r.l.	4	3	1
Orphan Europe Sarl	564	435	129
Recordati Rare Diseases Inc.	713	613	100
Rusfic LLC	26	21	5
Recordati Polska Sp zoo	14	7	7
Italchimici S.p.A.	635	0	635
<b>Total services and royalties to subsidiaries</b>	<b>5,847</b>	<b>4,586</b>	<b>1,261</b>
Services and royalties to third parties			
Royalties and up-front payments	589	1,649	(1,060)
<b>Total services and royalties to third parties</b>	<b>589</b>	<b>1,649</b>	<b>(1,060)</b>
<b>Total revenue from services and royalties</b>	<b>6,436</b>	<b>6,235</b>	<b>201</b>

The revenue from services to subsidiaries related principally to the “Group Service Agreement” for services performed on behalf of subsidiaries during the year.

Proceeds from Laboratoires Bouchara Recordati S.a.s. include royalties amounting to € 300 thousand. Services and royalties to third parties, which amounted to € 589 thousand, related in particular to contractual charges made to partners for commissions and royalties on sales of Entact®.

#### 4. OTHER REVENUE AND INCOME

Other revenue and income came to € 2,406 thousand in 2016, compared with € 2,072 thousand in 2015. It includes employees charges for the use of hired cars, other indemnities, non-recurring income, exceptional receivables and gains on the sale of non-current assets.

There were also the charges passed onto licensees for the “1.83% discount” and the “5% pay back” due on request from AIFA (Italian Medicines Agency) from the holder of the AIC (marketing authorisation).

A research grant of € 755 thousand was received in December from the Ministry of Education, Universities and Research in relation to the project DM 28917 GPS.

The item also included € 6 thousand for government grants for plant, € 55 thousand for income from property investments and € 13 thousand for charging for services provided to the subsidiary Fimei S.p.A..

Details of grants received for investments recognised in the income statement are given below for the last five years.

€ (thousands)	
2012	16
2013	15
2014	14
2015	12
2016	6
<b>Total</b>	<b>63</b>

Income from property investments includes the rent of properties to the subsidiary Fimei S.p.A. amounting to € 8 thousand, the rent of premises at the Milan site to Innova Pharma S.p.A. amounting to € 12 thousand and the rent of part of the offices in via Marostica in Milan to Orphan Europe Italy S.r.l. for € 35 thousand.

## 5. RAW MATERIALS COSTS

These are composed as follows:

€ (thousands)	2016	2015	Change 2016/2015
Raw materials:			
from licensing-in agreements	37,248	43,423	(6,175)
from other	41,130	40,561	569
	<b>78,378</b>	<b>83,984</b>	<b>(5,606)</b>
Goods for resale	1,280	296	984
Packaging materials	7,215	7,123	92
Others and consumables	5,658	6,101	(443)
<b>Total</b>	<b>92,531</b>	<b>97,504</b>	<b>(4,973)</b>

The change in purchases of raw materials, goods and other materials correlates with the changes in the sales mix for each product.

Purchases of raw materials from others includes € 8,980 thousand for purchases from Recordati Ireland Ltd, € 5,477 thousand of purchases from Innova Pharma S.p.A. and € 2,715 thousand of purchases from Casen Recordati S.L.

## 6. PERSONNEL COSTS

Personnel costs were composed as follows:

€ (thousands)	2016	2015	Change 2016/2015
Wages and salaries	54,864	53,164	1,700
Social security costs	17,075	17,275	(200)
Salary resulting from stock option plans	2,044	1,521	523
Other costs	6,910	4,064	2,846
<b>Total personnel costs</b>	<b>80,893</b>	<b>76,024</b>	<b>4,869</b>

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

Other costs include the portions of the leaving indemnity charges for the year destined to pension funds in accordance with the legislation introduced by Law 296 of 27<sup>th</sup> December 2006.

Average labour force figures for the Company are as follows:

	2016	2015	Change 2016/2015
Executives	64	63	1
Office workers	565	568	(3)
Manual workers	355	342	13
<b>Total</b>	<b>984</b>	<b>973</b>	<b>11</b>

## 7. DEPRECIATION AND AMORTIZATION

This is composed as follows:

Amortization of intangible assets

€ (thousands)	2016	2015	Change 2016/2015
Patent rights and marketing authorizations	417	435	(18)
Distribution, license, trademark and similar rights	2,670	2,647	23
<b>Total</b>	<b>3,087</b>	<b>3,082</b>	<b>5</b>

## Depreciation of property, plant and equipment

€ (thousands)	2016	2015	Change 2016/2015
Industrial buildings	1,106	1,153	(47)
Light constructions	0	1	(1)
General plant	493	483	10
Accelerated depreciation machinery	2,326	2,279	47
Normal depreciation machinery	1,050	849	201
Miscellaneous laboratory equipment	757	646	111
Office furnishings and machines	41	40	1
Electronic equipment	542	559	(17)
Vehicles for internal transport	24	24	0
<b>Total</b>	<b>6,339</b>	<b>6,034</b>	<b>305</b>

## 8. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

€ (thousands)	2016	2015	Change 2016/2015
Pay back and discount of 1.83%	7,046	9,659	(2,613)
Meetings and scientific publications, market surveys and expenses for medical and scientific communications and advertising	11,349	11,211	138
Clinical and pharmacological trials and professional advice	3,250	2,966	284
Sales commissions to agents and depositories	5,080	4,966	114
Transport and storage	2,292	2,426	(134)
Utilities and similar (motor fuel, gas, water, etc.)	5,054	5,384	(330)
Destruction of industrial waste and cleaning	1,876	1,899	(23)
Innova co-promotion service	2,619	2,826	(207)
Maintenance	3,825	3,132	693
Insurance premiums	681	651	30
Directors' fees	664	693	(29)
Statutory auditors' fees	126	126	0
Sundry personnel costs	3,059	3,402	(343)
Legal, judiciary and notary expenses	319	218	101
Sundry services	3,569	4,004	(435)
Postal and telecommunications expenses	353	454	(101)
External processing	6,432	5,865	567
Royalties payable	66	64	2
Rents payable	341	330	11
Car hire expenses	2,416	2,407	9
Membership fees	313	318	(5)
Prior year expenses	5	18	(13)
Sundry taxation	1,659	1,525	134
Provisions for agent customer indemnities	96	1,438	(1,342)
Acquisition costs	2,272	0	2,272
Other operating expenses	2,300	2,279	21
<b>Total</b>	<b>67,062</b>	<b>68,261</b>	<b>(1,199)</b>

The payback and 1.83% discount expense totalling € 7,046 thousand includes the contribution due to AIFA (Italian Medicines Agency), which replaces the 5% price reduction on some selected products. This procedure, already allowed and used in previous years, was continued again in 2016. The amount is calculated on sales of products made in 2015.

Commissions paid to agents included commissions to Recordati Rare Diseases for sales in the USA of pharmaceutical chemicals amounting to € 99 thousand.

Expenses for sundry services included the auditors' fees.

Details of that remuneration are provided in attachment 6 in compliance with Art. 149-*duodecies* of the Consob Issuers' Regulations.

Expenses for the Innova Pharma S.p.A. co-promotion service related to services carried out by the sales network of that company on behalf of the Parent Company.

Details are given in the relevant parts of the Remuneration Report (published in accordance with Art. 123-*ter* of the Consolidated Finance Act) of the following: the remuneration of directors, statutory auditors, general managers and other key management personnel; the shares held in the Company by those persons; the stock option rights granted to them.

No use was made of finance lease assets in 2016.

External processing included work performed by Laboratoires Bouchara Recordati S.a.s. amounting to € 277 thousand.

Other operating expenses included services received from the subsidiary Recordati S.A. Chiasso amounting to € 276 thousand.

The item "sundry taxation" amounting to € 1,659 thousand (€ 1,525 thousand in 2015) relates to the following:

€ (thousands)	2016	2015	Change 2016/2015
Contribution under Decree Law No. 269/2003	262	266	(4)
Government license tax	525	406	119
Municipal property and service taxes	313	313	0
Stamp duties and similar	15	14	1
Non-deductible taxes	111	98	13
Sundry taxes	433	428	5
<b>Total</b>	<b>1,659</b>	<b>1,525</b>	<b>134</b>

In compliance with Decree Law 269 of 30<sup>th</sup> September 2003 converted into Law 326 of 24<sup>th</sup> November 2003, a contribution was paid in April amounting to 5% of the expenses incurred in the previous year for advertising activities, self certified by the Company within the legal time limits.

Taxes for government licenses are attributable to the maintenance and changes to registrations for ethical and self-medication products and to the registrations of new products. Sundry taxes include Tares (service and refuse tax), convention and congress registration taxes and Campoverde duties.

## 9. CHANGES IN INVENTORIES

Details of changes in inventories are as follows:

€ (thousands)	2016	2015	Change 2016/2015
Raw materials, ancillary materials, consumables and supplies	159	125	34
Intermediates and work-in-process	(1,463)	(1,408)	(55)
finished products and goods	2,699	5,122	(2,423)
<b>Total</b>	<b>1,395</b>	<b>3,839</b>	<b>(2,444)</b>

## 10. REVALUATION OF INVESTMENTS

This amounted to € 10,779 thousand (€ 6,872 thousand in 2015). The impairment of the investment in Casen Recordati S.L. was written back during the year within the limit of the cost.

This investment had been written down in prior years and the relative costs had been recognised through profit and loss.

## 11. IMPAIRMENT OF INVESTMENTS

This amounted to € 136 thousand (€ 0 thousand in 2015) and relates to write-downs of the investments in Tecnofarmaci S.C.p.A. in liquidation by € 59 thousand and in Consorzio C4T S.c.a.r.l. by € 77 thousand.

These write-downs became necessary following the permanent impairment of the aforementioned investments and the company Tecnofarmaci S.c.p.A. being put into liquidation.

## 12. INCOME FROM INVESTMENTS

Income from investments came to € 53,021 thousand (€ 90,018 thousand in 2015) and related to subsidiaries.

This income consisted of dividends declared and received from Recordati S.A. Chemical & Pharmaceutical Company (€ 53,000 thousand), from Recordati Pharmaceuticals Ltd. (€ 20 thousand), and from Herbacos Recordati s.r.o. (€ 1 thousand).

### 13. FINANCIAL INCOME (EXPENSE), NET

Net financial income (expense) showed net expense of € 4,670 thousand in 2016 (€ 6,430 thousand in the same period of 2015). The main items are summarised in the table below.

€ (thousands)	2016	2015	Change 2016/2015
Foreign exchange gains (losses)	12	(1,402)	1,414
Loss on the derecognition of investments	0	(148)	148
Interest income from subsidiaries	1,832	3,323	(1,491)
Interest expense payable to subsidiaries	(823)	(888)	65
Interest expense on loans	(1,178)	(2,272)	1,094
Interest expense on bond debt	(2,923)	(3,063)	140
Net interest on short-term financial positions	(620)	(1,156)	536
Bank charges	(790)	(660)	(130)
Interest cost in respect of defined benefit plans (IAS 19)	(180)	(164)	(16)
<b>Total</b>	<b>(4,670)</b>	<b>(6,430)</b>	<b>1,760</b>

The balance on foreign exchange differences represented income of € 12 thousand for 2016, compared with a cost of € 1,402 thousand in 2015. More specifically, the loss for the year consisted of a gain of € 691 thousand on transactions concluded during the year and a loss of € 679 thousand resulting from the translation as that 31<sup>st</sup> December 2016 of assets and liabilities in foreign currency. Art. 2426, point 8-bis is therefore applicable to that income, by which, if a net gain arises from the foreign exchange translation performed at the end of the year, that amount is allocated to a special reserve that is not distributable until the gain is actually realized.

Interest income from subsidiaries is as follows:

€ (thousands)	2016	2015	Change 2016/2015
Jaba Recordati S.A.	0	4	(4)
Italchimici S.p.A.	53	0	53
Recordati S.A. – Luxembourg	73	731	(658)
Pro Farma AG	3	0	3
Orphan Europe Sarl	121	0	121
Fic Médical S.a.r.l.	1	3	(2)
Recordati Polska Sp. z.o.o.	9	13	(4)
Casen Recordati S.L.	758	1,174	(416)
Rusfic LLC	731	1,308	(577)
Opalia Pharma S.A.	83	89	(6)
Recordati Rare Diseases - Mexico	0	1	(1)
<b>Total</b>	<b>1,832</b>	<b>3,323</b>	<b>(1,491)</b>

Interest income relates to loans granted to subsidiaries during the year (€ 926 thousand) and to the centralised cash pooling treasury system in operation at the Parent Company since 2007 on the basis of which monthly interest receivable and payable is recognized at market rates (€ 906 thousand).

The following short-term loans were outstanding as at 31<sup>st</sup> December: to Recordati Polska z.o.o. (PLN 1,500,000); to Opalia Pharma S.A. (TND 1,000,000); to Pro Farma AG (CHF 1,000,000) and to Recordati S.A. Luxembourg (€21,000 thousand). Two long-term loans were outstanding, one to Casen Recordati S.L. (€ 21,000 thousand) and one to Opalia Pharma (TND 3,000,000),

Interest expense paid to subsidiaries is as follows:

€ (thousands)	2016	2015	Change 2016/2015
Fic Médical S.a.r.l.	0	3	(3)
Casen Recordati S.L.	35	49	(14)
Laboratoires Bouchara Recordati Sas	25	74	(49)
Innova Pharma S.p.A.	47	121	(74)
Recordati S.A. – Luxembourg	3	48	(45)
Jaba Recordati S.A.	2	1	1
Recordati Ireland Ltd.	100	101	(1)
Orphan Europe Spain S.L.	5	10	(5)
Orphan Europe United Kingdom Ltd.	0	8	(8)
Orphan Europe Sarl	4	220	(216)
Recordati Pharma GmbH	21	44	(23)
Recordati Rare Diseases Inc.	407	2	405
Recordati S.A. - Switzerland	2	0	2
Recordati Hellas Pharmaceuticals S.A.	0	5	(5)
Orphan Europe Germany GmbH	5	8	(3)
Herbacos Recordati s.r.o.	15	27	(12)
Orphan Europe Italy S.r.l.	14	28	(14)
Orphan Europe Benelux BVBA	1	2	(1)
Bouchara Recordati s.a.s.	69	94	(25)
Orphan Europe Nordic A.B.	1	1	0
Orphan Europe Switzerland GmbH	1	1	0
Rusfic LLC	0	27	(27)
Orphan Europe Middle East FZ LLC	13	14	(1)
Recordati Orphan Drugs	53	0	53
<b>Total</b>	<b>823</b>	<b>888</b>	<b>(65)</b>

Interest expense relates to loans granted by subsidiaries during the year (€ 437 thousand) and to the centralised cash pooling treasury system amounting to € 386 thousand.



## 14. TAXES

Taxes recognized in the income statement are composed as follows:

€ (thousands)	2016	2015	Change 2016/2015
Current taxation:			
IRES (corporate income tax)	19,257	16,416	2,841
IRAP (regional tax on production)	3,106	2,535	571
<b>Total current taxation</b>	<b>22,363</b>	<b>18,951</b>	<b>3,412</b>
Deferred taxation:			
Movement in deferred tax assets/liabilities, net	(328)	(2,334)	2,006
Use of prior years deferred tax assets/liabilities	1,309	771	538
Deferred tax asset rate adjustment	144	0	144
<b>Total deferred tax liabilities</b>	<b>1,125</b>	<b>(1,563)</b>	<b>2,688</b>
<b>Total</b>	<b>23,488</b>	<b>17,388</b>	<b>6,100</b>

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

The provision for deferred tax (assets)/liabilities of € 328 thousand is composed as follows:

	2016		2015	
	Temporary differences	Tax Effect	Temporary differences	Tax Effect
<b>DEFERRED TAX ASSETS</b>				
- Provisions	(749)	(180)	(7,137)	(1,963)
- Costs relating to future years	(619)	(148)	(709)	(195)
- Write-down of inventories	0	0	(641)	(176)
<b>TOTAL</b>	<b>(1,368)</b>	<b>(328)</b>	<b>(8,487)</b>	<b>(2,334)</b>
<b>DEFERRED TAX ASSETS/LIABILITIES, NET</b>		<b>(328)</b>		<b>(2,334)</b>

The use of deferred tax assets amounting to € 1,309 thousand, relates to provisions of € 1,114 thousand and costs relating to future years of € 195 thousand.

The tax credit for deferred tax assets was adjusted as a result of a change in the rate for IRES (corporate income tax), which from 2017 will fall from 27.5% to 24% the (€ 144 thousand).

The reconciliation between the current tax rate for income tax levied on the Company and the actual tax rate incurred is as follows.

	2016 %	2015 %
Tax rate applicable for IRES (corporate income tax) purposes	27.5	27.5
Dividends from subsidiaries	(10.4)	(16.5)
Contributions to congresses	0.4	0.4
Economic Growth legislation (ACE) impact	(0.5)	(0.4)
Effect of reversal of investment write-down	(2.2)	(1.3)
Other differences, net	0.5	0.7
<b>Tax rate applicable for IRES (corporate income tax) purposes</b>	<b>15.3</b>	<b>10.4</b>
IRAP (regional tax on production)	2.3	1.8
<b>Tax rate on pre-tax income</b>	<b>17.6</b>	<b>12.2</b>

IRAP as a percentage of pre-tax profit was 2.3% because the tax is calculated on a different tax basis which includes interest and some extraordinary items.

## 15. PROPERTY, PLANT AND EQUIPMENT

Property plant and equipment, net of accumulated depreciation, as at 31<sup>st</sup> December 2016 and 2015 amounted to € 44,851 thousand and € 43,520 thousand respectively. Changes in this item are given below.

€ (thousands)	Land and buildings	Plant and machinery	Other fixtures	Construction in progress	Total property, plant and equipment
<b>Cost of acquisition</b>					
Balance as at 31.12.15	37,805	152,241	34,916	4,641	229,603
Additions	230	1,340	565	5,616	7,751
Disposals	0	(995)	(5)	0	(1,000)
Reclassifications	352	2,905	378	(3,708)	(73)
<b>Balance as at 31.12.16</b>	<b>38,387</b>	<b>155,491</b>	<b>35,854</b>	<b>6,549</b>	<b>236,281</b>
<b>Accumulated depreciation</b>					
Balance as at 31.12.15	27,867	128,789	29,427	0	186,083
Depreciation	1,106	3,870	1,364	0	6,340
Disposals	0	(988)	(5)	0	(993)
<b>Balance as at 31.12.16</b>	<b>28,973</b>	<b>131,671</b>	<b>30,786</b>	<b>0</b>	<b>191,430</b>
<b>Carrying amount</b>					
<b>as at 31<sup>st</sup> December 2016</b>	<b>9,414</b>	<b>23,820</b>	<b>5,068</b>	<b>6,549</b>	<b>44,851</b>
<b>as at 31<sup>st</sup> December 2015</b>	<b>9,938</b>	<b>23,452</b>	<b>5,489</b>	<b>4,641</b>	<b>43,520</b>

The additions of € 7,751 thousand in 2016 relate to investments in the Milan plant and headquarters of € 2,680 thousand and to various investments in the production facilities at the Campoverde di Aprilia plant amounting to € 5,071 thousand.

Depreciation for the period amounted to € 6,340 thousand and was calculated on all depreciable assets using rates which are held to be representative of the estimated useful life of the assets.

## 16. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortisation, as at 31<sup>st</sup> December 2016 and 2015 amounted to € 25,517 thousand and € 27,048 thousand respectively. Changes in this item are given below.

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Assets under construction and advances	Total intangible assets
<b>Cost of acquisition</b>					
Balance as at 31.12.15	30,575	40,774	13,234	1,237	85,820
Additions	0	502	0	981	1,483
Reclassifications	0	192	0	(119)	73
<b>Balance as at 31.12.16</b>	<b>30,575</b>	<b>41,468</b>	<b>13,234</b>	<b>2,099</b>	<b>87,376</b>
<b>Accumulated amortization</b>					
Balance as at 31.12.15	26,548	18,990	13,234	0	58,772
Amortization	416	2,671	0	0	3,087
<b>Balance as at 31.12.16</b>	<b>26,964</b>	<b>21,661</b>	<b>13,234</b>	<b>0</b>	<b>61,859</b>
<b>Carrying amount</b>					
<b>as at 31<sup>st</sup> December 2016</b>	<b>3,611</b>	<b>19,807</b>	<b>0</b>	<b>2,099</b>	<b>25,517</b>
<b>as at 31<sup>st</sup> December 2015</b>	<b>4,027</b>	<b>21,784</b>	<b>0</b>	<b>1,237</b>	<b>27,048</b>

The increase in intangible assets of € 1,483 thousand relates mainly to licenses for the use of software. All intangible assets have a defined useful life and are amortized over a period not exceeding 20 years.

## 17. INVESTMENTS

Investments amounted to € 621,144 thousand as at 31<sup>st</sup> December 2016 up € 133,375 thousand compared with 2015, as reported in the table in Attachment 1. The percentage of ownership and the number of shares or quotas possessed are reported in Attachment 2.

A comparison between the carrying amount of investments in subsidiaries and their valuation using the equity method, in accordance with Art. 2426 of the Italian Civil Code, is reported in Attachment 3.

IAS 27 - Separate financial statements - requires recognition of investments in subsidiaries according to the cost method or, as an alternative, using the fair value in accordance with IAS 39. Recordati S.p.A. has adopted the cost criterion and therefore, where there are indications that part or all of the cost cannot be recovered, the carrying amount must be reduced to the relative recoverable amount, in compliance with IAS 36 – Impairment of assets. Where that impairment subsequently reverses or reduces, the carrying amount is increased to the amount of the new estimate of the recoverable amount which, however, cannot exceed the original cost. For the calculation of reversals for investments in companies that are not listed and that is where no reliable market value (fair value less costs to sell) can be determined, the recoverable amount has been defined as the value in use, intended as the present value of the estimated cash flows from it based on the expected results of the

investments and the estimated amount of a hypothetical “ultimate disposal”. The expected results forecast in the business plans of each investment were taken into consideration in the calculation of the value in use, increased by their “terminal value” appropriately adjusted to take account of risks and uncertainties intrinsic to the assumptions on which the plans were based. Those results and the “terminal value” were discounted to present values by applying the current cost of capital of the companies in compliance with the method recommended in IAS 36. Application of the methodology described did not give rise to any impairment and it allowed the reversal amounting to € 10,779 thousand of impairment recognised in previous years of the investment in Casen Recordati S.L..

According to IFRS 2, stock option plans for the employees of subsidiaries constitute an increase in the value of the relative investments. That increase in value consists of the fair value of the options on the grant date and it is recognised as an increase in the investments at constant rates over the period between the grant and the vesting date, with the balancing entry recognized directly in equity. The cost of the stock options granted to employees of foreign companies was recognised as an increase in the value of the relative investments amounting to € 1,942 thousand.

A detailed summary of both directly and indirectly controlled subsidiaries is given in Attachment 4 with the sales revenue and net income for each company.

All the investments reported regard share capital with voting rights.

The relative part of the consolidated report may be consulted for further information on investments.

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

Non-current loans and receivables as at 31<sup>st</sup> December 2016 amounted to € 16,396 thousand (€ 22,431 thousand as at 31<sup>st</sup> December 2015) and related almost entirely to long-term loans granted to Casen Recordati (€ 15,000 thousand due in 2020) and to Opalia Pharma (TND 3,000,000 equivalent to € 1,225 thousand due in 2019).

## 19. DEFERRED TAX ASSETS

These amounted to € 3,722 thousand as at 31<sup>st</sup> December 2016 (€ 3,689 thousand as at 31<sup>st</sup> December 2015) an increase of € 33 thousand.

The main deferred tax assets and changes in them are analyzed in the two tables below: The main deferred tax assets and changes in them are analyzed in the two tables below:

€ (thousands)	2016	2015
Balance as at 1 <sup>st</sup> January	3,689	3,860
Increases	1,645	3,539
Uses	(1,309)	(1,048)
Adjustment for change in the tax rate	(303)	0
Reclassification of deferred tax liabilities	0	(2,662)
<b>Balance as at 31<sup>st</sup> December</b>	<b>3,722</b>	<b>3,689</b>

€ (thousands)	Valuation of derivative instruments	Provisions	Inventory write-downs	IAS. Valuation of investment	Other	Total
Balance as at 1 <sup>st</sup> January	1,249	3,124	421	(1,526)	421	3,689
Addition	1,253	180	0	0	212	1,645
Use	0	(755)	(359)	0	(195)	(1,309)
Adjustment for change in the tax rate	(159)	(302)	(8)	194	(28)	(303)
<b>Balance as at 31<sup>st</sup> December</b>	<b>2,343</b>	<b>2,247</b>	<b>54</b>	<b>(1,332)</b>	<b>410</b>	<b>3,722</b>

## 20. INVENTORIES

Inventories at as at 31<sup>st</sup> December 2016 and 2015 amounted to € 54,944 thousand and € 53,549 thousand respectively, as shown in the following table:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Raw materials, ancillary materials, consumables and supplies	11,490	11,331	159
Intermediates and work-in-process	12,093	13,556	(1,463)
Finished goods	31,361	28,662	2,699
<b>Total</b>	<b>54,944</b>	<b>53,549</b>	<b>1,395</b>

## 21. TRADE RECEIVABLES

Trade receivables as at 31<sup>st</sup> December 2016 and 2015 amounted to € 53,101 thousand and € 57,913 thousand respectively as shown below:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Trade receivables from subsidiaries	18,820	23,615	(4,795)
Trade receivables from others:			
Italy	28,460	29,715	(1,255)
Abroad	7,014	5,812	1,202
	<b>54,294</b>	<b>59,142</b>	<b>(4,848)</b>
Less:			
Allowance for doubtful accounts	(1,193)	(1,229)	36
<b>Total trade receivables</b>	<b>53,101</b>	<b>57,913</b>	<b>(4,812)</b>

Exposure calculated on receivables from others stood at 62 days outstanding as at 31st December 2016 an improvement of two days compared with a year earlier.

The adjustment of receivables in non euro currencies resulted in the recognition of negative exchange rate differences of € 99 thousand. The receivables are recognized inclusive of those adjustments.

Trade receivables from Group companies arose from the supply of goods and services and are composed as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Innova Pharma S.p.A.	4,293	6,261	(1,968)
Recordati Ireland Ltd.	9,110	13,504	(4,394)
Laboratoires Bouchara Recordati S.a.s.	422	265	157
Jaba Recordati S.A.	913	1,573	(660)
Recordati Pharma GmbH	834	918	(84)
Casen Recordati S.L.	162	118	44
Recordati Ilaç	224	93	131
Orphan Europe Italy S.r.l.	23	23	0
Recordati Hellas Pharmaceuticals S.A	80	21	59
Herbacos Recordati S.A.	10	22	(12)
Recordati S.A. Chemical & Pharmaceutical	0	146	(146)
Orphan Europe Sarl	2,004	612	1,392
Recordati Romania S.r.l.	3	0	3
Recordati Polska S.p. z.o.o.	9	2	7
Recordati Rare Diseases Inc.	0	30	(30)
Opalia Pharma S.A.	50	3	47
Rusfic LLC	30	24	6
Italchimici S.p.A.	653	0	653
<b>Total</b>	<b>18,820</b>	<b>23,615</b>	<b>(4,795)</b>

The changes compared to the previous year are considered transitory and are related to automated netting procedures for outstanding intercompany positions, by which intercompany items are automatically offset against each other each month and the relative balances settled.

Changes in the allowance for doubtful accounts are as follows:

€ (thousands)	2016	2015
Balance as at 1 <sup>st</sup> January	1,229	1,007
Utilization for losses on receivables	(138)	(40)
Addition for the year	102	262
<b>Balance as at 31<sup>st</sup> December</b>	<b>1,193</b>	<b>1,229</b>

The allowance is considered appropriate in relation to potential risks of insolvency.

The composition of the principal receivables in foreign currency is as follows:

	31.12.2016		31.12.2015	
	Currency	€(000)	Currency	€(000)
Receivables in US\$	4,810,374	4,466	3,389,789	3,119

## 22. OTHER RECEIVABLES

Other receivables stood at € 10,556 thousand (€ 6,351 thousand as at 31<sup>st</sup> December 2015). The composition is given in the table below.

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Tax income	1,426	1,887	(461)
From parent companies	19	2	17
From subsidiaries	744	663	81
Advances to employees and agents	6,556	1,618	4,938
Others	1,811	2,181	(370)
<b>Total other receivables</b>	<b>10,556</b>	<b>6,351</b>	<b>4,205</b>

Tax receivables as at 31<sup>st</sup> December 2016 amounted to € 1,426 thousand (€ 1,887 thousand in 2015). They were composed as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Assets for current taxation	0	1,052	(1,052)
Refund requested from tax authorities	43	43	0
Receivables from the tax authorities for VAT	1,326	721	605
Receivables for foreign VAT tax authorities	48	65	(17)
Sundry items	9	6	3
<b>Total tax receivables</b>	<b>1,426</b>	<b>1,887</b>	<b>(461)</b>

The VAT credit consisted of the balance for December 2016 and the VAT refund applied for on 18<sup>th</sup> October 2007 in relation to VAT on motor vehicles.

Other receivables from parent companies amounted to € 19 thousand and relate to sundry charges.

Receivables from subsidiaries stood at € 744 thousand (€ 663 thousand in 2015) and related to VAT transferred under Group procedures from the company Innova Pharma S.p.A.

Advances to employees and agents as at 31<sup>st</sup> December 2016 and 2015 came to € 6,556 thousand and € 1,618 thousand respectively. They consisted of advances to employees, expense accounts for medical representatives and loans granted to employees who exercised stock option rights amounting to € 6,163 thousand for the purchase of 420,000 shares resulting from the options granted on 9<sup>th</sup> February 2011, 8<sup>th</sup> May 2012, 30<sup>th</sup> October 2013 and 29<sup>th</sup> July 2014.

Receivables from others amounted to € 1,811 thousand as at 31<sup>st</sup> December 2016 (€2.181 thousand as at 31<sup>st</sup> December 2015) and were comprised mainly of receivables from suppliers for advances and refunds due.

## 23. OTHER CURRENT ASSETS

Other current assets amounted to € 539 thousand (€ 617 thousand at 31<sup>st</sup> December 2015) and related mainly to prepaid expenses. These were advance instalments on periodic services covering two financial years.

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

The market value (fair value) as at 31<sup>st</sup> December 2016 of cross currency swaps entered into by the Company to hedge a bond for \$ 75 million issued on 30<sup>th</sup> September 2014 and an intercompany loan of \$ 70 million received from Recordati Rare Diseases on 8<sup>th</sup> November 2016 totalled \$ 12,497 thousand. That value represents the potential benefit resulting from a lower value in euro of the future cash flows in United States dollars in terms of principal and interest, due to an appreciation of the foreign currency with respect to the time of finalising the loan and acquiring the hedge instruments. More specifically, the fair value of the derivative to hedge the \$ €50 million tranche of the loan granted by Mediobanca was positive by € 8,050 thousand, while that of the instrument to hedge the \$ €25 million tranche of the loan granted by Unicredit was positive by € 3,969 thousand.

The fair value of the derivative to hedge the loan from Recordati Rare Diseases, entered into with Unicredit, was positive by € 478 thousand.



## 25. OTHER SHORT-TERM RECEIVABLES

Other short-term receivables all consist of amounts due from subsidiaries as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Casen Recordati S.L.	6,025	6,034	(9)
Jaba Recordati S.A.	0	2	(2)
Orphan Europe Sarl	8,974	0	8,974
Recordati S.A. – Luxembourg	70,225	30,349	39,876
FIC Médical S.a.s.	1	446	(445)
Recordati Ireland Ltd.	1	1	0
Recordati Polska sp. z.o.o.	342	356	(14)
Rusfic LLC	4,050	9,317	(5,267)
Opalia Pharma S.A.	417	481	(64)
Italchimici S.p.A.	28,888	0	28,888
Pro Farma AG	933	0	933
<b>Total</b>	<b>119,856</b>	<b>46,986</b>	<b>72,870</b>

These receivables are attributable to a cash pooling treasury system in operation at the Parent Company and to loans granted to Casen Recordati S.L., Recordati S.A. Luxembourg, Recordati Polska sp. z.o.o. , Opalia Pharma S.A. and Pro Farma AG.. Interest is paid on these receivables at market rates.

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

These are composed as shown in the following table.

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Deposits in bank current accounts	86,812	133,711	(46,899)
Cash on hand	3	4	(1)
<b>Total</b>	<b>86,815</b>	<b>133,715</b>	<b>(46,900)</b>

Cash and cash equivalents as at 31<sup>st</sup> December 2016, consisted of current accounts and short-term bank deposits.

## 27. SHAREHOLDERS' EQUITY

A summary of the changes in the shareholders' equity accounts is reported in the relative statement. Following the entry into force of Legislative Decree 6/2003, which amended the Italian Civil Code, the table contained in Attachment 5 was introduced, which gives the composition of reserves on the basis of availability for use and distribution.

*Share capital* - The share capital as at 31<sup>st</sup> December 2016, amounting to € 26,140,644.50 is fully paid up and consists of 209,125,156 ordinary shares with a par value of € 0.125 each. It remained unchanged in the course of 2016.

As at 31 December 2016 the Company had two stock option plans in place in favour of certain Group employees, the 2010-2013 plan with options granted on 9<sup>th</sup> February 2011, 8<sup>th</sup> May 2012, 17<sup>th</sup> April

2013 and 30<sup>th</sup> October 2013 and the 2014-2018 plan with options granted on 29<sup>th</sup> July 2014 and 13<sup>th</sup> April 2016. The exercise price of the options is the average of the Company's listed share price during the 30 days prior to the grant date. The options vest over a period of five years and options not exercised within the eighth year of the date of grant expire. Options cannot be exercised if the employee leaves the Company before they are vested.

Details of stock options outstanding as at 31<sup>st</sup> December 2016 are given in the table below.

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

\* An increase of 25,000 options compared with the end of 2015 following an adjustment in the calculation of options cancelled.

#### *Additional paid-in capital*

Additional paid-in capital as at 31<sup>st</sup> December 2016 amounted to € 83,719 thousand and was unchanged compared with 31<sup>st</sup> December 2015.

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

#### *Treasury stock*

As at 31<sup>st</sup> December 2016 this amounted to € 76,761 thousand, consisting of 3,891,262 treasury shares held in portfolio.

The change during the year was € 41,700 thousand, the result of:

- the disposal of 2,712,500 shares for € 29,905 thousand for use in the 2010-2013 and 2014-2018 stock option plans;
- the purchase of 2,918,404 treasury shares for € 71,605 thousand.

#### *Statutory reserve*

This amounted to € 5,228 thousand and was unchanged compared to 31<sup>st</sup> December 2015 because the limit set by Art. 2430 of the Italian Civil Code had been reached.

### Other reserves

Other reserves totalled € 237,932 thousand. Details are as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Extraordinary reserve	121,403	126,160	(4,757)
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	99	0
Extraordinary VAT concession reserve	517	517	0
Research and investment grants	17,191	17,191	0
Non-distributable reserve for investments in southern Italy	3,632	3,632	0
International accounting standards reserve	102,509	98,723	3,786
<b>Total</b>	<b>245,351</b>	<b>246,322</b>	<b>(971)</b>
Fair value derivative instruments	(7,419)	(3,290)	(4,129)
<b>Total other reserves</b>	<b>237,932</b>	<b>243,032</b>	<b>(5,100)</b>

- *Extraordinary reserve*

This amounted as at 31<sup>st</sup> December 2016 and 2015 to € 121,403 thousand and € 126,160 thousand respectively, a decrease of € 4,757 thousand attributable to the following changes:

- a decrease due to the allocation of part of 2015 profit amounting to € 2,425 thousand and of dividends not paid and expired amounting to € 5 thousand;
- a decrease of € 7,187 thousand generated by the difference between the amount paid by employees and the carrying amount of the treasury stock following the grant of treasury shares to Group employees who exercised options under stock option plans. That difference was recognised as a deduction from the extraordinary reserve in compliance with international accounting standards.

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

This amounted to € 99 thousand at 31<sup>st</sup> December 2016 and remained unchanged compared with the previous year.

- *Extraordinary VAT concession reserve*

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

- *Research and investment grants*

These amount to € 17,191 thousand and are unchanged compared with the previous year. The grants are subject to taxation if they are used for purposes other than to cover losses, which, however, is not planned by the Company. The assets corresponding to the grants received from the Ministry of Industry and Commerce (formerly Asmez) have been mainly fully depreciated.

- *Non-distributable reserve for investments in southern Italy*

This amounted to € 3,632 thousand and is unchanged compared with the previous year.

- *International accounting standards reserve*

This amounted to € 102,509 thousand (€ 98,723 thousand as at 31<sup>st</sup> December 2015) and is composed as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Reversal of fixed asset revaluations	40,479	40,479	0
Revaluation of investments	43,054	43,054	0
Inventories	463	463	0
Personnel leaving indemnities	(680)	(480)	(200)
Stock options	12,460	10,416	2,044
Adjustment to investments for stock options	6,733	4,791	1,942
<b>Total</b>	<b>102,509</b>	<b>98,723</b>	<b>3,786</b>

Changes that occurred in the items in 2016 included the following:

- the valuation of the personnel leaving indemnities provision in accordance with IAS 19 generated a reserve as at 31<sup>st</sup> December 2016 amounting to € 680 thousand;
- the amount of € 12,460 thousand relates to the labour expense for stock options issued and granted after 7<sup>th</sup> November 2002 and not yet exercised, valued in accordance with IFRS 2. The amount of € 6,733 thousand relates to the cost for the stock options of employees of companies, the valuation of which, in agreement with IFRS 2, was recognised as an increase in the value of the investments in the companies in which those employees work;
- *Reserve for fair value movements in derivative instruments*

In accordance with the provisions of IAS 39, this reserve in equity is comprised of the following: the balancing entry of the amounts for the assets resulting from measurement at market value of cross currency swaps of a cash flow nature, the balancing entry of the amount recognised through profit or loss to offset movements in the exchange rate at the end of the year relating to a hedged loan in foreign currency and the liabilities resulting from the measurement at the market value of interest rate swap transactions also of a cash flow hedge nature.

The amount as at 31<sup>st</sup> December 2016, net of tax, was negative by € 7,419 thousand.

#### *Revaluation reserve*

This amounted to € 2,602 thousand (unchanged compared with 2015) and consisted of revaluation balances within the meaning of Law 413/1991.

Untaxed (taxation suspended) reserves as at 31<sup>st</sup> December 2016 amounted to € 87,826 thousand and consisted of € 15,964 thousand of reserves for grants received net of the taxed portion, € 517 thousand of the VAT concession reserve and € 99 thousand of the reserve formed pursuant to the Law regulating pension funds and € 71,246 thousand of the revaluation reserves net of the substitute taxes. Revaluation reserves amounting to € 68,644 thousand were eliminated in compliance with international accounting standards and the non-taxability was transferred to the additional paid-in capital reserve. No deferred tax provisions were recognized in respect of those reserves, because, in accordance with IAS 12, these deferred tax provisions are recognized in the year in which the distribution is declared.

## 28. LOANS

The composition of medium and long-term loans at 31<sup>st</sup> December 2016 and 2015 is shown below.

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Bond subscribed by the investor Prudential	71,151	68,889	2,262
Loan granted by Unicredit at a floating interest rate repayable in semi-annual instalments by 2020.	35,000	45,000	(10,000)
Loan granted by ING Banca at a floating interest rate repayable in semi-annual instalments by 2020.	26,250	30,000	(3,750)
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2018.	25,000	37,500	(12,500)
Loan granted by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual instalments by 2022	40,909	47,727	(6,818)
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2020.	25,000	0	25,000
Loan granted by Banca Intesa at a floating interest rate repayable in semi-annual instalments by 2021.	25,000	0	25,000
Loan granted by Recordati Rare Diseases at a fixed interest rate repayable in semi-annual instalments by 2025.	66,407	0	66,407
<b>Total amortised cost of loans</b>	<b>314,717</b>	<b>229,116</b>	<b>85,601</b>
Portion due within one year	(36,818)	(33,068)	(3,750)
<b>Portion due after one year</b>	<b>277,899</b>	<b>196,048</b>	<b>81,851</b>
Expenses relating to loans	(1,187)	(1,378)	191
<b>Total</b>	<b>276,712</b>	<b>194,670</b>	<b>82,042</b>

The repayment schedules for the portions of the medium and long-term loans due after 31<sup>st</sup> December 2017 are as follows:

€ (thousands)	
2018	36,818
2019	45,152
2020	36,402
2021	15,152
2022	14,281
2023 and after	128,907
<b>Total</b>	<b>276,712</b>

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

of the debt as at 31<sup>st</sup> December 2016 determined an increase in liabilities of € 2,262 thousand compared with 31<sup>st</sup> December 2015 due to an appreciation of the United States dollar against the euro. The loan was hedged at the same time by two cross currency swap transactions, which involved transformation of the debt into a total of € 56.0 million, at a fixed interest rate of 2.895% per annum for the tranche maturing in 12 years and at a fixed interest rate of 3.15% per annum for that maturing in 15 years. The measurement of the hedging instruments at fair value as at 31<sup>st</sup> December 2016, was positive on aggregate by € 12,019 thousand and was recognised directly as an increase in equity and an increase in the asset item “fair value of hedging derivatives – cash flow hedges” (see note 24). The bond loan is subject to covenants and failure to comply with them may result in the immediate call of the loan.

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

In May 2015, the Company signed a loan agreement with Unicredit for € 50.0 million, granted net of fees and commissions of € 0.4 million. The main terms and conditions of the loan are a floating interest rate equal to the six-month Euribor plus a spread of 80 basis points and a life of five years with semi-annual repayments of the principal from November 2015 and until May 2020. The loan is partially hedged by an interest rate swap (a cash flow hedge), with which a portion of the debt is transformed to a fixed interest rate of 1.734%. Measurement of the fair value of the derivative instrument for the hedge of € 25 million was negative by € 483 thousand and this was recognised directly as a reduction in equity and an increase in the liability item “fair value of hedging derivatives (cash flow hedges)” (see note 35).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

In 2015 the Company renegotiated a loan agreement with ING Bank for € 30.0 million, originally signed by the Company on 8<sup>th</sup> January 2014 with a change made solely to the interest rate. The new terms and conditions are for a floating interest rate equal to the six-month Euribor plus a spread of 85 basis points (compared with 190 basis points under the previous agreement), while the semi-annual repayments of the principal from July 2016 and until January 2020 remain unchanged. The loan was fully hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 1.913% after the renegotiation described above. Measurement of the fair value of the derivative instrument for the hedge was negative by € 652 thousand and this was recognised directly as a reduction in equity and an increase in the liability item “fair value of hedging derivatives – cash flow hedges” (see note 35).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

On 30<sup>th</sup> September 2013, the Company signed a loan agreement with Banca Nazionale del Lavoro for € 50.0 million, disbursed net of expenses and commissions of € 0.6 million. The main terms and conditions were a floating interest rate equal to the six-month Euribor plus a spread (which, following a renegotiation between the parties, was reduced from 200 basis points to 70 basis points from 1<sup>st</sup> April 2015) and a life of 5 years with semi-annual repayments of the principal by September 2018 commencing from March 2015. The loan was fully hedged with an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate which now stands at 1.6925% following the recent renegotiation. Measurement of the fair value of the derivative instrument for the hedge was negative by € 373 thousand and this was recognised directly as a reduction in equity and an increase in the liability item “fair value of hedging derivatives – cash flow hedges” (see note 35). The loan contract with Banca Nazionale del Lavoro contains financial covenants which, if not complied with, may result in the immediate call of the loan.

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

On 30<sup>th</sup> November 2010, the Company signed a loan contract with Centrobanca (now UBI Banca), for a three-year programme of investments in Research & Development. The loan, which Centrobanca (now UBI Banca) funded through a loan from the European Investment Bank, amounted to € 75.0 million, net of expenses of € 0.3 million, of which € 30 million was disbursed in 2010 and € 45 million in 2011. The main terms and conditions were a floating interest rate and a life of 12 years with repayment in semi-annual instalments of the principal from June 2012 and through December 2022. In June 2012 the loan was hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to an interest rate of 2.575%. The € 1,987 thousand fair value of the cash flow hedge was recognised directly in equity, net of deferred tax assets, and stated as a current liability (see note 35). The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants are as follows:

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

Those conditions were amply fulfilled.

On 23<sup>rd</sup> September 2016, the Company signed a loan agreement with Banca Nazionale del Lavoro for € 25.0 million, disbursed net of fees and commissions of € 0.1 million. The main terms and conditions were a floating interest rate equal to the 6-month Euribor plus a spread of 40 basis points and a life of 4 years with semi-annual repayments of the principal by September 2020 commencing from March 2019.

The loan was fully hedged at the same time by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 0.41%. Measurement of the fair value of the derivative instrument for the hedge was negative by € 61 thousand and this was recognized directly as a reduction in equity and an increase in the liability item “fair value of hedging derivatives – cash flow hedges” (see note 35).

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

The financial covenants are as follows:

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



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

Those conditions were amply fulfilled.

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

The loan was fully hedged by an interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 0.68%. Measurement of the fair value of the derivative instrument for the hedge was negative by € 65 thousand and this was recognised directly as a reduction in equity and an increase in the liability item “fair value of hedging derivatives – cash flow hedges” (see note 35).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.

On 8<sup>th</sup> November 2016, the Company signed a loan agreement with the subsidiary Recordati Rare Diseases for a total loan of \$ 70.0 million divided into two tranches \$ 30 million at a fixed rate of 3.35% per annum, repayable in a single instalment due on 13<sup>th</sup> June 2023 and \$ 40 million at a fixed rate of 3.50% per annum, repayable in a single instalment due on 13<sup>th</sup> June 2025. The loan was hedged at the same time by two cross currency swap transactions, which involved transformation of the debt into a total of € 62.9 million, at a fixed interest rate of 1.56% per annum for the tranche maturing in 7 years and at a fixed interest rate of 1.76% per annum for that maturing in 9 years. The measurement of the hedging instruments at fair value as at 31<sup>st</sup> December 2016, was positive on aggregate by € 478 thousand and was recognised directly as an increase in equity and an increase in the asset item “fair value of hedging derivatives – cash flow hedges” (see note 24).

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

The financial covenants are as follows:

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

Those conditions were amply fulfilled.



## 29. PERSONNEL LEAVING INDEMNITIES AND OTHER BENEFITS

The balance as at 31<sup>st</sup> December 2016 amounted to € 11,237 thousand (€ 11,172 thousand as at 31<sup>st</sup> December 2015). Changes in the item were as follows:

€ (thousands)	2016	2015
Balance as at 1 <sup>st</sup> January	11,172	12,125
Additions during the year	180	164
Use for the year	(352)	(877)
Change in fair value of the personnel leaving indemnity fund (IAS 19)	237	(240)
<b>Balance as at 31<sup>st</sup> December</b>	<b>11,237</b>	<b>11,172</b>

The valuation of the personnel leaving indemnity fund in accordance with IAS 19 generated a liability as at 31<sup>st</sup> December 2016 of € 11,237 thousand. The calculations made, which used actuarial parameters updated as at 31<sup>st</sup> December 2016, found a greater liability and resulted in the recognition of an adjustment of € 237 thousand to the fund compared with the figure as at 31<sup>st</sup> December 2015, which was stated, net of tax, in the statement of comprehensive income recognised as equity, as required by the relative accounting standard.

## 30. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include end-of-year provisions for invoices to be received as at 31<sup>st</sup> December 2016 and 2015 amounted to € 44,515 thousand and € 39,949 thousand, respectively.

Balances as at 31<sup>st</sup> December 2016 and 2015 were as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Suppliers, subsidiaries	8,050	7,856	194
Suppliers, Italy	22,179	11,906	10,273
Suppliers, Italy for invoices to be received	7,611	12,942	(5,331)
Suppliers, abroad	4,780	4,649	131
Suppliers, abroad for invoices to be received	1,895	2,596	(701)
<b>Total trade payables</b>	<b>44,515</b>	<b>39,949</b>	<b>4,566</b>

Details for subsidiaries are as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Recordati Rare Diseases Inc.	94	43	51
Laboratoires Bouchara Recordati S.a.s.	106	56	50
Innova Pharma S.p.A.	4,050	5,692	(1,642)
Italchimici S.p.A.	3	0	3
Recordati Ireland Ltd.	3,044	1,301	1,743
Casen Recordati S.L.	641	580	61
Recordati S.A. – Switzerland	112	153	(41)
Herbacos Recordati S.r.o.	0	31	(31)
<b>Total payables to subsidiaries</b>	<b>8,050</b>	<b>7,856</b>	<b>194</b>

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

The adjustment of trade payables in non-euro currencies resulted in the recognition of net positive exchange rate differences of € 90 thousand.

The largest trade payables in foreign currency were as follows:

	31.12.2016		31.12.2015	
	Currency	€(000)	Currency	€(000)
Payables in US\$	1,509,749	1,512	4,362,129	4,040
Payables in GBP	156,007	193	67,136	89

### 31. OTHER CURRENT PAYABLES

As at 31<sup>st</sup> December 2016 other accounts payable amounted to € 19,567 thousand (€ 20,677 thousand as at 31<sup>st</sup> December 2015). They were composed as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Payables to third parties	0	586	(586)
Employees	8,635	8,212	423
Social security	6,640	6,540	100
Commissions to agents	963	846	117
Others	3,329	4,493	(1,164)
<b>Total other payables</b>	<b>19,567</b>	<b>20,677</b>	<b>(1,110)</b>

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

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

Amounts payable to agents include € 391 thousand in commissions for foreign agents.

Other payables include directors' fees as at 31<sup>st</sup> December (€ 418 thousand), credit notes to be issued (€ 162 thousand) and those for the debt to Regions pursuant to Law 122 of 30<sup>th</sup> July 2010 amounting to € 1,980 thousand. Other payables include €33 thousand owed to Orphan Italy in relation to VAT transfers within the Group.

### 32. TAX LIABILITIES

Tax liabilities as at 31<sup>st</sup> December 2016 amounted to € 4,397 thousand (€ 6,908 thousand as at 31<sup>st</sup> December 2015).

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Payables to FIMEI S.p.A. for taxes	1,285	4,381	(3,096)
Liabilities for current taxation	561	0	561
Liabilities for employee withholding taxes	2,517	2,443	74
Liabilities for self-employed withholding taxes	33	45	(12)
Other tax liabilities	1	39	(38)
<b>Total tax liabilities</b>	<b>4,397</b>	<b>6,908</b>	<b>(2,511)</b>

The payables to the parent company FIMEI S.p.A. are composed as follows:

- receivables for tax refunds requested relating to an application for an IRES (corporate income tax) tax refund because it had not made an expense based deduction from IRAP relating to personnel expense for employees for the years 2007 until 2011 in accordance with Art. 2, paragraph 1-*quater* of Decree Law 201 of 2011;
- tax liabilities for current taxation relating to taxes for the year calculated on the basis of estimated taxable income. That liability was transferred by the Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.

Liabilities for current taxation consist of the IRAP (regional production tax) due for the year, net of payments on account.

### 33. OTHER CURRENT LIABILITIES

Other current liabilities amounted to € 1 thousand (€ 7 thousand in 2015) and consist of liabilities for grants for investment received between 1998 and 2003 and carried over into subsequent years in relation to the residual useful life of the assets to which they relate.

### 34. PROVISIONS

These consist of tax and other provisions as reported in the table below.

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Tax	3,955	3,310	645
For agent customer indemnities	1,536	1,484	52
Other risks	7,467	9,521	(2,054)
<b>Total other provisions</b>	<b>12,958</b>	<b>14,315</b>	<b>(1,357)</b>

The change in the provision for other risks is due to utilizations of € 2,461 thousand and additional provisions of € 407 thousand.

Utilizations related mainly to the conclusion of labour litigation cases, to payment of a notice indemnity to employees and to covering the National Health Service pharmaceutical overspend. Additions on the other hand related to probable additional notice indemnities regarding employees and provisions for labour litigation.

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

The interest rate swaps to hedge the cash flows related to medium and long-term loans measured at fair value as at 31<sup>st</sup> December 2016 gave rise to a € 3,621 thousand liability which represents the unrealised benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans. The fair value measurement relates to interest rate swaps entered into by the Company to hedge interest rates on loans granted by Centrobanca (€ 1,987 thousand), Banca Nazionale del Lavoro (€ 434 thousand), ING Bank (€ 652 thousand), Unicredit (€ 483 thousand) and Banca Intesa (€65 thousand).

That liability just mentioned is recognised in shareholders' equity within the "fair value derivatives reserve" net of the relative deferred tax assets amounting to € 869 thousand.

### 36. LOANS – DUE WITHIN ONE YEAR

The portions of medium and long-term loans due within one year as at 31<sup>st</sup> December 2016 and 2015 were composed as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Loan granted by Ing Bank at a floating interest rate repayable in semi-annual instalments by 2020.	7,500	3,750	3,750
Loan granted for research by Centrobanca (now UBI Banca) at a floating interest rate repayable in semi-annual instalments by 2022.	6,818	6,818	0
Loan granted by BNL at a floating interest rate repayable in semi-annual instalments by 2018.	12,500	12,500	0
Loan granted by Unicredit at a floating interest rate repayable in semi-annual instalments by 2020.	10,000	10,000	0
<b>Total</b>	<b>36,818</b>	<b>33,068</b>	<b>3,750</b>

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

Bank overdrafts and short-term loans as at 31<sup>st</sup> December 2016 and 2015 amounted to € 1,778 thousand and € 1,758 thousand, respectively.

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Current account overdrafts	837	723	114
Interest on loans	149	268	(119)

Interest on bond debt	792	767	25
<b>Total</b>	<b>1,778</b>	<b>1,758</b>	<b>20</b>

### 38. OTHER SHORT-TERM PAYABLES

The balance on other short-term payables consisted entirely of amounts due to subsidiaries as follows:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Recordati S.A. – Luxembourg	11,673	11,687	(14)
Innova Pharma S.p.A.	31,935	25,182	6,753
Laboratoires Bouchara Recordati S.a.s.	18,369	15,158	3,211
Herbacos Recordati S.r.o.	2,101	1,500	601
Casen Recordati S.L.	26,493	9,554	16,939
Orphan Europe Germany GmbH	4,844	2,519	2,325
Orphan Europe Sarl	0	10,031	(10,031)
Recordati Rare Diseases Inc.	109	2	107
Recordati Orphan Drugs	42,750	0	42,750
Orphan Europe Spain S.L.	3,816	2,665	1,151
Orphan Europe Italy S.r.l.	10,577	7,476	3,101
Recordati Ireland Ltd.	75,645	37,534	38,111
FIC Médical S.a.r.l.	301	0	301
Orphan Europe Benelux BVBA	1,371	622	749
Orphan Europe Portugal LDA	304	2	302
Recordati Hellas Pharmaceuticals S.A.	341	191	150
Recordati Pharma GmbH	21,233	16,379	4,854
Bouchara Recordati Sas	60,081	36,283	23,798
Orphan Europe Nordic A.B.	1,241	341	900
Orphan Europe Switzerland GmbH	331	331	0
Jaba Recordati S.A.	2,800	403	2,397
Orphan Middle East FZ LLC	5,302	2,014	3,288
<b>Total</b>	<b>321,617</b>	<b>179,874</b>	<b>141,743</b>

The amount due to Recordati S.A. Luxembourg relates to interest on a long-term loan extinguished in prior years.

Payables to other subsidiaries relate to the centralised cash pooling treasury system and to an outstanding loan of € 2,100 thousand from the company Herbacos Recordati S.r.o. and a loan of € 5,300 thousand from Orphan Middle East FZ LLC .

### 39. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IFRS 7, a comparison of the carrying amounts as at 31<sup>st</sup> December 2016 and the fair values of financial assets and liabilities is given below.

€ (thousands)	Carrying amount	Fair value
<b>Financial assets</b>		
Other short-term receivables	119,857	119,857
Short-term financial investments, cash and cash equivalents	86,815	86,815
Trade receivables	53,101	53,101
Other receivables	10,556	10,556
Fair value of hedging derivatives (cash flow hedges)	12,497	12,497
<b>Financial liabilities</b>		
Loans		
- at fixed rate hedged by cross currency swaps (CCS)	137,267	132,536
- at floating rate hedged with interest rate swaps (IRS)	176,263	176,263
Trade payables	44,515	44,515
Other payables	23,965	23,965
Fair value of hedging derivatives (cash flow hedges)	3,621	3,621
Bank overdrafts and short-term loans	1,778	1,778
Other short-term borrowings	321,617	321,617

### 40. DISCLOSURE OF FINANCIAL RISKS

The Company constantly monitors the financial risks to which it is exposed in order to take immediate mitigating action when necessary. Financial policies are designed to achieve a balanced and prudent structure as a basic condition for funding internal and external growth.

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

#### Liquidity risk

The liquidity risk to which the Company 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 Company's liquidity are, on the one hand, the resources 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 terms and conditions of the Company's loans and its financial assets are set out in notes 24, 25, 37, and 38 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts.

The Company 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 on their natural due dates.

### Credit risk

The Company closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. As at 31<sup>st</sup> December 2016 the credit exposure was not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. More specifically as at 31<sup>st</sup> December 2016 gross trade receivables, inclusive of those receivable from subsidiaries, totalled € 54,294 thousand and the relative allowance for doubtful accounts of € 1,194 thousand recognized is considered to be sufficient in relation to the risk of insolvencies.

### Interest rate risk

The Company raises funds using debt and invests excess cash in money market funds and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments, which therefore affect the Group's net financial charges.

The Company's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest rate loans or variable interest rate loans hedged by derivative contracts designed to minimize such fluctuations, as described in Note 27. As a result of this policy and considering the current amount of net debt, it is believed that changes in current interest rates would not have a significant impact on net financial expenses.

### Foreign currency risk

The Company is exposed to foreign currency fluctuations which can affect its operating results.

In particular, the Company is exposed to foreign currency fluctuations on its international sales and financing denominated in currencies other than the euro, such as U.S. Dollars, Japanese yen, GB pounds, Swiss francs and Russian rubles. The net exposure to these currencies is, however, marginal when compared to the Company's volumes of business

## 41. SEGMENT INFORMATION

Reporting by business segment and geographical area, presented in compliance with IFRS 8 – Operating segments – has been performed according to the same accounting policies employed in the presentation of the consolidated financial statements of the Group where, following the acquisition of Orphan Europe, two main segments have been identified: the pharmaceuticals segment and the orphan pharmaceuticals segment, which relates to the whole of Orphan Europe. Consequently the only business segment that exists for Recordati S.p.A. is the pharmaceuticals segment. Furthermore, the pharmaceutical chemicals business is considered an integral part of the pharmaceuticals segment because from an organisational and strategic viewpoint it is involved principally in the production of the active ingredients required to produce pharmaceuticals.

The following table presents net revenues by geographic area:

€ (thousands)	2016	2015	Change 2016/2015
Europe	297,839	278,194	19,645
<i>of which Italy</i>	188,258	186,415	1,843
Australasia	8,485	6,138	2,347
America	12,882	11,247	1,635
Africa	1,500	1,859	(359)
<b>Total</b>	<b>320,706</b>	<b>297,438</b>	<b>23,268</b>

#### 42. LITIGATION AND CONTINGENT LIABILITIES

The Company is party to certain legal actions, the outcomes of which are not expected to result in any significant liability.

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

On 24<sup>th</sup> September 2014 the Company received a visit from the Milan Tax Police Unit of the *Guardia di Finanza* (finance police) as part of a general tax inspection for IRES (corporate income tax) and IRAP (regional tax on production) purposes (relating to the years 2010, 2011, 2012). The inspection was concluded for the year 2010 with a "Record of Findings" issued on 23<sup>rd</sup> September 2015 with which the inspectors found that the cost for a provision of services amounting to € 50,000 was not sufficiently documented and therefore to be considered not deductible from taxable income. On 19<sup>th</sup> October 2015 the Company filed an application for full settlement of the findings by consent, concluded following payment of the sums due. On 26<sup>th</sup> July 2016 as part of the tax inspection into the company mentioned above, the Milan Tax Police Unit of the *Guardia di Finanza* notified the Company of a "Record of Findings" for the financial year 2011, followed by a tax assessment by the tax authorities on the basis of which it found a cost of €50,000 for a provision of services – which had been appealed against also in the previous year – not sufficiently documented and therefore considered not deductible from taxable income. On 15<sup>th</sup> December 2016 the Company decided to comply with the tax assessment.



#### 43. NET FINANCIAL POSITION

The following summary is set out in the table below in compliance with Consob deliberation No. 15519 of 27<sup>th</sup> July 2006:

€ (thousands)	31.12.2016	31.12.2015	Change 2016/2015
Deposits in bank current accounts and cash on hand	86,815	133,715	(46,900)
Short-term loans to Group companies	119,857	46,986	72,871
<b>Cash and cash equivalents and current receivables</b>	<b>206,672</b>	<b>180,701</b>	<b>25,971</b>
Bank overdrafts and short-term loans	(1,778)	(1,758)	(20)
Loans – due within one year	(36,818)	(33,068)	(3,750)
Short-term borrowings from Group Companies	(321,617)	(179,874)	(141,743)
<b>Short-term borrowings</b>	<b>(360,213)</b>	<b>(214,700)</b>	<b>(145,513)</b>
<b>Net current financial position</b>	<b>(153,541)</b>	<b>(33,999)</b>	<b>(119,542)</b>
Loans and receivables – due after one year	16,396	22,357	(5,961)
Borrowings – due after one year <sup>(1)</sup>	(264,214)	(181,999)	(82,215)
<b>Net financial position</b>	<b>(401,359)</b>	<b>(193,641)</b>	<b>(207,718)</b>

<sup>(1)</sup> Including the recognition at fair value of derivative instruments to hedge foreign exchange rate risk (cash flow hedges).

#### 44. NON-RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

In compliance with Consob communication of 28<sup>th</sup> July 2006 a summary is given in the table below of the main events, transactions and actions which are non-recurring and which do not repeat frequently in the usual course of business. The overall net effect of such occurrences on the profit and loss, balance sheet and cash flow of the Company is not significant.

€ (thousands)	2016	2015	Change 2016/2015
Risk of reductions in National Health Service spending on pharmaceuticals.	0	(4,997)	4,997
Expenses related to the return of expired pharmaceuticals	(200)	(500)	300
Company acquisition costs	(2,272)	0	(2,272)
Biopharma marketing proceedings reimbursement	354	0	354
<b>Total non-recurring operating expense</b>	<b>(2,118)</b>	<b>(5,497)</b>	<b>3,379</b>

#### 45. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In compliance with CONSOB communication of 28<sup>th</sup> July 2006, the Company performed no atypical and/or unusual transactions in 2016, as defined in that same communication, according to which atypical and/or unusual transactions are those which because of their significance or importance, the nature of the counterparties, the content of the transaction, the way in which the transfer price is decided and the timing of the event (close to the end of the financial year) might give rise to doubts concerning: the accuracy and completeness of the information in the financial statements, a conflict of interests, the security of the company's assets, the protection of the interests of minority shareholders.

## RECORDATI S.p.A.

## ATTACHMENT 1

## STATEMENT OF CHANGES IN DIRECT INVESTMENTS

€ (thousands)	Balance as at 31 <sup>st</sup> Dec 2015	Share capital sales and redemptions	Acquisitions subscriptions	Write-downs (-) Write-backs (+)	Stock option valuation	Balance as at 31 <sup>st</sup> Dec 2016
<b>Investments in subsidiaries</b>						
Recordati S.A. – Luxembourg	220,286	-	-	-	1,057	221,343
Casen Recordati S.L. – Spain	181,346	-	-	10,779	338	192,463
Innova Pharma S.p.A. – Italy	10,555	-	-	-	6	10,561
Recordati Portuguesa LDA – Portugal	78	-	-	-	-	78
Bouchara Recordati S.a.s. – France	55,277	-	-	-	425	55,702
Recordati Pharmaceuticals Ltd. – United Kingdom	753	-	-	-	-	753
Recordati Hellas Pharmaceuticals S.A. – Greece	97	-	-	-	-	97
Herbacos Recordati s.r.o. – Czech Republic	15	-	-	-	-	15
Recordati Polska Sp. z.o.o. - Poland	19,195	-	-	-	116	19,311
Italchimici S.p.A. – Italy	-	-	106,294	-	-	106,294
Pro Farma AG - Switzerland	-	-	14,496	-	-	14,496
	<b>487,602</b>	<b>0</b>	<b>120,790</b>	<b>10,779</b>	<b>1,942</b>	<b>621,113</b>
<b>Investments in other companies:</b>						
Tecnofarmaci S.p.A. – Pomezia (Rome)	87	-	-	(59)	-	28
Sifir S.p.A. – Reggio Emilia	0	-	-	-	-	-
Consorzio Dafne – Reggello (Florence)	2	-	-	-	-	2
Consorzio Nazionale Imballaggi – Rome	0	-	-	-	-	-
Consorzio C4T – Pomezia (Rome)	78	-	-	(77)	-	1
	<b>167</b>	<b>-</b>	<b>-</b>	<b>(136)</b>	<b>-</b>	<b>31</b>
<b>TOTAL</b>	<b>487,769</b>	<b>0</b>	<b>120,790</b>	<b>10,643</b>	<b>1,942</b>	<b>621,144</b>

RECORDATI S.p.A  
SUMMARY STATEMENT OF DIRECT INVESTMENTS

ATTACHMENT 2

€ (thousands)	Balance as at 31 <sup>st</sup> Dec 2016	Percentage ownership	Number of shares or quotas possessed
<b>Investments in subsidiaries</b>			
Recordati S.A. – Luxembourg	221,343	100.00	82,500,000
Casen Recordati S.L. – Spain	192,463	68.45	1,635,660
Innova Pharma S.p.A. – Italy	10,561	100.00	960,000
Recordati Portuguesa LDA – Portugal	78	98.00	1
Bouchara Recordati S.a.s. – France	55,702	99.94	9,994
Recordati Pharmaceuticals Ltd. – United Kingdom	753	3.33	500,000
Recordati Hellas Pharmaceuticals S.A. – Greece	97	0.95	9,500
Herbacos Recordati s.r.o. – Czech Republic	15	0.08	2
Recordati Polska Sp. z o.o. - Poland	19,311	100.00	90,000
Italchimici S.p.A. – Italy	106,294	100.00	7,646,000
Pro Farma AG - Switzerland	14,496	100.00	30,000
	<b>621,113</b>		
<b>Investments in other companies:</b>			
Tecnofarmaci S.CpA. in liquidation - Pomezia - Rome	28	4.18	79,500
Sifir S.p.A. – Reggio Emilia	0	0.04	1,304
Consorzio Dafne – Reggello (Florence)	2	1.22	1
Consorzio Nazionale Imballaggi – Rome	0	n.s.	1
Consorzio C4T – Pomezia (Rome)	1	0.30	1
	<b>31</b>		
<b>TOTAL</b>	<b>621,144</b>		

## COMPARISON BETWEEN THE CARRYING AMOUNT OF DIRECT INVESTMENTS IN SUBSIDIARIES AND THEIR VALUATION USING THE EQUITY METHOD

€ (thousands)	31.12.2016	%	Corresponding	Carrying	Valuation		
	Share capital	Equity	Profit (loss)	Ownership	pro-rata equity (A)	amount (B)	Art. 2426 (C)
Investments							
Recordati S.A. – Luxembourg	82,500	247,399	11,587	100.00	247,399	221,343	648,480
Casen Recordati S.L. - Spain	238,966	337,674	20,291	68.447	231,128	192,463	226,395
Bouchara Recordati S.a.s. – France	4,600	98,972	22,177	99.94	98,913	55,702	163,795
Recordati Portuguesa LDA – Portugal	25	36	(1)	98.00	35	78	36
Innova Pharma S.p.A. – Milan	1,920	33,315	1,920	100.00	33,315	10,561	33,310
Recordati Pharmaceuticals Ltd. – United Kingdom	17,520	18,512	885	3.33	616	753	607
Recordati Hellas S.A – Greece	10,050	4,899	(113)	0.95	47	97	43
Recordati Polska – Poland	1,020	972	3	100.00	972	19,311	15,640
Herbacos-Recordati – Czech Republic	947	9,211	1,878	0.08	7	15	20
Italchimici S.p.A.	7,646	30,820	(3,212)	100.00	30,820	106,294	105,112
Pro Farma AG - Switzerland	2,794	3,754	51	100.00	3,754	14,496	14,787
	367,988	785,564	55,466		647,005	621,113	1,208,225
			Difference A-B				25,892
			Surplus C-B				587,112

\* The carrying amount of the investment in Recordati Polska Sp. Zoo was not adjusted to bring it into line with the amount calculated using the equity method because the results of the annual impairment test showed that the difference was not to be considered an indicator of permanent impairment.

# RECORDATI S.p.A.

## SUMMARY INFORMATION ON SUBSIDIARIES

### ATTACHMENT 4

Subsidiaries	Headquarters	Currency	Share capital	Profit (loss) 2016	Equity al 31/12/2016	Revenue 2016
INNOVA PHARMA S.p.A. <i>Marketing and sales of pharmaceuticals</i>	Italy	€(000)	1,920	1,920	33,315	45,507
CASEN RECORDATI S.L. <i>Marketing and sales of pharmaceuticals</i>	Spain	€(000)	238,966	20,291	337,674	87,718
RECORDATI S.A. Chemical and Pharmaceutical Company <i>Holding company</i>	Luxembourg	€(000)	82,500	11,587	247,399	0
BOUCHARA RECORDATI S.A.S. <i>Research, production and sales of pharmaceuticals</i>	France	€(000)	4,600	22,177	98,972	15,550
RECORDATI PORTUGUESA LDA <i>Dormant</i>	Portugal	€(000)	25	(1)	36	0
REC.RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA. <i>Dormant, holds pharmaceutical marketing rights in Brazil</i>	Brazil	BRL(000)	0	(698)	669	1,242
RECORDATI RARE DISEASES Inc. <i>Research, production and sales of pharmaceuticals</i>	U.S.A.	USD(000)	11,979	33,728	108,669	111,825
RECORDATI IRELAND LTD <i>Research, production and sales of pharmaceuticals</i>	Ireland	€(000)	200	64,949	188,666	248,048
RECORDATI S.A. <i>Service provision, holds pharmaceutical marketing rights</i>	Switzerland	CHF(000)	2,000	72	2,276	4,402
LABORATOIRES BOUCHARA RECORDATI S.A.S. <i>Research, production and sales of pharmaceuticals</i>	France	€(000)	14,000	16,306	32,594	171,767
RECORDATI PHARMA GmbH <i>Marketing and sales of pharmaceuticals</i>	Germany	€(000)	600	16,350	126,606	93,767
RECORDATI PHARMACEUTICALS LTD <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	GBP(000)	15,000	758	15,850	2,735
RECORDATI HELLAS PHARMACEUTICALS S.A. <i>Marketing and sales of pharmaceuticals</i>	Greece	€(000)	10,050	(113)	4,899	11,391
JABA RECORDATI S.A. <i>Marketing and sales of pharmaceuticals</i>	Portugal	€(000)	2,000	2,065	8,135	39,872
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. <i>Marketing of pharmaceuticals</i>	Portugal	€(000)	50	92	515	720
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. <i>Marketing of pharmaceuticals</i>	Portugal	€(000)	50	539	2,744	2,450
RECORDATI ORPHAN DRUGS S.A.S. <i>Holding company</i>	France	€(000)	57,000	6,092	94,628	2,013
ORPHAN EUROPE SWITZERLAND GmbH <i>Marketing and sales of pharmaceuticals</i>	Switzerland	CHF(000)	20	20	328	153
ORPHAN EUROPE MIDDLE EAST FZ LLC <i>Marketing and sales of pharmaceuticals</i>	United Arab Emirates	€(000)	20	6,102	10,610	13,080
ORPHAN EUROPE NORDIC A.B. <i>Marketing and sales of pharmaceuticals</i>	Sweden	SEK(000)	100	10,284	16,209	32,599
ORPHAN EUROPE PORTUGAL LDA <i>Marketing and sales of pharmaceuticals</i>	Portugal	€(000)	5	49	567	446

Subsidiaries	Headquarters	Currency	Share capital	Profit (loss) 2016	Equity as at 31/12/2016	Revenue 2016
ORPHAN EUROPE S.A.R.L. <i>Research, production and sales of pharmaceuticals</i>	France	€(000)	320	21,916	52.854	76.892
ORPHAN EUROPE UNITED KINGDOM LTD <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	GBP(000)	50	1,613	2.491	4.936
ORPHAN EUROPE GERMANY GmbH <i>Marketing and sales of pharmaceuticals</i>	Germany	€(000)	26	3,096	3.509	9.614
ORPHAN EUROPE SPAIN S.L. <i>Marketing and sales of pharmaceuticals</i>	Spain	€(000)	1,775	893	4.644	3.714
ORPHAN EUROPE ITALY S.R.L. <i>Marketing and sales of pharmaceuticals</i>	Italy	€(000)	40	2,480	10.929	8.225
ORPHAN EUROPE BENELUX BVBA <i>Marketing and sales of pharmaceuticals</i>	Belgium	€(000)	19	1,309	1.897	4.444
FIC MEDICAL S.A.R.L. <i>Marketing of pharmaceuticals</i>	France	€(000)	174	128	969	2.565
HERBACOS RECORDATI s.r.o. <i>Research, production and sales of pharmaceuticals</i>	Czech Republic	CZK(000)	25,600	50,752	248.899	356.299
RECORDATI SK s.r.o. <i>Marketing and sales of pharmaceuticals</i>	Slovak Republic	€(000)	33	20	233	625
RUSFIC LLC <i>Marketing and sales of pharmaceuticals</i>	Russian Federation	RUB(000)	3,560	125,264	714.410	5.038.720
RECOFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. <i>Marketing of pharmaceuticals</i>	Turkey	TRY(000)	10	(16)	169	381
RECORDATI ROMANIA S.R.L. <i>Marketing and sales of pharmaceuticals</i>	Rumania	RON(000)	5,000	1,248	7.823	20.654
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. <i>Research, production and sales of pharmaceuticals</i>	Turkey	TRY(000)	120,875	30,743	156.612	267.911
RECORDATI POLSKA Sp. z o.o. <i>Marketing and sales of pharmaceuticals</i>	Poland	PLN(000)	4,500	15	4.285	61.063
ACCENT LLC <i>Holds pharmaceutical marketing rights</i>	Russian Federation	RUB(000)	20	1,906	22.454	3.600
RECORDATI UKRAINE LLC <i>Marketing of pharmaceuticals</i>	Ukraine	UAH(000)	1,032	4,036	18.573	71.307
CASEN RECORDATI Portugal Unipessoal Ltd <i>Marketing and sales of pharmaceuticals</i>	Portugal	€(000)	100	111	301	462
OPALIA PHARMA S.A. <i>Research, production and sales of pharmaceuticals</i>	Tunisia	TND(000)	8,738	4,458	24.393	43.530
OPALIA RECORDATI SARL <i>Marketing of pharmaceuticals</i>	Tunisia	TND(000)	20	449	998	2.065
RECORDATI RARE DISEASE S.A. DE CV <i>Marketing of pharmaceuticals</i>	Mexico	MXN(000)	50	(9,176)	(10.684)	1.635
RECORDATI RARE DISEASE COLOMBIA S.A.S <i>Marketing of pharmaceuticals</i>	Colombia	COP(000)	150,000	1,135,841	1.688.670	6.291.106
ITALCHIMICI S.p.A. * <i>Marketing and sales of pharmaceuticals</i>	Italy	€(000)	7,646	(3,212)	30.820	22.895
PRO FARMA AG * <i>Marketing and sales of pharmaceuticals</i>	Switzerland	CHF(000)	3,000	55	4.031	4.977
PRO FARMA GmbH * <i>Marketing and sales of pharmaceuticals</i>	Austria	€(000)	35	(3)	387	381

\* Acquired in 2016.

**RECORDATI S.p.A.**
**ATTACHMENT 5**
**DETAILS OF ITEMS IN SHAREHOLDERS' EQUITY**

€ (thousands)	Amount	Possibility of use	Amount available	Amount distributable without tax effects	Amount distributable with tax effects	Notes
Share capital	26,141					
Additional paid-in capital reserve	83,718	A B C	83,718	15,074	68,644	1
Revaluation reserve	2,602	A B C	2,602	0	2,602	
Statutory reserve	5,228	B				
By-law reserves	0					
Treasury stock reserve	(76,761)		(76,761)	(76,761)		
Other reserves						
Extraordinary reserve	121,403	A B C	121,403	121,403	0	
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	A B C	99	0	99	
Research and investment grants	17,191	A B C	17,191	1,227	15,964	2
Extraordinary VAT concession reserve	517	A B C	517	0	517	
Southern Italy investment fund	3,632					
IAS reserve	95,090	A B C	95,090	95,090		
Interim dividends	(72,245)		(72,245)	(72,245)		
Profit for the year	110,102	A B C	110,102	110,102		
<b>Total shareholders' equity</b>	<b>316,717</b>		<b>281,716</b>	<b>193,890</b>	<b>87,826</b>	

**Legend:**

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

**Notes:**

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



## DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

Amounts in euro

Type of service	Provider of the service	Remuneration
Accounting audit	Parent Company Auditor	103,800
Attestation services	Parent Company Auditor	26,000
Due diligence	Parent Company Auditor	76,000
Due diligence	Network of Parent Company auditor	139,319

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

1. The undersigned, Andrea Recordati, in his capacity as Vice Chairman and Chief Executive Officer, and Fritz Squindo, as the Manager responsible for the preparation of the financial statements of Recordati S.p.A., pursuant to the provisions of article 154-bis, clauses 3 and 4, of Legislative Decree No. 58 of 24<sup>th</sup> February 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 separate company financial statements for the financial year 2016.

2. Furthermore, it is certified that:

2.1 the financial statements as at and for the year ended 31<sup>st</sup> December 2016:

- have been prepared in accordance with the international accounting standards, recognized by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19<sup>th</sup> July 2002;
- correspond to the amounts shown in the Company's accounts, books and records;
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company.

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

Milan, 1<sup>st</sup> March 2017

Vice Chairman and  
Chief Executive Officer

*Andrea Recordati*

Manager responsible for the preparation  
of the Company's financial reports

*Fritz Squindo*