

**This is an unofficial English Language courtesy translation of the original Italian language report prepared and issued by the Board of Statutory Auditors of Recordati S.p.A (“The Company”).**

**As such this courtesy translation is for information purposes only and should not be relied upon. Only the original version in Italian language has legal value and in case of any ambiguity, the Italian report (a copy of which is available on the Company’s website) shall prevail. The Company and the Board of Statutory Auditors make no representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of this English Language Courtesy Translation.**

**Courtesy copy follows:**

**Report by the Board of Statutory Auditors to the Shareholders’ Meeting  
of Recordati S.p.A. pursuant to art. 153 of Legislative Decree 58/1998**

Dear Shareholders,

Through this report, drafted pursuant to art. 153 of Legislative Decree 58/1998 (hereinafter also referred to in short as “TUF”), also taking into account the applicable Consob Recommendations and the rules of conduct of the Board of Statutory Auditors of listed companies issued by the National Council of Chartered Accountants and Accounting Experts (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*), the Board of Statutory Auditors of Recordati S.p.A. (hereinafter also referred to in short as the “Company”) hereby reports to you on the supervisory activities performed and the related results.

**1. Supervisory activities performed and information received**

Over the course of the financial year ended 31 December 2018, the Board of Statutory Auditors carried out the supervisory activities provided for by law. To such end, during the financial year the Board of Statutory Auditors :

- held no. 8 collegial meetings, all of which were attended by all the members in office;
- attended the no. 17 meetings held by the Board of Directors;
- attended the no. 5 meetings held by the Control, Risks and Sustainability Committee;
- attended the no. 5 meetings held by the Remuneration Committee;
- attended the meetings of the Independent Directors;
- attended the Shareholders’ Meeting;
- attended the Bondholders’ Meeting;
- held meetings with the managers of the Audit Firm, pursuant to art. 150, paragraph 3 of Legislative Decree 58/1998, during which appropriate exchanges of information took place and no other noteworthy facts or situations came to light;
- met on a regular basis with the person in charge of the Internal Audit Function;
- met on a regular basis with the Compliance 231 Body appointed in accordance with Legislative Decree 231/2001;
- collected the documents and information deemed relevant by the executive directors and the other corporate functions;
- exchanged information with the Board of Statutory Auditors of the subsidiaries with regard to their administration and control systems and the general trend in the companies’ business operations.

It should be noted that, as a rule, the undersigned Board of Statutory Auditors attends, as a guest, either in collegial form or in the person of its Chairman, the meetings of the Control, Risks and Sustainability Committee, the meetings of the Remuneration Committee and the meetings of the RPT Committee which, depending upon the subject matter of the relation, is either the Control, Risks and Sustainability Committee or the Remuneration Committee.

During Board of Directors' meetings, the Board of Statutory Auditors was informed by the directors on the activities carried out and the most important transactions from an economic, financial and asset standpoint, concluded by the Company and its subsidiaries.

During meetings and contacts with the Audit Firm, no censurable facts came to light.

With particular reference to the functions undertaken pursuant to art. 19 of Legislative Decree 39/2010, amended by Legislative Decree 135/2016 transposing Directive 2014/56/EU, the Board of Statutory Auditors, including the meetings held with the Audit Firm and the attendance at the meetings of the Control, Risks and Sustainability Committee, had access to the workplan adopted, received information on the accounting standards applied, on the accounting representation of the most important transactions concluded during the financial year in question as well as on the outcome of the audit activities and the key audit matters emerged during the statutory audit. The Audit Firm did not report any significant gaps in the internal control system in relation to the financial reporting process.

In such regard, the Board of Statutory Auditors also received detailed information on the impairment test performed by the Company in order to confirm the goodwill figures and the values of certain significant financial fixed assets entered in the financial statements. The relevant details are entered by the directors in the financial statements in accordance with the indications provided under international accounting standards and by Consob.

As regards the supervisory activities conducted on the financial reporting process and the aspects related to the Audit Firm's independence, see paragraph 4 below.

It should be noted that in the context of the Board of Statutory Auditors' activities:

- no complaint reports (*denunce*) pursuant to art. 2408 of the Italian Civil Code were received;
- no petitions (*esposti*) were received.

Following the extraordinary events involving the Company in relation to the sale by the Recordati family of the entire share capital of Fimei S.p.A., the controlling shareholding in Recordati S.p.A., to the consortium of investment funds controlled by CVC Capital Partners VII Limited, on 28 February 2019 the Company's Board of Directors, appointed by the Shareholders' Meeting of 5 February 2019, verified that the Company is subject to "direction and coordination" by Rossini Luxembourg S.à.r.l.; this in accordance with articles 2497 *et seq.* of the Italian Civil Code. It should be noted that Rossini Luxembourg S.à.r.l. was established on 14 May 2018 and the company's first financial statements have not yet been approved.

Previously the Company did not consider itself subject to "direction and coordination" by its controlling company Fimei, in accordance with arts. 2497 *et seq.* of the Italian Civil Code. This was due to the fact that Fimei S.p.A. was a mere financial holding company without any operational structure; there did not exist any authorization or disclosure procedure for the Company with regard to its relationships with the parent company and, therefore, the Company defined its own strategic and operational goals on a wholly autonomous basis.

## **2. Supervisory activities on the relationships with subsidiaries and parent companies and on related party transactions**

The Board of Statutory Auditors oversaw the related party and/or intercompany transactions of an ordinary or recurring nature, with regard to which it reports the following:

- intercompany transactions of both a commercial and financial nature, involving the subsidiaries and the parent company, are governed by terms equivalent to prevailing terms governing transactions between independent parties;
- the most significant items corresponding to related party transactions consist of the following:
  - a) receivables for loans granted to companies of the Group;
  - b) payables for loans received from companies of the Group;
  - c) trade receivables owed by the subsidiaries;
  - d) trade payables owed to the subsidiaries;
  - e) receivables owed by the subsidiaries on account of the centralized treasury management;
  - f) payables owed to the subsidiaries on account of the centralized treasury management;
- it should be noted that the related party transactions do not include atypical or unusual transactions and that over the course of 2018 no transactions or contracts were concluded with related parties which, with reference to the significance of the effects on the financial statements, may be considered significant on account of their value or conditions; the only exception, for which an indication is provided in the consolidated financial statements, consists of the net debt for taxes determined by the Company on the basis of its estimated tax base and assigned to the parent company Fimei S.p.A. as a result of its accession to the consolidated tax regime pursuant to articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree no. 344/2003;
- in accordance with the requirements set forth in art. 4, paragraph 7, of the Related Party Transaction Regulation adopted with CONSOB resolution no. 17221 dated 12 March 2010 as subsequently amended, as well as in art. 2391-*bis*, paragraph 1, Italian Civil Code, the Company communicates the adoption of the “Procedure governing related party transactions”, available on the Company’s website.

### **3. Individual annual financial statements, consolidated financial statements and Directors’ Report**

With specific regard to the examination of the annual financial statements for the financial year ended 31 December 2018, the consolidated financial statements for the financial year ended 31 December 2018 (drafted on the basis of international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB) and ratified by the European Union, and in accordance with the measures issued by Consob in the implementation of paragraph 3 of art. 9 of Legislative Decree no. 38/2005) and the Directors’ Report, the Board of Statutory Auditors reports the following:

- the financial statements file was delivered to the Board of Statutory Auditors with reasonable advance notice in order for it to be filed at the Company’s registered office, along with this report;
- the Board of Statutory Auditors verified that the Company’s financial statements and the consolidated financial statements have been drafted in accordance with the structure and models imposed under applicable provisions of law and are accompanied by the documents provided for under the Italian Civil Code and the TUF;
- the Board of Statutory Auditors has verified the rationality of the valuation processes applied and their conformity with the rationale underlying international accounting standards.

#### **4. Most important transactions and events from an economic, financial and asset standpoint**

In relation to the transactions that are most important from an economic, financial and asset standpoint concluded by the Company and the Group during financial year 2018 and, more generally, with regard to the most significant events, the Board of Statutory Auditors reports the following:

- various initiatives were undertaken in line with the Group's strategy of achieving continuous development and growth;
- initiatives were undertaken in the area of sustainability. In particular, the Group decided to commence a structured and group-wide process aimed at sustainability through which the stakeholders' involvement in social, environmental and economic objectives may be fostered. Such process led to the preparation of information of a non-financial nature, through which the objectives established by the Group and the results achieved in the environmental, social and economic area could be highlighted;
- an important transaction involving the Company was launched in 2018, which entailed the change in the majority shareholder of Recordati S.p.A.; the transaction in question entailed a sale of the entire share capital of FIMEI S.p.A., the parent company of Recordati S.p.A., to a consortium of investment funds controlled by CVC Capital Partners (hereinafter also referred to, in short, as the "Transaction"), giving rise to an obligation to launch a full take-over bid (the "TOB").

With specific reference to the Transaction, as also described in the Corporate Governance Report, the Board of Statutory Auditors points out that on 29 June 2018 the members of the Recordati family, as shareholders of FimeI S.p.A. – the Company's majority shareholder – announced that they had reached an agreement for the sale to a consortium of investment funds controlled by CVC Capital Partners VII of the entire share capital of FimeI S.p.A. which, as of such date, owned 51.79% of the Company's share capital.

In accordance with the above-mentioned agreement, on 6 December 2018, the sale by the shareholders of FimeI S.p.A. to Rossini Investimenti S.p.A. (the company designated for such purpose under the above-mentioned agreement) of the entire shareholding held by them in FimeI S.p.A. was finalized. As a result of such transfer, CVC Capital Partners VII Limited became the controlling shareholder of the Company, in accordance with article 2359, paragraph 1, number 2) of the Italian Civil Code and article 93 of the TUF, as it may be discerned from the notification received by the Company in accordance with art. 120 of Legislative Decree no. 58/1998.

On the same date, 6 December 2018, following the above-mentioned sale of shares, the legal requirements for the launch by Rossini Investimenti S.p.A. of a mandatory take-over bid were fulfilled, pursuant to and for the purposes of articles 102 and 106, paragraph 1-*bis* of the TUF (the "Take-Over Bid").

On 19 December 2018, a committee comprised solely of independent directors issued an opinion prepared in accordance with art. 39-*bis* of Issuers Regulation (the "Opinion"), concerning the mandatory full Take-Over Bid on ordinary shares of Recordati S.p.A., setting forth "*the assessment on the offer and on the adequacy of the price*" of Recordati S.p.A.'s independent directors in office at the time the Opinion was issued. The Opinion was issued solely in order to enable the Board of Directors of the issuer (or, in other words, Recordati S.p.A., hereinafter also referred to as the "Issuer") to deliver the press release pursuant to art. 103 of the TUF referred to below.

The members of Recordati S.p.A.'s Board of Statutory Auditors have continuously monitored the above-described process followed by the independent directors, including by directly attending their meetings.

On 21 December 2018, the Issuer's Board of Directors approved the Press Release in accordance with art. 103, paragraph 3, TUIF and art. 39 of the Issuers Regulation.

On 21 December 2018 the Take-Over Bid was authorized by Consob; on 2 January 2019 the accession period started and on 1 February 2019, the accession period for the Take-Over Bid ended. The tendered ordinary shares of Recordati S.p.A. amounted to 59,816 shares, equal to approximately 0.061% of the shares forming the subject matter of the Offer and, therefore, amounting to approximately 0.029% of the Company's share capital. As of 8 February 2019, date of payment of the price due to the holders of the tendered shares and of the simultaneous transfer of the same to the bidder, the shareholding held by Fimei (as actual purchaser designated in the context of the Offer) in Recordati S.p.A. amounted to 51,820% of the share capital.

In consideration of the final results of the Take-Over Bid, the conditions were not met for the exercise of the Obligation of and Right to Purchase in accordance with, respectively, arts. 108, paragraphs 1 and 2, and 111 TUF.

Following the above-mentioned events, on 5 February 2019 the Shareholders' Meeting appointed a new Board of Directors.

The Board of Statutory Auditors oversaw the process and the fulfillment of requirements imposed upon Recordati S.p.A. as a result of the Transaction entailing the change in the ownership of the majority shareholding in Recordati S.p.A., as provided for under TUF and Consob's Issuers Regulations in relation to the mandatory full Take-Over Bid on the ordinary shares of Recordati S.p.A., by attending moreover not only the meetings of the Board of Directors, but also the meetings of the Independent Directors, called upon to express the Opinion pursuant to art. 39-*bis*, paragraph 2 of the Issuers Regulation.

On 18 December 2018, the Board of Directors approved the Budget for financial year 2019. The trend and the management of the Three-years Plan for financial years 2017-2019, approved at the beginning of 2017, was periodically subject to monitoring by the Board of Directors during 2018, also through a comparison of the results achieved with the results planned, discernible from the approved 2018 Budget.

On 3 August 2018 the Board of Directors approved by resolution a new assignment of stock options on the basis of the new Stock Options Plan 2018-2022, approved by the Shareholders' Meeting held on 18 April 2018.

Also, for future years, the Board of Directors expects to continue in its acquisition of products and expansion into new markets, in accordance with prudent parameters of financial sustainability.

More specifically, the transactions and events referred to above are adequately described in the Directors' Report and in the explanatory Notes to the financial statements' sheets, to which documents reference is made for further details on these matters.

The Board of Statutory Auditors has not noted or received information from the Audit Firm or from the Head of the Group's Auditing Function (who is also the Person in Charge of internal control within the meaning set forth in art. 150 TUF) of atypical and/or unusual transactions concluded with third parties, related parties or on an intercompany basis.

In the Directors' Report and in the explanatory Notes to the consolidated financial statements and the individual annual financial statements, the Directors provided a representation of the ordinary transactions concluded with related parties, indicating the nature and amount of the same. Such indications are adequate, also taking into account their size, as well as the size of the Group and of the Company. The transactions in question consist almost exclusively of intercompany transactions of a commercial or financial nature, concluded at market conditions.

On its part, the Board of Statutory Auditors has noted that the provisions of law and of the by-laws have been honored, and that the transactions concluded by the Directors are not manifestly imprudent or risky, in potential conflict of interests, in contrast with resolutions passed by the Shareholders' Meeting or, in any case, such as to compromise the integrity of the corporate assets, and that the same are, to the Board of Statutory Auditors' knowledge, inspired by criteria of economic rationality, without the foregoing constituting an opinion on the merits of the Directors' business management decisions.

In general, the Board of Statutory Auditors is therefore of the view that the applicable laws, the By-laws and principles of sound and proper management have been honored.

## **5. Business trend in the financial year and economic-financial situation**

Financial year 2018 ended with consolidated net profits of €/000 312.422, compared with €/000 288.799 as at 31.12.2017.

The consolidated financial situation (Net financial position) as at 31.12.2018 is equal to €/000 (588.380), compared to €/000 (381.780) as at 31.12.2017. The reasons for the change are commented on extensively in the Directors' Report.

The consolidated net equity as at 31.12.2018 amounts to €/000 963.586 compared to €/000 1.027.237 as at 31.12.2017, showing a reduction of €/000 63.651 (against a growth of €/000 123.297 in 2017).

It should be recalled that in 2011 the Company approved by resolution a change in its capital remuneration policy. As a result, for 2018 a dividend by way of advance payment on profits for financial year 2018 was established in the amount of € 0.45 per share. The Board of Directors proposes to the shareholders' meeting the distribution of an additional dividend of € 0.47 per share, as payment of the balance for financial year 2018, which would therefore amount to a dividend of € 0.92 per share, compared to € 0.85 per share distributed from the result of financial year 2017.

On the basis of the above-mentioned elements, considering the more general situation of the Company and the Group and, in particular, the directors' forecasts for financial year 2019 and the Three-years Plan, both approved by the Board of Directors, the Board of Statutory Auditors does not note the presence of any events or circumstances which could arouse significant doubts on the assumption of business continuity.

## **6. Organizational structure, administrative-accounting system and internal control system**

The Board of Statutory Auditors oversaw the existence of an organizational structure adequate in consideration of the size, the structure of the enterprise and the objectives pursued, as well as suitable to allow for compliance with the legal framework applicable to the Company, including the sector-specific legal framework.

The Board of Statutory Auditors verified, with the assistance of the function dedicated to monitor the internal control system, the presence of an organizational chart, systems, guidelines on work responsibilities and procedures in line with the achievement of the above-mentioned objectives, as well as the presence of a system of proxies and powers-of-attorney consistent with the responsibilities delegated.

During the financial year, the reorganization of the top line of management reporting to the CEO continued.

The organizational model adopted by the Company is compliant with the provisions of Legislative Decree 231/2001 and is subject to periodic updating. Such model, which pertains to the overall business operations of the Company from a procedural, organizational and control perspective, is particularly incisive and its respect is subject to supervision on the part of a specifically appointed and duly functioning body,, "Compliance 231", comprised of an internal member (the Person in Charge of Internal Audit) and two external and independent experts. The model is subject to ongoing monitoring and updating, in line with legislative changes and organizational developments.

The Company monitors the internal situation of the strategic subsidiaries with reference to organizational safeguards and provisions consistent with those adopted by the Company in relation to Legislative Decree 231/2001. In such regard, taking into account the rising importance of the foreign subsidiaries, monitoring activities are systematically implemented concerning the legislation in force on corruption in the various countries in which such companies operate, together with activities to strengthen the internal safeguards aimed at preventing such phenomena.

The Company also adopted an Ethics Code in the context of the Organizational Model adopted in accordance with Legislative Decree 231/2001 and continued the dissemination of the same also over the course of 2018 to all of its affiliates, including its foreign affiliates. The Company has adopted a *Policy Book* that contains and systematizes the Group's policies, with the purpose of governing and harmonizing the rules and conducts in various contexts of the Company's life, the contents of which are continuously updated and supplemented.

The Company is dedicated to the areas of health, safety and environment, matters on which the Directors' Report and the Statement setting forth the information of a non-financial nature give significant attention. The Board of Statutory Auditors was able to ascertain the continuous focus laid on the issue, which was brought to the attention of the relevant bodies on a regular basis.

The Internal Audit Function is actively committed to identifying the critical issues within the internal control system. The person in charge of such function, who has no connections with the operational functions, reports to the Board of Directors and is coordinated from an operational standpoint by the Managing Director and by the Director in Charge of the Internal Control and Risk Management System and he frequently reports to the Control, Risks and Sustainability Committee, to which he presents the annual work calendar and reports periodically on the activities conducted. The Board of Statutory Auditors, also in its capacity of Committee for internal control and accounting audit established pursuant to art. 19 of Legislative Decree 39/2010, maintains an ongoing dialogue with the person in charge of the function, verifying the efficacy of his work.

The Report on corporate governance and ownership structure provides, in accordance with art. 123-*bis* TUF, detailed information on the characteristics of the risk management and internal control systems existing in relation to the financial reporting process.

During the financial year, the Company continued to apply its risks control system.

To implement what had been previously approved by the Board of Directors, the Company carried out periodic monitoring involving all of the corporate functions, with the aim of both improving the financial reporting and overseeing in a continuous and structured manner the areas and main factors of risk, also for the purposes provided for under art. 19 paragraph 1 letter c) of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016 transposing Directive 2014/56/EU (Catalogue of Recordati's company risks).

With specific reference to the Catalogue of company risks, it should be noted that, as a rule, the Board of Directors reviews the updated risks mapping on an annual basis, during the meeting in which it approves the budget for the following financial year. However, in consideration of the extraordinary events involving the Company with regard to the Transaction in 2018, the updating

was postponed to the meeting of the Board of Directors of 28 February 2019. At such meeting, an examination of the update “Catalogue of Risks” related to financial year 2018 was conducted on an updated basis with respect to what was examined for financial year 2017, and a consequent assessment was made on the compatibility of the level and nature of the risks, as identified by the Catalogue of the Group’s Risks presented to the Board of Directors, with the Group’s strategic objectives set forth in the Three-years Plan 2017-2019, also with a view to ensuring the sustainability of the Company’s business over the medium/long-term period, without prejudice to the continuous monitoring of the potential exposure to company risks also through the measures adopted by the management in order to prevent, monitor and control such risks.

Therefore, on 28 February 2019 the Board of Directors examined the “Catalogue of Risks” related to financial year 2018 and assessed that the level and nature of the risks as identified by the Catalogue of the Group’s Risks presented to the Board, including in its assessments also the risks that may be relevant with a view to the sustainability of the Company’s business over the medium/long-term, are compatible with the Group’s strategic objectives set forth in the Three-years Plan 2017-2019, without prejudice to the fact that the process of updating and revision of the mapping submitted to the Board for its review shall proceed in accordance with the definition of the new business plan to be examined by the Board over the next months.

In the Directors’ Report, the main risk factors to which the Group is exposed are classified and described as follows:

- risks related to the external context: these are risks related to developments in the legal and regulatory framework of the pharmaceutical sector, characterized by a high level of local, national and international regulation, which influences the business at all levels, including those related to expansion in emerging Countries and to competitive pressure;
- strategic and operational risks: these are the risks related to the Group’s internationalization, the risks related to patents approaching their expiry, to investments in research and development, risks related to the launch of new products, risks related to pharmacovigilance, risks related to the production process, to the interruption of production, to health, safety and environment and the management of information technology resources and data security;
- financial risks: these are credit risk, interest rate risk, exchange rate risk and liquidity risk;
- legal and compliance risks: these are the risks related to product liability, compliance and those related to legal proceedings.

All of the risks and measures adopted by the Company for their limitation are described at great length in the Directors’ Report. The Budget and the Three-years Plan, as well as the planning of the control bodies’ activities, in particular those of the Function Internal Audit, take into due consideration the main risk factors and the actions aimed at mitigating their effects.

With reference to the administrative area, the Company appears to have adapted to the provisions introduced by law 262/2005 and an Executive in charge of drafting the corporate accounting documents, identified in the person of Dr. Fritz Squindo, was appointed, at the proposal of the Control and Risks Committee and with the Board of Statutory Auditors’ favorable opinion, starting from 3 May 2007. Moreover, the newly appointed Board of Directors, formed on 5 February 2019, expressly confirmed the appointment of the Executive in Charge of drafting the corporate accounting documents. The new Board continued to adopt the operational Guidelines of the Executive in charge which provide, *inter alia*: i) that the power to dismiss rests solely with the Board of Directors and that it may be exercised for a just cause, which must be stated in the related resolution; ii) the positioning of the Executive in charge in a top management role at the Company; iii) a direct and specific periodic flow of information (on at least a half-yearly basis) from the Executive in charge to the Board of Directors pertaining to, *inter alia*, possible critical issues that may have come to light during the period and possible unsuitability of the means at his disposal; iv) that the Executive in charge, in the event of necessity and urgency, reports at any time to the



Board of Directors any fact deemed relevant for the performance of its activities; v) periodic meetings between the Executive in charge and the Committee for control and risks; vi) collaboration of the Internal Audit Function; vii) information flows channeled by the Executive in charge to the Supervisory body provided for under Legislative Decree 231/2001.

The Executive in charge also became a member of the parent company's Board of Directors starting from 2013, and he stays a member of the same even after the new appointments of 5 February 2019.

The corporate governance Report dedicates significant space to the internal control system and, in particular, to the activities aimed at overseeing the financial reporting process, that are also relevant in accordance with the provisions of art. 19 paragraph 1 letter c) of Legislative Decree 39/2010 as amended by Legislative Decree 135/2016 transposing Directive 2014/56/EU.

We note a reporting system that is complete, integrated and consistent at the Group level, with regard to both reporting and procedures and directives. Moreover, it is also provided and implemented that the Executive in charge sends to the subsidiaries included within the consolidation perimeter guidelines on keeping the accounts, preparing the annual financial statements and any interim accounting data, as well as the power of the Executive in charge to request information, copies of documents and to proceed with audits in order to verify the subsidiaries' proper fulfillment of the indications set forth in the guidelines and the operational indications received.

A group accounting handbook was also adopted, as well as administrative-accounting protocols and procedures concerning the periodic closings of the accounts, the drafting of the financial statements and the drafting by the subsidiaries of reporting packages.

With reference to the ongoing reporting obligations provided for under art. 114, paragraph 2, TUF, the Company has provided the subsidiaries with adequate instructions for fulfilling the communication obligations provided for under art. 114, paragraph 1, TUF in the context of the internal Regulation on Inside Information.

The Company maintains a strict informative control over the subsidiaries for purposes of being able to fulfill the communication obligations periodically envisaged. In particular, it is provided that the subsidiaries send the accounting or financial data of the period accompanied with a specific certification by the relevant CFO.

The Executive in charge carries out an assessment of the internal administrative-accounting control system, availing himself of the testing activities conducted by the Internal Audit Function.

In addition, on 20 March 2019 the Audit Firm presented to the Board of Statutory Auditors the additional Report provided for in art. 11 of Regulation (EU) no. 537/2014, that represents the results of the performed statutory audit of the accounts and includes the declaration of independence provided for under art. 6, paragraph 2, letter a), of the Regulation, as well as the information required under art. 11 of the same Regulation, without identifying significant gaps. In particular, the additional Report does not show any significant gaps in the internal control system in relation to the financial reporting process worthy of being brought to the attention of the persons in charge of the "governance" activities.

The Board of Statutory Auditors has informed the Company's Board of Directors of the results of the statutory audit, also sending to the latter the additional report, pursuant to art. 19 of Legislative Decree 39/2010, without any observations.

The Company, in accordance with law 262/2005, performed, with a favorable outcome, verification tests on the accounting closing procedures and on administrative procedures in general, which were also extended to the foreign affiliates, aimed at confirming the accuracy of the accounting data entered in the financial statements and in the disclosure documents and sheets.

All of the Group's companies are subject to an accounting audit for purposes of the consolidated financial statements (which are differentiated in scope, depending upon the specific characteristics of the company involved) by audit firms belonging to the KPMG network, a company appointed for the period of nine years by the Shareholders' Meeting of the parent company which approved the financial statements for financial year 2010.

From a standpoint of compliance with applicable laws and regulations, the Board of Statutory Auditors verified that the Company is subject to the application of the provisions set forth in articles 15 *et seq.* of the Regulation on markets adopted by Consob, and the foregoing is with reference to the subsidiaries established in Turkey, United States of America and Russia which are considerably important on account of their size, since they are established and governed by the laws of a State not belonging to the European Union, and verified compliance with the economic and asset limitations. To such end, the Board of Statutory Auditors acquired from the Company and from the audit firm information that allow to confirm that such subsidiaries are endowed with an administrative accounting system suitable to ensure that the economic, asset and financial data necessary for the drafting of the consolidated financial statements regularly reach the Company's management and the audit firm of the parent company.

It should be recalled that the legal framework governing periodic financial reporting was modified by Legislative Decree 25/2016, transposing Directive 2013/50/EU, which eliminated the obligation to publish the interim management statement previously provided for under paragraph 5 of art. 154-*ter* of Legislative Decree 58/1998. On 26 October 2016, through resolution no. 19770, Consob, by introducing the new article 82-*ter*, made a number of regulatory amendments which apply since 2 January 2017.

In such regard, the Board of Directors resolved in 2017 to continue to publish, on a voluntary basis and until a different resolution is issued, a periodic quarterly disclosure similar in forms and contents to the one published in the previous financial years. In particular, the quarterly disclosure will be subject to the approval of the Board of Directors in the course of meetings to be held within 45 days from the closing of the first and third quarter of each year and published through dissemination of a press release to be issued upon the conclusion of the meeting of the Board of Directors that approves the above-mentioned data and through the publication of the quarterly financial report, which must also be published in a timely manner following the meeting of the Board of Directors that approved the above-mentioned data.

As already mentioned, on 28 February 2019 the Company's Board of Directors newly-appointed by the Shareholders' Meeting on 5 February 2019 verified the guidance and coordination activities exercised by Rossini Luxembourg S.à.r.l on Recordati S.p.A. in accordance with articles 2497 *et seq.* of the Italian Civil Code.

On the same date, the Board of Directors verified that the Company meets the requirements provided for under art. 16 paragraph 1 letters b), c) and d) of the Markets Regulation.

As for the publicity obligations provided for under art. 2497-*bis* of the Italian Civil Code, referred to in art. 16, paragraph 1 letter a) of the above-mentioned Regulation, the Company represented that it shall proceed in a timely manner within the deadline provided by law.

In the Corporate Governance Report it is stated that the wholly-owned Italian subsidiaries acknowledged the guidance and coordination activities on the part of the Company, by performing the advertising requirements provided by law.

In addition, the subsidiaries established and governed by the laws of States not belonging to the European Union, with the exception of those established in Turkey, USA and Russia, are not materially relevant within the meaning set forth in the applicable secondary regulatory framework.

Moreover, in consideration of the high number of shareholdings held, the Company is committed to monitoring any potential changes and the Board of Statutory Auditors exercises its surveillance in such regard.

#### Audit firm

Based on the information received, it appears that during the financial year the Company and the other companies of the Group granted to the audit firm KPMG S.p.A. and to other entities linked to its network, a number of mandates different from the statutory audit of the Company, as specified below.

Type of service	Entity that provided the service	Recipient	Fees in €
Audit of accounts	Audit firm of the Group Parent Company	Group Parent Company	130.200
Audit of accounts	Audit firm of the Group Parent Company	Subsidiaries	58.100
Audit of accounts	Network of the audit firm of the Group Parent Company	Subsidiaries	600.904
Due diligence services	Audit firm of the Group Parent Company	Group Parent Company	223.000
Tax compliance services	Network of the audit firm of the Group Parent Company	Subsidiaries	4.913
Signing of declarations and certifications	Audit firm of the Group Parent Company	Group Parent Company	44.000
Signing of declarations and certifications	Network of the audit firm of the Group Parent Company	Subsidiaries	22.416
Other services	Audit firm of the Group Parent Company	Group Parent Company	30.000
Other services	Network of the audit firm of the Group Parent Company	Subsidiaries	935

We provide notice of such mandates for purposes of law and we specify that the same were stated by the Company in an attachment to the consolidated financial statements (Schedule 2) in accordance with art. 149 *duodecies* of the Issuers Regulation.

The Board of Statutory Auditors highlights that no critical element came to light with regard to the independence of the audit firm.

As a result of the enactment of Regulation 2014/537/EU, starting from 2017 the Board of Statutory Auditors was called upon to express its opinion on the occasion of the grant to the audit firm and to other entities belonging to the network, of mandates different from audit services (Non-Audit Services).

### **7. Current corporate governance and changes following the Transaction**

Detailed information on the methods through which the corporate governance principles approved by Borsa Italiana (set forth in the relevant corporate governance Code, hereinafter referred to in short also as only the "Code") were implemented are provided by the directors in the annual Report on corporate governance and ownership structure attached to the financial reporting.

Let us observe first of all that the Company adheres to and complies with the corporate governance Code of listed companies (July 2018 version) with the methods specified in the Report on corporate governance and ownership structure related to financial year 2018, approved by the Board of Directors on 28 February 2019.

The report joined to the financial statements for financial year 2018 appears in line with the provisions of art. 123-*bis* TUF, and on the related information recalled by paragraph 4 of such provision the audit firm expressed the consistency opinion provided for under art. 14, paragraph 1, letter e) of Legislative Decree 39/2010.

The introduction of the corporate governance Report also includes a description of the important transaction that involved the Company in 2018 (the “Transaction”) and that led to an important change in the majority share ownership of Recordati S.p.A., which was also described in paragraph 4 “*Most important transactions and events from an economic, financial and asset standpoint*” of this report.

In such regard, it is worth recalling that on 6 December 2018 the sale by the shareholders of Fimei S.p.A. to Rossini Investimenti S.p.A. (as the company specifically designated pursuant to the agreement with the consortium of investment funds controlled by CVC Capital Partners VII) of the entire shareholding held by them in Fimei S.p.A. was finalized and that, following such events, on 5 February 2019 the Shareholders’ Meeting appointed a new Board of Directors.

While referring to the disclosure set forth in the Corporate Governance Report, the Board of Statutory Auditors observes the following.

The Shareholders’ Meeting held on 11 April 2017 had appointed for three financial years, expiring upon the shareholders’ meeting convened to approve financial statements for the financial year ending 31 December 2019, a Board comprised of nine directors, six of whom are independent, among whom three are women, in accordance with the criteria indicated by the applicable provisions on gender balance (at least 1/3 of the members must be of the less represented gender) and on minimum number of independent directors (at least one third of the Board of issuers belonging to the FTSE-Mib index). In particular, from 1 January 2018 until 6 December 2018 the Board of Directors was comprised as follows:

Name	Role	Executive/Non-executive	Independent
Alberto Recordati	Chairman	Executive	-
Andrea Recordati	Vice Chairman and MD	Executive	-
Rosalba Casiraghi	Director	Non-executive	Independent
Michaela Castelli	Director	Non-executive	Independent
Elisa Corghi	Director	Non-executive	Independent
Paolo Fresia	Director	Non-executive	Independent
Mario Garraffo	Director	Non-executive	Independent
Fritz Squindo	Director	Executive	-
Marco Vitale	Director	Non-executive	Independent

It should be noted that on 8 May 2018, following discussions between the Company and Consob concerning the independence of Professor Vitale, the Board of Directors acknowledged Consob’s position on non-independence of Professor Vitale and, despite confirming to essentially agree on the independence of Professor Vitale – as moreover it had always done in the context of the periodic annual assessment from a standpoint of prevalence of substance over formal requisites – resolved to align to Consob’s assessment on his failure to meet independence requirements. Following such assessment, the number of independent directors on the Board fell to five members, a number in any case exceeding the number recommended by the Corporate Governance Code for issuers belonging to the FTSE-Mib index (at least one-third of the Board of Directors).

Subsequently, in the context of the finalization of the corporate changes related to the ownership structure of Recordati S.p.A. occurred on 6 December 2018 following the Transaction, the Chairman of the Board of Directors, executive director, Dr. Alberto Recordati, the non-independent and non-executive director Professor Marco Vitale and the independent director Dr. Paolo Fresia submitted their resignations from all roles respectively held at Recordati S.p.A..

The Board of Directors, at its meeting held on 6 December 2018 and following finalization of the above-mentioned corporate changes:

- acknowledged the resignations of the above-mentioned directors and consequently approved by resolution, in accordance with art. 2386 of the Italian Civil Code and art. 17 of the Company’s By-laws, the appointment by co-optation of Dr. Giampiero Mazza, Dr.

Cathrin Petty and Dr. Søren Vestergaard-Poulsen, who remained in office until the following shareholders' meeting;

- appointed Dr. Giampiero Mazza as Chairman of the Board of Directors;
- likewise acknowledged the resignations submitted – in order to allow for the full renewal by way of slate voting of Recordati's Board of Directors in accordance with art. 15 of the By-laws – on 6 December 2018 by the other Directors in office as of such date, appointed by the Shareholders' Meeting held on 11 April 2017 at the proposal of the majority shareholder Fime S.p.A. (namely: Dr. Andrea Recordati (Vice Chairman and Managing Director), Dr. Fritz Squindo (non-independent and executive), Dr. Rosalba Casiraghi (independent and non-executive), Attorney Michaela Castelli (independent and non-executive), Dr. Elisa Corghi (independent and non-executive) and Dr. Mario Garraffo (independent and non-executive)), with effect as of the following Shareholders' Meeting, following finalization of the corporate changes related to the indirect ownership structure of Recordati S.p.A. occurred on 6 December 2018;
- thus resolved to convene the Ordinary Shareholders' Meeting for the renewal of the Board of Directors on 5 February 2019.

In light of the foregoing, from 6 December 2018 until 5 February 2019 the Board of Directors was comprised as follows:

Name	Role	Executive/Non-executive	Independent
Giampiero Mazza	Chairman	Executive	-
Andrea Recordati	Vice Chairman and MD	Executive	-
Rosalba Casiraghi	Director	Non-executive	Independent
Michaela Castelli	Director	Non-executive	Independent
Elisa Corghi	Director	Non-executive	Independent
Mario Garraffo	Director	Non-executive	Independent
Cathrin Petty	Director	Executive	-
Søren Vestergaard-Poulsen	Director	Executive	-
Fritz Squindo	Director	Executive	-

The Board of Directors currently in office was appointed by the Shareholders' Meeting held on 5 February 2019, which appointed for three financial years, with expiry on the date of the shareholders' meeting convened to approve the financial statements for financial year ending 31 December 2021, a Board comprised of eleven directors, four of whom are females and three of whom are independent, in accordance with the criteria indicated by the applicable provisions of law and self-regulation on the matter of gender balance (at least 1/3 of the members must be of the less represented gender) and of minimum number of independent directors (at least 1/3 of the Board of issuers belonging to the FTSE-Mib index, rounding to the lower whole number).

We summarize below the composition of the Board of Directors as of the date of this Report and the role of each Director as of such date:

Name	Role	Executive/Non-executive	Independent	Date of initial Appointment
Flemming Ørnskov	Chairman	Non-executive	-	BoD 05.02.2019
Alfredo Altavilla	Vice Chairman	Non-executive	-	BoD 05.02.2019
Andrea Recordati	MD	Executive	-	Shareholders' Meeting 29.04.1998
Silvia Candini	Director	Non-executive	Independent	Shareholders' Meeting 05.02.2019
Michaela Castelli	Director	Non-executive	Independent	Shareholders' Meeting 17.04.2014
Joanna Le Couilliard	Director	Non-executive	Independent	Shareholders' Meeting 05.02.2019
Francisco Javier de Jaime Guijarro	Director	Executive	-	Shareholders' Meeting 05.02.2019

Giampiero Mazza	Director	Executive	-	BoD 06.12.2018
Cathrin Petty	Director	Executive	-	BoD 06.12.2018
Søren Vestergaard-Poulsen	Director	Executive	-	BoD 06.12.2018
Fritz Squindo	Director	Executive	-	BoD 14.03.2013

The Corporate Governance Report states that, since it was in the Company's interest to strengthen the Board's experience, also at the international level, in the business sectors in which the Company and the Group operate, the Shareholders' Meeting held on 5 February 2019 approved the proposal of the majority shareholder Fimei S.p.A. to authorize the release of the members of the Board of Directors from the non-competition obligation provided for under art. 2390 of the Italian Civil Code, with reference to mandates held by them in other companies and disclosed as of such date.

Following the renewal of the Board of Directors by the Shareholders' Meeting held on 5 February 2019, the Board granted the mandates of Chairman to Dr. Flemming Ornskov and of Vice Chairman to Dr. Alfredo Altavilla, and confirmed the mandate of Managing Director to Dr. Andrea Recordati, also renewing the grant of the previous operational mandates.

Also in accordance with the opinion of the Board of Statutory Auditors and the Remuneration Committee, the Board determined the remuneration of the Chairman and the Managing Director.

As regards the role of the Board of Directors, the Board continued to reserve to its exclusive competence, in addition to the matters reserved to it by law or under the By-laws, the transactions having significant strategic, economic, asset or financial importance, identified using specific criteria revised on the occasion of the grant of the mandates.

In relation to the foregoing, the Board of Statutory Auditors confirms the substantial compliance, during the financial year, with the principles and criteria imposed by the Code.

Following the appointment of the new Board of Directors, which took place at the Shareholders' Meeting held on 5 February 2019, we point out the presence of one-third of the independent directors (three out of nine directors in office), with an approach in line with the provisions of the TUF and the Corporate Governance Code itself, also for issuers belonging to the FTSE-Mib index.

The procedure followed by the Board for purposes of the verification of the independence provides that the existence of the requisite must be declared by the director on the occasion of the presentation of the candidacies, as well as at the time of acceptance of the appointment. The Board verifies such existence of requisites at the first meeting following the appointment and discloses the results to the market. Subsequently and without prejudice to the independent director's commitment to notify the Board in a timely manner of the occurrence of situations that cause the loss of the requisite, the Board reiterates, on an annual basis, the request to the relevant directors to confirm the existence of such requisites, as provided by law and the Code. The Board of Directors and the Board of Statutory Auditors then respectively proceed to verify the contents and the correct application of the requisites and the procedures for their verification.

With reference to the Board currently in office, following appointment by the Shareholders' Meeting held on 5 February 2019, in relation to three directors, namely Dr. Silvia Candini, Attorney Michaela Castelli and Dr. Joanna Le Couilliard, the Board of Directors, taking into account the declarations issued by the persons in question, confirmed the existence of the independence requisites provided for under art. 148, paragraph 3 TUF and of the independence requisites provided for under the Code.

Following renewal of the Board of Directors by the Shareholders' Meeting held on 5 February 2019, the Board:

- a) renewed – on the same date - the establishment of the Control, Risks and Sustainability Committee;

- b) renewed – on the same date – the establishment of the Remuneration Committee;
- c) decided not to designate a new Lead Independent Director.

With reference to the Control, Risks and Sustainability Committee (letter a)), let us point out that following the assessment on Professor Vitale's failure to meet the independence criteria on 8 May 2018 and his resignations from the role of Chairman and member of the Control, Risks and Sustainability Committee, the Board – in its previous composition – had appointed as the new Chairman of the Committee Attorney Michaela Castelli and as new member of the same Dr. Rosalba Casiraghi. Such composition remained unchanged until the Shareholders' Meeting held on 5 February 2019, which appointed the new Board of Directors in its current composition.

The new Board, at its meeting held on 5 February 2019 following appointment by the Shareholders' Meeting, established within itself a Control, Risks and Sustainability Committee, comprised of the following non-executive and – within the meaning described above – independent directors: Attorney Michaela Castelli (Chairman), Dr. Silvia Candini and Dr. Joanna Le Couilliard.

With reference to the Remuneration Committee (letter b)), it should be noted that at its meeting held on 5 February 2019 the Board also established within itself a Remuneration Committee, comprised of the following non-executive and – within the meaning described above - independent directors: Dr. Joanna Le Couilliard (Chairman), Attorney Michaela Castelli and Dr. Silvia Candini.

With reference to the Lead Independent Director (letter c)), it should be noted that – during financial year 2018 and until 5 May 2018 – the Board had designated as Lead Independent Director the independent Director Professor Vitale, to whom the independent directors reported for a better contribution to the Board's activities and functioning.

However, following the Board's assessment on Professor Vitale's failure to meet the independence criteria, the Board had not proceeded with a new appointment. Nevertheless, on recommendation of the other Independent Directors who had expressed the need to appoint a new Lead Independent Director, also in consideration of the independent directors' activities for purposes of the issuance of the opinion in accordance with art. 39-*bis* of the Consob Issuers Regulation in the context of the Transaction, the Board appointed Dr. Mario Garraffo as Lead Independent Director, who has, generally, the task of collaborating with the Chairman to ensure that the Directors receive complete and timely information and has the power to convene, autonomously or at the request of other directors, specific meetings of sole independent directors.

The Lead Independent Director convened several meetings of sole independent directors in 2018, also for purposes of the issuance of the Opinion pursuant to art. 39-*bis* of the Consob Issuers Regulation in the context of the Transaction and coordinated their works, which took place under the Board of Statutory Auditors' surveillance.

In particular, the following directors of the Issuer, all appointed by the Shareholders' Meeting of Recordati held on 11 April 2017 and fulfilling the independence requisites provided for under art. 147-*ter*, paragraph 4, TUIF and art. 3 of the Corporate Governance Code for listed companies, took part in the process aimed at preparing and approving the Opinion:

- Mario Garraffo;
- Rosalba Casiraghi;
- Michaela Castelli;
- Elisa Corghi.

Following the changes in the composition of the Board of Directors that occurred at the Shareholders' Meeting held on 5 February 2019, no new Lead Independent Director was appointed.

In relation to the composition of the Board of Statutory Auditors, we inform that the same verified, with a favorable outcome, that its members honor the independence criteria provided by law and the Code.

Following the appointment of the new Board of Directors on 5 February 2019, the Board confirmed the previous assessment of the departing Board not to proceed to establish an Appointments Committee, expressly reserving to the Board of Directors in its full composition the duties assigned to the latter by the Code. This is principally on the basis of the finding that no difficulties have been noted so far, also by virtue of the presence of a shareholder that holds legal control, also following the Recordati family's sale to the consortium of funds controlled by CVC (and therefore in consideration of the concentrated ownership structure), in particular in the preparation of the appointment proposals, and that it is therefore deemed preferable to reserve to the Board of Directors in its full composition the functions that the Code assigns to the Appointments Committee and performed by the Board.

The Company had decided not to put in place any succession plan for the executive directors; however, considering the changes in the ownership structure that took place at the end of 2018 and the appointment of the new Board of Directors on 5 February 2019, the Company stated that it intends to subject said assessment to the newly-appointed Board over the course of 2019.

## **8. Consolidated non-financial statement**

Legislative Decree 254/2016, transposing Directive 2014/95/EU, introduced in our legal system the obligation for certain entities to draft, for each financial year, a non-financial statement aimed at *"ensuring an understanding of the business operations, the trend in the business performance and the results and impact generated by them"*, concerning environmental, social matters, matters related to personnel, to the respect of human rights and to the fight against active and passive corruption.

Therefore, essentially, starting from the financial statements related to financial years started in 2017, large listed companies, banks and insurance companies (having at least 500 employees and meeting certain size requirements) must also draft, as part of their traditional financial statement, a statement on non-financial issues, such as those concerning environmental, social matters, matters related to personnel, to the respect of human rights and to the fight against active and passive corruption.

In compliance with the provisions of Legislative Decree 254/2016, the Company prepared the consolidated non-financial statement for 2018 (hereinafter also referred to as only the "NFS"). Indeed, Recordati decided to undertake a structured and uniform pathway towards sustainability, taking into consideration aspects of economic, social and environmental sustainability in a manner consistent with its organizational characteristics. To the extent necessary to ensure an understanding of the business operations, of its trend, of its results and of the impact generated by the same with regard to main sustainability matters, Recordati's commitment in terms of sustainability reflected in the preparation of the NFS related to financial year 2018, in order to fulfill the obligations provided for under articles 3 and 4 of Legislative Decree 254/16. The NFS sets forth a description of the main policies followed by the enterprise, the management models and the main activities carried out by the Group during 2018 with regard to the matters expressly cited by Legislative Decree 254/16 (environmental, social, personnel-related, respect for human rights, fight against corruption), as well as the main risks identified in connection with such issues.

The NFS was drafted in accordance with the new reporting standards entitled *"GRI Sustainability Reporting Guidelines"*, published in 2016 by the Global Reporting Initiative (GRI), in accordance with the "Core" option.



The NFS was presented to the Control, Risks and Sustainability Committee held on 25 February 2019 for such Committee's review and assessment, and later approved by Recordati S.p.A.'s Board of Directors on 28 February 2019.

The Company's Board of Statutory Auditors and the Supervisory Body have obtained periodic updates on the carrying out of activities in preparation of the drafting of the NFS and the Board of Statutory Auditors oversaw, in the context of the functions assigned to it by the legal system, compliance with the provisions set forth in Legislative Decree 254/2016.

The NFS was also submitted to KPMG's conformity opinion, which expressed, through a specific report, a certification of the conformity of the information provided in accordance with art. 3, paragraph 10, of Legislative Decree 254/16. The verification was performed in accordance with the procedures indicated in the "Independent Audit Firm's Report".

We specify that the NFS was published by the Company along with the documents related to the annual financial statements for financial year 2018.

### **9. Conclusive assessments on the supervisory activities conducted and the financial statements**

The audit firm, in its report issued pursuant to art. 14 of Legislative Decree no. 39 of 27 January 2010, expressed an opinion without modifications on the annual financial statements and on the 2018 consolidated financial statements. The certifications of the Executive in charge and of the Managing Director provided under art. 154-*bis* TUF are attached as schedules to the annual financial statements and to the consolidated financial statements.

The Shareholders' Meeting was called for the approval of the financial statements. The directors' proposal on the distribution of the dividends (Euro 0.47 per share as balance payment for financial year 2018), also taking into account the advance payment on the profits for 2018 (€ 0.45 per share), envisages the distribution of a total dividend of € 0.92 per share. For the distribution of the dividend, the Company shall use the profits of the financial year.

The Board of Statutory Auditors, on the basis of the activities conducted over the course of the financial year, does not note any reasons preventing the approval of the financial statements as at 31 December 2018 and the related resolution proposals formulated by the Board of Directors.

Milan, 20 March 2019

The Board of Statutory Auditors of Recordati S.p.A.

Antonio Santi

Livia Aliberti Amidani

Marco Nava