

DIRECTORS' REPORTS ON THE PROPOSALS ON THE AGENDA OF THE ORDINARY GENERAL MEETINGS OF THE SHAREHOLDERS**(29TH APRIL 2020 SINGLE CALL)****Report on item 4 on the agenda and the relative resolution submitted**

Appointment of the audit firm for the financial years 2020-2028 and determination of the relative fees.

To Our Shareholders,

By the approval of the 2019 financial statements by the Shareholders' Meeting called for 29th April 2020, the appointment of KPMG S.p.A. to audit the accounts for the nine-year period 2011-2019 - granted by the Shareholders' Meeting on 13th April 2011 - will expire.

Thus, the Board of Directors brings to the approval of the Shareholders' Meeting the reasoned proposal formulated by the Board of Statutory Auditors, as per Articles 13, paragraph 1 and 19, letter f) of Legislative Decree 27th January 2010 n. 39 audit with reference to the engagement of the statutory auditor for the accounts for the nine-year period 2020-2028. That proposal illustrates the following:

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1. "Introduction"

By the approval of the 2019 financial statements the appointment of KPMG S.p.A. ('KPMG' or 'Outgoing Auditor') by Recordati S.p.A. ('Recordati', 'Issuer' or 'Company') to audit the accounts for the nine-year period 2011-2019 will expire.

As is well known, pursuant to Article 17, paragraph 1, of Italian Legislative Decree no. 39/2010, the audit engagement for a public-interest entity ('PIE'), a category into which Recordati also falls, has a duration of nine years and cannot be granted again before the end of a period of four financial years.

The Company is therefore called upon to appoint a statutory auditor other than KPMG for the nine-year period 2020-2028.

In light of the above, the Board of Statutory Auditors, in its capacity as the Committee for Internal Control and Accounting Audit (the 'CICAA'), has therefore launched, with the Company's assistance, a specific procedure for the selection of the new audit company for the accounts to be appointed for the years 2020-2028, in accordance with current legislation and, in particular, Article 16 of Regulation (EU) 537/2014 (the 'PIE Regulation'), as described in more detail below.

As a result of the selection procedure, the CICAA has prepared the following reasoned recommendation (the 'Recommendation') for the purposes prescribed by the regulations in force (Article 16, paragraph 2, of the PIE Regulation).

2. Legal framework

As is well known, the engagement of the statutory auditor for the accounts for public-interest entities is specifically regulated by Article 16 of the PIE Regulation.

According to this provision, the Shareholders' Meeting of the public-interest entity shall resolve on the appointment of the new auditor on the basis of a reasoned recommendation from the CICAA. This recommendation shall be prepared by the CICAA following a 'selection procedure organised by the audited entity' in a transparent and traceable manner, whereby

proposals made by possible candidates are assessed on the basis of ‘transparent and non-discriminatory selection criteria’.

In this recommendation the CICAA expresses ‘at least two possible choices’ and ‘a duly justified preference for one of them’. The CICAA, as expressly stated in the EU regulations, is ‘responsible for the selection procedure’ of the auditor.

3. Approach by the Group single auditor

It should be noted that the CICAA has agreed with the Company to include in the selection procedure the auditing of the financial statements of both Recordati and of Italian and foreign companies subject to the control of the Company pursuant to Article 93 of the Italian Consolidated Law on Finance (the ‘Recordati Group’).

In fact, it was considered that engaging a single statutory auditor for the accounts of the entire Recordati Group would allow the obtainment of significant synergies and greater efficiency in performing the audit, and it would determine a considerable reduction in the burdens associated with the coordination of relations between the Group companies. The single auditor approach also meets the need to ensure greater consistency in the application of rules concerning the statutory auditor’s independence, which apply not only to public-interest entities but also to their controlling companies and subsidiaries.

4. The selection procedure

4.1. The pre-selection phase

In June 2019, the Company established a Board of Inquiry, chaired by the Group General Manager (who, at the beginning of the process, held the position of General Manager for the Coordination of Management and CFO) and composed of the representatives of the company functions involved in the selection process; from 1st November 2019, the new Group CFO also joined the Board of Inquiry.

The CICAA, in full collaboration and with the agreement of the Board of Inquiry, has preliminarily identified the audit firms to be invited to submit proposals (so-called ‘pre-selection phase’).

Without prejudice to the principles of transparency and non-discrimination set out in Article 16 of the EIP Regulation, it was decided to involve in the selection procedure independent auditors with (a) adequate expertise and experience in the sector in which Recordati and the Recordati Group companies operate and (b) adequate structures for the audit of a group with the characteristics of the Recordati Group.

The pre-selection criteria were developed taking into account (i) the geographical presence of the Recordati Group; (ii) the Issuer’s status as a listed company; (iii) the membership of the Company in the Pharma sector characterised by its own specific industrial, regulatory and contractual characteristics.

4.2. Request for Proposal

In the light of the abovementioned criteria, on 18th July 2019 the Board of Inquiry sent a special letter of invitation to submit their respective proposals (the ‘Request for Proposal’ or ‘RFP’) to the following auditing firms: BDO Italia S.p.A. (‘BDO’), Deloitte & Touche S.p.A. (‘Deloitte&Touche’ or ‘DLT’), Ernst&Young S.p.A. (‘EY’), PricewaterhouseCoopers S.p.A. (‘PWC’) (the ‘Bidding Companies’).

In summary, the Request for Proposal sent to the Bidding Companies contained detailed information relating mainly to the following aspects and/or documents:

- a. the scope of the Recordati Group companies involved in the selection procedure;*
- b. the subject matter of the tender: Recordati Group awarded the following services for*

the nine-year period 2020-2028:

✓ mandatory services ('MS'): i.e. engagements for the statutory audit of the financial statements of Recordati and the Recordati Group companies, in compliance with applicable laws;

✓ other optional services ('OS'): such as (i) the limited assurance engagement of the Consolidated Non-Financial Statement, (ii) the verification, pursuant to Article 123-ter of the Italian Consolidated Law on Finance, paragraph 8 bis, that the directors have prepared section 2 of the Remuneration Report, and (iii) the Limited Audit of Recordati S.p.A.'s financial statements for the distribution of interim dividends;

c. a description of the expected course of the selection procedure:

✓ method of presentation of the necessary documentation divided into the following categories: administrative information, technical information and economic information.

With respect to the administrative information, the Bidding Companies were requested, in particular, to provide 'a list of consultancy/professional engagements, expiring after 31st December 2019, between the audit firm (including foreign entities in its international network) and the Recordati Group companies, indicating the absence of any causes of incompatibility with the statutory audit activities or detrimental to the auditor's independence under the Italian law and/or any applicable foreign law'.

✓ the procedures for evaluating proposals (with express indication of the technical and economic assessment criteria, see paragraph 4.3. below) for the purposes of drawing up the list to be submitted to the CICAA;

d. detailed description of the contents and of technical and qualitative characteristics of the audit activities covered by the RFP (technical specification). It is emphasised that, in order to ensure that the proposals be comparable also from the point of view of their technical and qualitative standards, the firms were requested to provide details as to the composition of their personnel, highlighting that the higher percentage of the firms' Partners and Managers in contrast to that of their Senior Associates and Assistants would be a specific assessment criterion.

e. draft of the 'Global Framework Agreement' to be signed between Recordati and the Bidding Company identified as the company which has been awarded the audit engagement at the end of the selection procedure and the relevant resolution of the Issuer's Shareholders' Meeting.

4.3 Assessment criteria of the Proposals

The CICAA, in agreement with the Board of Inquiry, has identified the following criteria for the assessments of proposals:

- **Technical value:** 'Recordati will proceed to examine the technical proposal, assessing, at its sole discretion, the following elements: 1) the hours for the audit; 2) the professional composition (mix) of the personnel; 3) the professional qualities of the team appointed; 4) the audit experience in the pharmaceutical sector; and 5) the operational approach to the engagement. The assessment:
 - will be more favourable if the audit plan proposed by each auditing firm appears to be reasonably appropriate in view of the characteristics of the Company and the Group and, in particular, the size, composition and risk of the most significant balance sheet, economic and financial items reported in the financial statements of the appointing company, as well as the risk profiles connected to the process of consolidating the data concerning the companies of the group; moreover, it is

represented that the assessment will take into account the ability of the audit firm to limit the number of hours for the performance of the activities requested.

- will take into account the following reference points:*
 - ✓ the organisational structure of each audit firm and of the entities of their national and international networks; in this regard, the professional composition (mix) of the personnel for the performance of the engagements and activities by the audit firm and the national and international networks of the audit firm for each company of the Recordati Group will be assessed. In particular, the higher percentage of the firms' Partners and Managers in contrast to that of their Senior Associates and Assistants will be assessed. The professional qualities of the team of the audit firm and of the entities of the national and international networks of the audit firm that will be assigned to the services for each company of the Recordati Group will be taken into consideration.*
 - ✓ the past experience of the audit firm in Recordati's business sector; in this regard, the experience of the audit firm and of the entities of the national and international networks of the audit firm in the pharmaceutical sector will be taken into consideration, based on the experience gained by Partners and Managers who are experts in issues related to regulated and pharmaceutical sectors.*
 - ✓ the breath of the reach of each audit firm and of the entities of the relevant national and international networks (local, national and international);*

- **Economic value:** 'The assessment of the economic proposals will take into consideration the data as to the hours of personnel, by activity, in relation to the cost as well as the proportionality of the remuneration and the audit plan, presented in terms of consistency between the cost for the audit and the structure of the audit plan, the characteristics of the experience of personnel and the related time commitment divided by professional category. Taking into account the above, in the pursuit of the objective of guaranteeing the quality and reliability of the works, the lower financial commitment proposed will be assessed more favourably'.*

In summary, the choice of the aspects to be weighed for assessing the proposals was made with the aim of enhancing, in particular, the qualitative elements, thus pursuing the search for a better-quality audit at the lowest price.

4.4. Receipt of the proposals and initial meetings with the Bidding Companies

All the Bidding Companies have submitted their technical and economic proposal (the 'Proposals'), together with the requested documentation, according to the terms (16th September 2019) and the procedures established in the RFP.

In October 2019, the Board of Inquiry, in agreement with the CICAA, met with the Bidding Companies in order to receive a detailed presentation of the Proposals, to obtain clarifications and to better investigate issues concerning expectations and management of the activities, the working methods, the organisation of each audit firm and the specific characteristics of the Recordati Group.

As a result of these meetings, the Board of Inquiry asked the Bidding Companies to send an amended proposal to align the technical and economic conditions of the proposals with those discussed in the meetings in order to clarify the scope of the services requested with respect to the companies of the Recordati Group.

4.5. Assessment of the proposals

4.5.1. Short list formation

In November 2019, the CICAA, and the Board of Inquiry started the assessment of the Proposals and prepared a short list, which included **EY and PWC** (the 'Short List'), on the basis of the following assessments, based on the criteria identified above:

- the professional composition (mix) of the personnel and experience: higher percentage of professional roles of Partners and Managers compared to those of Senior Associates and Assistants;
- absence of potential situations of incompatibility related to the provision of services to companies of the Recordati Group, including the parent company Rossini Luxembourg S.àrl..

4.5.2. Meetings with the Bidding Companies included in the short list and final assessment of the Proposals

In order to carry out a more complete assessment of the Bidding Companies included in the Short List, the CICAA agreed with the Board of Inquiry to meet again with EY and PWC in November - December 2019.

As a result of the abovementioned meetings, the CICAA and the Board of Inquiry finalised the assessment of the Proposals of the competitors included in the Short List, EY and PWC, whose fees and total effort (hours) for activities in relation to audit (MS) and non-audit (OS) services are indicated below:

<i>Services</i>	<i>EY</i>		<i>PWC</i>	
	<i>Fees (€) 2020-2028</i>	<i>Effort (hours) 2020-2028</i>	<i>Fees (€) 2020-2028</i>	<i>Effort (hours) 2020-2028</i>
<i>MS (Auditing)</i>	898,554	10,373	1,006,380	11,471
<i>OS (Optional Services)</i>	34,446	585	45,304	750
TOTAL	933,000	10,958	1,051,684	12,221

Taking into account the elements obtained during the initial assessment phase and the further indications resulting from the second part of the inquiry, the Committee indicates below the qualitative/quantitative elements considered for the final assessment:

- **Technical criteria:** the following is noted:
 - ✓ the professional composition (mix) of the personnel of EY's proposal provides for a higher percentage of hours supplied by Partners and Managers;
 - ✓ the work organisation methods presented by EY appeared to be preferable; in particular, the fact that EY proposed a decentralised and widespread local coverage of audit activities and a separate audit of the individual financial statements from the consolidated financial statements was assessed favourably;
 - ✓ the members of the audit team proposed by EY have many years of working experience within the same team, also in the pharmaceutical sector.
- **Economic Criteria:** it should be noted that the fees proposed by EY are consistent with the structure of the audit plan as a whole and in any case suitable to guarantee the quality of the audit work.

5. CICAA's recommendation

The CICAA is called upon, pursuant to Article 16, paragraph 2, of the PIE Regulation, to submit a reasoned recommendation to the shareholders' meeting, containing 'at least two possible options for the audit engagement' and 'a duly justified preference for one of them'.

In light of the above, the CICAA:

- (i) *taking into account the Proposals submitted by the audit firms which, in view of the specific characteristics of the Company and the Recordati Group, were called upon to participate in the selection procedure for the new statutory auditor,*
- (ii) *considering the results of the selection procedure carried out, as summarised above,*

RECOMMENDS

to Recordati's Shareholders' Meeting to appoint PRICEWATERHOUSECOOPERS S.P.A. or EY S.P.A. as the statutory auditor for the nine-year period 2020-2028, whose total fees and total effort (hours) for the activities are indicated below:

Services	EY		PWC	
	Fees (€) 2020-2028	Effort (hours) 2020-2028	Fees (€) 2020-2028	Effort (hours) 2020-2028
MS (Auditing)	898,554	10,373	1,006,380	11,471
OS (Optional Services)	34,446	585	45,304	750
TOTAL	933,000	10,958	1,051,684	12,221

AND

EXPRESSES ITS OWN PREFERENCE

for EY S.p.A. as it is deemed to be most suitable to ensure, under the best economic conditions, the pursuit of the desired audit quality.

DECLARES

pursuant to Article 16, paragraph 2, of the PIE Regulation that this Recommendation has not been influenced by third parties and that none of the clauses referred to in Article 16, paragraph 6, have been applied.

In relation to the manner in which the Shareholders' Meetings are conducted, the Shareholders are informed that the overall proposal of the Board of Statutory Auditors indicated above implies that the proposal to appoint E&Y S.p.A. for the audit engagement will be first put to the vote and, only if this proposal does not obtain the votes required for its approval, the proposal to appoint the same engagement to PRICEWATERHOUSECOOPERS S.p.A. will be put to the vote.

The Board of Statutory Auditors

Antonio Santi – Chairman

Livia Amidani Aliberti

Marco Nava

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Milan, 18th March 2020

For the Board of Directors

The Chief Executive Officer

Andrea Recordati