



INTERIM REPORT

FIRST NINE MONTHS 2018

MANAGEMENT REVIEW HIGHLIGHTS

First nine months 2018

REVENUE

€ (thousands)	First nine months 2018	%	First nine months 2017	%	Change 2018/2017	%
Total revenue	1,013,308	100.0	963,827	100.0	49,481	5.1
Italy	206,704	20.4	198,554	20.6	8,150	4.1
International	806,604	79.6	765,273	79.4	41,331	5.4

KEY CONSOLIDATED P&L DATA

€ (thousands)	First nine months 2018	% of revenue	First nine months 2017	% of revenue	Change 2018/2017	%
Revenue	1,013,308	100.0	963,827	100.0	49,481	5.1
EBITDA ⁽¹⁾	380,050	37.5	341,961	35.5	38,089	11.1
Operating income	336,969	33.3	307,502	31.9	29,467	9.6
Net income	237,877	23.5	219,806	22.8	18,071	8.2

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

KEY CONSOLIDATED B/S DATA

€ (thousands)	30 September 2018	31 December 2017	Change 2018/2017	%
Net financial position ⁽²⁾	(462,710)	(381,780)	(80,930)	21.2
Shareholders' equity	988,036	1,027,237	(39,201)	(3.8)

⁽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 2018

REVENUE

€ (thousands)	Third quarter 2018	%	Third quarter 2017	%	Change 2018/2017	%
Total revenue	317,254	100.0	312,959	100.0	4,295	1.4
Italy	60,913	19.2	56,139	17.9	4,774	8.5
International	256,341	80.8	256,820	82.1	(479)	(0.2)

KEY CONSOLIDATED P&L DATA

€ (thousands)	Third quarter 2018	% of revenue	Third quarter 2017	% of revenue	Change 2018/2017	%
Revenue	317,254	100.0	312,959	100.0	4,295	1.4
EBITDA ⁽¹⁾	120,033	37.8	117,929	37.7	2,104	1.8
Operating income	105,038	33.1	104,304	33.3	734	0.7
Net income	73,689	23.2	72,819	23.3	870	1.2

⁽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 confirm the continued growth of the Group, with further improvement of the profitability. Consolidated revenue is € 1,013.3 million, up by 5.1% compared to the same period of the preceding year. International sales grow by 5.4%. EBITDA, at 37.5% of sales, is € 380.1 million, an increase of 11.1% over the first nine months of 2017. Operating income, at 33.3% of sales, is € 337.0 million, an increase of 9.6% over the same period of the preceding year. Net income, at 23.5% of sales, is € 237.9 million, an increase of 8.2% over the first nine months of 2017.

Net financial position at 30 September 2018 records a net debt of € 462.7 million compared to net debt of € 381.8 million at 31 December 2017. During the period own shares were purchased for an overall disbursement of € 169.8 million, dividends were distributed for an amount of € 87.1 million. Furthermore, the Italian company Natural Point S.r.l. was acquired for a value of € 75 million. Shareholders' equity is € 988.0 million.

CORPORATE DEVELOPMENT NEWS

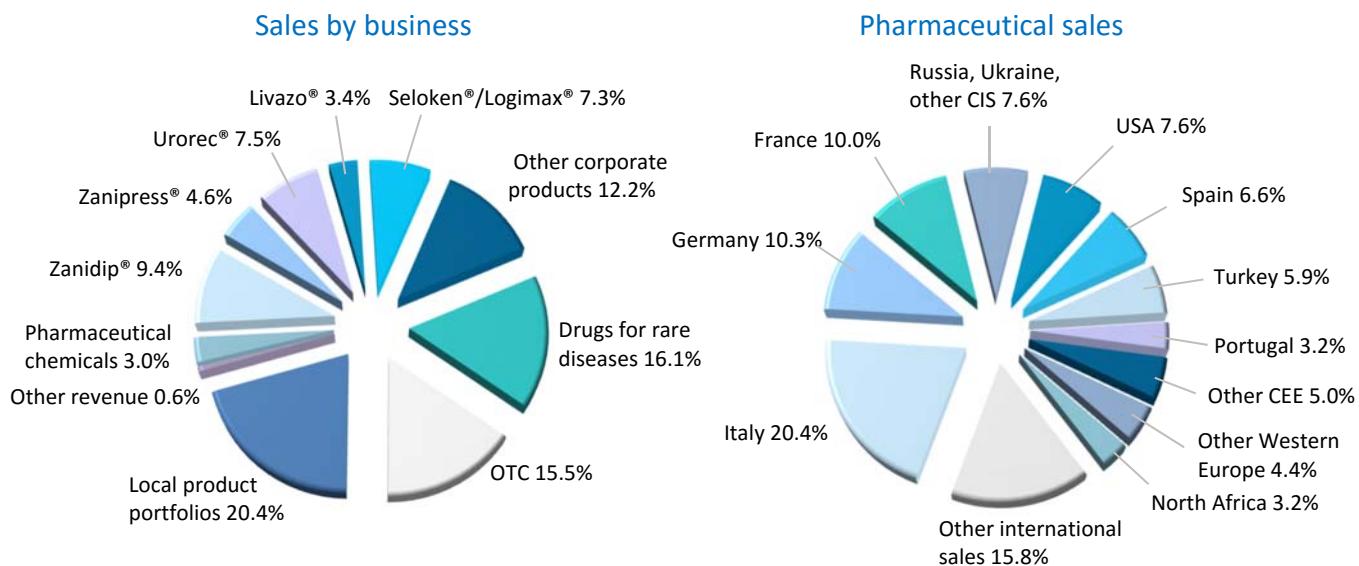
In April an agreement with Mylan for the acquisition of the rights to Cystagon® (cysteamine bitartrate), indicated for the treatment of proven nephropathic cystinosis in children and adults, for certain territories, including Europe, was concluded. The product was previously commercialized by Orphan Europe (a Recordati group company) under license from Mylan. The definitive acquisition of the rights allows the Group to continue offering this life-saving treatment to patients.

In June Recordati acquired 100% of the share capital of Natural Point S.r.l., an Italian company, based in Milan, active in the food supplements market. The company realized sales of € 15 million in 2017 and has an excellent profitability profile. The signing and closing of the transaction took place at the same time. Natural Point was established in 1993 with the objective of promoting a culture of healthy use of food supplements. It offers a wide portfolio of very efficacious supplements in highly bioavailable formulations, produced with safe active ingredients, to improve health and well-being. The company's main product is a particular formulation of magnesium carbonate and citric acid that has the characteristic of being easily assimilated into the body, apart from its having an agreeable flavor.

Recordati is the exclusive global partner of NovaBiotics Ltd, a biotechnology company based in Aberdeen, Scotland, for the commercialization of Lynovex®, a first-in-class oral intervention for acute infectious exacerbations associated with cystic fibrosis (CF). Cystic fibrosis exacerbations are major contributors to the irreversible decline in lung function and overall health of people with CF. Treatments that increase recovery from exacerbations might reduce the damaging effects of exacerbations. Lynovex® is designated as an orphan drug in Europe and in the U.S. and is the first multi-active therapy of its kind (anti-infective, mucolytic, anti-biofilm, antibiotic potentiating) to be developed specifically for alleviating the infectious trigger and symptoms of CF exacerbations. In July top line data from a recent clinical study (CARE CF 1) of oral Lynovex® in cystic fibrosis exacerbations was announced.

REVIEW OF OPERATIONS

Net revenue in the first nine months of 2018 is € 1,013.3 million, up 5.1% over the same period of the preceding year and includes the consolidation of the sales of Seloken®, Seloken® ZOK and Logimax® for an amount of € 50.1 million in the first half of 2018, the consolidation as from 1 July 2018 of sales amounting to € 3.7 million generated by Natural Point S.r.l., the Italian company acquired in June, as well as an estimated negative currency exchange rate effect of € 39.1 million. Excluding these items growth would have been of 3.6%. International sales grow by 5.4% to € 806.6 million, which represent 79.6% of total sales. Pharmaceutical sales are € 982.6 million, up by 5.3% while pharmaceutical chemicals sales are € 30.7 million, down by 1.0%, and represent 3.0% of total revenues.



The Group's pharmaceutical business, which represents 97.0% 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, in some South American countries and in Japan 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 2018 is shown in the table below.

€ (thousands)	First nine months 2018	First nine months 2017	Change 2018/2017	%
Zanidip® (lercanidipine)	95,611	96,103	(492)	(0.5)
Zanipress® (lercanidipine+enalapril)	46,120	53,708	(7,588)	(14.1)
Urorec® (silodosin)	76,141	69,532	6,609	9.5
Livazo® (pitavastatin)	34,395	29,193	5,202	17.8
Seloken®/Seloken® ZOK/Logimax® (metoprolol/metoprolol+felodipine)	73,845	22,659	51,186	n.s.
Other corporate products*	200,994	202,611	(1,617)	(0.8)
Drugs for rare diseases	162,989	161,266	1,723	1.1

* Include the OTC corporate products for an amount of € 77.6 million in 2018 and € 76.3 million in 2017 (+1.7%).

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 2018	First nine months 2017	Change 2018/2017	%
Direct sales	51,333	53,319	(1,986)	(3.7)
Sales to licensees	44,278	42,784	1,494	3.5
Total lercanidipine sales	95,611	96,103	(492)	(0.5)

Lercanidipine direct sales are down by 3.7% mainly due to the reduction of sales in Algeria, realized directly by our French subsidiary, following importation restrictions on products for which there is local production. Sales increase mainly in Greece and in Germany. Sales to licensees, which represent 46.3% of total lercanidipine sales, are up by 3.5%.

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 30 countries.

€ (thousands)	First nine months 2018	First nine months 2017	Change 2018/2017	%
Direct sales	36,947	42,397	(5,450)	(12.9)
Sales to licensees	9,173	11,311	(2,138)	(18.9)
Total lercanidipine+enalapril sales	46,120	53,708	(7,588)	(14.1)

Direct sales of Zanipress® in the first nine months of 2018 are down by 12.9% mainly due to competition from generic versions of the product. Sales to licensees represent 19.9% of total Zanipress® sales and are down by 18.9% mainly due to lower sales to licensees in France.

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 39 countries with sales of € 76.1 million in the first nine months of 2018, up 9.5% 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, other C.I.S. countries and Turkey, are € 34.4 million in the first nine months of 2018, up by 17.8% due to the performance of the product in Turkey and in all the other markets where it has been launched.

On 30 June 2017 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 2017. In the first nine months of 2018 sales are of € 73.8 million. 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 2018 sales of other corporate products totaled € 201.0 million, down by 0.8% compared to the same period of the preceding year due mainly to competition from generic versions of the rupatadine based brands and to the negative exchange rate effect in Russia. Other corporate products 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®, Reuflor®/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® and Muvagyn® for gynecological use, Virirec® (alprostadil), Fortacin® (lidocaine+prilocaine) and Reagila® (cariprazine).

In the first nine months of 2018, our specialties indicated for the treatment of rare diseases, marketed directly throughout Europe, in the Middle East, in the U.S.A., Canada, Mexico, in some South American countries and in Japan and through partners in other parts of the world, generated sales of € 163.0 million, up by 1.1%. Sales in the United States of America are down by 10.0% due to competition from a generic version of Cosmegen® and to a negative currency exchange rate effect. Sales in the rest of the world grow by 12.9%.

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

€ (thousands)	First nine months 2018	First nine months 2017	Change 2018/2017	%
Italy	200,894	192,705	8,189	4.2
Germany	101,345	87,105	14,240	16.3
France	98,084	91,692	6,392	7.0
Russia, other C.I.S. countries and Ukraine	75,120	79,275	(4,155)	(5.2)
U.S.A.	75,060	83,359	(8,299)	(10.0)
Spain	64,655	59,615	5,040	8.5
Turkey	57,577	65,394	(7,817)	(12.0)
Portugal	30,994	30,114	880	2.9
Other C.E.E. countries	49,347	31,736	17,611	55.5
Other Western European countries	42,873	38,659	4,214	10.9
North Africa	31,732	31,210	522	1.7
Other international sales	154,920	141,937	12,983	9.1
Total pharmaceutical revenue	982,601	932,801	49.800	5.3

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 2018	First nine months 2017	Change 2018/2017	%
Russia (RUB)	4,397,329	4,375,516	21,813	0.5
Turkey (TRY)	297,179	244,380	52,798	21.6
U.S.A. (USD)	92,596	95,686	(3,091)	(3.2)

Net revenues in Russia and in Turkey exclude sales of products for rare diseases. Sales in the U.S.A. include the sales in Canada.

Sales of pharmaceuticals in Italy are up by 4.2% compared to those of the same period of the preceding year. Worth mentioning is the good performance of Urorec® and Cardicor® (bisoprolol), the significant growth of the treatments for rare diseases and the integration in the product portfolio, as from July 2017, of the metoprolol based products acquired from AstraZeneca and, as from July 2018 the sales of Natural Point S.r.l., the Italian company acquired in June.

In Germany sales are up by 16.3% mainly thanks to the sales generated by the metoprolol based products acquired from AstraZeneca, consolidated as from 1 July 2017, and to the launch of Reagila® (cariprazine), a new drug for the treatment of schizophrenia.

Pharmaceutical sales in France are up by 7.0%. Worth mentioning is the good performance of Urorec®, in addition to the sales of Lercan® (lercanidipine) which is now marketed directly by our subsidiary following the termination of the license agreement with Pierre Fabre and the integration in the product portfolio of the metoprolol based brands acquired from AstraZeneca and of Transipeg® and Colopeg®, the gastrointestinal products acquired from Bayer in December 2017. The treatments for rare diseases are also growing strongly.

Revenue generated in Russia, Ukraine and in the countries within the Commonwealth of Independent States (C.I.S.) is € 75.1 million, down by 5.2% compared to the same period of the preceding year and includes estimated currency exchange losses of € 8.7 million. Sales in Russia, in local currency, are RUB 4,397.3 million, up by 0.5% compared to the same period of the preceding year. Worth mentioning is the growth of the corporate products Procto-Glyvenol®, Urorec®, Livazo® and Zanidip®. Sales generated in Ukraine and in the C.I.S. countries, mainly Belarus, Kazakhstan and Georgia are growing significantly and have reached € 13.1 million.

The Group's pharmaceutical business in the U.S.A. is dedicated to the marketing of products for the treatment of rare diseases. Sales in the first nine months of 2018 are € 75.1 million, down by 10.0% due to competition from a generic version of Cosmegen® and to estimated currency exchange rate losses of € 5.5 million. The main products are Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria, Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency, Cosmegen® (dactinomycin for injection) used in the treatment of three rare cancers and Cystadane® (betaine anhydrous) indicated in the treatment of homocystinuria.

In Spain sales are € 64.7 million, up by 8.5% mainly due to the performance of Livazo® and Urorec® as well as to the integration in the product portfolio, as from July 2017, of the metoprolol based brands acquired from AstraZeneca. Sales of the treatments for rare diseases are also growing significantly.

Sales in Turkey are down by 12.0% and include a negative currency exchange effect estimated to be of € 20.3 million. In local currency sales of our Turkish subsidiary grow by 21.6% thanks to the good performance of all the corporate products, in particular Livazo®, Lercadip®, Urorec®, Zanipress®, Procto-Glyvenol®, Kentera® and Gyno Lomexin®, as well as the local products Ciprasid® (ciprofloxacin), Mictonorm® (propiverine), Cabral® (phenyramidol), Kreval® (butamirate citrate) and Colchicum® (colchicine).

Sales in Portugal are up by 2.9% thanks mainly to the good performance of Livazo®, Urorec® and TransAct® LAT.

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 2018 overall sales are up by 55.5% thanks mainly to the revenue contribution as from 1 July 2017 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 8.1%.

Sales in other countries in Western Europe, up by 10.9%, comprise sales of products for the treatment of rare diseases in these countries (+11.3%) and sales of specialty and primary care products generated by the Recordati subsidiaries in the United Kingdom, Ireland, Greece and Switzerland and in the Nordic countries (Finland, Sweden and Denmark). The increase in sales is to be attributed mainly to the performance of the Greek subsidiary thanks to the growth of Livazo® and Lercadip® (lercanidipine), the direct sales of lercanidipine based brands previously co-marketed by licensees and to the consolidation as from 1 July 2017 of the sales of the metoprolol based products acquired from AstraZeneca.

Sales in North Africa are € 31.7 million, up by 1.7%, 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. Sales in Tunisia in the first nine months of 2018, in local currency, are up by 18.3%.

Other international sales are up by 9.1% 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, as well as the sales of products for the treatment of rare diseases in the rest of the world. The growth is to be attributed mainly to the revenues generated, as from 1 July 2017, 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 2017:

€ (thousands)	First nine months 2018	% of revenue	First nine months 2017	% of revenue	Change 2018/2017	%
Revenue	1,013,308	100.0	963,827	100.0	49,481	5.1
Cost of sales	(296,015)	(29.2)	(287,596)	(29.8)	(8,419)	2.9
Gross profit	717,293	70.8	676,231	70.2	41,062	6.1
Selling expenses	(250,258)	(24.7)	(246,544)	(25.6)	(3,714)	1.5
R&D expenses	(79,436)	(7.8)	(72,145)	(7.5)	(7,291)	10.1
G&A expenses	(48,543)	(4.8)	(48,670)	(5.0)	127	(0.3)
Other income (expense), net	(2,087)	(0.2)	(1,370)	(0.1)	(717)	52.3
Operating income	336,969	33.3	307,502	31.9	29,467	9.6
Financial income (expense), net	(13,757)	(1.4)	(11,753)	(1.2)	(2,004)	17.1
Pretax income	323,212	31.9	295,749	30.7	27,463	9.3
Provision for income taxes	(85,335)	(8.4)	(75,943)	(7.9)	(9,392)	12.4
Net income	237,877	23.5	219,806	22.8	18,071	8.2
Attributable to:						
Equity holders of the parent	237,841	23.5	219,778	22.8	18,063	8.2
Non-controlling interests	36	0.0	28	0.0	8	28.6

Revenue for the period is € 1,013.3 million, an increase of € 49.5 million compared to the first nine months of 2017. For a detailed analysis please refer to the preceding "Review of Operations".

Gross profit is € 717.3 million with a margin of 70.8% on sales, an increase over that of the same period of the preceding year due to the further growth of products with higher margins and to the positive effect of the

consolidation 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 € 79.4 million, up by 10.1% compared to those recorded in the first nine months of 2017 due to the initiation of new development programs and the amortization of the acquired rights to the metoprolol based products.

G&A expenses are down by 0.3% and diminish as percent of sales to 4.8%.

Net financial charges are € 13.8 million, an increase of € 2.0 million compared to the same period of the preceding year due to the interest on the medium/long term loans.

The effective tax rate during the period is 26.4%, higher than that of the same period of the preceding year due to an adjustment of the tax risk provision in part compensated by a tax credit in Turkey, for an overall net effect of € 5.6 million.

Net income at 23.5% of sales is € 237.9 million, an increase of 8.2% 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 2018	31 December 2017	Change 2018/2017	%
Cash and short-term financial investments	235,165	302,077	(66,912)	(22.2)
Bank overdrafts and short-term loans	(67,580)	(16,577)	(51,003)	307.7
Loans – due within one year	(59,530)	(51,710)	(7,820)	15.1
Net liquid assets	108,055	233,790	(125,735)	(53.8)
Loans – due after one year ⁽¹⁾	(570,765)	(615,570)	44,805	(7.3)
Net financial position	(462,710)	(381,780)	(80,930)	21.2

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

At 30 September 2018 the net financial position shows a net debt of € 462.7 million compared to net debt of € 381.8 million at 31 December 2017. During the period a € 10.0 million milestone was paid as per the license agreement with Gedeon Richter for the rights to Reagila® (cariprazine), own shares were purchased for an overall amount of € 169.8 million and dividends were distributed for an amount of € 87.1 million. Furthermore, the Italian company Natural Point S.r.l. was acquired for a value of € 75 million.

In July the Parent company received a loan of € 4.3 million to fund investments in research and development from the Banca del Mezzogiorno-Mediocredito Centrale, of which € 3.9 million at a reduced fixed interest rate of 0.50% to be repaid in six semi-annual installments starting 30 June 2019 through 31 December 2021, and € 0.4 million at a variable interest rate equal to the 6 months' Euribor plus a spread of 220 basis points, to be repaid in two installments on 30 June and 31 December 2021.

During the period two loans were fully repaid: the € 50,0 million loan received by the Parent company on 30

September 2013 from Banca Nazionale del Lavoro, with the payment of the last two installments for a total of € 12.5 million, and the loan received by subsidiary Recordati Ilaç on 30 November 2015 from ING Bank, with the payment of the 5.9 million Turkish lira bullet, equivalent to € 1.3 million.

THIRD QUARTER 2018 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 2017:

€ (thousands)	Third quarter 2018	% of revenue	Third quarter 2017	% of revenue	Change 2018/2017	%
Revenue	317,254	100.0	312,959	100.0	4,295	1.4
Cost of sales	(93,002)	(29.3)	(90,854)	(29.0)	(2,148)	2.4
Gross profit	224,252	70.7	222,105	71.0	2,147	1.0
Selling expenses	(77,465)	(24.4)	(78,023)	(24.9)	558	(0.7)
R&D expenses	(25,809)	(8.1)	(24,993)	(8.0)	(816)	3.3
G&A expenses	(15,403)	(4.9)	(14,829)	(4.7)	(574)	3.9
Other income (expense), net	(537)	(0.2)	44	0.0	(581)	n.s.
Operating income	105,038	33.1	104,304	33.3	734	0.7
Financial income (expense), net	(5,299)	(1.7)	(4,762)	(1.5)	(537)	11.3
Pretax income	99,739	31.4	99,542	31.8	197	0.2
Provision for income taxes	(26,050)	(8.2)	(26,723)	(8.5)	673	(2.5)
Net income	73,689	23.2	72,819	23.3	870	1.2
Attributable to:						
Equity holders of the parent	73,677	23.2	72,811	23.3	866	1.2
Non-controlling interests	12	0.0	8	0.0	4	50.0

Net revenue is € 317.3 million, up by 1.4% over the third quarter 2017 and includes the consolidation as from 1 July 2018 of the sales generated by Natural Point S.r.l., the Italian company acquired in June, for an amount of € 3.7 million as well as a negative currency effect estimated at € 12.0 million, mainly due to the further devaluation of the Turkish Lira. Excluding these effects growth would have been 4.0%. Pharmaceutical sales are € 307.4 million, up by 0.8%. Pharmaceutical chemical sales are € 9.8 million, up by 24.9%.

Gross profit is € 224.3 million with a margin of 70.7% on sales, substantially in line with that of the same period of the preceding year.

Selling expenses are substantially stable 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 € 25.8 million, up by 3.3% compared to those recorded in the third quarter of 2017 due to the advancement of new development programs.

G&A expenses increase by 3.9% but remain substantially stable as percent of sales.



Net financial charges are € 5.3 million, an increase of € 0.5 million compared to the same period of the preceding year due to the increase in net foreign exchange losses compared to those in the third quarter of 2017.

Net income at 23.2% of sales is € 73.7 million, an increase of 1.2% over the same period of the preceding year.

BUSINESS OUTLOOK

The growth of Group's business continued during October. Taking into account the strong devaluation of the Turkish lira, which we estimate will have, on its own, an impact of around € 30 million for the full year, we expect for the whole of 2018 to achieve sales ranging from € 1,340 million to € 1,350 million, whilst we confirm our objectives for EBITDA of between € 490 and € 500 million, EBIT of between € 430 and € 440 million and net income of between € 310 and € 315 million.

Milan, 30 October 2018

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

CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

AT 30 SEPTEMBER 2018

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 2018

INCOME STATEMENT

€ (thousands)	First nine months 2018	First nine months 2017
Revenue	1,013,308	963,827
Cost of sales	(296,015)	(287,596)
Gross profit	717,293	676,231
Selling expenses	(250,258)	(246,544)
R&D expenses	(79,436)	(72,145)
G&A expenses	(48,543)	(48,670)
Other income (expense), net	(2,087)	(1,370)
Operating income	336,969	307,502
Financial income (expense), net	(13,757)	(11,753)
Pretax income	323,212	295,749
Provision for income taxes	(85,335)	(75,943)
Net income	237,877	219,806
Attributable to:		
Equity holders of the parent	237,841	219,778
Non-controlling interests	36	28
Earnings per share		
Basic	€ 1.163	€ 1.064
Diluted	€ 1.137	€ 1.051

Earnings per share (EPS) are based on average shares outstanding during each year, 204,556,132 in 2018 and 206,627,645 in 2017, net of average treasury stock which amounted to 4,569,024 shares in 2018 and to 2,497,511 shares in 2017.
Diluted earnings per share is calculated taking into account stock options granted to employees.

The notes to the financial statements are an integral part of the consolidated condensed financial statements.

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 30 SEPTEMBER 2018

ASSETS

€ (thousands)	30 September 2018	31 December 2017
Non-current assets		
Property, plant and equipment	97,948	103,009
Intangible assets	606,424	540,565
Goodwill	545,601	539,871
Other investments	20,785	24,171
Other non-current assets	6,725	5,944
Deferred tax assets	75,611	69,162
Total non-current assets	1,353,094	1,282,722
 Current assets		
Inventories	185,717	179,100
Trade receivables	248,079	244,117
Other receivables	26,251	39,730
Other current assets	7,606	4,836
Fair value of hedging derivatives (<i>cash flow hedge</i>)	4,142	3,825
Short-term financial investments, cash and cash equivalents	235,165	302,077
Total current assets	706,960	773,685
Total assets	2,060,054	2,056,407

The notes to the financial statements are an integral part of the consolidated condensed financial statements.

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 30 SEPTEMBER 2018

EQUITY AND LIABILITIES

€ (thousands)	30 September 2018	31 December 2017
Shareholders' equity		
Share capital	26,141	26,141
Additional paid-in capital	83,719	83,719
Treasury stock	(151,311)	(17,029)
Hedging reserve (<i>cash flow hedge</i>)	(7,753)	(5,867)
Translation reserve	(161,325)	(124,004)
Other reserves	40,239	40,684
Retained earnings	920,302	822,154
Net income for the year	237,841	288,762
Interim dividend	0	(87,470)
Group shareholders' equity	987,853	1,027,090
Non-controlling interests	183	147
Shareholders' equity	988,036	1,027,237
 Non-current liabilities		
Loans – due after one year	568,911	612,462
Staff leaving indemnities	21,207	21,093
Deferred tax liabilities	33,474	17,554
Other non-current liabilities	2,516	2,515
Total non-current liabilities	626,108	653,624
 Current liabilities		
Trade payables	123,400	141,740
Other payables	89,177	82,779
Tax liabilities	45,075	24,373
Other current liabilities	1,272	486
Provisions	51,872	48,322
Fair value of hedging derivatives (<i>cash flow hedge</i>)	8,004	9,559
Loans – due within one year	59,530	51,710
Bank overdrafts and short-term loans	67,580	16,577
Total current liabilities	445,910	375,546
Total equity and liabilities	2,060,054	2,056,407

The notes to the financial statements are an integral part of the consolidated condensed financial statements.

RECORDATI S.p.A. AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2018

€ (thousands)	First nine months 2018	First nine months 2017
Net income for the period	237,877	219,806
Gains/(losses) on cash flow hedges, net of tax	(1,886)	2,107
Gains/(losses) on translation of foreign financial statements, net of tax	(37,321)	(34,889)
Gains/(losses) on equity-accounted investees, net of tax	(1,742)	3,764
Income and expense for the period recognized directly in equity	(40,949)	(29,018)
Comprehensive income for the period	196,928	190,788
Attributable to:		
Equity holders of the parent	196,892	190,760
Non-controlling interests	36	28

The notes to the financial statements are an integral part of the consolidated condensed financial statements.

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	Non-controlling interests	Total
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)			0
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
Balance at 31.12.2017	26,141	83,719	(17,029)	(5,867)	(124,004)	40,684	822,154	288,762	(87,470)	147	1,027,237
Allocation of 2017 net income:											
- Dividends							37,910	(212,506)	87,470		(87,126)
- Retained earnings							76,256	(76,256)			0
Change in the reserve for share based payments					1,297	1,664					2,961
Purchase of own shares			(169,769)								(169,769)
Disposal of own shares			35,487				(17,903)				17,584
Other changes						221					221
Comprehensive income for the year				(1,886)	(37,321)	(1,742)		237,841		36	196,928
Balance at 30.9.2018	26,141	83,719	(151,311)	(7,753)	(161,325)	40,239	920,302	237,841	0	183	988,036

The notes to the financial statements are an integral part of the consolidated condensed financial statements.

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2018

€ (thousands)	First nine months 2018	First nine months 2017
Operating activities		
Cash flow		
Net Income	237,877	219,806
Depreciation of property, plant and equipment	10,181	10,735
Amortization of intangible assets	32,900	23,724
Total cash flow	280,958	254,265
(Increase)/decrease in deferred tax assets	(6,302)	(28,216)
Increase/(decrease) in staff leaving indemnities	0	122
Increase/(decrease) in other non-current liabilities	824	(11,104)
	275,480	215,067
Changes in working capital		
Trade receivables	(97)	(40,250)
Inventories	(5,848)	(10,852)
Other receivables and other current assets	10,763	1,656
Trade payables	(19,669)	7,349
Tax liabilities	19,103	10,250
Other payables and other current liabilities	7,052	3,812
Provisions	3,550	16,746
Changes in working capital	14,854	(11,289)
Net cash from operating activities	290,334	203,778
Investing activities		
Net (investments)/disposals in property, plant and equipment	(12,430)	(8,555)
Net (investments)/disposals in intangible assets	(39,796)	(271,671)
Investments in equity	(83,577) ⁽¹⁾	0
Net (investments)/disposals in equity investments	0	28
Net (increase)/decrease in other non-current receivables	(781)	(933)
Net cash used in investing activities	(136,584)	(281,131)
Financing activities		
Net short-term financial position* of acquired companies	8,971	0
Medium/long term loans granted	4,547	300,117
Re-payment of loans	(41,707)	(30,573)
Increase in treasury stock	(169,769)	0
Decrease in treasury stock	17,584	29,396
Effect on shareholders' equity of application of IAS/IFRS	2,961	2,972
Other changes in shareholders' equity	221	(63)
Dividends paid	(87,126)	(72,137)
Net cash from/(used in) financing activities	(264,318)	229,712
Changes in short-term financial position	(110,568)	152,359
Short-term financial position at beginning of year *	285,500	122,804
Change in translation reserve	(7,347)	(10,271)
Short-term financial position at end of period *	167,585	264,892

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

(1) Acquisition of **Natural Point S.r.l.**: Working capital (1,628), short-term financial position* (8,971), fixed assets (63,764), goodwill (27,872), personnel leaving indemnity 114, medium/long-term loans 1,351, deferred tax liabilities 17,193.

The notes to the financial statements are an integral part of the consolidated condensed financial statements.

RECORDATI S.p.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2018

1. GENERAL

The consolidated condensed financial statements at 30 September 2018 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 2018 the consolidation perimeter changed consequent to the following events:

- the acquisition, on June 11, of Natural Point S.r.l., an Italian company active in the food supplements market. The recognition of this company in the accounts is not yet definite, and could be subject to change, as allowed by IFRS 3, in view of the limited period of time elapsed and the need to assess the fair value of the assets and liabilities acquired. The profit and loss accounts of Natural Point S.r.l. will be consolidated as from 1 July 2018 and the consolidated cash flow statement includes the effect of the balance sheet accounts at 30 June 2018;
- reorganization of the Group's presence in Switzerland through the incorporation of Recordati S.A. by Pro Farma AG, a company acquired in 2016 and redenominated Recordati AG;
- With the objective of expanding the Group's rare disease business in new markets, Recordati Rare Diseases Japan K.K. and Recordati Rare Diseases Australia Pty Ltd were established;
- the companies Orphan Europe Nordic AB and Orphan Europe Benelux BVBA were respectively redenominated Recordati AB and Recordati BVBA.

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 2017, 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.

Two new accounting principles enter into effect as from 1 January 2018. IFRS 9, "Financial instruments", introduces new requisites for the classification, measurement and impairment of financial assets and liabilities and new rules governing hedge accounting. IFRS 15, "Revenue from contracts with customers", sets out five requirements for the recognition of revenue that apply to contracts with customers, except for those to which

other IAS/IFRS principles apply. Based on the analysis for the identification of the areas of application and the determination of the relative effects no significant impacts on the consolidated profit or net equity were identified. In particular, the main areas of application are: with reference to IFRS 15 the accounting treatment of the up-front payments associated with the licensing-out contracts, with reference to IFRS 9 the determination of the impairment losses of the financial assets based on an expected loss model, considering past events, current conditions and foreseeable future economic conditions.

Furthermore, IFRS 16, "Leases", will apply as from 1 January 2019. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance. The lessee is required to recognize a right-of-use asset and a lease liability representing the obligation of making the payments stipulated in the contract, as well as the effects on profit and loss of the amortization of the asset and the financial expense connected with the financial liability. The impact resulting from the application of the new standard is under evaluation.

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 2018 is € 1,013.3 million (€ 963.8 million in the same period of the preceding year) and can be broken down as follows:

€ (thousands)	First nine months 2018	First nine months 2017	Change 2018/2017
Net sales	1,002,510	953,207	49,303
Royalties	4,605	3,300	1,305
Up-front payments	2,035	3,291	(1,256)
Other revenue	4,158	4,029	129
Total revenue	1,013,308	963,827	49,481

4. OPERATING EXPENSES

Overall operating expenses in the first nine months of 2018 are € 676.3 million, an increase as compared to the € 656.3 million in the same period of the preceding year and are analyzed by function as follows:

€ (thousands)	First nine months 2018	First nine months 2017	Change 2018/2017
Cost of sales	296,015	287,596	8,419
Selling expenses	250,258	246,544	3,714
Research and development expenses	79,436	72,145	7,291
General and administration expenses	48,543	48,670	(127)
Other income (expense), net	2,087	1,370	717
Total operating expenses	676,339	656,325	20,014

Other income (expense) comprises non-recurring events, operations and matters which are not often repeated in the ordinary course of business.

Total operating expenses are analyzed by nature as follows:

€ (thousands)	First nine months 2018	First nine months 2017	Change 2018/2017
Material consumption	230,368	221,925	8,443
Payroll cost	172,931	172,159	772
Other employee costs	29,606	29,353	253
Variable sales expenses	50,606	47,946	2,660
Depreciation and amortization	43,081	34,459	8,622
Utilities and consumables	21,967	21,977	(10)
Other expenses	127,780	128,506	(726)
Total operating expenses	676,339	656,325	20,014

Personnel remuneration includes a cost for stock options of € 3.0 million both in the first nine months of 2018 and in the first nine months of 2017.

Depreciation charges are € 10.2 million, down by € 0.6 million compared to the first nine months of 2017, while amortization charges are € 32.9 million, an increase of € 9.2 million over the same period of the preceding year and are mainly attributable to the rights related to the metoprolol based products acquired from AstraZeneca in June 2017.

5. FINANCIAL INCOME AND EXPENSE

In the first nine months of 2018 and in the same period of 2017 financial items record a net expense of € 13.8 million and € 11.8 million respectively and are comprised as follows:

€ (thousands)	First nine months 2018	First nine months 2017	Change 2018/2017
Currency exchange gains (losses)	(1,749)	(2,290)	541
Interest expense on loans	(9,330)	(7,307)	(2,023)
Net interest income (expense) on short-term financial position	(2,510)	(2,008)	(502)
Interest cost in respect of defined benefit plans	(168)	(148)	(20)
Total financial income (expense), net	(13,757)	(11,753)	(2,004)

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 2017	76,513	225,772	66,105	8,309	376,699
Additions	565	1,872	1,701	7,897	12,035
Disposals	(27)	(26)	(474)	0	(527)
Changes in reporting entities	3,605	0	178	0	3,783
Other changes	(4,910)	(3,806)	393	(4,029)	(12,352)
Balance at 30 September 2018	75,746	223,812	67,903	12,177	379,638
Accumulated depreciation					
Balance at 31 December 2017	41,000	180,717	51,973	0	273,690
Depreciation for the period	1,679	5,554	2,948	0	10,181
Disposals	(19)	(26)	(486)	0	(531)
Changes in reporting entities	1,078	0	141	0	1,219
Other changes	(446)	(2,013)	(410)	0	(2,869)
Balance at 30 September 2018	43,292	184,232	54,166	0	281,690
Carrying amount at					
30 September 2018	32,454	39,580	13,737	12,177	97,948
31 December 2017	35,513	45,055	14,132	8,309	103,009

The additions during the period are € 12.0 million and refer to investments in the Italian plants and in the headquarters building for an amount of € 7.0 million.

The fixed assets of the recently acquired company Natural Point S.r.l. are initially recognized under "Changes in reporting entities" for an overall amount of € 2.6 million. This amount refers mainly to the net book value of a leased plant, where the company has its headquarters, determined as prescribed by IAS 17.

The conversion into euros of the tangible assets booked in different currencies gives rise to a net decrease of € 9.9 million as compared to 31 December 2017, almost entirely attributable to the devaluation of the Turkish lira.

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 2017	584,105	197,421	18,354	46,680	846,560
Additions	112	24,366	1,479	14,381	40,338
Disposals	(151)	(1,334)	(6)	0	(1,491)
Changes in reporting entities	0	61,200	23	0	61,223
Other changes	(2,127)	43,973	(1,047)	(44,202)	(3,403)
Balance at 30 September 2018	581,939	325,626	18,803	16,859	943,227
Accumulated amortization					
Balance at 31 December 2017	160,169	129,269	16,557	0	305,995
Amortization for the period	21,945	10,679	276	0	32,900
Disposals	0	(1,334)	(6)	0	(1,340)
Changes in reporting entities	0	0	23	0	23
Other changes	(328)	(127)	(320)	0	(775)
Balance at 30 September 2018	181,786	138,487	16,530	0	336,803
Carrying amount at					
30 September 2018	400,153	187,139	2,273	16,859	606,424
31 December 2017	423,936	68,152	1,797	46,680	540,565

The main increases during the period include:

- € 19,0 million for the acquisition from Mylan of the rights to Cystagon® (cysteamine bitartrate), indicated for the treatment of proven nephropathic cystinosis in children and adults, for certain territories, including Europe.
- € 10,0 million paid to Gedeon Richter in accordance with the terms of the license agreement for the rights of Reagila® (cariprazine), an innovative atypical antipsychotic drug for the treatment of schizophrenia in Western Europe, Algeria, Tunisia and Turkey.
- € 4,0 million in accordance with the terms of the license agreement signed in 2014 with Plethora Solutions Limited and Plethora Solutions Holdings Plc for the commercialization of Fortacin®, a topical spray formulation of lidocaine and prilocaine for the treatment of premature ejaculation.

“Changes in reporting entities” includes a value of € 61.2 million which has been preliminarily allocated to Magnesio Supremo®, a food supplement and the main product sold by Natural Point S.r.l., as calculated during the acquired assets and liabilities fair value identification process. Based on knowledge of the market in which the acquired company operates and considering the historical trend of the product’s sales, a useful life of 20 years has been estimated for this asset.

The conversion into euros of the intangible assets booked in different currencies gives rise to a net decrease of € 2.2 million as compared to 31 December 2017, mainly attributable to the devaluation of the Turkish lira (decrease of € 2.3 million) and of the Russian ruble (decrease of € 1.9 million) and to the revaluation of the U.S. dollar (increase of € 1.8 million).

8. GOODWILL

Net goodwill at 30 September 2018 amounts to € 545.6 million, an increase of € 5.7 million as compared to that at 31 December 2017, and is attributed to the operational areas, which represent the same number of cash generating units:

- France: € 45.8 million;
- Russia: € 26.4 million;
- Germany: € 48.8 million;
- Portugal: € 32.8 million;
- Treatments for rare diseases business: € 110.6 million;
- Turkey: € 35.7 million;
- Czech Republic: € 13.8 million;
- Romania: € 0.2 million;
- Poland: € 15.3 million;
- Spain: € 58.1 million;
- Tunisia: € 16.7 million;
- Italy: € 133.2 million;
- Switzerland: € 8.2 million.

The acquisition of Natural Point S.r.l. determined an increase of € 27.9 million. The preliminary process for the measurement of the fair value of the assets and liabilities at the date of acquisition resulted in the identification of added value for the intangible asset Magnesio Supremo®. Therefore, an amount of € 61.2 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to this asset and € 17.1 million to the relative deferred tax liabilities, while € 27.9 million were allocated to goodwill. The allocation is to be considered not yet definite, as allowed by IFRS 3.

Goodwill related to acquisitions made in countries outside the European Monetary Union is calculated in local currency and converted into euros at the period-end exchange rate. Conversion at 30 September 2018 resulted in an overall net decrease of € 22.2 million, compared to that at 31 December 2017, to be attributed to the acquisitions in Turkey (decrease of € 19.0 million), Russia (decrease of € 1.4 million), Tunisia (decrease of € 1.6 million), Poland (decrease of € 0.4 million), Czech Republic (decrease of € 0.1 million) and Switzerland (increase of € 0.3 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 first nine months of 2018 no events or circumstances arose to indicate possible value loss related to any of the abovementioned items.

9. OTHER INVESTMENTS

At 30 September 2018 other investments amount to € 20.8 million, a decrease of € 3.4 million compared to those at 31 December 2017.

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 2018 the overall fair value of the 9.554.140 shares held is of € 17.6 million. The € 1.4 million increase

in value compared to that at 31 December 2017 is recognized directly in equity, net of the relative tax effect, and shown on the statement of comprehensive income.

This account also comprises € 3.1 million regarding 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 2017 the value of the investment was reduced by € 4.8 million to bring it in line with its fair value. This amount, net of its tax effect, is recognized directly in equity and shown on the statement of comprehensive income.

10. DEFERRED TAX ASSETS AND LIABILITIES

At 30 September 2018 deferred tax assets are € 75.6 million, a net increase of € 6.4 million compared to those at 31 December 2017 and include a tax credit in Turkey. Deferred tax liabilities are € 33.5 million, a net increase of € 15.9 million compared to those at 31 December 2017, mainly due to the deferred tax liability associated with the increase in value allocated to the product Magnesio Supremo® resulting from the measurement of the fair value of the Natural Point S.r.l. acquired assets and liabilities.

11. SHAREHOLDERS' EQUITY

Shareholders' Equity at 30 September 2018 is € 988.0 million, a reduction of € 39.2 million compared to that at 31 December 2017 for the following reasons:

- net income for the period (increase of € 237.9 million);
- cost of stock option plans set-off directly in equity (increase of € 3.0 million);
- disposal of 1,274,146 own shares in treasury stock to service the stock option plans (increase of € 17.6 million);
- purchase of 5,766,309 own shares (decrease of € 169.8 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 (decrease of € 1.9 million);
- application of IAS/IFRS (decrease of € 1.6 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 € 37.3 million);
- dividend paid (decrease of € 87.1 million).

The Italian subsidiary of Orphan Europe is 99% owned giving rise to a minority interest of € 183.0 thousand.

As at 30 September 2018 the Company has three 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, the 2014-2018, plan under which options were granted on 29 July 2014 and on 13 April 2016 and the 2018-2022 plan, under which options were granted on 3 August 2018. 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 2018 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2018	Options granted during 2018	Options exercised during 2018	Options cancelled or expired	Options outstanding at 30.9.2018
Date of grant						
9 February 2011	6.7505	171,500	-	(95,000)	-	76,500
8 May 2012	5.3070	566,500	-	(99,000)	-	467,500
17 April 2013	7.1600	37,500	-	(12,500)	-	25,000
30 October 2013	8.9300	65,000	-	(50,000)	-	15,000
29 July 2014	12.2900	2,991,000	-	(667,646)	(32,500)	2,290,854
13 April 2016	21.9300	3,523,000	-	(350,000)	(76,500)	3,096,500
3 August 2018	30.7300	-	4,818,000	-	-	4,818,000
Total		7,354,500	4,818,000	(1,274,146)	(109,000)	10,789,354

At 30 September 2018, 5,355,425 own shares are held as treasury stock, an increase of 4,492,163 shares as compared to those at 31 December 2017. The change is to be attributed to the disposal of 1,274,146 shares for an overall value of € 17.6 million to service the exercise of stock options issued under the stock option plans, and to the purchase of 5,766,309 shares for an overall value of € 169.8 million. The overall purchase cost of the shares held in treasury stock is € 151.3 million with an average unit price of € 28.25.

12. LOANS

At 30 September 2018 medium and long-term loans are € 628.4 million. The net decrease of € 35.7 million compared to those at 31 December 2017 is determined by reimbursements during the period for an amount of € 41.7 million. During the first nine months, loans were obtained for an overall amount of € 4.5 million. In addition, the consolidation of the recently acquired company Natural Point S.r.l. determined a liability of € 1.4 million related to the financial lease on the building in which the company is headquartered. The conversion of loans in foreign currency gave rise to an increase of € 0.1 million compared to those at 31 December 2017.

In July the Parent received a loan of € 4.3 million to fund investments in research and development from the Banca del Mezzogiorno-Mediocredito Centrale, of which € 3.9 million at a reduced fixed interest rate of 0.50% to be repaid in six semi-annual installments starting 30 June 2019 through 31 December 2021, and € 0.4 million at a variable interest rate equal to the 6 months' Euribor plus a spread of 220 basis points, to be repaid in two installments on 30 June and 31 December 2021.

During the period two loans were fully repaid: the € 50,0 million loan received by the Parent company on 30 September 2013 from Banca Nazionale del Lavoro, with the payment of the last two installments for a total of € 12.5 million, and the loan received by subsidiary Recordati Ilaç on 30 November 2015 from ING Bank, with the payment of the 5.9 million Turkish Lira bullet, equivalent to € 1.3 million.

The main other long-term loans outstanding are:

- A loan agreement with Banca Passadore undersigned by the Parent in November 2017 for an amount of € 15.0 million, disbursed net of up-front commissions of 0.05%. The main terms and conditions provide for variable interest rate fixed at the three months' Euribor plus a spread of 65 basis points with quarterly payments of interest and a duration of 5 years with annual repayments of capital from November 2020 through November 2022. 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.

b) A loan agreement with Intesa Sanpaolo undersigned by the Parent in October 2017 for an amount of € 75.0 million, disbursed net of up-front commissions of 0.30%. The main terms and conditions provide for variable interest rate fixed at the six months' Euribor plus a spread of 95 basis points, semi-annual payments of interest and a duration of 8 years with semi-annual repayments of capital from June 2019 through October 2025. 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 1.305%. The measurement at fair value at 30 September 2018 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 were amply fulfilled during the period.

c) A loan agreement with UniCredit undersigned by the Parent in September 2017 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%. The measurement at fair value at 30 September 2018 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 were amply fulfilled during the period.

d) A loan agreement with UBI Banca undersigned by the Parent in September 2017 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%. The measurement at fair value at 30 September 2018 of the swap was slightly positive. 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.

e) A loan agreement with Mediobanca undersigned by the Parent in July 2017 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 debt outstanding at 30 September 2018 is of € 64.5 million. 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%. The measurement at fair value at 30 September 2018 of the swap generated a liability of € 0.2 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.

f) Privately placed guaranteed senior notes by the Parent in May 2017 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.

g) 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 2018 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.

h) 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 2018 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.

i) 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 2018 is of € 19.9 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 2018 of the swap covering € 12.5 million 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.

j) 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 2018 is of € 11.2 million. The loan was simultaneously covered with an interest rate swap qualifying as a cash flow hedge transforming the interest payable on the entire debt to a fixed interest rate of 1.913% following the above mentioned re-negotiation. The fair value measurement of the swap at 30 September 2018 generated a liability of € 0.2 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.

k) 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 2018 is of € 6.6 million, resulting in a reduction of the liability by € 5.6 million as compared to that at 31 December 2017, of which € 4.5 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.

I) 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 2018 resulted in an increase of the liability by € 2.3 million as compared to that at 31 December 2017 due to the revaluation 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 2018 the measurement at fair value of the hedging instruments generated an overall positive amount of € 4.1 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.

m) 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 2018 resulted in an increase of the liability by € 2.1 million as compared to that at 31 December 2017 due to the revaluation of the U.S. dollar. The note purchase agreement covering the senior guaranteed notes issued by Recordati Rare Diseases Inc. includes covenants which, if not met, could lead to a request for immediate repayment of the loan. The financial covenants are the following:

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

The above conditions were amply fulfilled during the period.

n) 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. At 30 September 2018 the outstanding amount of the loan is € 30.6 million. 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 2018 generated a liability of € 1.1 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 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 2018 is of € 21.2 million and is measured as prescribed by IAS 19.

14. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities at 30 September 2018 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 € 185.7 million, an increase of € 6.6 million compared to those stated at 31 December 2017.

Trade receivables at 30 September 2018 are € 248.1 million, an increase of € 4.0 million compared to that at 31 December 2017 due to the increase in sales and the consolidation of the recently acquired company (€ 3.5 million). Trade receivables are stated net of a € 15.2 million provision for doubtful accounts, in reduction by € 0.2 million with respect to 31 December 2017, which reflects the collection risk connected with certain customers and geographic areas. Days sales outstanding are 69.

Other receivables, at € 26.3 million, decrease by € 13.5 million compared to those at 31 December 2017.

Other current assets are € 7.6 million and refer mainly to prepaid expenses.

16. CURRENT LIABILITIES

Trade payables, which include the accrual for invoices to be received, are € 123.4 million, of which € 1.1 million belonging to the recently acquired company.

Other payables are € 89.2 million, an increase of € 6.4 million compared to those at 31 December 2017, and relate mainly to amounts owed to personnel and social security institutions. This account also includes:

- € 10.6 million to be paid to the "Krankenkassen" (German health insurance) by Recordati Pharma GmbH;
- € 9.2 million to be paid to U.S. health insurance institutions by Recordati Rare Diseases;

- € 7.5 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.

Tax payables are € 45.1 million, an increase of € 20.7 million compared to those at 31 December 2017. Of these, € 1.1 million are related to Natural Point S.r.l., the recently acquired company.

Provisions are € 51.9 million, an increase of € 3.6 million compared to those at 31 December 2017 mainly due to an adjustment of the provision for tax disputes.

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 2018 give rise to a € 4.1 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 € 2.9 million, and that covering the \$ 25 million tranche of the loan, provided by UniCredit, yielded a € 1.2 million positive value change.

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 € 2.0 million liability at 30 September 2018 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 (€ 1.1 million), Mediobanca (€ 0.2 million), UniCredit (€ 0.2 million), Intesa Sanpaolo (€ 0.2 million), ING Bank (€ 0.2 million) and by Banca Nazionale del Lavoro (€ 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 2018 the fair value of the hedging instruments is a liability of € 6.0 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 2018 are € 235.2 million, a reduction of € 66.9 million compared to those at 31 December 2017. They are mostly denominated in euros, 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 € 67.6 million at 30 September 2018 and are comprised mainly of temporary use of lines of credit, current account overdrafts and interest accrued on existing loans. The increase compared to 31 December 2017 is to be attributed mainly to the use of two lines of credit granted to the

Parent by UBI Banca and by Banca Passadore for € 40.0 million and € 5.0 million respectively, both for a duration of three months. At 30 September 2018 a total of 20 million Turkish lira, for an equivalent amount of € 2.9 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. ACQUISITION OF COMPANIES

The following table summarizes the effects of the consolidation of Natural Point S.r.l., the Italian company of which the group acquired 100% of the share capital on 11 June 2018.

€ (migliaia)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
Non-current assets			
Property, plant and equipment	2,564	0	2,564
Intangible assets	0	61,200	61,200
Current assets			
Inventories	769	0	769
Trade receivables	3,865	0	3,865
Other receivables	7	0	7
Tax receivable	1	0	1
Other current assets	47	0	47
Short-term financial investments, cash and cash equivalents	8,971	0	8,971
Non-current liabilities			
Loans – due after one year	(1,248)	0	(1,248)
Staff leaving indemnities	(114)	0	(114)
Deferred tax liabilities	(118)	(17,075)	(17,193)
Current liabilities			
Trade payables	(1,329)	0	(1,329)
Other payables	(133)	0	(133)
Tax liabilities	(1,599)	0	(1,599)
Loans – due within one year	(103)	0	(103)
	11,580	44,125	55,705
Goodwill			27,872
Cost of the acquisition			83,577

The identification and measurement at fair value of the assets and liabilities at the date of acquisition resulted in the allocation of a value of € 61.2 million to Magnesio Supremo®, the company's main product consisting of a particular formulation of magnesium carbonate and citric acid that has the characteristic of being easily assimilated into the body. The residual amount of the cost of the acquisition, net of € 17.1 million taxes calculated on the value allocated to intangible assets, of € 27.9 million was allocated to goodwill. The allocation of the cost of the acquisition is however not yet definite, as allowed by IFRS 3, in view of the limited period of time elapsed and the need to obtain further information.

21. 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 2018 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
First nine months 2018				
Revenues	850,319	162,989	-	1,013,308
Expenses	(591,346)	(84,993)	-	(676,339)
Operating income	258,973	77,996	-	336,969
EBITDA ⁽¹⁾	296,882	83,168		380,050
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
EBITDA ⁽¹⁾	263,087	78,874		341,961

* Includes the pharmaceutical chemicals operations

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

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated **	Consolidated accounts
30 September 2018				
Non-current assets	1,125,435	206,875	20,784	1,353,094
Inventories	168,656	17,061	-	185,717
Trade receivables	205,430	42,649	-	248,079
Other current assets	29,044	4,813	4,142	37,999
Short-term investments, cash and cash equivalents	-	-	235,165	235,165
Total assets	1,528,565	271,398	260,091	2,060,054
Non-current liabilities	54,246	2,949	568,913	626,108
Current liabilities	263,760	47,035	135,115	445,910
Total liabilities	318,006	49,984	704,028	1,072,018
Net capital employed	1,210,559	221,414		
31 December 2017				
Non-current assets	1,075,356	183,195	24,171	1,282,722
Inventories	161,561	17,539	-	179,100
Trade receivables	210,114	34,003	-	244,117
Other current assets	32,343	12,223	3,825	48,391
Short-term investments, cash and cash equivalents	-	-	302,077	302,077
Total assets	1,479,374	246,960	330,073	2,056,407
Non-current liabilities	37,591	2,546	613,487	653,624
Current liabilities	262,572	35,128	77,846	375,546
Total liabilities	300,163	37,674	691,333	1,029,170
Net capital employed	1,179,211	209,286		

* 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.

22. LITIGATION AND CONTINGENT LIABILITIES

In December 2015 the 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. Recordati Ireland Ltd. and Recordati S.p.A. (as acquiring company by way of merger of Recordati S.A. Chemical & Pharmaceutical Company) filed their comments and observations on the findings reported in the above mentioned Tax Audits Reports within the legal deadlines. At the date of approval of the financial statements the tax reports and the said observations are still under review by the Tax Authorities (Agenzia delle Entrate). Although, as previously stated, the Group considers its fiscal conduct in this matter to be correct, it was deemed necessary to record, based on a more reliable evaluation of the risk involved in the ongoing assessments, a further provision of € 7.4 million in addition to the tax provision of € 22.1 million already created, penalties and interest included.

23. RELATED PARTY TRANSACTIONS

Tax liabilities shown in the consolidated balance sheet at 30 September 2018 include those payable to the controlling company FIMEI S.p.A. for an amount of € 13.4 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.

24. SUBSEQUENT EVENTS

No significant events occurred subsequent to 30 September 2018.

RECORDATI S.p.A. AND SUBSIDIARIES

SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 30 SEPTEMBER 2018

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>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
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
RECORDATI AB <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.à 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
ORPHAN EUROPE ITALY S.R.L. <i>Marketing and sales of pharmaceuticals</i>	Italy	40,000.00	Euro	Line-by-line

Consolidated Companies <i>Marketing and sales of pharmaceuticals</i>	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI BVBA <i>Marketing and sales of pharmaceuticals</i>	Belgium	18,600.00	Euro	Line-by-line
FIC MEDICAL S.à 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.à 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. <i>Marketing of pharmaceuticals</i>	Italy	7,646,000.00	EUR	Line-by-line
RECORDATI AG <i>Marketing of pharmaceuticals</i>	Switzerland	3,000,000.00	CHF	Line-by-line
PRO FARMA GmbH <i>Marketing of pharmaceuticals</i>	Austria	35,000.00	EUR	Line-by-line
RECORDATI RARE DISEASES CANADA Inc. ⁽¹⁾ <i>Marketing of pharmaceuticals</i>	Canada	350,000.00	CAD	Line-by-line
RECORDATI RARE DISEASES JAPAN K.K. ⁽²⁾ <i>Marketing of pharmaceuticals</i>	Japan	10,000,000.00	JPY	Line-by-line
NATURAL POINT S.r.l. ⁽³⁾ <i>Marketing of pharmaceuticals</i>	Italy	10,400.00	EUR	Line-by-line
RECORDATI RARE DISEASES AUSTRALIA Pty Ltd ⁽²⁾ <i>Marketing of pharmaceuticals</i>	Australia	200,000.00	AUD	Line-by-line

⁽¹⁾ Established in 2017

⁽²⁾ Established in 2018

⁽³⁾ Acquired in 2018

Consolidated companies	PERCENTAGE OF OWNERSHIP										Total
	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.à R.L.	Herbacos s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Recordati AG	
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
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 FARMAÇÉUTICOS S.A.		100.00									100.00
BONAFARMA PRODUTOS FARMAÇÉUTICOS 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
RECORDATI AB			100.00								100.00
ORPHAN EUROPE PORTUGAL LDA			100.00								100.00
ORPHAN EUROPE S.à 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
RECORDATI BVBA			99.46	0.54							100.00
FIC MEDICAL S.à 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.à R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Opalia Pharma S.A.	Recordati 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
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.à R.L.												100.00
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.	100.00											100.00
RECORDATI AG	100.00											100.00
PRO FARMA GmbH												100.00
RECORDATI RARE DISEASES CANADA Inc. ⁽¹⁾	100.00											100.00
RECORDATI RARE DISEASES JAPAN K.K. ⁽²⁾												100.00
NATURAL POINT S.r.l. ⁽³⁾	100.00											100.00
RECORDATI RARE DISEASES AUSTRALIA Pty Ltd ⁽²⁾												100.00

⁽¹⁾ Established in 2017

⁽²⁾ Established in 2018

⁽³⁾ Acquired in 2018



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, 30 October 2018

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