



INTERIM REPORT

FIRST NINE MONTHS 2017

MANAGEMENT REVIEW HIGHLIGHTS

First nine months 2017

REVENUE

€ (thousands)	First nine months 2017	%	First nine months 2016	%	Change 2017/2016	%
Total revenue	963,827	100.0	862,370	100.0	101,457	11.8
Italy	198,554	20.6	177,211	20.5	21,343	12.0
International	765,273	79.4	685,159	79.5	80,114	11.7

KEY CONSOLIDATED P&L DATA

€ (thousands)	First nine months 2017	% of revenue	First nine months 2016	% of revenue	Change 2017/2016	%
Revenue	963,827	100.0	862,370	100.0	101,457	11.8
EBITDA ⁽¹⁾	341,961	35.5	279,952	32.5	62,009	22.1
Operating income	307,502	31.9	252,406	29.3	55,096	21.8
Net income	219,806	22.8	182,317	21.1	37,489	20.6

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

KEY CONSOLIDATED B/S DATA

€ (thousands)	30 September 2017		31 December 2016		Change 2017/2016	%
Net financial position ⁽²⁾	(321,729)		(198,771)		(122,958)	61.9
Shareholders' equity	1,054,896		903,940		150,956	16.7

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

Third quarter 2017

REVENUE

€ (thousands)	Third quarter 2017	%	Third quarter 2016	%	Change 2017/2016	%
Total revenue	312,959	100.0	274,506	100.0	38,453	14.0
Italy	56,139	17.9	54,944	20.0	1,195	2.2
International	256,820	82.1	219,562	80.0	37,258	17.0

KEY CONSOLIDATED P&L DATA

€ (thousands)	Third quarter 2017	% of revenue	Third quarter 2016	% of revenue	Change 2017/2016	%
Revenue	312,959	100.0	274,506	100.0	38,453	14.0
EBITDA ⁽¹⁾	117,929	37.7	91,878	33.5	26,051	28.4
Operating income	104,304	33.3	82,190	29.9	22,114	26.9
Net income	72,819	23.3	59,599	21.7	13,220	22.2

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

The financial results obtained in the first nine months of the year emphasize the continued growth of the group, with revenues and profitability increasing significantly. Consolidated revenue is € 963.8 million, up by 11.8% compared to the same period of the preceding year. International sales grow by 11.7%. EBITDA, at 35.5% of sales, is € 342.0 million, an increase of 22.1% over the nine months of 2016 and operating income, at 31.9% of sales, is € 307.5 million, an increase of 21.8% over the same period of the preceding year. Net income, at 22.8% of sales, is € 219.8 million, an increase of 20.6% over the first nine months of 2016.

Net financial position at 30 September 2017 records a net debt of € 321.7 million compared to net debt of € 198.8 million at 31 December 2016. During the period dividends were distributed and the acquisition of the marketing rights to the metoprolol based products from AstraZeneca was concluded for an overall disbursement of € 339.0 million. Shareholders' equity increases to € 1,054.9 million.

CORPORATE DEVELOPMENT NEWS

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

In February an exclusive worldwide licensing agreement covering the know-how developed by the Meyer Hospital in Florence (Italy) for the development of a treatment for pre-term babies affected by retinopathy of prematurity (ROP) was signed. The treatment is currently being investigated in a phase II clinical trial by the Meyer Hospital, while Recordati will complete the clinical development and the regulatory steps necessary to obtain the marketing approval for the drug. Retinopathy of prematurity (ROP) is a potentially blinding eye disorder that primarily affects premature infants weighing about 1.25 kg or less that are born before 31 weeks of gestation. This disorder, which usually develops in both eyes, is a rare condition, however presenting as one of the most common causes of visual loss in childhood that can lead to lifelong vision impairment and blindness. Furthermore, within the deal, Recordati shall support other Meyer projects in the rare disease area over a period of three years based on a mutually agreed plan. This collaboration between public and private institutions recognizes the important results obtained by the internal research conducted by the pediatric hospital in Florence.

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

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

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

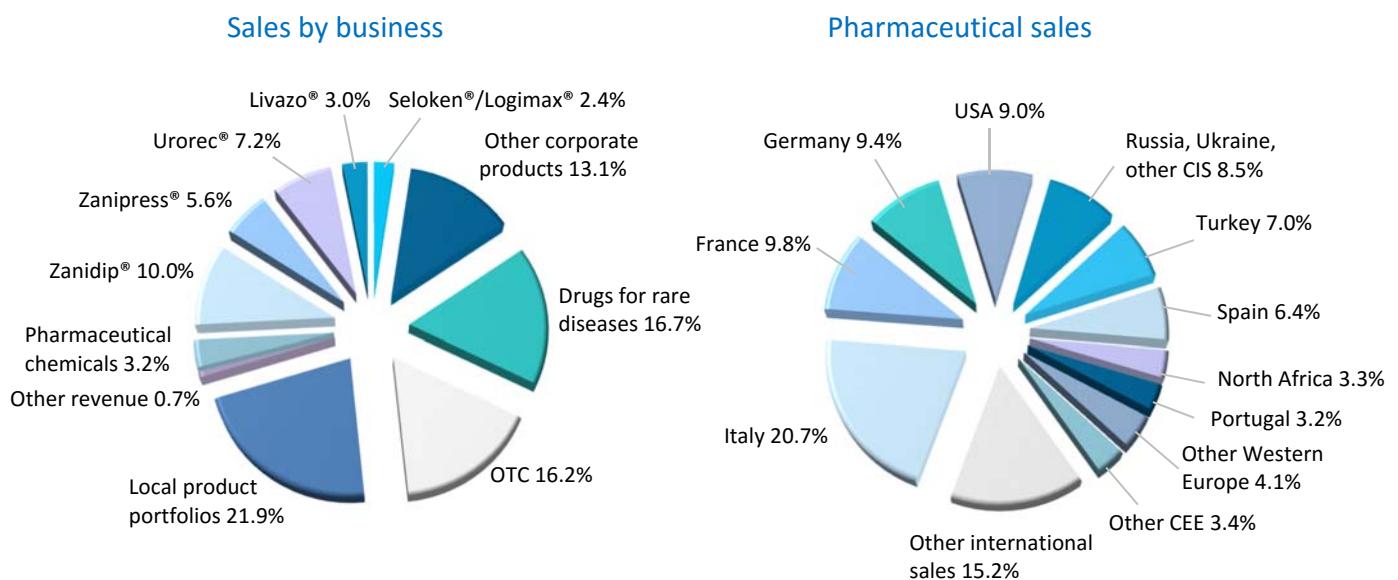
In June Recordati signed an exclusive license agreement with MimeTech, an Italian development stage company founded by scientists from the University in Florence, for the development and subsequent commercialization on a global basis of a low molecular weight peptidomimetic of human nerve growth factor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

During July Gedeon Richter Plc. was granted marketing authorization from the European Commission for Reagila® (cariprazine), a novel antipsychotic for the treatment of schizophrenia in adult patients, valid for all European Union Member States. In August 2016 Richter and Recordati had signed an exclusive license agreement to commercialize cariprazine in Western Europe, Algeria, Tunisia and Turkey. The European application for the treatment of schizophrenia included results from three placebo and partly active controlled positive trials in over 1,800 patients and one long-term trial, using the change from baseline in the scale, assessing the severity of schizophrenia symptoms, i.e. the Positive and Negative Syndrome Scale (PANSS) total score and the time to relapse as primary efficacy endpoints. A clinical trial with positive results was also carried out in patients suffering from predominant negative symptoms of schizophrenia. The high relevance of these results is the base for a publication in *The Lancet* (Cariprazine versus risperidone monotherapy for treatment of predominant negative symptoms in patients with schizophrenia: a randomised, double-blind, controlled trial; *The Lancet* Volume 389, No. 10074, p1103–1113, 18 March 2017).

REVIEW OF OPERATIONS

Net consolidated revenue in the first nine months of 2017 is € 963.8 million, up 11.8% over the same period of the preceding year, with an increase in international sales of 11.7% to € 765.3 million, which represent 79.4% of total sales. Pharmaceutical sales are € 932.8 million, up by 12.0%. Pharmaceutical chemicals sales are € 31.0 million, up by 3.8%, and represent 3.2% of total revenues. The first nine months 2017 revenues include an overall amount of

€ 47.8 million which correspond to revenues generated by the Italian company Italchimici S.p.A. and the Swiss company Pro Farma AG, acquired in 2016 and consolidated respectively as from 1 June and 1 July of that year, as well as to the sales as from 1 July of the metoprolol based products acquired from AstraZeneca. Excluding these acquisitions sales growth would have been of 6.2%.



The group's pharmaceutical business, which represents 96.8% of total revenue, is carried out in the main European markets, including Central and Eastern Europe, in Russia, Turkey, North Africa, the United States of America, Canada, Mexico and in some South American countries through our own subsidiaries and in the rest of the world through licensing agreements with pharmaceutical companies of high standing.

The performance of products sold directly in more than one country (corporate products) during the first nine months of 2017 is shown in the table below.

€ (thousands)	First nine months 2017	First nine months 2016	Change 2017/2016	%
Zanidip® (lercanidipine)	96,103	89,990	6,113	6.8
Zanipress® (lercanidipine+enalapril)	53,708	50,777	2,931	5.8
Urorec® (silodosin)	69,532	63,253	6,279	9.9
Livazo® (pitavastatin)	29,193	26,970	2,223	8.2
Seloken®/Seloken® ZOK/Logimax® (metoprolol/metoprolol+felodipine)	22,659	-	22,659	n.s.
Other corporate products*	202,611	175,220	27,391	15.6
Drugs for rare diseases	161,266	140,642	20,624	14.7

* Include the OTC corporate products for an amount of € 76.3 million in 2017 and € 60.4 million in 2016 (+26.3%).

Zanidip® is a specialty containing lercanidipine, Recordati's original calcium channel blocker for the treatment of hypertension. Our lercanidipine based products are sold directly to the market by our own marketing organizations in Europe, including Central and Eastern Europe, in Russia, in Turkey and in North Africa. In the other markets they are sold by licensees, and in some of the above co-marketing agreements are in place.

€ (thousands)	First nine months 2017	First nine months 2016	Change 2017/2016	%
Direct sales	53,319	47,718	5,601	11.7
Sales to licensees	42,784	42,272	512	1.2
Total lercanidipine sales	96,103	89,990	6,113	6.8

Lercanidipine direct sales are up by 11.7% mainly due to the sales in Switzerland which are made directly to the market by our subsidiary there as from September of the preceding year. Sales increase mainly in Germany and in France, where the brand Lercan® is now sold directly by our subsidiary following the termination of the license agreement with Pierre Fabre. Sales to licensees, which represent 44.5% of total lercanidipine sales, are up by 1.2%.

Zanipress® is an original specialty also indicated for the treatment of hypertension developed by Recordati which consists of a fixed combination of lercanidipine with enalapril. This product is successfully marketed directly by Recordati and/or by its licensees in 29 countries.

€ (thousands)	First nine months 2017	First nine months 2016	Change 2017/2016	%
Direct sales	42,397	36,884	5,513	14.9
Sales to licensees	11,311	13,893	(2,582)	(18.6)
Total lercanidipine+enalapril sales	53,708	50,777	2,931	5.8

Direct sales of Zanipress® in the first nine months of 2017 are up by 14.9% mainly due to the performance of the product in Germany, France and Switzerland. Sales to licensees represent 21.1% of total Zanipress® sales and are down by 18.6% mainly due to lower sales to licensees in Germany.

Urorec® (silodosin) is a specialty indicated for the treatment of symptoms associated with benign prostatic hyperplasia (BPH). Currently the product has been successfully launched in 35 countries with sales of € 69.5 million in the first nine months of 2017, up 9.9% due to the good performance of the product in all main markets.

Sales of Livazo® (pitavastatin), a statin indicated for the reduction of elevated total and LDL cholesterol, in Spain, Portugal, Ukraine, Greece, Switzerland, Russia and Turkey, are € 29.2 million in the first nine months of 2017, up by 8.2% due to the performance of the product mainly in Spain, Greece and Switzerland and to the launch in Turkey and Russia.

On 30 June the agreement with AstraZeneca for the acquisition of the rights to Seloken®/Seloken® ZOK (metoprolol succinate) and associated Logimax® fixed dose combination (metoprolol succinate and felodipine) treatments in Europe was concluded. Revenues generated by these products in the European countries covered by the agreement are consolidated as from 1 July and are of € 22.7 million at 30 September. These products contribute significantly to the growth of our subsidiaries mainly in Germany, Poland, France, the Czech Republic and Romania.

In the first nine months of 2017 sales of other corporate products totaled € 202.6 million, up by 15.6% compared to the same period of the preceding year. These comprise both prescription and OTC products and are: Lomexin® (fenticonazole), UriSpas® (flavoxate), Kentera® (oxybutynin transdermal patch), TransAct® LAT (flurbiprofen transdermal patch), Rupafin®/Wystamm® (rupatadine), Lopresor® (metoprolol), Procto-Glyvenol® (tribenoside), Tergynan® (fixed association of anti-infectives) as well as CitraFleet®, Casenlax®, Fleet enema, Phosphosoda®,

Ruflor®/Reuteri® (lactobacillus Reuteri) and Lacdigest® (tilactase), gastroenterological products, Polydexa®, Isofra® and Otofa®, ENT anti-infective products, the Hexa line of products indicated for seasonal disorders of the upper respiratory tract, Abufene®, a product for menopausal symptoms, Muvagyn® a topical product for gynecological use and Virirec® (alprostadil), a topical product for erectile dysfunction.

Our specialties indicated for the treatment of rare and orphan diseases, marketed directly throughout Europe, in the Middle East, in the U.S.A., Canada, Mexico and in some South American countries and through partners in other parts of the world, generated sales of € 161.3 million in the first nine months of 2017, up by 14.7% due to the good performance of the business in all areas.

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

€ (thousands)	First nine months 2017	First nine months 2016	Change 2017/2016	%
Italy	192,705	171,205	21,500	12.6
France	91,692	84,723	6,969	8.2
Germany	87,105	72,745	14,360	19.7
U.S.A.	83,359	77,402	5,957	7.7
Russia, other C.I.S. countries and Ukraine	79,275	56,087	23,188	41.3
Turkey	65,394	65,787	(393)	(0.6)
Spain	59,615	55,846	3,769	6.7
North Africa	31,210	34,314	(3,104)	(9.0)
Portugal	30,114	29,457	657	2.2
Other Western European countries	38,659	27,452	11,207	40.8
Other C.E.E. countries	31,736	24,636	7,100	28.8
Other international sales	141,937	132,835	9,102	6.9
Total pharmaceutical revenue	932,801	832,489	100,312	12.0

Both years include sales as well as other income.

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

Local currency (thousands)	First nine months 2017	First nine months 2016	Change 2017/2016	%
Russia (RUB)	4,375,516	3,586,394	789,122	22.0
Turkey (TRY)	244,380	200,563	43,818	21.9
U.S.A. (USD)	95,686	88,378	7,308	8.3

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

Sales of pharmaceuticals in Italy are up by 12.6% compared to those of the same period of the preceding year mainly thanks to the revenues generated by Italchimici S.p.A., consolidated as from 1 June 2016. Worth mentioning is the good performance of Urorec® and Cardicor® (bisoprolol) and the significant growth of the treatments for rare diseases.

Pharmaceutical sales in France are up by 8.2% due mainly to the good performance of Urorec®, methadone and Zanextra®, in addition to the sales of Lercan® (lercanidipine) which is now sold directly by our subsidiary following

the termination of the license agreement with Pierre Fabre, and to those of the metoprolol based products acquired from AstraZeneca and consolidated as from 1 July. The treatments for rare diseases are also growing strongly.

In Germany sales are up by 19.7% mainly thanks to the significant sales growth of Zanipress®, Ortoton® (methocarbamol) and lercanidipine, and to the sales generated by the metoprolol based products acquired from AstraZeneca and consolidated as from 1 July.

The group's pharmaceutical business in the U.S.A. is dedicated to the marketing of products for the treatment of rare diseases. Sales in the first nine months of 2017 are € 83.4 million, up by 7.7%. The main products are Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Cosmegen® (dactinomycin for injection) used in the treatment of three rare cancers and Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency.

Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) is € 79.3 million, up by 41.3% compared to the same period of the preceding year and includes estimated currency exchange gains of € 9.8 million. Sales in Russia, in local currency, are RUB 4.375.5 million, up by 22.0% over the same period of the preceding year thanks to the growth of all the main products including the corporate products Procto-Glyvenol®, Urorec®, Zanidip®, Tergynan®, Polydexa® and Isofra®, and to the launch of Livazo®. Sales generated in Ukraine and in the C.I.S. countries, mainly Kazakhstan and Belarus, are growing and have reached € 10.2 million.

Sales in Turkey are down by 0.6% due entirely to a negative currency exchange effect estimated to be of € 12.9 million. In local currency sales of our Turkish subsidiary grow by 21.9% thanks to the good performance of all the corporate products, in particular Lercadip®, Urorec®, Procto-Glyvenol®, Zanipress® and Gyno Lomexin®, as well as the launch of Livazo®, and of the local products Mictonorm® (propiverine), Cabral® (phenyramidol) and Pankreoflat® (pancreatin, dimeticone).

In Spain sales are € 59.6 million, up by 6.7% mainly due to the performance of Virirec®, Livazo®, Urorec® and Casenlax®. Sales of treatments for rare diseases are also growing significantly.

Sales in North Africa are € 31.2 million, down by 9.0%, and comprise both the export sales generated by Laboratoires Bouchara Recordati in these territories, in particular in Algeria, and sales generated by Opalia Pharma, the group's Tunisian subsidiary. The sales reduction is due mainly to lower sales of Zanidip® and Calperos® (calcium, vitamin D3) in Algeria. Sales in Tunisia in the first nine months of 2017, in local currency, are up by 16.2%.

Sales in Portugal are up by 2.2% thanks mainly to the good performance of the local product EgoStar®, a vitamin D3 supplement.

Sales in other countries in Western Europe, up by 40.8%, comprise sales of products for the treatment of rare diseases by Orphan Europe in these countries and sales generated by the Recordati subsidiaries in the United Kingdom, Ireland, Greece and Switzerland. The increase in sales is to be attributed mainly to the revenues generated by the Swiss company Pro Farma which was consolidated as from 1 July 2016, to direct sales in the market of the corporate products Zanidip®, Zanipress® and Urispas® which were previously sold by licensees, as well as to the growth of Livazo® and to the consolidation as from 1 July of the metoprolol based products acquired from AstraZeneca. Worth mentioning is the good performance of the Greek subsidiary.

Sales in other Central and Eastern European countries include the sales of Recordati subsidiaries in Poland, the Czech Republic, Slovakia and Romania, in addition to sales generated by Orphan Europe in this area. In the first nine months of 2017 overall sales are up by 28.8% thanks mainly to the revenue contribution as from 1 July generated

by the sales of the metoprolol based products acquired from AstraZeneca. Sales of the treatments for rare diseases in these countries are up by 26.8%.

Other international sales are up by 6.9% as compared to the same period of the preceding year and comprise the sales to, and other revenues from, our licensees for our corporate products, Laboratoires Bouchara Recordati's and Casen Recordati's export sales, Orphan Europe's exports worldwide excluding the U.S.A., and Recordati Rare Diseases exports. The growth is to be attributed mainly to the revenues generated, as from 1 July, by the sales of the metoprolol based products acquired from AstraZeneca in countries where the group is not present directly with its own subsidiaries.

FINANCIAL REVIEW

INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus the first nine months of 2016:

€ (thousands)	First nine months 2017	% of revenue	First nine months 2016	% of revenue	Change 2017/2016	%
Revenue	963,827	100.0	862,370	100.0	101,457	11.8
Cost of sales	(287,596)	(29.8)	(267,301)	(31.0)	(20,295)	7.6
Gross profit	676,231	70.2	595,069	69.0	81,162	13.6
Selling expenses	(246,544)	(25.6)	(226,403)	(26.3)	(20,141)	8.9
R&D expenses	(72,145)	(7.5)	(60,198)	(7.0)	(11,947)	19.8
G&A expenses	(48,670)	(5.0)	(47,097)	(5.5)	(1,573)	3.3
Other income (expense), net	(1,370)	(0.1)	(8,965)	(1.0)	7,595	(84.7)
Operating income	307,502	31.9	252,406	29.3	55,096	21.8
Financial income (expense), net	(11,753)	(1.2)	(8,626)	(1.0)	(3,127)	36.3
Pretax income	295,749	30.7	243,780	28.3	51,969	21.3
Provision for income taxes	(75,943)	(7.9)	(61,463)	(7.1)	(14,480)	23.6
Net income	219,806	22.8	182,317	21.1	37,489	20.6
Attributable to:						
Equity holders of the parent	219,778	22.8	182,298	21.1	37,480	20.6
Minority interests	28	0.0	19	0.0	9	47.4

Revenue for the period is € 963.8 million, an increase of € 101.5 million compared to the first nine months of 2016. For a detailed analysis please refer to the preceding "Review of Operations".

Gross profit is € 676.2 million with a margin of 70.2% on sales, an increase over that of the same period of the preceding year due to the further growth of products with higher margins and to the positive effect of the metoprolol based products acquired from AstraZeneca and consolidated as from 1 July.

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

R&D expenses are € 72.1 million, up by 19.8% compared to those recorded in the first nine months of 2016 due to the initiation of new development programs, the amortization of the acquired rights to the metoprolol based products and the agreement with MimeTech for the development and subsequent marketing on a global basis of a new compound for the treatment of neurotrophic keratitis, for which an amount of € 7.0 million was due up-front at the signing of the contract.

G&A expenses are up by 3.3% but diminish as percent of sales to 5.0%.

Net other expense is significantly reduced as compared to that of the same period of the preceding year due to the extraordinary costs incurred in 2016 following the acquisition of the companies Italchimici S.p.A. and Pro Farma AG.

Net financial charges are € 11.8 million, an increase of € 3.1 million compared to the same period of the preceding year due to the interest on the new medium/long term loans granted and the higher currency exchange rate losses.

The effective tax rate during the period is 25.7%, slightly above that of the same period of the preceding year.

Net income at 22.8% of sales is € 219.8 million, an increase of 20.6% over the same period of the preceding year.

NET FINANCIAL POSITION

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

€ (thousands)	30 September 2017	31 December 2016	Change 2017/2016	%
Cash and short-term financial investments	297,930	138,493	159,437	115.1
Bank overdrafts and short-term loans	(33,038)	(15,689)	(17,349)	110.6
Loans – due within one year	(51,705)	(40,428)	(11,277)	27.9
Net liquid assets	213,187	82,376	130,811	158.8
Loans – due after one year ⁽¹⁾	(534,916)	(281,147)	(253,769)	90.3
Net financial position	(321,729)	(198,771)	(122,958)	61.9

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

At 30 September 2017 the net financial position shows a net debt of € 321.7 million compared to net debt of € 198.8 million at 31 December 2016. During the period dividends were distributed for a total of € 72.1 million and an amount of \$ 300.0 million (€ 266.9 million) was paid for the acquisition from AstraZeneca of the European marketing rights to the products Seloken®/Seloken® ZOK (metoprolol succinate) and associated Logimax® fixed dose combination (metoprolol succinate and felodipine).

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

During the third quarter Recordati S.p.A. stipulated three new loan agreements for an overall amount of € 175.0 million with banks of high standing: a € 75.0 million loan granted by Mediobanca until July 2024, a € 50.0 million loan granted by UBI Banca until September 2022 and a € 50.0 million loan granted by UniCredit until September 2021.

RELATED PARTY TRANSACTIONS

Tax liabilities shown in the consolidated balance sheet at 30 September 2017 include those payable to the controlling company FIMEI S.p.A. for an amount of € 7.4 million. This amount refers to tax liabilities computed by the parent Recordati S.p.A. based on estimated taxable income and transferred to the controlling company consequent to the participation in a tax consolidation grouping under tax laws in Italy.

Except for the above, to our knowledge, no transactions or contracts have been entered into with related parties that can be considered significant, in value or conditions, or which could in any way materially affect the accounts.

THIRD QUARTER 2017 REVIEW

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus the third quarter of 2016:

€ (thousands)	Third quarter 2017	% of revenue	Third quarter 2016	% of revenue	Change 2017/2016	%
Revenue	312,959	100.0	274,506	100.0	38,453	14.0
Cost of sales	(90,854)	(29.0)	(86,829)	(31.6)	(4,025)	4.6
Gross profit	222,105	71.0	187,677	68.4	34,428	18.3
Selling expenses	(78,023)	(24.9)	(71,188)	(25.9)	(6,835)	9.6
R&D expenses	(24,993)	(8.0)	(18,572)	(6.8)	(6,421)	34.6
G&A expenses	(14,829)	(4.7)	(15,299)	(5.6)	470	(3.1)
Other income (expense), net	44	0.0	(428)	(0.2)	472	(110.3)
Operating income	104,304	33.3	82,190	29.9	22,114	26.9
Financial income (expense), net	(4,762)	(1.5)	(2,648)	(1.0)	(2,114)	79.8
Pretax income	99,542	31.8	79,542	29.0	20,000	25.1
Provision for income taxes	(26,723)	(8.5)	(19,943)	(7.3)	(6,780)	34.0
Net income	72,819	23.3	59,599	21.7	13,220	22.2
Attributable to:						
Equity holders of the parent	72,811	23.3	59,594	21.7	13,217	22.2
Minority interests	8	0.0	5	0.0	3	60.0

Net revenue is € 313.0 million, up by 14.0% over the third quarter 2016. Pharmaceutical sales are € 305.1 million, up by 14.8%. Pharmaceutical chemical sales are € 7.9 million, down by 9.4%.

Gross profit is € 222.1 million with a margin of 71.0% on sales, an increase over that of the same period of the

preceding year due to the further growth of products with higher margins and to the positive consolidation effect of the metoprolol based products acquired from AstraZeneca.

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

R&D expenses are € 25.0 million, up by 34.6% compared to those recorded in the third quarter of 2016 due to the initiation of new development programs and to the amortization of the acquired rights to the metoprolol based products.

G&A expenses are down by 3.1% and diminish as percent of sales to 4.7%.

Net financial charges are € 4.8 million, an increase of € 2.1 million compared to the same period of the preceding year due to interest expense on the new medium/long term loans and to the higher currency exchange rate losses.

Net income at 23.3% of sales is € 72.8 million, an increase of 22.2% over the same period of the preceding year.

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

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

Milan, 26 October 2017

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

CONSOLIDATED FINANCIAL STATEMENTS

AT 30 SEPTEMBER 2017

The consolidated financial statements are presented in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and adopted by the European Union, and were prepared in accordance with the IAS 34 requirements for interim reporting.

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2017

INCOME STATEMENT

€ (thousands)	First nine months 2017	First nine months 2016
Revenue	963,827	862,370
Cost of sales	(287,596)	(267,301)
Gross profit	676,231	595,069
Selling expenses	(246,544)	(226,403)
R&D expenses	(72,145)	(60,198)
G&A expenses	(48,670)	(47,097)
Other income (expense), net	(1,370)	(8,965)
Operating income	307,502	252,406
Financial income (expense), net	(11,753)	(8,626)
Pretax income	295,749	243,780
Provision for income taxes	(75,943)	(61,463)
Net income	219,806	182,317
Attributable to:		
Equity holders of the parent	219,778	182,298
Minority interests	28	19
Earnings per share		
Basic	€ 1.064	€ 0.886
Diluted	€ 1.051	€ 0.872

Earnings per share (EPS) are based on average shares outstanding during each year, 206,627,645 in 2017 and 205,859,219 in 2016, net of average treasury stock which amounted to 2,497,511 shares in 2017 and to 3,265,937 shares in 2016.

Diluted earnings per share is calculated taking into account stock options granted to employees.

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 30 SEPTEMBER 2017

ASSETS

€ (thousands)	30 September 2017	31 December 2016
Non-current assets		
Property, plant and equipment	102,804	110,202
Intangible assets	518,199	279,884
Goodwill	544,452	556,566
Other investments	24,352	19,199
Other non-current assets	6,361	5,428
Deferred tax assets	64,783	37,231
Total non-current assets	1,260,951	1,008,510
 Current assets		
Inventories	169,652	158,800
Trade receivables	246,238	205,988
Other receivables	27,812	30,974
Other current assets	6,987	5,481
Fair value of hedging derivatives (<i>cash flow hedge</i>)	5,154	12,497
Short-term financial investments, cash and cash equivalents	297,930	138,493
Total current assets	753,773	552,233
 Total assets	 2,014,724	 1,560,743

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 30 SEPTEMBER 2017

EQUITY AND LIABILITIES

€ (thousands)	30 September 2017	31 December 2016
Shareholders' equity		
Share capital	26,141	26,141
Additional paid-in capital	83,719	83,719
Treasury stock	(19,110)	(76,761)
Hedging reserve (<i>cash flow hedge</i>)	(5,313)	(7,420)
Translation reserve	(113,198)	(78,309)
Other reserves	39,427	35,295
Retained earnings	823,314	756,004
Net income for the year	219,778	237,406
Interim dividend	0	(72,245)
Group shareholders' equity	1,054,758	903,830
Minority interest	138	110
Shareholders' equity	1,054,896	903,940
 Non-current liabilities		
Loans – due after one year	534,829	293,644
Staff leaving indemnities	21,797	21,675
Deferred tax liabilities	17,972	27,659
Other non-current liabilities	2,515	2,515
Total non-current liabilities	577,113	345,493
 Current liabilities		
Trade payables	131,993	124,644
Other payables	81,377	77,957
Tax liabilities	30,682	20,432
Other current liabilities	953	562
Provisions	44,723	27,977
Fair value of hedging derivatives (<i>cash flow hedge</i>)	8,244	3,621
Loans – due within one year	51,705	40,428
Bank overdrafts and short-term loans	33,038	15,689
Total current liabilities	382,715	311,310
Total equity and liabilities	2,014,724	1,560,743

RECORDATI S.p.A. AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2017

€ (thousands)	First nine months 2017	First nine months 2016
Net income for the period	219,806	182,317
Gains/(losses) on cash flow hedges	2,107	(812)
Gains/(losses) on translation of foreign financial statements	(34,889)	(9,946)
Other gains/(losses)	3,764	(5,491)
Income and expense for the period recognized directly in equity	(29,018)	(16,249)
Comprehensive income for the period	190,788	166,068
Attributable to:		
Equity holders of the parent	190,760	166,049
Minority interests	28	19

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the period	Interim dividend	Minority interest	Total
Balance at 31.12.2015	26,141	83,719	(35,061)	(3,290)	(66,918)	42,543	685,587	198,792	(61,606)	85	869,992
Allocation of 2015 net income:											
- Dividends							2,425	(125,516)	61,606		(61,485)
- Retained earnings							73,276	(73,276)			
Change in the reserve for share based payments						872	1,900				2,772
Purchase of own shares			(10,918)								(10,918)
Disposal of own shares			28,400					(6,540)			21,860
Other changes							(16)				(16)
Comprehensive income for the year			(812)	(9,946)	(5,491)			182,298		19	166,068
Balance at 30.9.2016	26,141	83,719	(17,579)	(4,102)	(76,864)	37,924	756,632	182,298	0	104	988,273
Balance at 31.12.2016	26,141	83,719	(76,761)	(7,420)	(78,309)	35,295	756,004	237,406	(72,245)	110	903,940
Allocation of 2016 net income:											
- Dividends							(34,280)	(110,102)	72,245		(72,137)
- Retained earnings							127,304	(127,304)			
Change in the reserve for share based payments						368	2,604				2,972
Disposal of own shares			57,651					(28,255)			29,396
Other changes							(63)				(63)
Comprehensive income for the year			2,107	(34,889)	3,764			219,778		28	190,788
Balance at 30.9.2017	26,141	83,719	(19,110)	(5,313)	(113,198)	39,427	823,314	219,778	0	138	1,054,896

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2017

€ (thousands)	First nine months 2017	First nine months 2016
Operating activities		
Cash flow		
Net Income	219,806	182,317
Depreciation of property, plant and equipment	10,735	9,074
Amortization of intangible assets	23,724	18,472
Write-downs	0	78
Total cash flow	254,265	209,941
(Increase)/decrease in deferred tax assets	(28,216)	(2,106)
Increase/(decrease) in staff leaving indemnities	122	422
Increase/(decrease) in other non-current liabilities	(11,104)	(712)
	215,067	207,545
Changes in working capital		
Trade receivables	(40,250)	(16,504)
Inventories	(10,852)	(5,171)
Other receivables and other current assets	1,656	(97)
Trade payables	7,349	6,518
Tax liabilities	10,250	21,353
Other payables and other current liabilities	3,812	(794)
Provisions	16,746	2,475
Changes in working capital	(11,289)	7,780
Net cash from operating activities	203,778	215,325
Investing activities		
Net (investments)/disposals in property, plant and equipment	(8,555)	(15,426)
Net (investments)/disposals in intangible assets	(271,671)	(17,945)
Investments in equity	0	(119,496) ⁽¹⁾
Net (investments)/disposals in equity investments	28	0
Net (increase)/decrease in other non-current receivables	(933)	(510)
Net cash used in investing activities	(281,131)	(153,377)
Financing activities		
Net short-term financial position* of acquired companies	0	(21,675)
Medium/long term loans granted	300,117	179
Re-payment of loans	(30,573)	(24,678)
Increase in treasury stock	0	(10,918)
Decrease in treasury stock	29,396	21,860
Effect on shareholders' equity of application of IAS/IFRS	2,972	2,772
Other changes in shareholders' equity	(63)	(16)
Dividends paid	(72,137)	(61,485)
Change in translation reserve	(10,271)	(5,839)
Net cash from/(used in) financing activities	219,441	(99,800)
Changes in short-term financial position	142,088	(37,852)
Short-term financial position at beginning of year *	122,804	215,676
Short-term financial position at end of period *	264,892	177,824

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

⁽¹⁾ Acquisition of **Italchimici S.p.A. (105,000)**: Working capital 2,859, Short-term financial position* 21,769, Fixed assets (36,448), Goodwill (103,860), Personnel leaving indemnity 1,311, Deferred tax liabilities 9,369.

Acquisition of **Pro Farma AG (14,496)**: Working capital (745), Short-term financial position* (94), Fixed assets (3,154), Goodwill (10,503).

RECORDATI S.p.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2017

1. GENERAL

The consolidated financial statements at 30 September 2017 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in attachment 1. During the period ended 30 September 2017 the consolidation perimeter underwent two organizational changes: the Luxembourg company Recordati S.A. Chemical and Pharmaceutical Company was incorporated into the Parent with retroactive fiscal and accounting effect to January 1, and the non operational company Recordati Portuguesa Ltda was liquidated. Furthermore, Recordati Rare Diseases Canada Inc., which operates in the segment dedicated to rare diseases, was established.

The recognition in the accounts of the Italian company Italchimici S.p.A. and the Swiss company Pro Farma AG with its Austrian subsidiary Pro Farma GmbH, acquired respectively in May and July of 2016, is now definite, and the assets and liabilities recognized on a temporary basis in the 2016 financial statements are confirmed.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The first nine months consolidated financial statements were prepared in accordance with the IAS 34 requirements for interim reporting. The statements do not include the full information required for the annual financial statements and must therefore be read together with the annual report for the full year ended 31 December 2016, prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

The preparation of the interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. Valuation exercises, in particular complex calculations such as those required to identify impairment loss, are carried out in depth only for the preparation of the year-end consolidated financial statements, except when there is an indication that an asset has suffered an impairment loss which would require an immediate estimate of the loss.

Disclosure of the net financial position and of events subsequent to the end of the period are included under the preceding management review.

3. REVENUE

Net revenue for the first nine months of 2017 is € 963.8 million (€ 862.4 million in the same period of the preceding year) and can be broken down as follows:

€ (thousands)	First nine months 2017	First nine months 2016	Change 2017/2016
Net sales	953,207	851,391	101,816
Royalties	3,300	4,349	(1,049)
Up-front payments	3,291	3,903	(612)
Other revenue	4,029	2,727	1,302
Total revenue	963,827	862,370	101,457

4. OPERATING EXPENSES

Overall operating expenses in the first nine months of 2017 are € 656.3 million, an increase as compared to the € 610.0 million in the same period of the preceding year and are analyzed by function. Personnel costs are € 198.5 million and include a cost for stock options of € 3.0 million. Total depreciation and amortization charges are € 34.5 million, an increase of € 6.9 million over those of the first nine months 2016.

Other income (expense) comprises non-recurring events, operations and matters which are not often repeated in the ordinary course of business. In the first nine months of 2017 the net amount is other expense of € 1.4 million which includes ancillary costs of € 0.8 million associated with the acquisition from AstraZeneca of the European marketing rights to the products Seloken®/Seloken® ZOK (metoprolol succinate) and associated Logimax® fixed dose combination (metoprolol succinate and felodipine).

5. FINANCIAL INCOME AND EXPENSE

In the first nine months of 2017 and in the same period of 2016 financial items record a net expense of € 11.8 million and € 8.6 million respectively and are comprised as follows:

€ (thousands)	First nine months 2017	First nine months 2016	Change 2017/2016
Currency exchange gains (losses)	(2,290)	(316)	(1,974)
Interest expense on loans	(7,307)	(5,740)	(1,567)
Net interest income (expense) on short-term financial position	(2,008)	(2,368)	360
Interest cost in respect of defined benefit plans	(148)	(202)	54
Total financial income (expense), net	(11,753)	(8,626)	(3,127)

6. PROPERTY, PLANT AND EQUIPMENT

The composition and variation of property, plant and equipment are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/construction in progress	Total
Cost					
Balance at 31 December 2016	79,409	223,397	64,871	7,007	374,684
Additions	942	1,844	1,803	4,200	8,789
Disposals	(82)	(681)	(1,214)	(90)	(2,067)
Other changes	(2,665)	1,024	546	(6,529)	(7,624)
Balance at 30 September 2017	77,604	225,584	66,006	4,588	373,782
Accumulated depreciation					
Balance at 31 December 2016	39,286	175,238	49,958	0	264,482
Depreciation for the period	1,917	5,924	2,894	0	10,735
Disposals	(61)	(614)	(1,167)	0	(1,842)
Other changes	(639)	(1,294)	(464)	0	(2,397)
Balance at 30 September 2017	40,503	179,254	51,221	0	270,978
Carrying amount at					
30 September 2017	37,101	46,330	14,785	4,588	102,804
31 December 2016	40,123	48,159	14,913	7,007	110,202

The additions during the period are € 8.8 million and refer to investments in the Italian plants and in the headquarters building for an amount of € 4.6 million.

7. INTANGIBLE ASSETS

The composition and variation of intangible assets are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31 December 2016	331,194	190,565	18,221	16,732	556,712
Additions	266,881	3,574	122	1,388	271,965
Disposals	(48)	(300)	0	(2)	(350)
Other changes	(14,136)	1,488	(135)	(777)	(13,560)
Balance at 30 September 2017	583,891	195,327	18,208	17,341	814,767
Accumulated amortization					
Balance at 31 December 2016	141,883	118,577	16,368	0	276,828
Amortization for the period	13,748	9,630	346	0	23,724
Disposals	(47)	0	0	0	(47)
Other changes	(2,082)	(1,634)	(221)	0	(3,937)
Balance at 30 September 2017	153,502	126,573	16,493	0	296,568
Carrying amount at					
30 September 2017	430,389	68,754	1,715	17,341	518,199
31 December 2016	189,311	71,988	1,853	16,732	279,884

During the period an agreement was entered into with AstraZeneca for the acquisition of the rights to Seloken®/Seloken® ZOK (metoprolol succinate) and associated Logimax® fixed dose combination (metoprolol

succinate and felodipine) treatments in Europe. Metoprolol succinate is a beta-blocker for the control of hypertension, angina and heart failure. The amount associated with this acquisition booked to additions during the period is of € 266.9 million.

8. GOODWILL

Net goodwill at 30 September 2017 amounts to € 544.5 million, a decrease of € 12.1 million as compared to that at 31 December 2016, and is attributed to the operational areas, which represent the same number of cash generating units:

- France: € 45.8 million;
- Russia: € 28.1 million;
- Germany: € 48.8 million;
- Portugal: € 32.8 million;
- Treatments for rare diseases business: € 110.6 million;
- Turkey: € 59.2 million;
- Czech Republic: € 13.6 million;
- Romania: € 0.2 million;
- Poland: € 15.3 million;
- Spain: € 58.1 million;
- Tunisia: € 18.6 million;
- Italy: € 105.3 million;
- Switzerland: € 8.1 million.

The recognition in the accounts of the goodwill associated with the companies acquired in 2016, the Italian company Italchimici S.p.A. and the Swiss company Pro Farma AG with its Austrian subsidiary Pro Farma GmbH, are now definite, as prescribed by IFRS 3.

Regarding the Italian company, the measurement of the fair value of the company's assets and liabilities at the date of acquisition which was recognized provisionally in the 2016 financial statements is confirmed. The process did not result in the identification of any item to which allocate the amount paid the company and the entire difference between the amount paid and the book value of the assets and liabilities acquired was allocated to goodwill as it is believed that the value of the acquisition resides in its strategic nature and in the possibility of generating operating synergies.

Also with respect to the Swiss company Pro Farma AG and its Austrian subsidiary Pro Farma GmbH, the measurement of the fair value of the company's assets and liabilities at the date of acquisition which was recognized provisionally in the 2016 financial statements is confirmed. The process resulted in the identification of an increased value of the intangible assets acquired, and in particular of Urocit®, the fair value of which is higher than its book value. Therefore, an amount of € 2.3 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to this intangible asset to bring its book value in line with its fair value. An amount of € 0.3 million was allocated to the relative deferred tax liabilities and the remaining € 8.5 million were allocated to goodwill.

Goodwill related to acquisitions made in countries outside the European Monetary Union is calculated in local currency and converted into Euro at the period-end exchange rate. Conversion at 30 September 2017 resulted in an overall net decrease of € 12.1 million, compared to that at 31 December 2016, to be attributed to the acquisitions in Turkey (decrease of € 7.9 million), Tunisia (decrease of € 3.6 million), Russia (decrease of € 1.0

million), Switzerland (decrease of € 0.5 million), Poland (increase of € 0.4 million) and the Czech Republic (increase of € 0.5 million).

In compliance with IFRS 3 goodwill is not systematically amortized. Instead, it is tested for impairment on an annual basis or more frequently if specific events or circumstances indicate a possible loss of value. During the period no events or circumstances arose to indicate possible value loss related to any of the abovementioned items.

9. OTHER INVESTMENTS

At 30 September 2017 other investments amount to € 24.4 million and increase by € 5.2 million compared to those at 31 December 2016.

The main investment is that made in the U.K. company PureTech Health plc, specialized in investment in start-up companies dedicated to innovative therapies, medical devices and new research technologies. Starting 19 June 2015 the shares of the company were admitted to trading on the London Stock Exchange. At 30 September 2017 the overall fair value of the 9.554.140 shares held is of € 14.3 million. The € 1.1 million increase in value compared to that at 31 December 2016 is booked as revenue for the period recognized directly in equity, net of the relative tax effect, and shown on the statement of comprehensive income.

This account also comprises € 10.0 million relative to an investment made during 2012 in Erytech Pharma S.A., a late development stage French biopharmaceutical company focused on orphan oncology and rare diseases. The investment, originally structured as a non-interest bearing loan, was converted into 431,034 shares of the company in May 2013. As compared to 31 December 2016 the value of the investment was increased by € 4.1 million to bring it in line with its fair value. This amount, net of its tax effect, is booked to equity and shown on the statement of comprehensive income.

10. DEFERRED TAX ASSETS AND LIABILITIES

At 30 September 2017 deferred tax assets are € 64.8 million, a net increase of € 27.6 million compared to those at 31 December 2016. Deferred tax liabilities are € 18.0 million, a net decrease of € 9.7 million compared to those at 31 December 2016. Both changes were mainly determined by the revaluation, for tax purposes, of the goodwill and some intangible assets connected with the acquisitions of Italchimici S.p.A. and of Pro Farma AG.

11. SHAREHOLDERS' EQUITY

Shareholders' Equity at 30 September 2017 is € 1,054.9 million, an increase of € 151.0 million compared to that at 31 December 2016 for the following reasons:

- net income for the period (increase of € 219.8 million);
- cost of stock option plans set-off directly in equity (increase of € 3.0 million);
- disposal of 2,922.500 own shares in treasury stock to service the stock option plans (increase of € 29.4 million);
- change in the value of cross currency swaps, the underlying loans and interest rate swaps set-off directly in equity, net of the relative tax effect (increase of € 2.1 million);
- application of IAS/IFRS (increase of € 3.7 million), almost entirely due to the change in fair value of the holdings in PureTech Health plc and in Erytech Pharma S.A., net of the tax effect;
- translation adjustments (decrease of € 34.9 million).

- dividend paid (decrease of € 72.1 million).

The Italian subsidiary of Orphan Europe is 99% owned giving rise to a minority interest of € 138.0 thousand.

As at 30 September 2017 the Company has two stock option plans in favor of certain group employees in place, the 2010-2013 plan, under which options were granted on 9 February 2011, on 8 May 2012, on 17 April 2013 and on 30 October 2013 and the 2014-2018 plan under which options were granted on 29 July 2014 and on 13 April 2016. The strike price of the options is the average of the parent company's listed share price during the 30 days prior to the grant date. Stock options are vested over a period of five years and those not exercised within the eighth year of the date of grant expire. Options cannot be exercised if the employee leaves the company before they are vested. Stock options outstanding at 30 September 2017 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2017	Options granted during 2017	Options exercised during 2017	Options cancelled or expired	Options outstanding at 30.9.2017
Date of grant						
9 February 2011	6.7505	597,500	-	(393,000)	-	204,500
8 May 2012	5.3070	1,425,000	-	(831,000)	-	594,000
17 April 2013	7.1600	120,000	-	(72,500)	(10,000)	37,500
30 October 2013	8.9300	155,000	-	(75,000)	-	80,000
29 July 2014	12.2900	4,530,000	-	(1,335,000)	(174,000)	3,021,000
13 April 2016	21.9300	3,973,000	-	(216,000)	(234,000)	3,523,000
Total		10,800,500	-	(2,922,500)	(418,000)	7,460,000

At 30 September 2017, 968,762 own shares are held as treasury stock, a decrease of 2,922,500 shares as compared to those at 31 December 2016. The change is to be attributed to the disposal of 2,922,500 shares for an overall value of € 29.4 million to service the exercise of stock options issued under the stock option plans. The overall purchase cost of the shares held in treasury stock is € 19.1 million with an average unit price of € 19.73.

12. LOANS

At 30 September 2017 medium and long-term loans are € 586.5 million. The net increase of € 252.4 million compared to those at 31 December 2016 is determined by new loans for an amount of € 300.1 million, reimbursements during the period for an amount of € 30.6 million and by a decrease of € 17.1 million arising from the conversion of loans in foreign currency.

On 29 September 2017 the Parent undersigned a loan agreement with UniCredit for an amount of € 50.0 million, disbursed net of up-front commissions of 0.15%. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 55 basis points with semi-annual payments of interest and the repayment of capital on 29 September 2021. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.698%. loan. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

On 7 September 2017 the Parent undersigned a loan agreement with UBI Banca for an amount of € 50.0 million, disbursed net of up-front commissions of 0.10%. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 50 basis points with semi-annual payments of interest and the repayment of capital on 7 September 2022. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.714%. loan. The measurement at fair value at 30 September 2017 of the swap generated an asset of € 0.1 million which is recognized directly as an increase in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current assets (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

On 28 July 2017 the Parent undersigned a loan agreement with Mediobanca for an amount of € 75.0 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 95 basis points and a duration of 7 years with annual repayments of capital from July 2018 through July 2024. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 1.29%. loan. The measurement at fair value at 30 September 2017 of the swap generated a liability of € 0.4 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

In May 2017 the Parent privately placed guaranteed senior notes for an overall amount of € 125.0 million at 2.07% fixed interest rate with repayment in annual instalments starting on 31 May 2025 through 31 May 2032. The note purchase agreement covering the notes includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

The main long-term loans outstanding are:

- a) A loan agreement with Banca Nazionale del Lavoro undersigned by the Parent company in December 2016 for an amount of € 25.0 million, disbursed net of expenses and commissions of € 0.1 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 40 basis points and a duration of 4 years with semi-annual repayments of capital from March 2019 through September 2020. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge,

effectively converting the interest charges from variable to a fixed rate of 0.41%. The measurement at fair value at 30 September 2017 of the swap generated a liability of € 0.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions are amply fulfilled.

b) A loan agreement with Intesa Sanpaolo undersigned by the Parent company in December 2016 for an amount of € 25.0 million, disbursed net of expenses and commissions of € 0.1 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 60 basis points and a duration of 5 years with semi-annual repayments of capital from June 2019 through December 2021. The loan is entirely covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges from variable to a fixed rate of 0.68%. The measurement at fair value at 30 September 2017 of the swap generated a liability of € 0.1 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions are amply fulfilled.

c) A loan granted to the subsidiary Recordati Ilaç on 30 November 2015 by ING Bank for an amount of 5.9 million Turkish lira to be repaid on 22 March 2018. Main terms are: fixed interest rate of 13.25%, quarterly payment of interest accrued and reimbursement of the entire principal at expiry date. The conversion of the debt at 30 September 2017 gave rise to a reduction of € 0.2 million compared to 31 December 2016 due to the devaluation of the Turkish Lira and the overall equivalent value of the debt is € 1.4 million.

d) A loan agreement with UniCredit undersigned by the Parent company in May 2015 for an amount of € 50.0 million. The main terms and conditions provide for variable interest rate fixed at the six months Euribor plus a spread of 80 basis points and a duration of 5 years with semi-annual repayments of capital from November 2015 through May 2020. The debt outstanding at 30 September 2017 is of € 29.8 million. The loan is partly covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges on a portion of the debt from variable to a fixed rate of 1.734%. The measurement at fair value at 30 September 2017 of the swap covering € 20.8 million generated a liability of € 0.4 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions are amply fulfilled.

e) A loan agreement with ING Bank for an amount of € 30.0 million, originally undersigned by the Parent company on 8 January 2014, was re-negotiated on 12 June 2015 with only the interest rate being changed. Main terms are: variable interest rate equivalent to the six months' Euribor plus a spread of 85 basis points (as opposed to the 190 basis points in the previous agreement), and reimbursement of principal at the end of every six months starting July 2016 through January 2020. The debt outstanding at 30 September 2017 is of € 18.7 million. The loan was simultaneously covered with an interest rate swap qualifying as a cash flow hedge transforming the interest payable on the entire debt to a fixed interest rate of 1.913% following the above mentioned re-negotiation. The fair value measurement of the swap at 30 September 2017 generated a liability of € 0.3 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The ING Bank loan agreement contains covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions are amply fulfilled.

f) A loan agreement with IFC-World Bank undersigned by the subsidiary Recordati Ilaç on 16 October 2014 for an amount of 71.6 million Turkish lira to finance the construction of a new production plant. Main terms are: variable interest rate equivalent to the three months' trlibor plus a spread of 162 basis points, 8-year duration and reimbursement of principal at the end of every three months starting November 2016 through August 2022. The value in euros of the outstanding loan at 30 September 2017 is of € 13.9 million, resulting in a reduction of the liability by € 4.3 million as compared to that at 31 December 2016, of which € 2.1 million was due to the devaluation of the Turkish lira. The loan agreement includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are:

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

The above conditions were amply fulfilled.

g) Privately placed guaranteed senior notes by the Parent company on 30 September 2014 for an amount of \$ 75 million in two tranches: \$ 50 million at a fixed interest rate of 4,28% to be reimbursed bi-annually as from 30 March 2022 through 30 September 2026, and \$ 25 million at a fixed interest rate of 4.51% to be reimbursed bi-annually as from 30 March 2023 through 30 September 2029. The conversion of the loan into euros at 30 September 2017 resulted in a reduction of the liability by € 7.6 million as compared to that at 31 December 2016 due to the devaluation of the U.S. dollar. The loan was simultaneously covered with two currency rate swaps transforming the overall debt to € 56.0 million, of which € 37.3 million at a fixed interest rate of 2.895% on the 12-year tranche and € 18.7 million at a fixed interest rate of 3.15% on the 15-year tranche. At 30 September 2017 the measurement at fair value of the hedging instruments generated an overall positive amount of € 5.1 million recognized directly to equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current assets (see Note 17). The note purchase agreement covering the senior guaranteed notes issued by Recordati S.p.A. includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

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

The above conditions were amply fulfilled during the period.

h) A loan agreement with Banca Nazionale del Lavoro undersigned by the Parent Company on 30 September 2013 for an amount of € 50 million, cashed-in net of expenses and commissions of € 0.6 million. Main terms are: variable interest rate equivalent to the six months' Euribor plus a spread (which following re-negotiation of the agreement was reduced from 200 to 70 basis points as from 1 April 2015 and to 50 basis points as from 29 March 2017) and 5-year duration with reimbursement of principal in 8 installments due at the end of every six months starting March 2015 through September 2018. The residual amount of the loan amounts to € 12.4 million at 30 September 2017. The loan was simultaneously covered with an interest rate swap qualifying as a cash flow hedge transforming the interest payable on the entire debt to a fixed interest which now stands at 1.4925% following re-negotiation. The measurement at fair value of the swap at 30 September 2017 generated a liability of € 0.1 million recognized directly in equity and under current liabilities as 'Fair value of hedging derivatives (cash flow hedge)' (see Note 17). The loan agreement contains covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions are amply fulfilled.

i) Senior guaranteed notes issued by Recordati Rare Diseases Inc. privately placed with U.S. investors on 13 June 2013 to fund the acquisition of a portfolio of products for the treatment of rare and other diseases sold mainly in the United States of America. The loan comprises two series of notes for a total of \$ 70 million, of which \$ 40 million ten-year bullet and 4.55% coupon and \$ 30 million twelve-year bullet and 4.70% coupon. The conversion of the loan into euros at 30 September 2017 resulted in a decrease of the liability by € 7.1 million as compared to that at 31 December 2016 due to the devaluation of the U.S. dollar. The note purchase agreement covering the senior guaranteed notes issued by Recordati Rare Diseases Inc. includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

j) A loan agreement with Centrobanca undersigned by the Parent company on 30 November 2010 to fund a three-year research and investment program. The loan, for which Centrobanca received funding from the European Investment Bank, amounts to € 75.0 million of which € 30.0 million were cashed in during 2010 and € 45.0 million in the first quarter of 2011, net of the € 0.3 million expenses. The main terms and conditions provide for a variable interest rate and a duration of 12 years with semi-annual repayments of capital from June 2012 through December 2022. The residual amount of the loan amounts to € 37.4 million at 30 September 2017. During the month of June 2012 interest on the whole loan was covered with an interest rate swap qualifying as a cash flow hedge. The current interest rate on the loan is 2.575%. The measurement at fair value of the hedging instrument at 30 September 2017 generated a liability of € 1.6 million which is recognized directly as a decrease in equity and stated as an increase of the 'Fair value of hedging derivatives (cash flow hedge)' under current liabilities (see Note 17). The loan agreement

includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

13. STAFF LEAVING INDEMNITIES

The staff leaving indemnity fund at 30 September 2017 is of € 21.8 million and is measured as prescribed by IAS 19.

14. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities at 30 September 2017 are € 2.5 million and refer entirely to the debt for the acquisition of a further 10% of the share capital of Opalia Pharma which, in line with the put and call options in the purchase agreement, is expected to be settled not before the next 12 months.

15. CURRENT ASSETS

Inventories are € 169.7 million, an increase of € 10.9 million compared to those stated at 31 December 2016.

Trade receivables at 30 September 2017 are € 246.2 million, an increase of € 40.2 million compared to that at 31 December 2016 due to the significant increase in sales. Trade receivables are stated net of a € 16.0 million provision for doubtful accounts which reflects the collection risk connected with certain customers and geographic areas. Days sales outstanding are 68.

Other receivables, at € 27.8 million, decrease by € 3.2 million compared to those at 31 December 2016.

Other current assets are € 7.0 million and refer mainly to prepaid expenses.

16. CURRENT LIABILITIES

Trade payables, which include the accrual for invoices to be received, are € 132.0 million.

Other payables are € 81.4 million, an increase of € 3.4 million compared to those at 31 December 2016, and relate mainly to amounts owed to personnel and social security institutions. This account also includes:

- € 8.0 million to be paid to U.S. health insurance institutions by Recordati Rare Diseases;
- € 4.7 million to be paid to the Italian health authorities resulting from the 1.83% claw-back applicable on the price to the public before VAT of pharmaceutical products reimbursed by the National Health Service and the pay-back due in substitution for a 5% price reduction on selected products;
- € 7.2 million to be paid to the “Krankenkassen” (German health insurance) by Recordati Pharma GmbH;

Tax payables are € 30.7 million, an increase of € 10.3 million compared to those at 31 December 2016.

Provisions are € 44.7 million, a decrease of € 16.7 million compared to those at 31 December 2016, mainly due to the provision to cover risks connected with fiscal cases.

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

The cross currency swaps covering the cash flows related to the notes issued and privately placed on 30 September 2014, for an amount of \$ 75 million, measured at fair value at 30 September 2017 give rise to a € 5.1 million asset recognized under current assets as 'Fair value of hedging derivatives (*cash flow hedge*)'. This amount represents the potential benefit of a lower value in euros of the future dollar denominated capital and interest flows, in view of the revaluation of the foreign currency subsequent to the moment in which the loan and hedging instrument were negotiated. In particular, the change in fair value of the hedging instrument covering the \$ 50 million tranche of the loan, provided by Mediobanca, was positive for an amount of € 3.5 million, and that covering the \$ 25 million tranche of the loan, provided by UniCredit, yielded a € 1.6 million positive value change.

The measurement at fair value of the interest rate swap covering the medium/long-term loan agreement stipulated between the Parent and UBI Banca gave rise to a € 0.1 million asset at 30 September 2017 recognized under current assets as 'Fair value of hedging derivatives (*cash flow hedge*)'. This amount represents the opportunity of paying the rates agreed instead of the current expected future rates for the duration of the loan.

The measurement at fair value of the interest rate swaps covering the cash flows related to medium and long-term loans gave rise to a net € 3.0 million liability at 30 September 2017 recognized under current liabilities as 'Fair value of hedging derivatives (*cash flow hedge*)'. This amount represents the unrealized opportunity of paying the current expected future rates instead of the rates agreed. The amount refers to the interest rate swaps to cover the interest rate risk associated with the loans granted by Centrobanca (€ 1.6 million), UniCredit (€ 0.4 million), Mediobanca (€ 0.4), ING Bank (€ 0.4 million), Banca Nazionale del Lavoro (2013 loan € 0.1 million, 2016 loan € 0.1 million), and by Intesa Sanpaolo (€ 0.1 million).

In November 2016, following two loan agreements undersigned by the U.S. company Recordati Rare Diseases and the Parent for a nominal total of \$ 70 million (corresponding to the two tranches of the notes issued by Recordati Rare Diseases in 2013), two cross currency swaps were provided by Unicredit which effectively convert the loan into a total of € 62.9 million, of which € 35.9 million at a fixed interest rate of 1.56% per year corresponding to the tranche expiring in 2023 and € 27.0 million at a fixed interest rate of 1.76% per year for the tranche expiring in 2025. At 30 September 2017 the fair value of the hedging instruments is a liability of € 5.2 million, recognized directly in equity.

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

Short term financial investments, cash and cash equivalents at 30 September 2017 are € 297.9 million, an increase of € 159.4 million compared to those at 31 December 2016. They are mostly denominated in Euro, U.S. Dollars and Pounds Sterling and comprise mainly current accounts and short-term deposits.

19. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans are € 33.0 million at 30 September 2017 and are comprised mainly of temporary use of lines of credit, current account overdrafts and interest accrued on existing loans. At 30 September 2017 a total of 20 million Turkish Lira, for an equivalent amount of € 4.8 million, were drawn down on the revolving line of credit obtained in July 2017 by Recordati Ilaç, the subsidiary in Turkey, for a maximum amount of 40 million Turkish Lira. This short-term financing instrument, which has 24 months maximum duration, provides flexibility by combining the fact that it's non-revocable with the variability of the draw-

downs based on specific financial needs. The agreement contains financial covenants in line with those already in place for other loans.

20. OPERATING SEGMENTS

The financial information reported by line of business and by geographical area, in compliance with IFRS 8 – *Operating segments*, is prepared using the same accounting principles and reporting standards used for the preparation and disclosure of the Group consolidated financial statements. Following the acquisition of Orphan Europe two main business segments can be identified, the pharmaceutical segment and the orphan drugs segment.

The following table shows financial information for these two business segments as at 30 September 2017 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
First nine months 2017				
Revenues	802,561	161,266	-	963,827
Expenses	(568,965)	(87,360)	-	(656,325)
Operating income	233,596	73,906	-	307,502
First nine months 2016				
Revenues	721,728	140,642	-	862,370
Expenses	(533,638)	(76,326)	-	(609,964)
Operating income	188,090	64,316	-	252,406

* Includes the pharmaceutical chemicals operations

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated **	Consolidated accounts
30 September 2017				
Non-current assets	1,048,636	187,963	24,352	1,260,951
Inventories	152,426	17,226	-	169,652
Trade receivables	203,724	42,514	-	246,238
Other current assets	28,641	6,158	5,154	39,953
Short-term investments, cash and cash equivalents	-	-	297,930	297,930
Total assets	1,433,427	253,861	327,436	2,014,724
Non-current liabilities	37,741	2,815	536,557	577,113
Current liabilities	251,931	37,797	92,987	382,715
Total liabilities	289,672	40,612	629,544	959,828
Net capital employed	1,143,755	213,249		
31 December 2016				
Non-current assets	788,083	201,228	19,199	1,008,510
Inventories	140,939	17,861	-	158,800
Trade receivables	174,540	31,448	-	205,988
Other current assets	32,782	3,673	12,497	48,952
Short-term investments, cash and cash equivalents	-	-	138,493	138,493
Total assets	1,136,344	254,210	170,189	1,560,743
Non-current liabilities	48,602	2,926	293,965	345,493
Current liabilities	213,723	37,848	59,739	311,310
Total liabilities	262,325	40,774	353,704	656,803
Net capital employed	874,019	213,436		

* Includes the pharmaceutical chemicals operations.

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

The pharmaceutical chemicals operations are considered part of the pharmaceutical segment as they are prevalently dedicated to the production of active ingredients for this business, both from a strategic and organizational point of view.

21. LITIGATION AND CONTINGENT LIABILITIES

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

basis of that decision, the claims included in the above mentioned tax assessment for the year 2003 have been essentially fully confirmed and the Company has paid all amounts due. On 26 May 2010 the Company appealed that decision before the Corte Suprema di Cassazione (Supreme Court of Cassation). On 20 April 2017 the hearing took place and as a result with the decision n. 20805/17, handed down on 6 September 2017, the Court came to the decision to almost reject all the Company's arguments.

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

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

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

In December 2015 the same Italian Tax Police (Guardia di Finanza) notified the Parent of their intention to commence a general income tax inspection covering the years 2009 through 2014 involving the group companies which reside in Ireland and in Luxembourg, Recordati Ireland Ltd and Recordati S.A. Chemical and Pharmaceutical Company respectively. The declared intention of the inspection is to evaluate the operational context of the foreign companies in order to verify whether said companies are in reality only formally localized abroad but are substantially managed/administered from Italy. On 28 February 2017 the Italian Tax Police (Guardia di Finanza) prescribed the extension of the income tax inspection to include the year 2015. After having analysed the documents and completed the investigation process, the Italian Tax Police finally revealed to Recordati Ireland Ltd., on 6 September 2017, their reasons for considering the Irish company subject to tax in Italy for corporate tax purposes in the reference period, resulting in an assessment of taxes allegedly owed to Italy, in the amount of € 109,4 million, against taxes of € 51,8 million already paid in Ireland. Similarly, the Italian Tax Police finally revealed to Recordati S.A. Chemical and Pharmaceutical Company, on 6 September 2017, their reasons for considering the Luxembourg company subject to tax in Italy for corporate tax purposes in the reference period, resulting in an assessment of taxes allegedly owed to Italy, in the amount of € 7,2 million. The Company, supported in its position by professional opinion, maintains that the companies under inspection operate in such a way as to justify the correctness of the fiscal policy adopted.

RECORDATI S.p.A. AND SUBSIDIARIES

SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 30 SEPTEMBER 2017

ATTACHMENT 1.

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.p.A. <i>Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals</i>	Italy	26,140,644.50	Euro	Line-by-line
INNOVA PHARMA S.p.A. <i>Marketing and sales of pharmaceuticals</i>	Italy	1,920,000.00	Euro	Line-by-line
CASEN RECORDATI S.L. <i>Development, production, marketing and sales of pharmaceuticals</i>	Spain	238,966,000.00	Euro	Line-by-line
BOUCHARA RECORDATI S.A.S. <i>Development, production, marketing and sales of pharmaceuticals</i>	France	4,600,000.00	Euro	Line-by-line
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA <i>Dormant, holds pharmaceutical marketing rights in Brazil</i>	Brazil	166.00	BRL	Line-by-line
RECORDATI RARE DISEASES INC. <i>Development, production, marketing and sales of pharmaceuticals</i>	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD <i>Development, production, marketing and sales of pharmaceuticals</i>	Ireland	200,000.00	Euro	Line-by-line
RECORDATI S.A. <i>Marketing and sales of pharmaceuticals</i>	Switzerland	2,000,000.00	CHF	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. <i>Development, production, marketing and sales of pharmaceuticals</i>	France	14,000,000.00	Euro	Line-by-line
RECORDATI PHARMA GmbH <i>Marketing and sales of pharmaceuticals</i>	Germany	600,000.00	Euro	Line-by-line
RECORDATI PHARMACEUTICALS LTD <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. <i>Marketing and sales of pharmaceuticals</i>	Greece	10,050,000.00	Euro	Line-by-line
JABA RECORDATI S.A. <i>Marketing and sales of pharmaceuticals</i>	Portugal	2,000,000.00	Euro	Line-by-line
JABA FARMA PRODUTOS FARMACÉUTICOS S.A. <i>Marketing of pharmaceuticals</i>	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÉUTICOS S.A. <i>Marketing of pharmaceuticals</i>	Portugal	50,000.00	Euro	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S. <i>Holding company</i>	France	57,000,000.00	Euro	Line-by-line
ORPHAN EUROPE SWITZERLAND GmbH <i>Marketing and sales of pharmaceuticals</i>	Switzerland	20,000.00	CHF	Line-by-line
ORPHAN EUROPE MIDDLE EAST FZ LLC <i>Marketing and sales of pharmaceuticals</i>	United Arab Emirates	100,000.00	AED	Line-by-line
ORPHAN EUROPE NORDIC A.B. <i>Marketing and sales of pharmaceuticals</i>	Sweden	100,000.00	SEK	Line-by-line
ORPHAN EUROPE PORTUGAL LDA <i>Marketing and sales of pharmaceuticals</i>	Portugal	5,000.00	Euro	Line-by-line
ORPHAN EUROPE S.A.R.L. <i>Development, production, marketing and sales of pharmaceuticals</i>	France	320,000.00	Euro	Line-by-line
ORPHAN EUROPE UNITED KINGDOM LTD <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	50,000.00	GBP	Line-by-line
ORPHAN EUROPE GERMANY GmbH <i>Marketing and sales of pharmaceuticals</i>	Germany	25,600.00	Euro	Line-by-line
ORPHAN EUROPE SPAIN S.L. <i>Marketing and sales of pharmaceuticals</i>	Spain	1,775,065.49	Euro	Line-by-line

Consolidated Companies <i>Marketing and sales of pharmaceuticals</i>	Head Office	Share Capital	Currency	Consolidation Method
ORPHAN EUROPE ITALY S.R.L. <i>Marketing and sales of pharmaceuticals</i>	Italy	40,000.00	Euro	Line-by-line
ORPHAN EUROPE BENELUX BVBA <i>Marketing and sales of pharmaceuticals</i>	Belgium	18,600.00	Euro	Line-by-line
FIC MEDICAL S.A.R.L. <i>Marketing of pharmaceuticals</i>	France	173,700.00	Euro	Line-by-line
HERBACOS RECORDATI s.r.o. <i>Development, production, marketing and sales of pharmaceuticals</i>	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o. <i>Marketing and sales of pharmaceuticals</i>	Slovakia	33,193.92	Euro	Line-by-line
RUSFIC LLC <i>Marketing and sales of pharmaceuticals</i>	Russian Federation	3,560,000.00	RUB	Line-by-line
RECOFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. <i>Marketing of pharmaceuticals</i>	Turkey	10,000.00	TRY	Line-by-line
RECORDATI ROMÂNIA S.R.L. <i>Marketing and sales of pharmaceuticals</i>	Romania	5,000,000.00	RON	Line-by-line
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş. <i>Development, production, marketing and sales of pharmaceuticals</i>	Turkey	120,875,367.00	TRY	Line-by-line
RECORDATI POLSKA Sp. z o.o. <i>Marketing and sales of pharmaceuticals</i>	Poland	4,500,000.00	PLN	Line-by-line
ACCENT LLC <i>Holds pharmaceutical marketing rights</i>	Russian Federation	20,000.00	RUB	Line-by-line
RECORDATI UKRAINE LLC <i>Marketing of pharmaceuticals</i>	Ukraine	1,031,896.30	UAH	Line-by-line
CASEN RECORDATI PORTUGAL Unipessoal Lda <i>Marketing and sales of pharmaceuticals</i>	Portugal	100,000.00	Euro	Line-by-line
OPALIA PHARMA S.A. <i>Development, production, marketing and sales of pharmaceuticals</i>	Tunisia	9,656,000.00	TND	Line-by-line
OPALIA RECORDATI S.A.R.L. <i>Marketing of pharmaceuticals</i>	Tunisia	20,000.00	TND	Line-by-line
RECORDATI RARE DISEASES S.A. DE C.V. <i>Marketing of pharmaceuticals</i>	Mexico	16,250,000.00	MXN	Line-by-line
RECORDATI RARE DISEASES COLOMBIA S.A.S <i>Marketing of pharmaceuticals</i>	Colombia	150,000,000.00	COP	Line-by-line
ITALCHIMICI S.p.A. ⁽¹⁾ <i>Marketing of pharmaceuticals</i>	Italy	7,646,000.00	EUR	Line-by-line
PRO FARMA AG ⁽¹⁾ <i>Marketing of pharmaceuticals</i>	Switzerland	3,000,000.00	CHF	Line-by-line
PRO FARMA GmbH ⁽¹⁾ <i>Marketing of pharmaceuticals</i>	Austria	35,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES CANADA Inc. ⁽²⁾ <i>Marketing of pharmaceuticals</i>	Canada	350,000.00	CAD	Line-by-line

⁽¹⁾ Acquired in 2016

⁽²⁾ Established in 2017

Consolidated companies	PERCENTAGE OF OWNERSHIP										
	Recordati S.p.A. (Parent)	Recordati Pharma GmbH	Bouchara S.A.S.	Casen Recordati S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Pro Farma AG	Total
INNOVA PHARMA S.P.A.	100.00										100.00
CASEN RECORDATI S.L.	100.00										100.00
BOUCHARA RECORDATI S.A.S.	100.00										100.00
RECORDATI RARE DISEASES COMERCIO DE MEDICAMENTOS LTDA	99.398					0.602					100.00
RECORDATI RARE DISEASES INC.	100.00										100.00
RECORDATI IRELAND LTD	100.00										100.00
RECORDATI S.A.	100.00										100.00
LABORATOIRES BOUCHARA RECORDATI S.A.S.			100.00								100.00
RECORDATI PHARMA GmbH	55.00			45.00							100.00
RECORDATI PHARMACEUTICALS LTD	100.00										100.00
RECORDATI HELLAS PHARMACEUTICALS S.A.	100.00										100.00
JABA RECORDATI S.A.			100.00								100.00
JABA FARMA PRODUTOS FARMACÉUTICOS S.A.			100.00								100.00
BONAFARMA PRODUTOS FARMACÉUTICOS S.A.			100.00								100.00
RECORDATI ORPHAN DRUGS S.A.S.	90.00	10.00									100.00
ORPHAN EUROPE SWITZERLAND GmbH				100.00							100.00
ORPHAN EUROPE MIDDLE EAST FZ LLC				100.00							100.00
ORPHAN EUROPE NORDIC A.B.			100.00								100.00
ORPHAN EUROPE PORTUGAL LDA			100.00								100.00
ORPHAN EUROPE S.A.R.L.			100.00								100.00
ORPHAN EUROPE UNITED KINGDOM LTD				100.00							100.00
ORPHAN EUROPE GERMANY GmbH				100.00							100.00
ORPHAN EUROPE SPAIN S.L.			100.00								100.00
ORPHAN EUROPE ITALY S.R.L.			99.00								99.00
ORPHAN EUROPE BENELUX BVBA			99.46	0.54							100.00
FIC MEDICAL S.A.R.L.		100.00									100.00

Consolidated companies	PERCENTAGE OF OWNERSHIP										Total
	Recordati S.p.A. (Parent)	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Casen Recordati S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Pro Farma AG	
HERBACOS RECORDATI s.r.o.	100.00										100.00
RECORDATI SK s.r.o.											100.00
RUSFIC LLC	100.00										100.00
RECOFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş.											100.00
RECORDATI ROMÂNIA S.R.L.	100.00										100.00
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş.	100.00										100.00
RECORDATI POLSKA Sp. z o.o	100.00										100.00
ACCENT LLC	100.00										100.00
RECORDATI UKRAINE LLC	0.01										100.00
CASEN RECORDATI PORTUGAL Unipessoal Lda											100.00
OPALIA PHARMA S.A.	90.00										90.00
OPALIA RECORDATI S.A.R.L.	1.00										99.00
RECORDATI RARE DISEASES S.A. DE C.V.	99.998										100.00
RECORDATI RARE DISEASES COLOMBIA S.A.S.											100.00
ITALCHIMICI S.p.A. ⁽¹⁾	100.00										100.00
PRO FARMA AG ⁽¹⁾	100.00										100.00
PRO FARMA GmbH ⁽¹⁾											100.00
RECORDATI RARE DISEASES CANADA Inc. ⁽²⁾	100.00										100.00

⁽¹⁾ Acquired in 2016

⁽²⁾ Established in 2017



RECORDATI S.p.A. AND SUBSIDIARIES

DECLARATION BY THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

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

Milan, 26 October 2017

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