PROJECT OF ANNUAL REPORT RECORDATI S.p.A.

Review of operations

To Our Shareholders,

The Annual Report of the Parent Company for the year ended 31 December 2010, which we submit to you for your approval, reports net income of € 67,892,227, a decrease of € 8,175,983 compared to the previous year due above all to the effect of the reduction in the price of lercanidipine, following the expiry of the patent which occurred in January.

The strategy to internationalize our operations was consolidated in 2010 by integrating and developing the companies acquired in previous years and the company Artmed International S.r.l. located in Bucharest in Romania was acquired.

The Group's strategy is to continue to focus on developing activities in Europe, the second largest pharmaceuticals market in the world, and especially on growing markets in central and eastern Europe. In addition to geographical expansion, a strong boost will be given to broadening the product portfolio both through the development and subsequent launch of pipeline pharmaceuticals and through the acquisition of new products.
In 2010 in particular approval was obtained for the marketing of the product Urorec®/Silodyx™ (silodosin) in Europe and in Russia and the decentralized procedure for the approval of pitavastatin (Livazo®, Alipza® and other brands) in Europe was concluded.

With regard to operations in Italy, sales of prescription specialty pharmaceuticals fell compared to the previous year due to the substantial fall in revenues from Zanedip®, partially offset by the launch of new products and the growth in volumes of sales for Peptazol® (an anti-ulcer inhibitor of the protonic pump) and Rextat® (a lovastatin based drug indicated for the treatment of hypercholesterolemia). From a legislative viewpoint Law 122 of 30 July 2010 entered into force, containing article 11 which establishes a charge payable by producers amounting to 1.83% of the price to the public net of VAT of reimbursable products, which companies must pay to the Regions.

Sales of self-medication specialty pharmaceuticals were unchanged compared to the previous year. Alovex™ a product for the treatment of mouth ulcers and Proctolyn® (anti-hemorrhoids) performed positively, while the cough syrup line was relaunched and Somac Control® (anti-acid and antireflux inhibitor of the protonic pump) was launched in August.

Sales of pharmaceutical chemicals, consisting of the active ingredients produced at the Campoverde di Aprilia plant, fell by 3% compared to 2009, due further increases in competition on the market and the consequent adoption of a policy to suspend the production of some active ingredients with lower value added and to make increasingly greater use of production capacity for active ingredients destined for use in our own pharmaceutical operations.

Policies to closely monitor and contain operating expenses continued in 2010.

Total R&D costs amounted to € 28,159 thousand, an increase of 9.7% compared to expenses incurred in the previous year.

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

OTHER INFORMATION

No treasury stock was purchased during the year. A total of 1,266,250 treasury shares were assigned for a value of € 6,524 thousand following the exercise of stock option rights by Group employees.
The Company held treasury stock consisting of 10,206,105 shares at 31 December 2010, accounting for 4.88% of the share capital.

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

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

With regard to the obligation pursuant to article 26, attachment B, of Legislative Decree 196 of 30 June 2003, as the owner of personal data including sensitive data, processed using electronic instruments, the Company reports that in compliance with article 34, paragraph 1, letter g) of that decree, the Security Program Document has been updated. That document contains exhaustive regulations for data treatment procedures in compliance with Art. 19 of attachment B of the Decree.

In compliance with the requirements contained in Art. 4, paragraph 7 of the Regulation on related-party transactions adopted with Consob Resolution No. 17221 of 12 March 2010 and subsequent amendments, the Company reports that it has adopted “Regulations for related-party transactions” the full text of which is available on the Company website at www.recordati.it (in the “Corporate Governance” section).

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

The information required by the Issuers’ Regulations (Consob Regulations 11971 of 14 May 1999 which implemented Legislative Decree 58/98) and subsequent amendments, concerning shares held by Directors, Statutory Auditors, General Managers and executive officers with strategic responsibilities is reported in attachments 6 and 7.

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

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

INTERCOMPANY TRANSACTIONS AND RELATED ISSUES

At 31 December 2010, intercompany accounts with Group companies and the parent company Fimei S.p.A. consisted of payables of € 184,258 thousand and receivables of € 45,496 thousand. The most significant items are as follows:

- loans of € 81,773 thousand granted by Recordati S.A. Chemical & Pharmaceutical Company to Recordati S.p.A.;
- receivables due to Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 25,505 thousand;
- receivables from subsidiaries for the management of the centralized cash pooling treasury system amounting to € 15,616 thousand;
- payables to subsidiaries for the management of the centralized cash pooling treasury system and for accounts held for them amounting to € 93,905 thousand.
- an amount payable to the subsidiary Recordati Ireland Ltd., in connection with agreements signed for the acquisition from Merck KGaA of the concession for the marketing of Cardicor® in Italy amounting to € 7,250 thousand.

Sales and services to Group companies in 2010 amounted to € 113,214 thousand.
Dividends were received during the year as follows: € 23,000 thousand from Recordati S.A. Chemical & Pharmaceutical Company, € 22,986 thousand from Bouchara S.a.s. and € 6,000 thousand from Innova Pharma S.p.A.

Other receivables include those from the parent company Fimei S.p.A. amounting to € 3,508 thousand, which relate to the tax credit for the year calculated on the basis of estimated taxable income. That credit was transferred by the Company to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.

The following summary is given in the table below in compliance with Consob deliberation No. 15519 of 27 July 2006:

Percentage of transactions with related parties	Total	Related-Parties	
		Amount	%
Percentage of transactions or positions in the balance sheet with related parties			
Trade receivables and other	60,888	29,880	49.07
Short term financial assets	15,616	15,616	100.00
Trade payables and other	58,361	8,065	13.82
Long term financial liabilities	96,708	66,434	68.70
Short term financial liabilities	109,890	109,759	99.88
Percentage of transactions or positions in the income statement with related parties			
Revenue	241,442	113,235	46.90
Income from investments	51,986	51,986	100.00
Costs of purchases and service provision	132,649	761	0.06
Financial income/(expense), net	(4,565)	(4,338)	95.03

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

SUBSEQUENT EVENTS

As concerns significant events occurring subsequent to the end of the year, Cardicor® was relaunched in January 2011. We are confident that this will be followed by the launch of other important pipeline products of the Company during the year.
The implementation of company policies, operations at the beginning of the current year, the potential of our products, the financial strength of the company and the managerial capacities of our personnel lead us to forecast a positive result again in 2011.

Milano, 9 March 2011

On behalf of the Board of Directors

The Chairman

Ing. Giovanni Recordati

RECORDATI S.p.A.
INCOME STATEMENTS FOR THE YEARS ENDED
31 DECEMBER 2010 AND 31 DECEMBER 2009

Income Statement

Amounts in euro	Notes	2010	2009
Revenue	3	**240,898,078**	**255,322,726**
Other revenues and income	4	543,465	752,886
Total revenue		**241,441,543**	**256,075,612**
Raw materials costs	5	(73,259,138)	(80,698,084)
Labor costs	6	(63,779,643)	(63,245,555)
Depreciation and amortization	7	(9,729,464)	(7,881,600)
Other operating expenses	8	(59,390,954)	(60,830,805)
Changes in inventories	9	(1,665,089)	4,724,887
Operating income		**33,617,255**	**48,144,455**
Income from investments	10	51,986,200	48,868,823
Financial income /(expense	11	(4,565,228)	(5,684,223)
Pre-tax income		**81,038,227**	**91,329,055**
Taxes	12	(13,146,000)	(15,260,845)
Net income for the year		**67,892,227**	**76,068,210**
Earnings per share			
Basic		0,343	0,386
Diluted		0,327	0,372

Earnings per share (EPS) are based on average shares outstanding during each year, 198,170,113 in 2010 and 197,222,274 in 2009, net of average treasury stock which amounted to 10,955,043 shares in 2010 and 11,472,355 shares in 2006.
Diluted earnings per share is calculated taking into account new shares authorized but not yet issued.

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RECORDATI S.p.A.

BALANCE SHEET AT 31 DECEMBER 2010 AND AT 31 DECEMBER 2009

Assets

Amounts in euro	Notes	31 December 2010	31 December 2009
Non-current assets			
Property plant and equipment	13	35,167,080	34,190,910
Intangible assets	14	19,260,639	13,121,518
Investments	15	327,097,398	327,097,398
Other non current assets	16	56,601	56,601
Deferred tax assets	17	7,003,028	8,602,028
Total non-current assets		**388,584,746**	**383,068,455**
Current assets			
Inventories	18	42,022,627	43,687,716
Trade receivables	19	51,593,215	46,960,307
Other receivables	20	9,294,996	6,350,530
Other current assets	21	797,394	445,454
Fair value of hedging derivatives (fair value hedge)	25	1,163,910	0
Other short term loans	22	15,616,057	40,682,820
Short-term financial investments, cash and cash equivalents	23	104,689,667	11,272,485
Total current assets		**225,177,866**	**149,399,312**
Total assets		**613,762,612**	**532,467,767**

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RECORDATI S.p.A.

BALANCE SHEET AT 31 DECEMBER 2010 AND AT 31 DECEMBER 2009

Equity and liabilities

Amounts in euro	Notes	31 December 2010	31 December 2009
Shareholders' equity			
Share capital	24	26,140,645	26,140,645
Additional paid-in capital	24	83,718,523	83,718,523
Treasury stock	24	(52,578,857)	(59,102,577)
Statutory reserve	24	5,228,129	5,219,602
Other reserves	24	188,147,894	166,183,300
Revaluation reserve	24	2,602,229	2,602,229
Net income for the year	24	67,892,227	76,068,210
Total shareholders' equity		**321,150,790**	**300,829,932**
Non current liabilities			
Loans	25	96,707,708	78,756,112
Staff leaving indemnities	26	11,657,825	12,747,007
Deferred tax liabilities	27	1,935,030	2,035,887
Other non current liabilities	28	0	1,000,000
Total non current liabilities		**110,300,563**	**94,539,006**
Current liabilities			
Trade payables	29	35,440,493	36,870,612
Other payables	30	22,839,292	15,112,477
Tax liabilities	31	1,917,669	2,388,425
Other current liabilities	32	81,500	101,050
Provisions	33	7,405,482	9,354,166
Fair value of hedging derivatives (cash flow hedge)	34	4,298,846	4,039,885
Fair value of hedging derivatives (fair value hedge)	25	0	2,257,145
Loans – due within one year	35	15,469,459	1,175,778
Bank overdrafts and short term loans	36	438,350	21,923,749
Other short term borrowings	37	94,420,168	43,875,542
Total current liabilities		**182,311,259**	**137,098,829**
Total equity and liabilities		**613,762,612**	**532,467,767**

RECORDATI S.p.A.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2010 AND 31 DECEMBER 2009

€ (thousands)	2010	2009
Net income for the year	**67,892**	**76,068**
Gains/(losses) on cash flow hedges	(259)	(1,508)
Other changes in equity	(166)	0
Income and expense for the period recognized directly in equity	**(425)**	**(1,508)**
Comprehensive income for the year	**67,467**	**74,560**

RECORDATI S.p.A.

STATEMENT OF CHANGES IN EQUITY

€ (thousands)	Share capital	Additional capital paid-in	Treasury stock	Statutory reserve	Other reserves	Fair Value hedging instru-ments	IAS compl-iance reserve	Revaluat-ion reserves	Net (loss)/ income for the year	Total
Balance at 31 December 2008	**26,064**	**81,320**	**(59,103)**	**5,220**	**78,037**	**(2,532)**	**88,608**	**2,602**	**52,945**	**273,161**
Allocation of 2008 net income as per shareholders' resolution of 7.4.2009:										
to reserves					3,686				(3,686)	0
dividends to shareholders									(49,259)	(49,259)
Issue of share capital	77	2,398								2,475
Dividends expired					2					2
Total income and expense for the year						(1,508)			76,068	74,560
IAS compliance:							(776)			(776)
Stock options							667			667
Balance at 31 December 2009	**26,141**	**83,718**	**(59,103)**	**5,220**	**81,725**	**(4,040)**	**88,499**	**2,602**	**76,068**	**300,830**
Allocation of 2009 net income as per shareholders' resolution of 13.4.2010:										
to reserves				8	21,705				(21,713)	0
dividends to shareholders									(54,355)	(54,355)
Sale of treasury stock			6,524		(295)					6,229
Dividends expired					2					2
Total income and expense for the year						(259)	(166)		67,892	67,467
IAS compliance:										
Stock options							977			977
Balance at 31 December 2010	**26,141**	**83,718**	**(52,579)**	**5,228**	**103,137**	**(4,299)**	**89,310**	**2,602**	**67,892**	**321,150**

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RECORDATI S.p.A.

CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2010 AND 31 DECEMBER 2009

€ (thousands)	2010	2009
Operating activities		
Cash flow		
Net income for the period	67,892	76,068
Depreciation of property, plant and equipment	5,539	5,951
Amortization of intangible assets	4,190	1,931
Total cash flow	**77,621**	**83,950**
(Increase)/decrease in deferred tax liabilities	1,498	1,219
Change in staff severance provision and similar	(1,089)	483
Other provisions	(1,948)	2,845
Increase/(decrease) in other non-current liabilities	(1,000)	1,000
	75,082	**89,497**
Changes in working capital		
Trade receivables	(4,633)	25,885
Other receivables and other current assets	(3,296)	450
Inventories	1,665	(4,725)
Trade payables	(1,430)	2,492
Other payables and other current liabilities	7,707	3,382
Tax liabilities	(471)	671
Changes in working capital	**(458)**	**28,155**
Net cash from operating activities	**74,624**	**117,652**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(6,515)	(6,818)
Net (investments)/disposals in intangible assets	(10,329)	(4,697)
Net (increase)/decrease in equity investments	0	(25,048)
Net (increase)/decrease in other non-current assets	0	58
Net cash used in investing activities	**(16,844)**	**(36,505)**
Financing activities		
Loans – due after one year	30,000	0
Issue of share capital	0	77
Additional paid-in capital increase	0	2,398
Dividends distributed	(54,355)	(49,259)
(Purchase)/sale of treasury stock	6,229	0
Changes in equity in application of IAS/IFRS	813	(107)
Re-payment of loans	(1,176)	(1,559)
Net cash from/(used in) financing activities	**(18,489)**	**(48,450)**
Changes in short-term financial position	**39,291**	**32,697**
Short-term financial position at beginning of year *	(13,844)	(46,541)
Short-term financial position at end of year*	25,447	(13,844)

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

RECORDATI S.p.A.
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 December 2010

1. GENERAL

The separate annual financial statements comprise the income statement, the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity the cash flow statement and these notes to the financial statements. In compliance with Legislative Decree 38 of 28 February 2005, – in exercising the options provided for by Art. 5 of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002 concerning International Accounting Standards – the separate company financial statements have been prepared by applying the international accounting standards (IAS/IFRS) issued or revised by the International Accounting Standards Board and homologated by the European Union and also the regulations issued in implementation of Art. 9 of Legislative Decree 38/2005 The "IAS/IFRS" are intended as including all the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"), previously named the Standing Interpretations Committee ("SIC").
The presentation adopted by the Company for the income statement in the separate annual financial statements classifies revenues and expenses by nature. The distinction between the principle of current and non current was adopted for the presentation of assets and liabilities in the balance sheet.
These financial statements are presented in Euro (€) and all amounts in the notes to the financial statements are rounded to the nearest thousand euro unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The principal accounting policies adopted are set out below.

The balance sheet

Property, plant and equipment **-** Property, plant and equipment is stated at purchase cost less accumulated depreciation and any recognized impairment loss.

The carrying amount of property, plant and equipment is subject to impairment testing to measure any loss in value when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on impairment).
Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets:

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.
Intangible assets - An intangible asset is recognized only if it can be identified, if it is probable that it will generate future economic benefits and its cost can be measured reliably. Intangible assets are valued at

purchase cost, net of amortization calculated on a straight line basis and on the basis of their estimated useful life which, however, cannot exceed 20 years. Patents, licenses and know-how are amortized from the year of the first sale of the relative products. Amortization of distribution and license rights is generally calculated over the duration of the contract.

Impairment - At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.
The recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of the money and the risks specific to the asset.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.
Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized as income immediately.

Investments in subsidiaries – Investments in subsidiaries are recognized at cost of acquisition adjusted for impairment.
Positive differences arising at the time of purchase between the acquisition cost and the quota of the equity at present values held in the subsidiary attributable to the company are therefore included in the carrying amount of the investment.
Investments in subsidiaries are subject to impairment testing annually or more frequently if necessary in order to test for possible loss of value. Where evidence exists that the value of these investments has been impaired, this is recognized in the income statement as an impairment loss. Where an impairment loss subsequently reverses or reduces, this is recognized in the income statement as a reversal of impairment within the limits of the cost of acquisition.

Receivables (included in non-current assets) - Receivables are stated at their nominal value and reduced by estimated irrecoverable amounts if and when necessary.

Inventories - Inventories are stated at the lower of cost or market value, where the market value of raw materials and subsidiaries is their substitution cost while that related to finished goods and work-in-process is their net realizable value
Inventories of raw materials and supplies are valued at their average weighted acquisition cost including costs incurred in bringing the inventories to their location and condition at year end.
Inventories of work-in-process and finished goods are valued at their average weighted manufacturing cost which includes the cost of raw materials, consumables, direct labor and indirect costs of production, exclusive of general expenses.
Inventories are written-down if market value is lower than cost as described above or in the case of obsolescence resulting from slow moving stocks.

Trade receivables - Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
Cash and cash equivalents - Cash in banks on demand and highly liquid investments.

Equity - Equity instruments issued by the Company are recorded at the amount of the proceeds received.
The proposed dividend is recognized as a liability at the time of adoption of the dividend resolution at the

annual shareholders' meeting.
The cost and selling prices of treasury shares are recognized directly in equity and therefore gains and losses on sales are not recognized in the income statement.

Loans - Interest-bearing loans are recorded at the proceeds received, net of direct issue costs.
Subsequently, loans are measured using the amortized cost method as prescribed by IAS 39. The amortized cost is the amount of the liability on initial recognition net of capital repayments and transaction costs amortized using the effective interest rate method.
If the loans are hedged using derivative instruments qualifying as fair value hedges, in accordance with IAS 39, these loans are measured at fair value as are their related derivative instruments.

Staff leaving indemnities - Employee benefits presented in the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liabilities recognized in the balance sheet for post employment benefit plans represent the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method. Until 31 December 2006 the staff leaving indemnities of Italian companies were considered defined benefit plans. The regulations governing those indemnities were amended by Law 296 of 27 December 2006 (2007 Finance Act) and subsequent amendments made in early 2007. In view of those changes and for companies with at least 50 employees in particular, those indemnities are only to be treated as defined benefit plans for the amounts that matured prior to 1 January 2007 (and not yet paid at the balance sheet date), while subsequent to that date they are treated as a defined contribution plan.

Trade payables - Include payables arising from supply agreements and are stated at their nominal value.

Other payables - Include payables arising in the normal course of business (towards employees and third parties) and are stated at their nominal value.

Bank overdrafts and loans - Bank overdrafts and loans are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.
Derivative financial instruments - The Company uses derivative financial instruments to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivatives are measured at fair value at the end of each reporting period.
Hedging relationships are of two types, "fair value hedge" or "cash flow hedge". A "fair value hedge" is a hedge of the exposure to changes in the fair value of an asset or liability that is already recognized in the balance sheet. A "cash flow hedge" is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability or to a forecasted transaction.
The gain or loss from the change in fair value of a derivative instrument qualifying as a "fair value hedge" is recognized immediately through profit or loss. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which also is recognized immediately through profit or loss.
The gain or loss from the change in fair value of a hedging instrument qualifying as a "cash flow hedge" is recognized directly in equity.
The gain or loss from the change in fair value of a derivative financial instrument which does not qualify as a hedging instrument is recognized immediately through profit or loss.

Provisions - Provisions are recognized when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Foreign currencies - Transactions in currencies other than the euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in profit or loss for the period. Non-monetary assets and liabilities recorded at the rates of exchange prevailing on the dates of the transactions are not translated on the balance sheet date.

Income statement

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

Revenues - Revenues are recognized when it is probable that the economic benefits associated with a transaction will flow to the Company and that the amount of revenue can be measured reliably.
Revenue arising from the sale of goods is recognized when the enterprise has transferred the significant risks and rewards of ownership. These are stated net of discounts, rebates and returns.
Revenues include income from royalties due on licensed out products and up-front payments received under licensing agreements.

Research and development expenses - All research costs are expensed in the income statement in the year in which they are incurred in accordance with IAS 38. IAS 38 also prescribes that development costs must be capitalized if technical and commercial feasibility of the asset for development or sale have been established. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines for capitalization under IAS 38 are not met so that development costs are expensed as incurred during the year.
Research and development costs include amounts due under collaboration agreements with third parties.

Non-reimbursable government grants - Government grants towards investment in plant are recognized as income over the periods necessary to match them with the related costs and are stated in the balance sheet as deferred income. Non-reimbursable government grants, including those for research, are booked to the income statement on an accrual basis within the item “other revenue”.

Financial items - Include interest income and expense, foreign exchange gains and losses, both realized and unrealized, and differences arising from the valuation of securities.

Taxation - Income tax expense represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year and tax rates in force at the date of the balance sheet are applied.
Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill.
Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Earnings per share - Earnings per share is the net profit for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the average weighted number of outstanding shares for the effects of all the potential dilutive ordinary shares.

3. REVENUE

In 2010 this amounted to € 240,898 thousand (€ 255,323 thousand in 2009) and is composed as follows:

€ (thousands)	2010	2009	Change 2010/2009
Net sales	235,714	254,199	(18,485)
Royalties and up-front payments	537	715	(178)
Revenue from services	4,647	409	4,238
Total revenue	**240,898**	**255,323**	**(14,425)**

Net sales revenues are composed as follows:

€ (thousands)	2010		2009	
	Italy	Abroad	Italy	Abroad
Pharmaceuticals	149,834	60,025	165,761	61,597
Pharmaceutical chemicals	1,956	23,312	1,219	24,834
Other	587	0	788	0
Total revenue for net sales	**152,377**	**83,337**	**167,768**	**86,431**

The reduction in revenues from pharmaceuticals is due above all to the lercanidipine patent which expired in January 2010 both in Italy and abroad, with a reduction in revenues from Zanedip® of € 15.1 million (including € 12.9 million due to the reduction in price).

A decrease in sales of pharmaceutical chemicals occurred abroad due to the crisis on the market and competition from emerging countries, while sales in Italy recovered temporarily compared to the previous year.

Net sales revenues include € 108,050 thousand (€ 110,751 thousand in 2009) for sales of products to subsidiaries:

€ (thousands)	2010	2009	Change 2010/2009
Recordati Ireland Ltd.	57,410	58,364	(954)
Innova Pharma S.p.A.	48,360	49,550	(1,190)
Laboratoires Bouchara Recordati S.a.s.	674	751	(77)
Recordati España S.L.	147	397	(250)
Jaba Recordati S.A.	1,459	1,689	(230)
Total	**108,050**	**110,751**	**(2,701)**

The reduction in sales to Recordati Ireland is attributable to international sales of lercanidipine following the expiry of the EU patent, which is also why sales to Innova Pharma fell for the marketing rights on the Lercadip® brand.
Sales in both years to the subsidiary Jaba Recordati S.A. related to a licensing and distribution contract for the specialty pharmaceutical TransAct LAT®.
All commercial transactions with subsidiaries took place under normal market conditions.

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

€ (thousands)	2010	2009	Change 2010/2009
Services and royalties to subsidiaries			
Orphan Europe – Italy	40	0	40
Innova Pharma S.p.A.	996	393	603
Recordati Ireland Ltd.	1,875	15	1,860
Laboratoires Bouchara Recordati S.a.s.	1,346	494	852
Merckle Recordati GmbH	305	0	305
Recordati España S.L.	223	0	223
Jaba Recordati S.A.	203	0	203
Yeni Recordati Ilaç	96	0	96
Recordati Hellas Pharmaceuticals S.A.	69	0	69
Total services and royalties to subsidiaries	**5,153**	**902**	**4,251**
Services and royalties to third parties			
Royalties and up-front payments	31	222	(191)
Total services and royalties to third parties	31	222	(191)
Total revenue from services and Royalties	**5,184**	**1,124**	**4,060**

The increase in revenue from services to subsidiaries is due to the entry into force from 1.1.2010 of the "Group Service Agreement" for services performed on behalf of subsidiaries during the year.
Proceeds from Laboratoires Bouchara Recordati S.a.s. include royalties amounting to € 466 thousand.

4. OTHER REVENUES AND INCOME

Other revenue amounted to € 543 thousand in 2010, compared to € 753 thousand in 2009. It includes charging employees for the use of hired cars, other indemnities, non recurring income, exceptional receivables and gains on the sale of non current assets.
It included € 20 thousand for government grants for plant, € 49 thousand for income from property investments and € 13 thousand for charging for services provided to the subsidiary FIMEI S.p.A..

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

€ (thousands)	
2006	89
2007	77
2008	76
2009	48
2010	20
Total	**310**

Income from property investments includes the rent of properties to the subsidiary Fimei S.p.A. amounting to € 8 thousand and the rent of premises at the Milan site to Innova Pharma S.p.A. amounting to € 11 thousand.

5. RAW MATERIALS COSTS

These are composed as follows:

€ (thousands)	2010	2009	Change 2010/2009
Raw materials:			
from licensing-in agreements	46,218	47,840	(1,622)
from other	10,617	12,679	(2,062)
	56,835	60,519	(3,684)
Goods for resale	5,054	8,026	(2,972)
Packaging materials	6,115	5,827	288
Others and consumables	5,255	6,326	(1,071)
Total	**73,259**	**80,698**	**(7,439)**

The decrease in purchases of raw materials, goods and other materials is due to lower production and sales volumes compared to the previous year (see note 18).
Purchases of raw materials from others includes € 554 thousand for purchases from Recordati Ireland Ltd.

6. LABOR COSTS

Labor costs were composed as follows:

€ (thousands)	2010	2009	Change 2010/2009
Wages and salaries	44,755	44,629	126
Social security expenses	14,310	14,479	(169)
Salary resulting from stock option plans	977	667	310
Other costs	3,738	3,471	267
Total labor costs	**63,780**	**63,246**	**534**

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

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

Average labor force figures for the Company are as follows:

	2010	2009	Change 2010/2009
Executives	63	62	1
Office workers	557	569	(12)
Manual workers	277	283	(6)
Total	**897**	**914**	**(17)**

7. DEPRECIATION AND AMORTIZATION

These are composed as follows:

Amortization of intangible assets

€ (thousands)	2010	2009	Change 2010/2009
Patent rights and marketing authorizations	427	1,090	(663)
Distribution, license, trademark and similar rights	3,761	729	3,032
Other	2	112	(110)
Total	**4,190**	**1,931**	**2,259**

The increase in the amortization of distribution, license, trademark and similar rights is attributable mainly to the full amortization of the payment made to Pharmaten, a Greek company which developed technology for the formulation of lower dosages of lercanidipine, in relation to the contractual milestone for obtaining marketing authorization for new formulations for which no economic benefits are expected in future years.

Furthermore, in 2010, when the amortization schedules for finite life intangible assets were reviewed, the useful life of some proprietary products was modified. These products have recorded basically stable or slightly lower sales and margins in recent years. On the basis of these trends forecasts have been prepared for the period 2011-2015 and the relative expected cash flows have been estimated, which when appropriately discounted to present values, showed broad margins to cover the remaining carrying amounts for them. Consequently the previous amortization schedule was extended to 20 years consistent with the criteria applied for Group amortization. This extension resulted in a decrease in amortization of € 0.7 million in 2010.

Depreciation of property, plant and equipment

€ (thousands)	2010	2009	Change 2010/2009
Industrial buildings	1,050	1,143	(93)
Light constructions	29	62	(33)
General plant	547	802	(255)
Accelerated depreciation machinery	1,540	1,663	(123)
Normal depreciation machinery	1,668	1,538	130
Miscellaneous laboratory equipment	297	296	1
Office furnishings and machines	126	90	36
Electronic equipment	233	309	(76)
Motor vehicles	25	20	5
Vehicles for internal transport	24	27	(3)
Total	**5,539**	**5,950**	**(411)**

8. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

€ (thousands)	2010	2009	Change 2010/2009
Pay back and discount of 1,83% to be reimbursed to Regions	3,011	3,841	(830)
Meetings and scientific publications, market surveys and expenses for medical and scientific communications and advertising	9,679	8,425	1,254
Clinical and pharmacological trials and professional advice	9,522	8,386	1,136
Sales commissions to agents and depositories	4,352	4,035	317
Transport and storage	2,368	1,841	527
Utilities and similar (motor fuel, gas, water, etc.)	4,704	5,306	(602)
Destruction of industrial waste and cleaning	1,825	1,799	26
Maintenance	2,893	2,840	53
Insurance premiums	539	584	(45)
Directors' fees	712	712	0
Statutory auditors' fees	125	125	0
Sundry labor costs	4,874	6,392	(1,518)
Legal, judiciary and notary expenses	528	772	(244)
Sundry services	1,692	2,164	(472)
Postal and telecommunications expenses	493	521	(28)
External processing	3,670	3,856	(186)
Royalties payable	69	77	(8)
Car hire expenses	2,633	2,831	(198)
Provisions	2,528	2,215	313
Membership fees	545	518	27
Exceptional liabilities	149	93	56
Sundry taxation	1,058	1,345	(287)
other operating expenses	1,422	2,153	(731)
Total	**59,391**	**60,831**	**(1,440)**

The pay back expense of € 2,357 million relates to the amount due to the Italian national healthcare system in substitution for the 5% price reduction on some selected products. That measure, initially introduced for the period 1 March 2007 – 29 February 2008, was subsequently repeated and is currently in force. The amount is calculated on the sales of products performed in 2009. With regard to the entry into force of Law 122 of 30 July 2010, article 11 establishes a charge payable by producers amounting to 1.83% of the price to the public net of VAT, which companies must pay to the Regions on sales, the estimated value of which, on the basis of available data, is € 654 thousand.

The increase in medical and scientific communications and advertising expense was due principally to costs incurred for international marketing initiatives and for over the counter product initiatives in Italy. This increase was partially offset by a reduction in expenses incurred for ethical specialties the result of a policy to control and contain them following difficulties and uncertainties on the Italian pharmaceuticals market.

The growth in clinical trials is due to the development of studies in the arterial hypertension area.

The increase in commissions is due mainly to the good performance of the pharmacies sales channel for self-medication products.

The growth in storage services is in relation to new agreements entered into for order acquisition services.

Sundry labor costs relate primarily to the reorganization of the sales force.

Commissions paid to agents include commissions to the Recordati Corporation for sales in the USA of pharmaceutical chemicals amounting to € 60 thousand.

Expenses for sundry services included the auditors' fees.
Details of that remuneration are provided in attachment 8, in compliance with Art. 149-*duodecies* of the Consob Issuers' Regulations.

Details are given of the remuneration of directors, statutory auditors, general managers and executive officers with strategic responsibilities and of the shares held in the company by those persons and of the stock option rights granted to them in attachments 5, 6 and 7, respectively in compliance with the Issuers' Regulations (Consob Regulations 11971 of 14 May 1999 which implemented Legislative Decree. 58/98 as amended).

No use was made of leased assets in 2010.

External processing included work performed by Laboratoires Bouchara Recordati amounting to € 147 thousand.

Provision charges amounted to € 2,528 thousand (€ 2,215 thousand in 2009) and consisted principally of provisions for legal disputes and expenses connected with the return of expired and unsaleable pharmaceuticals.

The item "sundry taxation" amounting to € 1,058 thousand (€ 1,345 thousand in 2009) relates to the following:

€ (thousands)	2010	2009	Change 2010/2009
Contribution under Decree Law 269/2003	209	234	(25)
Government license tax	395	714	(319)
Municipal taxes	244	223	21
Stamp duties and similar	9	8	1
Non deductible taxes	16	12	4
Sundry taxes	185	154	31
Total	**1,058**	**1,345**	**(287)**

In compliance with Decree Law 269 of 30 September converted into Law 326 of 24 November 2003 a contribution was paid in April amounting to 5% of the expenses incurred in the previous year for advertising activities, self certified by the Company in accordance with the law.
Taxes for government licenses are attributable to the maintenance and changes to registrations for ethical and self-medication products and to the registrations of new products.

9. CHANGES IN INVENTORIES

Details of changes in inventories are as follows:

€ (thousands)	2010	2009	Change 2010/2009
Raw materials	(2,503)	2,170	(4,673)
Supplies	(63)	(1,752)	1,689
Intermediates and work-in-process	515	1,827	(1,312)
Finished goods	386	2,480	(2,094)
Total	**(1,665)**	**4,725**	**(6,390)**

10. INCOME FROM INVESTMENTS

Income from investments amounted to € 51,986 thousand (€ 48,869 thousand in 2009) and related to subsidiaries.
This Income consisted of dividends declared and received from Bouchara Recordati S.a.s. (€ 22,986 thousand), from Innova Pharma S.p.A. (€ 6,000 thousand) and from Recordati S.A. Chemical & Pharmaceutical Company amounting to € 23,000 thousand.

11. FINANCIAL INCOME /(EXPENSE

Net financial income/(expense) was negative by € 4,565 thousand in 2010 (€ 5,684 thousand in 2009). The main items are summarized in the table below.

€ (thousands)	2010	2009	Change 2010/2009
Foreign exchange gains (losses)	172	(138)	310
Revaluations of personnel leaving indemnity advances	1	1	0
Interest income from subsidiaries	401	907	(506)
Interest expense payable to subsidiaries	(4,739)	(4,556)	(183)
Interest expense on loans	(49)	(36)	(13)
Net interest on short-term financial positions	595	(839)	1,434
Bank charges	(416)	(339)	(77)
Interest cost in respect of defined benefit plans (IAS 19)	(530)	(684)	154
Change in fair value of hedging derivatives	(3,421)	(752)	(2,669)
Change in fair value of hedged items	3,421	752	2,669
Total	**(4,565)**	**(5,684)**	**1,119**

The balance on foreign exchange differences represented a gain € 172 thousand for 2010 compared to a cost of € 138 thousand in 2009. The gain for the year consists of € 118 thousand for transactions concluded during the year and of € 54 thousand resulting from the valuation at 31 December 2010 of assets and liabilities in foreign currency. Art. 2426, point 8-*bis* is therefore applicable to that income, by which, if net income arises from the foreign exchange valuation performed at the end of the year, that amount is allocated to a special reserve that is not distributable until the gain is actually realized.

Interest income from subsidiaries is as follows:

€ (thousands)	2010	2009	Change 2010/2009
Innova Pharma S.p.A.	36	0	36
Jaba Recordati S.A.	1	59	(58)
Bouchara Recordati S.a.s.	165	251	(86)
Recordati España S.L.	0	34	(34)
Recordati S.A. - Luxembourg	147	350	(203)
Merckle Recordati GmbH	52	213	(161)
Total	**401**	**907**	**(506)**

Interest income relates principally to loans granted to subsidiaries during the year. No outstanding specifically contracted loans to subsidiaries existed at 31 December 2010.

Interest expense paid to subsidiaries is as follows:

€ (thousands)	2010	2009	Change 2010/2009
FIC	1	0	1
Recordati España S.L.	8	20	(12)
Laboratoires Bouchara Recordati Sas	18	57	(39)
Innova Pharma S.p.A.	38	85	(47)
Recordati S.A. – Luxembourg	4,252	4,010	242
Recofarma S.r.l.	35	34	1
Jaba Recordati S.A.	6	2	4
Recordati Ireland Ltd.	29	0	29
Recordati Orphan Drugs Sas.	28	106	(78)
Orphan Europe Holding S.A.	17	26	(9)
Orphan Europe Sarl	34	37	(3)
Merckle Recordati GmbH	0	1	(1)
Recordati Pharmaceutical Ltd.	138	86	52
Recordati Corporation	113	82	31
Recordati S.A. - Switzerland	22	10	12
Total	**4,739**	**4,556**	**183**

A cash pooling treasury system has been in operation at the Parent Company since 2007. This system which previously involved the companies Recordati España S.L., Bouchara Recordati Sas, Laboratoires Bouchara Recordati Sas, Jaba Recordati S.A. and Merckle Recordati GmbH was extended in 2010 to include the other principal companies in the Group.

Interest income and expense is recorded monthly calculated on the daily net balance at market rates. Interest due to the subsidiary Recordati S.A. relates to an intercompany loan received at the end of 2004 on the basis of an issue of debt performed by our subsidiary with institutional international investors. The loan is structured in a number of tranches and is also in foreign currency at a fixed rate. Interest expense in respect of defined benefit plans relates to the interest costs component of the adjustment to the relative provision in compliance with IAS 19.

The fair value changes in hedging derivatives relate to the valuation of a "cross-currency interest rate swap" for the intercompany loan concluded at the end of 2004 designed to eliminate currency risk for loans denominated in United States dollars and the UK pound sterling. This amount reflects the change in the fair value of the underlying debt with respect to its nominal value, with no effect in the income statement. It is recognized as a fair value hedge.

12. TAXES

Taxes recognized in the income statement are composed as follows:

€ (thousands)	2010	2009	Change 2010/2009
Current taxation:			
IRES (corporate income tax)	7,963	9,797	(1,834)
IRAP (regional tax on production)	2,969	3,455	(486)
Total current taxation	10,932	13,252	(2,320)
Deferred taxation:			
Provision for prepaid taxes	(913)	(1,126)	213
Use of prior year (prepaid)/deferred tax provisions	2,474	2,640	(166)
Total deferred taxes	1,561	1,514	47
Separate taxation on income earned abroad	653	0	653
Prior year taxation	0	495	(495)
Total	**13,146**	**15,261**	**(2,115)**

Following the entry into force of Decree Law 78 of 1 July 2009, converted into Law 102/09, the income for 2010 of the Luxembourg subsidiary was recalculated on the basis of the Italian Consolidated Income Tax Act and provisions were made for the relative taxes.

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

The provision for deferred tax (assets)/liabilities of € 913 thousand is composed as follows:

	2010		2009	
	Temporary differences	Tax Effect	Temporary differences	Tax Effect
PREPAID TAXES				
- Provisions	(2,577)	(708)	(2,215)	(609)
- Costs relating to future years	(607)	(167)	(607)	(167)
- Write-down of inventories	0	0	(929)	(255)
TOTAL	(3,184)	(875)	(3,751)	(1,031)
DEFERRED TAXES				
- IAS personnel leaving indemnity valuation	(137)	(38)	(345)	(95)
TOTAL	(137)	(38)	(345)	(95)
(DEFERRED) PREPAID TAXES, NET		**(913)**		**(1,126)**

Note 17 may be consulted for information on the use of deferred tax asset provisions amounting to € 2,474. thousand.

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

	2010 %	2009 %
The tax rate applicable for IRES (corporate income tax) purposes	27.5	27.5
Dividends from subsidiaries	(16.8)	(14.0)
Contributions to congresses	0.6	0.6
Tax credits on research	0	(2.1)
Other differences, net	0.2	0.2
The tax rate applicable for IRES (corporate income tax) purposes	**11.5**	**12.2**
Separate taxation on income earned abroad	0.8	0.0
IRAP (regional tax on production)	3.9	4.0
Prior year taxation	0.0	0.5
Tax rate on pre-tax income	**16.2**	**16.7**

IRAP as a percentage of pretax profit was 3.9% because the tax is calculated on a different tax basis which also includes the cost of labor, interest and some extraordinary items.

13. PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment net of accumulated depreciation amounted to € 35,167 thousand and € 34,191 thousand at 31 December 2010 and 2009 respectively. Changes in this item are given below.

€ (thousands)	Land & buildings	Plant & machinery	Other fixtures	Construction in progress	Total property, plant and equipment
Cost of acquisition					
Balance at 31.12.09	32,348	125,199	27,290	5,081	189,918
Additions	627	1,872	335	3,543	6,377
Write-downs	0	0	0	0	0
Disposals	0	(50)	(46)	0	(96)
Reclassifications	1,990	2,228	680	(4,758)	140
Balance at 31.12.10	**34,965**	**129,249**	**28,259**	**3,866**	**196,339**
Accumulated amortization					
Balance at 31.12.09	21,021	110,232	24,474	0	155,727
Depreciation for the year	1,079	3,755	705	0	5,539
Disposals	0	(50)	(44)	0	(94)
Reclassifications	0	0	0	0	0
Balance at 31.12.10	**22,100**	**113,937**	**25,135**	**0**	**161,172**
Carrying amount					
at 31 December 2010	**12,865**	**15,312**	**3,124**	**3,866**	**35,167**
at 31 December 2009	11,327	14,967	2,816	5,081	34,191

The increase of € 6,377 thousand in 2010 relates mainly to investments in the Milan pharmaceutical plant and headquarters of € 4,139 thousand and to various investments in the production facilities at

the Campoverde di Aprilia plant amounting to € 2,238 thousand.
Following receipt of the last installment, the mortgage held by the Intesa Sanpaolo bank to secure loans now fully repaid was discharged at the beginning of 2011.

Depreciation for the year amounted to € 5,539 thousand and was calculated on all depreciable assets using rates which are held to be representative of the estimated useful life of the assets.

14. INTANGIBLE ASSETS

Intangible assets net of accumulated amortization amounted to € 19,261 thousand and € 13,122 thousand at 31 December 2010 and 2009 respectively. Changes in this item are given below.

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Assets under construction and advances	Total intangible assets
Cost of acquisition					
Balance at 31.12.09	30,395	9,120	13,332	1,248	54,095
Additions	180	2,897	0	7,392	10,469
Write-downs	0	0	0	0	0
Disposals	0	0	(88)	0	(88)
Reclassifications	0	811	0	(951)	(140)
Balance at 31.12.10	**30,575**	**12,828**	**13,244**	**7,689**	**64,336**
Accumulated amortization					
Balance at 31.12.09	23,945	3,700	13,328	0	40,973
Amortization	428	3,761	1	0	4,190
Disposals	0	0	(88)	0	(88)
Reclassifications	0	0	0	0	0
Balance at 31.12.10	**24,373**	**7,461**	**13,241**	**0**	**45,075**
Carrying amount					
at 31 December 2010	**6,202**	**5,367**	**3**	**7,689**	**19,261**
at 31 December 2009	6,450	5,420	4	1,248	13,122

The increase in intangible assets relates primarily to the agreements signed with Recordati Ireland and Merck KGaA for the acquisition in December of a license for the sale of Cardicor® amounting to € 7,250 thousand.
All intangible assets have a defined useful life and are amortized over a period not exceeding 20 years.

As described in the preceding Note 7, the useful lives of some proprietary products were revised during the year with a consequent reduction in amortization for the year by € 0.7 million.

15. INVESTMENTS

Investments amounted to € 327,097 thousand at 31 December 2010 unchanged compared to 2009 as shown in the table in Attachment 1. The percentage of ownership and the number of shares or quotas possessed are reported in Attachment 2.
A comparison between the carrying amount of investments in subsidiaries and their valuation using the equity method, in accordance with Art. 2426 of the Italian Civil Code, is reported in Attachment 3.

IAS 27 - *Consolidated and separate financial statements* - requires recognition of investments in subsidiaries according to the cost method or, as an alternative, using the fair value in accordance with IAS 39. Recordati S.p.A. has adopted the cost criterion and therefore, where there are indications that part or all of the cost cannot be recovered, the carrying amount must be reduced to the relative recoverable amount, in compliance with IAS 36 – Impairment of assets. Where that impairment subsequently reverses or reduces, the carrying amount is increased to the amount of the new estimate of the recoverable amount which, however, cannot exceed the original cost. For the calculation of reversals for investments in companies that are not listed and that is where no reliable market value (fair value less costs to sell) can be determined, the recoverable amount has been defined as the value in use, intended as the present value of the estimated cash flows from it based on the expected results of the investments and the estimated amount of a hypothetical “ultimate disposal” in compliance with IAS 28 (section 33). The expected results forecast in the business plans of each investment were taken into consideration in the calculation of the value in use, increased by their “terminal value” appropriately adjusted to take account of risks and uncertainties intrinsic to the assumptions on which the plans were based Those results and the “terminal value” were discounted to present values by applying the current cost of capital of the companies in compliance with the method recommended in IAS 36. Application of the methodology described did not give rise to any impairment, nor to any reversal of impairment recognized in prior years.

Details of changes in investments are given in the table contained in Attachment 1.

As in the past, relations with subsidiaries continued satisfactorily with the following changes occurring during the year:

- Recordati S.A. Chemical and Pharmaceutical Company – Luxembourg – Share Capital € 68,000,000. Percentage ownership 100%. The year 2010 ended with a profit of € 44,880 thousand (€ 23,261 thousand in 2009). The profit for the year was due mainly to the receipt of dividends of € 44,728 thousand. The shareholders’ equity of the company at 31.12.2010 amounted to € 260,009 thousand.

  Recordati S.A. Chemical and Pharmaceutical Company holds investments in the following companies:

  - Farmarecord Ltda. – San Paolo, Brazil – share capital denominated in Real amounting to 166.00. Percentage ownership of 100%. The company is dormant and holds pharmaceutical marketing rights in Brazil. In 2010 the company recorded a profit mainly from royalties of Real 18,512. The shareholders’ equity of the company at 31.12.2010 amounted to Real 879,169.

  - Recordati España S.L. – Murcia, Spain – Percentage ownership of 10%.

  - Recordati Corporation – Cranford, (New Jersey), United States - Share Capital US$ 11,979,138. Percentage ownership 100%. The company ended 2010 with a profit of US$ 72,622 and shareholders’ equity of US$ 21,727,824.

- Recordati Portuguesa Lda - Porto Salvo, Portugal - Percentage ownership of 2%.

- Bouchara Recordati S.a.s. – Levallois-Perret, France – Percentage ownership of 0.06%.

- Recordati Ireland Ltd. – Ringaskiddy (Cork) Ireland – Share Capital € 200,000. Percentage ownership of 100%. The company performs development, production, marketing and sales of pharmaceuticals.
  Net sales in 2010 amounted to € 140,231 thousand (€ 146,775 thousand in 2009).
  In 2010 the company earned profits of € 44,937 thousand (€ 57,574 thousand in 2009). The shareholders' equity of the company at 31.12.2010 amounted to € 97,626 thousand.

- Recordati S.A. – Chiasso, Switzerland – Share Capital Sw.Fr. 6,000,000. Percentage ownership of 100%. The company is dormant and holds pharmaceutical marketing rights. The company recorded a loss in 2010 of Sw.Fr. 578,291. The shareholders' equity of the company at 31.12.2010 amounted to Sw.Fr. 5,586,968. thousand.

- Recordati Pharmaceuticals Ltd. – Henley-on-Thames - United Kingdom - share capital GBP 15,000,000. Percentage ownership of 96.67%. The company performs sales of pharmaceuticals. In 2010 the company recorded a profit mainly from royalties of GBP 1,053,852. Shareholders' equity of the company at 31.12.2010 amounted to GBP 13,649,791.

- Recordati Hellas Pharmaceuticals S.A. – K. Chalandri, Athens Greece – Share Capital € 11,700,000. Percentage ownership of 99.19%. The company performs marketing and sales of pharmaceuticals. The company recorded a loss for the year in 2010 of € 1,868 thousand. The shareholders' equity of the company in 31.12.2010 was negative by € 728 thousand.

- Recordati Orphan Drugs S.a.s. - Paris La Defense, France - Share Capital € 57,000,000. Percentage ownership of 90%. The company holds 99.93% of Orphan Europe Holding S.A., the parent company of Orphan Europe. The Company recorded a profit for the year of € 2,579 thousand. The shareholders' equity of the company at 31.12.2010 was € 60,142 thousand.

- Herbacos Recordati Sro - Pardubice, Czech Rep. - Share Capital CZK 25,600,000 - Percentage ownership of 100%. Herbacos is a pharmaceutical company with an established presence on the Czech and Slovakian markets where it markets pharmaceuticals belonging to various therapeutic areas. The year ended with a net profit of CZK 18,489 thousand. The shareholders' equity of the company at 31.12.2010 amounted to CZK 88,118 thousand.

- Orphan Europe Holding S.A. - Puteaux, Paris La Defense, France - Share Capital € 1,701 thousand. Percentage ownership of 0,035%.

- Artmed International S.r.l. – Bucharest, Romania - share capital Ron 429,432. Percentage ownership of 100%. The company, control of which was acquired during the course of 2010, recorded a profit of Ron 246,499. Shareholders' equity of the company at 31.12.2010 amounted to Ron 429,432.

- Merckle Recordati GmbH – Ulm, Germany - Share Capital € 600,000. Percentage ownership of 55%. The company performs marketing and sales of pharmaceuticals. It generated sales in 2010 of € 58,477 thousand (€ 60,704 in 2009) and earned a profit of € 6,756 thousand (€2,422 thousand in 2009). The shareholders' equity of the company at 31.12.2010 amounted to € 103,831 thousand.

- Recofarma S.r.l. – Milan, Italy - Share Capital € 1,258,400. Percentage ownership of 100%. The company ceased its marketing operations for pharmaceutical chemicals in 2006. In 2010 the company earned profits of € 21 thousand (€ 20 thousand in 2009). The shareholders' equity of the company at 31.12.2010 amounted to € 3,454 thousand.

- Innova Pharma S.p.A. – Milan, Italy – Share Capital € 1,920,000. Percentage ownership of 100%. In 2010 the company continued its marketing operations for specialty pharmaceuticals in Italy. The company generated sales during the year of € 86,604 thousand (€ 87,882 thousand in 2009) and recorded a profit of € 5,963 thousand (€ 6,245 thousand in 2009). The shareholders' equity of the company at 31.12.2010 amounted to € 13,784 thousand.

- Recordati España S.L. – Murcia, Spain – share capital € 94,000,000. Percentage ownership of 90%. The company performs development, production and sales of pharmaceuticals. With net sales for the year of € 29,909 thousand (€ 27,921 thousand in 2009) the company recorded a profit of € 3,517 thousand (€ 5,287 thousand in 2009). The shareholders' equity of the company at 31.12.2010 amounted to € 115,310 thousand.

  Recordati España S.L. holds investments in the following companies:

  - Merckle Recordati GmbH – Ulm, Germany - Share Capital € 600,000. Percentage ownership of 45%.

  - Jaba Recordati S.A. - Porto Salvo, Portugal - Share Capital € 2,000,000. Percentage ownership of 100%. The company performs wholesale marketing of pharmaceuticals. With net sales for the year of € 36,104 thousand, the company recorded a profit of € 1,295 thousand. The shareholders' equity of the company at 31.12.2010 amounted to € 5,430 thousand.

  - Jabafarma S.A. - Porto Salvo, Portugal - Share Capital € 50,000. Percentage ownership of 100%. The company performs wholesale marketing of ethical specialty pharmaceutical products through its own distribution network. The year ended with a profit of € 99 thousand. The shareholders' equity of the company at 31.12.2010 amounted to € 213 thousand.

  - Bonafarma S.A. - Porto Salvo, Portugal - Share Capital € 50,000. Percentage ownership of 100%. The company performs wholesale marketing of generic pharmaceutical products through its own distribution network. The year ended with a profit of € 105 thousand. The shareholders' equity of the company at 31.12.2010 amounted to € 297 thousand.

  - Yeni Recordati Ilaç - Esenyurt, Istanbul, Turkey - Share Capital TRY 7,086,614. Percentage ownership of 100%. The company performs production and sales of pharmaceuticals and was acquired in December 2008. The company generated sales of TRY 54,790 thousand and earned a profit of TRY 2,666 thousand. The shareholders' equity of the company at 31.12.2010 amounted to TRY 24,121 thousand.

- Bouchara Recordati S.a.s. - Levallois-Perret, France - Share Capital € 4,600,000. Percentage ownership of 99.94%.
  Bouchara Recordati performed development, production and sales of pharmaceuticals in 2010. The year 2010 ended with a profit of € 20,497 thousand (€ 22,832 thousand in 2009). The shareholders' equity of the company at 31.12.2010 amounted to € 30,738 thousand.

  Bouchara Recordati S.a.s. holds investments in the following companies:

- Laboratoires Bouchara Recordati S.a.s. - Levallois-Perret, France - Share capital € 14,000,000. Percentage ownership 100%. The company performs production, marketing and sales of pharmaceuticals. It generated sales in 2010 of € 171,133 thousand and earned a profit of € 11,106 thousand (€ 13,889 thousand in 2009). The shareholders' equity of the company at 31.12.2010 amounted to € 26,537 thousand.

- FIC S.a.s. – Levallois - Perret, France - Share Capital € 100,000. Percentage ownership of 100%. The company performs marketing and sales of pharmaceuticals. It recorded a profit in 2010 of € 262 thousand. The shareholders' equity of the company at 31.12.2010 amounted to € 1,673 thousand.

- Rusfic LLC - Moscow, Russian Federation - Share capital RUB 3,560. Percentage ownership of 100%. The company recorded a loss for the year of RUB 37,896. The shareholders' equity of the company at 31.12.2010 amounted to RUB 39,039 thousand.

- Recordati Portuguesa Lda. - Porto Salvo, Portugal - Share Capital € 24,940. Percentage ownership of 98%. The company ceased marketing and sales operations for pharmaceuticals in 2003. The shareholders' equity of the company at 31.12.2010 amounted to € 51 thousand.

- Recordati Pharmaceuticals Ltd. – Henley-On-Thames, United Kingdom - Share capital GBP 15,000,000. Percentage ownership of 3.33%.

- Recordati Hellas Pharmaceuticals S.A. - K. Chalandri, Athens, Greece - Share Capital € 11,700,000. Percentage ownership of 0.81%.

- Orphan Europe Holding S.A. - Puteaux, Paris La Defense, France - Share Capital € 1,701 thousand. Percentage ownership of 0,035%.

All the investments reported are in share capital with voting rights.

16. OTHER RECEIVABLES (included within non-current assets)

At 31 December 2010 other receivables amounted to € 57 thousand, (unchanged compared to 31 December 2009) and related to security deposits.

17. DEFERRED TAX ASSETS

At 31 December 2010 these amounted to € 7,003 thousand (€ 8,602 thousand at 31 December 2009), a decrease of € 1,599 thousand.

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

€ (thousands)	2010	2009
Balance at 1 January	8,602	10,211
Additions	875	1,031
Utilization	(2,474)	(2,640)
Balance at 31 December	**7,003**	**8,602**

€ (thousands)	Intangible assets reversals	Provisions	Inventory write-downs	Other	Total
Balance at 1 January	7,080	1,009	258	255	8,602
Addition	0	709	0	166	875
Utilization	(1,720)	(282)	(257)	(215)	(2,474)
Balance at 31 December	**5,360**	**1,436**	**1**	**206**	**7,003**

The utilization of € 1,720 thousand relates to amortization charges for intangible assets revalued in 2005 under Law 226 of 23.12,2005.

18. INVENTORIES

Inventories at 31 December 2010 and 2009 amounted to 42,023 thousand and € 43,688 thousand respectively, as detailed in the following table:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Raw materials, ancillary materials, consumables and supplies	8,738	11,304	(2,566)
Intermediates and work-in-process	12,620	12,105	515
Finished goods	20,665	20,279	386
Total	**42,023**	**43,688**	**(1,665)**

The decrease in inventories compared to 31 December 2009 is related to changes in volumes of sales.

19. TRADE RECEIVABLES

Trade receivables amounted to € 51,593 thousand and € 46,960 thousand at 31 December 2010 and 2009 respectively, as detailed below:

€ (thousands)	31.12.2010	31.12,2009	Change 2010/2009
Trade receivables from subsidiaries	25,505	19,753	5,752
Trade receivables from others:			
Italy	22,633	24,226	(1,593)
Abroad	5,075	4,718	357
	53,213	**48,697**	**4,516**
Less:			
Allowance for doubtful accounts	(1,536)	(1,551)	15
Allowance for interest on arrears on doubtful accounts	(84)	(186)	102
Total trade receivables	**51,593**	**46,960**	**4,633**

Average days of sales outstanding on receivables from others stood at 74 at 31 December 2010.

The adjustment of receivables in non euro currencies resulted in the recognition of negative exchange rate differences of € 43 thousand. The receivables are recognized net of those adjustments.

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

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Innova Pharma S.p.A.	13,124	9,025	4,099
Recordati Ireland Ltd.	10,191	8,964	1,227
Laboratoires Bouchara Recordati S.a.s.	946	295	651
Jaba Recordati S.A.	787	348	439
Merckle Recordati Gmbh.	215	0	215
Recordati España S.L.	142	727	(585)
Yeni Recordati Ilaç	72	0	72
Bouchara Recordati S.a.s.	0	394	(394)
Orphan Europe Italy Srl	12	0	12
Recordati Hellas Pharmaceuticals S.A	18	0	18
Herbacos Recordati S.A.	(3)	0	(3)
Recordati S.A.	1	0	1
Total	**25,505**	**19,753**	**5,752**

The increase compared to the previous year is due to the new conditions of payment following the introduction of an automated procedure during the year for netting open intercompany positions. On the basis of this procedure intercompany items are automatically offset against each other each month and the relative balances settled.

Changes in the allowance for doubtful accounts are as follows:

€ (thousands)	2010	2009
Balance at 1 January	1,551	1,597
Utilization for losses on receivables	(15)	(46)
Balance at 31 December	**1,536**	**1,551**

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

Changes in the allowance for interest on arrears on doubtful accounts are as follows:

€ (thousands)	2010	2009
Balance at 1 January	186	590
Utilization for the year	(102)	(404)
Balance at 31 December	**84**	**186**

The balance at 31 December 2010, amounting to € 84 thousand, fully covers the amount for the relative receivables.

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

	31.12.2010		31.12.2009	
	Foreign currency	€(000)	Foreign currency	€(000)
Receivables in US$	4,071,373	3,036	3,952,331	2,699
Receivables in GBP	22,550	27	21,250	24

20. OTHER RECEIVABLES

Other receivables amounted to € 9,295 thousand (€ 6,351 thousand at 31 December 2009). The composition is given in the table below.

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Tax receivables	4,578	1,406	3,172
To parent companies	1	18	(17)
To subsidiaries	866	166	700
Balances due from employees and agents	993	1,681	(688)
Other	2,857	3,080	(223)
Total other receivables	**9,295**	**6,351**	**2,944**

Tax receivables at 31 December 2010 amounted to € 4,578 thousand (€ 1,406 thousand in 2009) They were composed as follows:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Receivables from Fimei S.p.A. for IRES (corporate income tax)	3,508	610	2,898
Refund requested from tax authorities	52	52	0
Receivables from tax authorities for VAT	930	728	202
Receivables for foreign VAT tax authorities	87	0	87
Sundry items	1	16	(15)
Total tax receivables	**4,578**	**1,406**	**3,172**

Receivables from the parent company Fimei S.p.A. for IRES at 31 December 2010 relate to the balance on taxes for the year, transferred by Recordati S.p.A. to its parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003. IRES tax receivables arose because advance taxes paid were greater than the provisions set aside for the year.
The VAT credit consisted of the balance for December 2010 and the VAT refund applied for on 18 October 2007 in relation to VAT on motor vehicles.

Other receivables from parent companies amounted to € 1 thousand and relate to sundry charges.

Receivables from subsidiaries were composed as follows:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Recofarma S.r.l.	1	1	0
Innova Pharma S.p.A.	707	2	705
Laboratoires Bouchara Recordati S.a.s.	158	163	(5)
Total	**866**	**166**	**700**

The receivables from Innova Pharma are due to the charge for services provided to that company. The receivables from Laboratoires Bouchara Recordati relate to royalties income.

Balances due from employees and agents amounted to € 993 thousand and € 1,681 thousand at 31 December 2010 and 2009 respectively. They consisted of advances to employees, expense accounts for medical representatives and loans granted to employees who exercised stock option rights amounting to € 700 thousand for the purchase of 127,500 shares resulting from the options granted on 6 April 2006 and 29 October 2008.

Receivables from others amounted to € 2,857 thousand at 31 December 2010 (€ 3,080 thousand at 31 December 2009) and they included € 287 thousand of receivables under licensing-in agreements to adjust purchase costs in accordance with contracts and receivables from suppliers for advances and outstanding refunds.

21. OTHER CURRENT ASSETS

Other current assets amounted to € 797 thousand (€ 445 thousand at 31 December 2009) and related mainly to prepaid expenses. They consisted of balances in favor of the company on insurance policies, advance payments for periodic market research services and advance membership fees to trade associations.

22. OTHER SHORT TERM RECEIVABLES

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

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Bouchara Recordati S.a.s.	15,574	14,240	1,334
Jaba Recordati S.A.	0	2,515	(2,515)
Merckle Recordati GmbH	42	8,552	(8,510)
Recordati S.A. – Luxembourg	0	15,376	(15,376)
Total	**15,616**	**40,683**	**(25,067)**

These receivables are entirely due to a cash pooling treasury system in operation at the Parent Company. Interest is paid on these receivables at short term market rates.

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

These are composed as shown in the following table.

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Deposits in bank current accounts	104,687	11,270	93,417
Cash on hand	3	2	1
Total	**104,690**	**11,272**	**93,418**

Cash and cash equivalents at 31 December 2010, consisted of current accounts and short term bank deposits amounting to € 45 million and monetary funds amounting to € 11.9 million.
The increase in cash and cash equivalents includes € 30.0 million due to the first disbursement of a loan from Centrobanca (see Note 25).
Adequate funding was maintained in order to support the growth strategies of the Group.

24. SHAREHOLDERS' EQUITY

A summary of the changes in the shareholders' equity accounts is reported in the relative statement. Following the entry into force of Legislative Decree 6/2003, which amended the Italian Civil Code, the table contained in Attachment 4 was introduced which gives the composition of reserves on the basis of availability for use and distribution.

Share capital - The share capital at 31 December 2010, amounting to € 26,140,644.50 is fully paid up and consists of 209,125,156 ordinary shares with a par value of € 0,125 each.
It remained unchanged during 2010.

The company has one stock option plan in place, the 2006-2009 plan, with four different grants of options for selected employees. The exercise price of the options is the average of the company's listed share price during the 30 days prior to the grant date. Stock options are vested over a period of four years. Options not exercised within the fifth year of the date of grant expire. Options may not be exercised if the employee leaves the Company before they are vested.

Details of stock options outstanding at 31 December 2010 are given in the following table.

	Strike price (€)	Quantity 1.1.2010	Granted in 2010	Exercised in 2010	Cancelled and expired	Quantity 31.12.2010
Grant date						
6 April 2006	6,4975	1,865,000	-	(445,000)	(55,000)	1,365,000
29 October 2008	4,0730	3,790,000	-	(778,750)	(227,500)	2,783,750
11 February 2009	3,8940	220,000	0	(42,500)	(22,500)	155,000
27 October 2009	4,8700	4,065,000	0	0	(150,000)	3,915,000
Total		**9,940,000**	**0**	**(1,266,250)**	**(455,000)**	**8,218,750**

Options may also be exercised through the use of treasury stock.

Additional paid-in capital
Additional paid-in capital amounted to € 83,718,523 at 31 December 2010 and was unchanged compared to 31 December 2009.

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

Treasury stock
At 31 December 2010, 10,206,105 shares were held as treasury stock for a cost of € 52,579 thousand, of which 3,955,520 were purchased on the market in 2002 for € 17.5 million, 843,144 were purchased in 2003 for € 2.9 million, 1,856,227 were purchased on the market in 2006 for € 10.3 million and 5,060,464 were purchased on the market in 2007 for € 29.9 million. Those purchases were made to implement board resolutions passed on 16 September 2002, 6 April 2006 and 11 April 2007. In 2007, 243,000 shares were sold to employees of the Group who exercised option rights under stock option plans already authorized for a total price of € 1.4 million. In 2010, 1,266,250 shares were sold to employees of the Group who exercised option rights under stock option plans already authorized for a total price of € 6,524 thousand.

Statutory reserve
This amounted to € 5,228 thousand (€ 5,220 thousand at 31 December 2009) an increase of € 8 thousand after part of profits were allocated to it to bring it up to the limit set by Art. 2430 of the Italian Civil Code.

Other reserves
Other reserves totaled € 188,148 thousand. Details are given in the table below.

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Extraordinary reserve	81,698	60,285	21,413
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	99	0
Extraordinary VAT concession reserve	517	517	0
Research and investment grants	17,191	17,191	0
Non-distributable reserve for investments in southern Italy	3,632	3,632	0
International accounting standards reserve	89,310	88,499	811
Total	**192,447**	**170,223**	**22,224**
Fair value derivative instruments	(4,299)	(4,040)	(259)
Total other reserves	**188,148**	**166,183**	**21,965**

Extraordinary reserve

This amounted to € 81,698 thousand and € 60,285 thousand at 31 December 2010 and 2009 respectively. The increase is the result of the allocation of part of 2010 profit amounting to € 21,705 thousand and of dividends not paid and expired amounting to € 2 thousand.
Following the assignment of treasury stock to Group employees who exercised options under stock option schemes, a difference arose between the amount paid to employees and the carrying amount

of that treasury stock. That difference of € 294 thousand was recognized as a deduction from the extraordinary reserve in compliance with international accounting standards.

Reserve under Art. 13, paragraph 6 of Legislative Decree 124/93
This amounted to € 99 thousand at 31 December 2010 and remained unchanged compared to the previous year.

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

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

Non-distributable reserve for investments in southern Italy
This amounted to € 3,632 thousand and remained unchanged compared to the previous year.

International accounting standards reserve
This amounted to € 89,310 thousand (€ 88,499 thousand at 31 December 2009) and is composed as follows:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Reversal of fixed asset revaluations	40,477	40,477	0
Revaluation of investments	43,054	43,054	0
Inventories	463	463	0
Personnel leaving indemnities	1,136	1,302	(166)
Stock options	4,180	3,203	977
Total	**89,310**	**88,499**	**811**

Changes that occurred in the items in 2010 included the following:

- the valuation of the personnel leaving indemnities provision in accordance with IAS 19 generated a reserve which amounted to € 1,136 thousand at 31 December 2010.
- the amount of € 4,180 thousand relates to the labor expense for stock options issued and granted after 7 November 2002 and not yet exercised, valued in accordance with IFRS 2.

Revaluation reserve
This amounted to € 2,602 thousand (unchanged compared to 2009) and consisted of revaluation balances within the meaning of Law 413/1991.

Untaxed reserves at 31 December 2010 amounted to € 87,826 thousand and consisted of € 15,964 thousand of reserves for grants received net of the taxed portion, € 517 thousand of the VAT concession reserve and € 99 thousand of the reserve formed pursuant to the Law regulating pension funds and € 71,246 of the revaluation reserves net of the substitute taxes. Revaluation reserves amounting to € 68,644 thousand were eliminated in compliance with international accounting standards and the non taxability was transferred to the additional paid-in capital reserve. No provisions were made for deferred taxes for these reserves because it is not considered that they will be used in a manner that will make them taxable.

25. LOANS

At 31 December 2010 and 2009 medium and long term loans included the following:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Istituto Bancario Intesa Sanpaolo loans, secured by mortgages on the Milan and Campoverde plants, at an average annual interest rate of 0.99% repayable in semi-annual installments through 2010	0	1,050	(1,050)
Loans granted by the Ministry of Industry and Commerce repayable in annual installments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0,825% before that	404	530	(126)
Research loans granted by Centrobanca, at a gross annual interest rate of 2,4665%, repayable in semi-annual installments through 2010	30,000	0	30,000
Loan received from Recordati S.A. (Luxembourg) granted on the basis of a long term debt issue concluded by that subsidiary with institutional investors	80,609	80,609	0
Total amortized cost of loans	**111,013**	**82,189**	**28,824**
Portion due within one year	(15,130)	(1,176)	(13,954)
Portion due after one year	**95,883**	**81,013**	**14,870**
Change in the fair value of loans	825	(2,257)	3,082
Total	**96,708**	**78,756**	**17,952**

The repayment schedules for the portions of the medium and long-term loans due after 31 December 2011 are as follows:

€ (thousands)	
2012	2,862
2013	2,866
2014	68,336
2015	2,727
2016	2,727
2017 and after	16,365
Total	**95,883**

On 30 November 2010, the Company signed a loan contract with Centrobanca, for a three year program of investments in Research & Development. The loan, which Centrobanca funded through a loan from the European Investment Bank, amounted to € 75.0 million of which € 30.0 million had already been disbursed at 31 December 2010. The main terms and conditions were the disbursement of the entire amount by 31 March 2011, a variable interest rate and a duration of 12 years with repayment in semi-annual installments of the principal from June 2012 and by December 2022. The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants are as follows:

- the ratio of consolidated net debt to consolidated shareholders' equity must be less than 75%;
- the ratio of consolidated net debt as of the last day of any fiscal quarter to EBITDA for the period of four fiscal quarters then ended must be less than 3.00 to 1.00;
- the ratio of EBITDA to consolidated net interest expense for any period of four fiscal quarters must exceed 3.00 to 1.00.

Those ratios were fully complied with by a broad margin for the year ended 2010.

The loan received from Recordati S.A. (Luxembourg) is composed as follows:

Foreign currency	Value in euro	Fixed rate	Year due
€ 15,000,000	15,000,000.00	4,725	2011
€ 26,000,000	26,000,000.00	5,705	2014
$ 40,000,000	32,310,177.75	5,225	2014
GBP 5,000,000	7,299,270.07	6,295	2014

This loan was granted on the basis of an issue of long-term debt concluded by Recordati S.A. Luxembourg with institutional investors and guaranteed at the same time by Recordati S.p.A..

That debt, issued at the end of 2004, comprises tranches in various currencies at fixed interest rates. The tranches denominated in currencies other than the euro have been covered with a cross-currency interest rate swap effectively converting the whole debt into euro at a variable interest rate equivalent to the Euribor 6 months rate plus a spread. The tranches denominated in euro have been covered with an interest rate swap effectively converting the interest charges on the debt from fixed to variable at the same above mentioned conditions. The measurement at fair value of the swaps at 31 December 2010 generated a liability of € 1,164 thousand, an amount equivalent to the decrease in the fair value of the underlying debt. This amount is recognized in the balance sheet as a decrease of debt within current liabilities as 'Fair value of hedging derivatives (fair value hedge).

A further interest rate swap contract was entered into at the same time, qualifying as a cash flow hedge, to fix a range within which the interest rate can fluctuate in order to optimize the cost of financing for the life of the debt. At 31 December 2010 the lower and upper limits of the range were 3.81% and 4.85% respectively. The € 4,299 thousand fair value of the cash flow hedge was recognized directly in equity and stated as a current liability (see Note 34).

The derivative instruments and the hedged items are linked and the Group does not intend to terminate or modify them independently from each other.

26. STAFF LEAVING INDEMNITIES

The balance at 31 December 2010 amounted to € 11,658 thousand (€ 12,747 thousand at 31 December 2009). Changes in the item were as follows:

€ (thousands)	2010	2009
Balance at 1 January	12,747	12,264
Additions during the year	530	684
Utilization for the year	(1,830)	(1,199)
Change in fair value of the personnel leaving indemnity fund (IAS 19)	211	998
Balance at 31 December	**11,658**	**12,747**

The valuation of the personnel leaving indemnity fund in accordance with IAS 19 generated a liability at 31 December 2010 of € 11,658 thousand. The calculation made, which used actuarial parameters updated at 31 December 2010, generated a greater liability and resulted in the recognition of an adjustment of € 211 thousand and the recognition of an equal amount (gross of deferred taxation) in the statement of comprehensive income in accordance with the relative accounting standard.

27. DEFERRED TAX LIABILITIES

Deferred tax liabilities amounted to € 1,935 thousand (€ 2,036 thousand at 31 December 2009).

Changes are reported in the table below.

€ (thousands)	2010	2009
Balance at 1 January	2,036	2,425
Additions	0	0
Utilization	(101)	(389)
Balance at 31 December	**1,935**	**2,036**

The utilizations relate to the deferred tax liability calculated on the adjustments to the personnel leaving indemnity made according to IAS 19 using actuarial parameters updated at 31 December 2010.

28. OTHER NON CURRENT LIABILITIES

None were recognized having being transformed into current debt. In 2009 they consisted entirely of the portion of the loan entered into to acquire the license for TransAct LAT® to be paid in 2011.

29. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include end of year allocations for invoices to be received, amounted at 31 December 2010 and 2009 to € 35,441 thousand and € 36,871 thousand respectively.
Balances at 31 December 2010 and 2009 were as follows:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Suppliers, subsidiaries	815	1,331	(516)
Suppliers, Italy	17,064	16,489	575
Suppliers, Italy for invoices to be received	7,476	8,093	(617)
Suppliers, abroad	7,790	9,633	(1,843)
Suppliers, abroad for invoices to be received	2,296	1,325	971
Total trade payables	**35,441**	**36,871**	**(1,430)**

Details for subsidiaries are as follows:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Recordati Corporation	66	7	59
Laboratoires Bouchara Recordati S.a.s.	42	736	(694)
Innova Pharma S.p.A.	673	588	85
Recofarma S.r.l.	34	0	34
Total payables to subsidiaries	**815**	**1,331**	**516**

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

The adjustment of trade payables in non euro currencies resulted in the recognition of net positive exchange rate differences of € 366 thousand.
The largest trade payables in foreign currency were as follows:

	31.12.2010		31.12.2009	
	Foreign currency	€(000)	Foreign currency	€(000)
Payables in US$	1,293,769	1,208	1,541,318	1,337
Payables in GBP	196,096	236	111,188	132
Payables in CHF	82,959	69	13,354	8

30. OTHER PAYABLES

Other accounts payable at 31 December 2010 amounted to € 22,839 thousand (€15,112 thousand at 31 December 2009). They were composed as follows:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Subsidiaries	7,250	43	7,207
Employees	6,525	6,964	(439)
Social security	5,182	4,969	213
Commissions to agents	851	617	234
Other	3,031	2,519	512
Total other payables	**22,839**	**15,112**	**7,727**

Payables to subsidiaries consisted entirely of a debt to Recordati Ireland Ltd. in connection with agreements signed for the acquisition from Merck KGaA of the concession for the marketing of Cardicor®. These payables were subject financially to normal market terms and conditions in the first few months of 2011.

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

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

Amounts payable to agents include € 278 thousand in commissions for foreign agents.

Other payables include directors' remuneration accruing at 31 December (€ 388 thousand), credit notes to be issued (€ 25 thousand), payables relating to the acquisition of the TransAct LAT® license for the installment to be paid in 2011 (€ 1,000 thousand) and those for the debt to Regions pursuant to Law 122 of 30 July 2010 amounting to € 654 thousand.

31. TAX LIABILITIES

Tax liabilities at 31 December 2010 amounted to € 1,918 thousand (€ 2,388 thousand at 31 December 2009).

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Liabilities for current taxation	157	517	(360)
Liabilities for employee withholding taxes	1,711	1,793	(82)
Liabilities for self-employed withholding taxes	49	78	(29)
Other tax liabilities	1	0	1
Total tax liabilities	**1,918**	**2,388**	**(470)**

Liabilities for current taxation consist of (i) the amount due for taxes calculated on the income of the Luxembourg subsidiary recalculated on the basis of the Italian Consolidated Income Tax Act following the entry into force of Decree Law of 1 July 2009 and (ii) IRAP (regional production tax) due net of amounts paid on account during the year.

32. OTHER CURRENT LIABILITIES

Other current liabilities amounted to € 81 thousand (€ 101 thousand in 2009) and consist of liabilities for government grants for investment received between 1998 and 2003 and carried over into subsequent years in relation to the residual useful life of the assets to which they relate.

33. PROVISIONS

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

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Tax	1,994	5,493	(3,499)
Other risks	5,411	3,861	1,550
Total provisions	**7,405**	**9,354**	**(1,949)**

The reduction in the tax provision is due to the payment of the remainder due in relation to a notice of tax assessment, which charged additional taxation for the fiscal year 2003 as follows: corporate tax of € 2.3 million, IRAP of € 0.2 million and VAT of € 0.1 million and the imposition of fines of € 2.6 million. As a result of judgment No. 139/32/09 of 10 June 2009, deposited on 27 November 2009, made by section 32 of the Regional Tax Commission of Milan, which confirmed the contents of the notice of tax assessment just mentioned relating to 2003, € 3.8 million was paid in 2010 while the remaining part had already been paid in prior years.

Other provisions include amounts set aside for future contingencies which are uncertain as to timing and amount. The reasons for the increase in the provision (reported in specific item under note 8 of the income statement) are attributable mainly to expense for legal disputes and for the return of expired and unsaleable pharmaceuticals

34. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGES)

The interest rate swaps to hedge the cash flows related to medium and long-term loans measured at fair value at 31 December 2010 gave rise to a € 4,299 thousand liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans.

That liability just mentioned is recognized in shareholders' equity within the "Fair value derivatives reserve".

35. LOANS – DUE WITHIN ONE YEAR

The portions of medium and long-term loans due within one year at 31 December 2010 and 2009 were composed as follows.

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Istituto Bancario Intesa Sanpaolo loans, secured by mortgages on the Milan and Campoverde plants, at an average annual interest rate of 0.99% repayable in semi-annual installments through 2010	0	1,050	(1,050)
Loans granted by the Ministry of Industry and Commerce repayable in annual installments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0,825% before that	130	126	4
Loan received from Recordati S.A. (Luxembourg) granted on the basis of a long term debt issue concluded by that subsidiary with institutional investors	15,000	0	15,000
Portion due within one year	15,130	1,176	13,954
Change in the fair value of loans	339	0	339
Total	**15,469**	**1,176**	**14,293**

36. BANK OVERDRAFTS AND SHORT TERM LOANS

Bank overdrafts and short term borrowings at 31 December 2010 and 2009 amounted to € 438 thousand and € 21,924 thousand respectively.

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Current account overdrafts	408	21,918	(21,510)
Interest on long term loans	30	6	24
Total	**438**	**21,924**	**21,486**

37. OTHER SHORT TERM BORROWINGS

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

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Recordati S.A. – Luxembourg	5,082	234	4,848
Recofarma S.r.l.	3,520	3,522	(2)
Innova Pharma S.p.A.	6,882	10,351	(3,469)
Laboratoires Bouchara Recordati S.a.s.	18,091	19,333	(1,242)
Jaba Recordati S.A.	7,118	5	7,113
Recordati España S.L.	5,682	3,012	2,670
Recordati Orphan Drugs S.a.s.	0	3,412	(3,412)
Orphan Europe Holding S.A.	0	2,003	(2,003)
Orphan Europe Sarl	23,761	2,004	21,757
Recordati S.A. – Switzerland	22	0	22
Recordati Corporation	113	0	113
Recordati Merckle	3,531	0	3,531
Recordati Ireland Ltd.	19,254	0	19,254
Recordati Pharmaceutical Ltd.	138	0	138
FIC	1,226	0	1,226
Total	**94,420**	**43,876**	**50,544**

The amount due to Recordati S.A. amounting to € 242 thousand relates to interest on a long term loan granted on the basis of a long term debt issue concluded by that subsidiary with institutional investors (see Note 25).
Payables to all other subsidiaries relate to the centralized cash pooling treasury system.

38. *FAIR VALUE OF FINANCIAL INSTRUMENTS*

As prescribed by IAS 32, a comparison of the carrying amounts at 31 December 2010 and the fair values of financial assets and liabilities is given below.

€ (thousands)	Carrying amount	Fair value
Financial assets		
Other short term receivables	15,616	15,616
Short-term financial investments, cash and cash equivalents	104,690	104,690
Trade receivables	51,593	51,593
Other receivables	9,295	9,295
Fair value of hedging derivatives (fair value hedges)	1,164	1,164
Financial liabilities		
Loans		
- loans at fixed interest rates	404	322
- loans at variable interest rates	111,773	111,773
Trade payables	35,440	35,440
Other payables	24,757	24,757
Fair value of hedging derivatives (cash flow hedges)	4,299	4,299
Fair value of hedging derivatives (fair value hedges)	0	0
Bank overdrafts and short term loans	438	438
Other short term borrowings	94,420	94,420

39. DISCLOSURE OF FINANCIAL RISKS

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

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

Liquidity risk

The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for its ongoing business and for the development of its industrial and commercial activities.
The two main factors which determine the Company's liquidity are, on the one hand, the resources generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions.
At 31 December 2010 the Company had at its disposal liquidity readily available for its operations and in addition, under the terms of the research investment loan contract entered into with Centrobanca, the Company may draw on a further € 45 million in a maximum of two tranches not later than 31 March 2011.
The terms and conditions of the Company's loans and its financial assets are set out in notes 23, 25. and 36, which address short-term financial investments, cash and cash equivalents, loans and bank

overdrafts, respectively.
The Company believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts on their natural due dates.

Credit risk

The Company closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. At 31 December 2010 the credit exposure was not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. More specifically gross trade receivables at 31 December 2010 totaled € 53,213 thousand and the relative allowance for doubtful accounts of € 1,620 thousand recognized is considered to be sufficient in relation to the risk of insolvencies.

Interest rate risk

The Company raises funds using debt and invests excess cash in money market funds and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments, which therefore affect the Group's net financial charges.
The Company’s policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or by using derivative financial instruments to minimize such fluctuations, as described in note 25. As a result of this policy and considering the current amount of net debt, it is believed that changes in current interest rates would not have a significant impact on net financial expenses.

Foreign currency risk

The Company is exposed to foreign currency fluctuations which can affect its operating results.
In particular, the Company is exposed to foreign currency fluctuations on its international sales denominated in currencies other than the euro, such as U.S. Dollars, Japanese Yen, GB Pounds and Swiss Francs. The net exposure to these currencies is, however, marginal when compared to the company's volumes of business

40. SEGMENT REPORTING

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

The following table presents net revenues by geographic area:

€ (thousands)	2010	2009	Change 2010/2009
Europe	225,972	240,256	(14,284)
of which Italy	*153,433*	*168,361*	*(14,928)*
Australasia	6,092	5,199	893
The Americas	8,088	9,016	(928)
Africa	746	852	(106)
Total	**240,898**	**255,323**	**(14,425)**

41. LITIGATION AND CONTINGENT LIABILITIES

The Company is party to certain legal actions. Management is of the opinion that such legal actions will not result in any significant liability.

In January 2001 certain savings shareholders, who said they owned in total about 1% of the savings shares, contested the decision to convert the savings shares into ordinary shares adopted by the special savings shareholders' meeting on 26 October 2000 and by the extraordinary shareholders' meeting on 25 October 2000, questioning the legitimacy of the "automatic" , or “forced” conversion provision. These shareholders also presented a motion to suspend the implementation of the said decision, which however was rejected. On 13 April 2007 the court filed its decision rejecting the aforesaid shareholders' demands and sentencing them to settle all charges arising from the litigation. On 27 February 2008 the Company was summoned by the aforesaid shareholders who appealed against the judgment passed by the Milan court of first instance. On 4 October 2010 a judgment was deposited with which the Appeal Court of Milan, overturning the judgment by the court of first instance, found in favor of the claims of the appellants and ordered the Company to pay damages to the latter amounting to € 0.4 million, in addition to interest at the legal rate and legal costs for the proceedings in the courts of first and second instance. Despite that judgment, the Company remains firm in its belief that the conversion operation was perfectly legal as supported by the positive reaction of the market and the very high percentage of shareholders opting for the conversion. The Company has in any case decided not to appeal to the Court of Cassation against that judgment.

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

42. NET FINANCIAL POSITION

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

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Deposits in bank current accounts and cash on hand	104,690	11,272	93,418
Short term investments to third parties	0	0	0
Short term loans to Group companies	15,616	40,683	(25,067)
Liquid assets	**120,306**	**51,955**	**68,351**
Bank overdrafts and short-term loans	(438)	(21,924)	21,486
Loans – due within one year	(15,470)	(1,176)	(14,294)
Short term loans to subsidiaries	(94,420)	(43,876)	(50,544)
Short term borrowings	**(110,328)**	**(66,976)**	**(43,352)**
Net current financial position	**9,978**	**(15,021)**	**24,999**
Loans – due after one year	(96,708)	(78,756)	(17,952)
Net financial position	**(86,730)**	**(93,777)**	**7,047**

43. NON RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

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

€ (thousands)	2010	2009	Change 2010/2009
Provisions for expenses related to the return of expired pharmaceuticals	(970)	(1,000)	30
Settlements and risks relating to litigation with former employees	(1,421)	(2,767)	1,346
Savings shareholders litigation	(600)	0	(600)
Provisions for other legal actions	(800)	(500)	(300)
Total non recurring operating expense	**(3,791)**	**(4,267)**	**476**

44. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In compliance with CONSOB communication of 28 July 2006, the Company performed no atypical and/or unusual transactions in 2010, as defined in that same communication, according to which atypical and/or unusual transactions are those which because of their significance or importance, the nature of the counterparties, the content of the transaction, the way in which the transfer price is decided and the timing of the event (close to the end of the financial year) might give rise to doubts concerning: the accuracy and completeness of the information in the financial statements, a conflict of interests, the security of the companies assets, the protection of the interests of minority shareholders.

RECORDATI S.p.A. Attachment 1

STATEMENT OF CHANGES IN INVESTMENTS

€ (thousands)	Balance at 31 Dec. 2009	Sales Share capital reimburse-ments	Acquisitions subscriptions	Write-downs (-) Write-backs (+)	Balance at 31 Dec. 2010
Investments in subsidiaries					
Recordati S.A. – Luxembourg	177,586	-	-	-	177,586
Recordati España S.L. – Spain	90,537	-	-	-	90,537
Recofarma S.r.l. – Milan	1,852	-	-	-	1,852
Innova Pharma S.p.A. – Milan	1,733	-	-	-	1,733
Recordati Portuguesa LDA – Portugal	78	-	-	-	78
Bouchara – Recordati S.a.s. – France	54,249	-	-	-	54,249
Recordati Pharmaceuticals Ltd. – United Kingdom	752	-	-	-	752
Recordati Hellas Pharmaceuticals – Greece	95	-	-	-	95
Orphan Europe Holding Sarl – France	48	-	-	-	48
	326,930				**326,930**
Investments in other companies:					
Tecnofarmaci S.p.A. – Pomezia (Rome)	87	-	-	-	87
SPA Ricerche ed Education S.r.l. – Milan	0	-	-	-	0
Sifir S.p.A. – Reggio Emilia	0	-	-	-	0
Concorzio Dafne – Reggello (FI)	2	-	-	-	2
Consorzio Nazionale Imballaggi – Rome	0	-	-	-	0
Consorzio C4T – Pomezia (Rome)	78	-	-	-	78
	167	-	-	-	**167**
TOTAL	**327,097**	-	-	-	**327,097**

RECORDATI S.p.A. Attachment 2

SUMMARY STATEMENT OF INVESTMENTS

€ (thousands)	Balance at 31 Dec. 2010	Percentage ownership	Number of shares or quotas possessed
Investments in subsidiaries			
Recordati S.A. – Luxembourg	177,586	100.00	
Recordati España S.L. – Spain	90,537	90.00	846,000
Recofarma S.r.l. – Milan	1,852	100.00	1
Innova Pharma S.p.A. – Milan	1,733	100.00	960,000
Bouchara – Recordati S.a.s. – France	54,249	99.94	9,994
Recordati Portuguesa LDA – Portugal	78	98.00	1
Recordati Pharmaceuticals Ltd. – United Kingdom	752	3.33	500,000
Recordati Hellas Pharmaceuticals – Greece	95	1.58	9,500
Orphan Europe Holding Sarl – France	48		
	326,930		
Investments in other companies:			
Tecnofarmaci S.p.A. – Pomezia (Rome)	87	4.18	79,500
Sifir S.p.A. – Reggio Emilia	0	0.04	1,304
Concorzio Dafne – Reggello (FI)	2	1.44	1
Consorzio C4T – Pomezia (Rome)	78	0.23	1,300
Consorzio Nazionale Imballaggi – Rome	0	n.s.	1
	167		
TOTAL	**327,097**		

RECORDATI S.p.A. Attachment 3

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

€ (thousands)	Share capital	31.12.2010 Equity	Profit (loss)	% Ownership	Corresponding pro-rata equity (A)	Carrying amount (B)	Valuation Art. 2426 (C)
Investments							
Recordati S.A. – Luxembourg	68,000	260,009	44,880	100.00%	260,009	177,586	378,096
Recordati España S.L. - Spain	94,000	115,310	3,517	90.00%	103,779	90,537	110,695
Bouchara Recordati S.a.s. – France	4,600	30,738	20,497	99.94%	30,720	54,249	89,126
Recordati Portuguesa LDA – Portugal	25	51	0	98.00%	50	78	52
Recofarma S.r.l. – Milan	1,258	3,454	21	100.00%	3,454	1,852	3,453
Innova Pharma S.p.A. – Milan	1,920	13,784	5,963	100.00%	13,784	1,733	13,899
Recordati Pharmaceuticals Ltd. – United Kingdom	17,247	15,858	1,225	3.33%	528	752	524
Recordati Hellas S.A – Greece	11,700	(728)	(1,868)	0.81%	(6)	95	(7)
Orphan Europe Holding S.A. – France	1,701	12,473	9,601	0,035%	4	48	51
	200,631	**450,949**	**83,836**		**412,322**	**326,930**	**595,889**

Difference A-B	**85,392**
Surplus C-B	**268,959**

RECORDATI S.p.A. Attachment 4

DETAILS OF ITEMS IN SHAREHOLDERS' EQUITY

€ (thousands)	Amount	Possible utilization	Amount available	Amount distributable without tax effects	Amount distributable with tax effects	Notes
Share capital	26,141					
Additional paid-in capital reserve	83,718	A B C	83,718	15,074	68,644	1
Revaluation reserve	2,602	A B C	2,602	0	2,602	
Statutory reserve	5,228	B				
By-law reserves	0					
Treasury stock reserve	(52,579)					
Other reserves						
Extraordinary reserve	81,698	A B C	81,644	81,644	0	2
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	A B C	99	0	99	
Research and investment grants	17,191	A B C	17,191	0	15,964	3
Extraordinary VAT concession reserve	517	A B C	517	0	517	
Southern Italy investment fund	3,632					
IAS reserve	85,011	A B C	85,011	85,011	0	
Profit (loss) for the year	67,892	A B C	67,892	67,892	0	
Total shareholders' equity	**321,150**		**338,674**	**249,621**	**87,826**	

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

Notes:

1 The additional paid-in capital reserve may be distributed when the statutory reserve has reached one fifth of the share capital

2 The extraordinary reserve may not be distributed below the amount of € 54 thousand pursuant to Art,2426, point 8-*bis* of the Civil Code (see item 12).

3 The research and investment grant reserve has already been subject to taxation of € 1,227 thousand.

RECORDATI S.p.A. Attachment 5

SCHEDULE OF REMUNERATION PAID TO DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND EXECUTIVE OFFICERS WITH STRATEGIC RESPONSIBILITIES

Board of Directors	**Description of Office**			**Remuneration**			
Name and Surname	**Position occupied**	**Period in which the position was held**	**Expiry of term of office**	**Emoluments for the office**	**Non monetary benefits**	**Bonus and other incentives**	**Other remuneration**
Giovanni Recordati	Chairman, CEO, General Manager	2010	Approval 2010 annual report	130,000 (a)	28,858	730,000 (*)	775,284 (1)
Alberto Recordati	Vice Chairman	2010	Approval 2010 Annual Report	80,000 (b)	681.11	71,722 (*)	317,156 (1)
Mario Garraffo	Director	2010	Approval 2010 Annual Report	41,013.70 (c)	0	0	0
William Gunnarsson	Director	2010	Approval 2010 Annual Report	40,000 (d)	0	0	0
Federico Nazzari	Director	2010	Approval 2010 Annual Report	216.611,3 (e)	0	0	0
Carlo Pedersoli	Director	2010	Approval 2010 Annual Report	40,000 (f)	0	0	0
Andrea Recordati	Director	2010	Approval 2010 Annual Report	30,000	1,776.17	24,750 (*)	190,113.43 (1)
Marco Vitale	Director	2010	Approval 2010 Annual Report	50,000 (g)	0	0	50,000 (2)
Walter Wenninger	Director	2010	Approval 2010 Annual Report	50,000 (h)	0	0	0

Board of Statutory Auditors	Description of Office			Remuneration			
Name and Surname	Position occupied	Period in which the position was held	Expiry of term of office	Emoluments for the office	Non monetary benefits	Bonus and other incentives	Other remuneration
Marco Nava	Chairman Board of Stat.Auditors	2010	Approval 2010 Annual Report	50,000	0	0	3,650 (3)
Achille Severgnini	Statutory Auditor	2010	Approval 2010 Annual Report	35,000	0	0	0
Marco Rigotti	Statutory Auditor	2010	Approval 2010 Annual Report	35,000	0	0	0

Executives with strategic responsibilities	Description of Office			Remuneration			
	Position occupied	Period in which the position was held	Expiry of term of office	Emoluments for the office	Non monetary benefits	Bonus and other incentives	Other remuneration
Four executive officers with strategic responsibilities	-	2010	-	-	14,988.36	460,615 (**)	956,915.77 (1)

Legend

Other remuneration:

(1) Income from employment contract.

(2) Advisory services.

(3) Inclusive of € 3,000 in fees as a member of the Board of Statutory Auditors of Innova Pharma S.p.A and € 650 in fees as a member of the Board of Statutory Auditors of Recofarma S.r.l.

Bonuses and other incentives

(*) Bonuses and other incentives relating to 2010 for positions as employees of Recordati. The following sums were paid as incentives in the form of variable remuneration relating to 2009: € 263,500 to *Ing.* Giovanni Recordati, € 39,447 to *dr.* Alberto Recordati and € 20,000 to *dr.* Andrea Recordati, again in relation to positions occupied in the Company.

(**) Variable incentive remuneration paid in 2010 in relation to 2009 totaled € 196,464.

Fees for the office:

(a) Inclusive of € 100,000 in remuneration for the office of Chairman and Chief Executive Officer.

(b) inclusive of € 50,000 in remuneration for the office of Vice Chairman.

(c) Inclusive of € 10,000 in remuneration as a member of the Internal Audit Committee and € 1,013.70 as a member of the Remuneration Committee (appointed by a Board resolution of 24.11.2010).

(d) Inclusive of € 10,000 in remuneration as a member of the Remuneration Committee.

(e) Inclusive of € 177,625 in remuneration for special assignments and € 8,986.30 in remuneration as a member of the Remuneration Committee (from which he resigned on 23.11.2010).

(f) Inclusive of € 10,000 in remuneration as a member of the Internal Audit Committee.

(g) Inclusive of € 20,000 in remuneration as Chairman of the Internal Audit Committee.

(h) Inclusive of € 20,000 in remuneration as Chairman of the Remuneration Committee.

RECORDATI S.p.A. Attachment 6

SCHEDULE OF SHARES HELD BY DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND EXECUTIVE OFFICERS WITH STRATEGIC RESPONSIBILITIES

Board of Directors	Recordati S.p.A. type of shares	Number of shares held at 31.12.2009	Number of shares purchased in 2010	Number of shares sold in 2010	Number of shares held at 31.12.2010
Giovanni Recordati	ordinary	1,080,067	88,125	1,113,174	55,018
Alberto Recordati	ordinary	78,782	0	0	78,782
Mario Garraffo	ordinary	0	0	0	0
William Gunnarsson	ordinary	50,000	50,000	0	50,000
Federico Nazzari	ordinary	20,000	0	0	20,000
Carlo Pedersoli	ordinary	0	0	0	0
Andrea Recordati	ordinary	202,408 (1)	25,000	67,400 (1)	160,008
Marco Vitale	ordinary	3,845 (2)	0	0	3,845 (2)
Walter Wenninger	ordinary	0	0	0	0

(1) Inclusive of 2,400 shares held by a spouse
(2) Shares held by spouse

Board of Statutory Auditors	Recordati S.p.A. type of shares	Number of shares held at 31.12.2009	Number of shares purchased in 2010	Number of shares sold in 2010	Number of shares held at 31.12.2010
Marco Nava	ordinary	0	0	0	0
Marco Rigotti	ordinary	0	0	0	0
Achille Severgnini	ordinary	0	0	0	0

	Recordati S.p.A. type of shares	Number of shares held at 31.12.2009	Number of shares purchased in 2010	Number of shares sold in 2010	Number of shares held at 31.12.2010
Four executive officers with strategic responsibilities (*)	ordinary	539,716 (3)	157,500	72,044 (4)	625,172 (5)

(*) The figures for 31 December 2009 are different from those published in the 2009 Annual Report because when the Board of Directors approved the "Regulations for related-party transactions" it modified the criteria for identifying "executive officers with strategic responsibilities" on 24 November 2010 and did so again on 9 February 2011.

(3) Inclusive of 10,000 shares held by a spouse
(4) Inclusive of 5,000 shares held by a spouse
(5) Inclusive of 5,000 shares held by a spouse

RECORDATI S.p.A. Attachment 7

STOCK OPTIONS GRANTED TO DIRECTORS, GENERAL MANAGERS AND EXECUTIVE OFFICERS WITH STRATEGIC RESPONSIBILITIES

		Stock options held at 1.1.2010			Stock options granted during 2010			Stock options exercised during 2010			Stock options expired in 2010	Stock options held at 31.12.2010		
Name and Surname	**Position occupied**	**Number of options**	**Average strike price**	**Average validity in days**	**Number of stock options**	**Strike price**	**Validity in days**	**Number of stock options**	**Average strike price**	**Average market price at time of exercise**	**Number of stock options**	**Number of stock options**	**Average strike price**	**Average validity in days**
Giovanni Recordati	Chairman and CEO (*)	900,000	5,1468	1243	0	-	-	75,000	4,073	5,7327	0	825,000	5,2445	861
Alberto Recordati	Vice Chairman (*)	450,000	5,1468	1243	0	-	-	0	0	0	0	450,000	5,1468	878
Andrea Recordati	Director (*)	280,000	5,0504	1295	0	-	-	25,000	4,073	5,7327	0	255,000	5,1462	917
Four executive officers with strategic responsibilities (**)		1,185,000	5,0541	1320	0	-	-	157,500	4,9966	6,2030	0	1,027,500	5,0629	992

(*) This person is a beneficiary of stock option schemes as an employee of strategic importance to the Company.

(**) The figures for 31 December 2009 are different from those published in the 2009 Annual Report because when the Board of Directors approved the “Regulations for related-party transactions” it modified the criteria for identifying “executive officers with strategic responsibilities” on 24 November 2010 and did so again on 9 February 2011.

Attachment 7.1

DESCRIPTION OF THE MAIN CHARACTERISTICS OF THE STOCK OPTION PLANS CURRENTLY VALID

2006 – 2009 STOCK OPTION PLAN
approved by a Shareholders' Meeting on 6 April 2006

1. **Participants**: top management (first level directors) and middle management of the Company or companies directly or indirectly controlled by it.

2. **ADMINISTRATION OF THE PLAN**: the plan is administered by the Board of Directors of the Company ("Board"), which is advised by the Remuneration Committee appointed by the Board itself.

3. **PURPOSE:** an incentive to top management and middle management for the growth and the development of the Group, by granting them an instrument whereby they become direct owners of the share capital and participate in the profits of the Group.

4. **CONTENTS OF THE PLAN:** the grant of options ("Options") for the subscription/purchase, decided by the Company, of ordinary shares, either newly issued or held in portfolio, with a nominal value of Euro 0,125 each, ("Shares").

5. **DURATION OF THE PLAN:** four years. More than one grant of options may be made during each year of the validity of the plan.

6 **STRIKE PRICE:** the price at which shares subject to the options are subscribed or purchased is equal to the product of (i) the "Normal Value" of a share times (ii) the number of options exercised ("Strike price") in accordance with the following points 7 and 8. The "Normal Value" is intended as the arithmetic average of the share prices quoted on the stock market in the period running from the grant date and the same date of the previous calendar month.
It remains understood that the Board of Directors has the power to adjust the Strike Price as just determined, in line with possible amendments to current tax legislation

7. **VESTING OF THE OPTIONS**
7.1 25 % of the options granted to a Participant ("First Tranche") mature and may be exercised from the date set in the resolution with which the Board of Directors granted the Options ("First Vesting Date").
7.2 A further 25 % of the Options granted to a Participant ("Second Tranche") mature and may be exercised from the same day of the calendar year following the First Vesting Date ("Second Vesting Date").
7.3. A further 25 % of the Options granted to a Participant ("Third Tranche") mature and may be exercised from the same day of the calendar year following the Second Vesting Date ("Third Vesting Date").
7.4 The remaining 25 % of the Options granted to a Participant ("Fourth Tranche") mature and may be exercised from the same day of the calendar year following the Third Vesting Date ("Fourth Vesting Date").
7.5 A Participant has the right to exercise each of the Tranches mentioned in the preceding sub sections of this point, once the respective Vesting Date has been reached also together with other tranches which have already vested on that date and have not yet been exercised, and in any event within one of the periods between (i) 9 and 24 May or (ii) 13 and 28 November of each year ("Exercise

Periods”) subsequent to that date or to any subsequent vesting dates relating to the same grant of Options.

7.6 Tranches which have vested and have not yet been exercised subsequent to the Fourth Vesting Date may be exercised before and not later than the last day of the current Exercise Period or later than the fifth anniversary of the Grant date (“Expiry Date”).

7.7 Independently of when they are exercised, Options may only be exercised, in relation to each Tranche, for the whole of the Options of which the Tranche is composed. In the case of failure to exercise an entire tranche in the proper manner, inclusive of failure to make payment of the entire exercise price for it, the exercise shall be considered as not having taken place with regard to the whole of that same tranche

8. CONDITION FOR THE VESTING AND EXERCISE OF OPTIONS

The vesting of individual tranches of the Options referred to in the preceding point 7, sub sections 1, 2, 3 and 4 and therefore the right to exercise the Options relating to those tranches is subject to the condition that the “net income” resulting from the consolidated financial statements of the Group for each financial year prior to the vesting date for individual tranches of the Options indicated in the preceding point 7 is not less than an amount that the Board shall set when Options are granted, with reference to the result in the medium term business plan forecast for each of the years considered, (“Objective”).

When approving annual budgets the Board may adjust the Objective to comply with any amendments that may be made to Company business plans.

Options may only be granted by the Board in the first half of the financial year and the First Vesting Date may only be set for subsequent financial years to that in which the Options are granted.

9. DIVIDEND ENTITLEMENT OF THE SHARES

The dividend entitlement for the Shares subscribed/purchased by a Participant following the exercise of one or more Tranches commences from the start of the year of exercise in which the subscription/purchase took place, while it is understood that that dividend entitlement extends to include all the prior year profit on which a profit has not yet been declared and distributed on the date of the subscription/purchase of the Shares.

Shares are made available to a Participant, just as quickly as the administrative formalities will allow, in compliance with the instructions given by the Participant when communicating the decision to exercise the Options.

*

The Meeting of the Board of Directors which approved this Report also resolved to submit amendments to the 2006 – 2009 Stock Option Plan to the Shareholders’ Meeting scheduled for 13 April 2011. The Directors Report on the item which will be made available within the time limits and according to the procedures of the legislation and regulations in force may be consulted for further information.

2010-2013 STOCK OPTION PLAN
Approved by a Shareholders' meeting on 13 April 2010

1. **PARTICIPANTS:** top management (first level directors) and middle management of the Company or companies directly or indirectly controlled by it.

2. **ADMINISTRATION OF THE PLAN:** the plan is administered by the Board of Directors of the company ("Board"), which is advised by the Remuneration Committee appointed by the Board itself.

3. **PURPOSE:** an incentive to top management and middle management for the growth and the development of the Group, by granting them an instrument whereby they become direct owners of the share capital and participate in the profits of the Group.

4. **CONTENTS OF THE PLAN:** the grant of options ("Options") for the subscription/purchase, decided by the Company, of ordinary shares, either newly issued or held in portfolio, with a nominal value of Euro 0,125 each, ("Shares").

5. **DURATION OF THE PLAN:** four years. More than one grant of options may be made during each year of the validity of the plan.

6 **STRIKE PRICE:** the price at which shares subject to the options are subscribed or purchased is equal to the product of (i) the "Normal Value" of a share times (ii) the number of options exercised ("Strike price") in accordance with the following points 7 and 8. The "Normal Value" is intended as the arithmetic average of the share prices quoted on the stock market in the period running from the grant date and the same date of the previous calendar month.
It remains understood that the Board of Directors has the power to adjust the Strike Price as just determined, in line with possible amendments to current tax legislation.

7. **VESTING OF THE OPTIONS**
7.1 25 % of the options granted to a Participant ("First Tranche") mature and may be exercised from the date set in the resolution with which the Board of Directors granted the Options ("First Vesting Date").
7.2 A further 25 % of the Options granted to a Participant ("Second Tranche") mature and may be exercised from the same day of the calendar year following the First Vesting Date ("Second Vesting Date").
7.3. A further 25 % of the Options granted to a Participant ("Third Tranche") mature and may be exercised from the same day of the calendar year following the Second Vesting Date ("Third Vesting Date").
7.4 The remaining 25 % of the Options granted to a Participant ("Fourth Tranche") mature and may be exercised from the same day of the calendar year following the Third Vesting Date ("Fourth Vesting Date").
7.5 Once the respective vesting date has been reached, each of the tranches just described in the preceding sub sections of this article may be exercised by a Participant, together with other tranches which may have already vested and not yet have been exercised on that date, at any time during each financial year, with exception made for the provisions of the subsequent sub section 7.6.
7.6 Tranches which have vested and have not yet been exercised subsequent to the Fourth Vesting Date may be exercised before and not later than the end of the eighth financial year following that on which the Board of Directors granted the Options (the "Expiry Date").
7.7 Independently of when they are exercised, Options may only be exercised, in relation to each Tranche, for the whole of the Options of which the Tranche is composed. In the case of failure to exercise an entire tranche in the proper manner, inclusive of failure to make payment of the entire

exercise price for it, the exercise shall be considered as not having taken place with regard to the whole of that same tranche.

8. CONDITION FOR THE VESTING AND EXERCISE OF OPTIONS

The vesting of individual tranches of the Options referred to in the preceding point 7, sub sections 1, 2, 3 and 4 and therefore the right to exercise the Options relating to those tranches is subject to the condition that the “net income” resulting from the consolidated financial statements of the Group for each financial year prior to the vesting date for individual tranches of the Options indicated in the preceding point 7 is not less than an amount that the Board shall set when Options are granted, with reference to the result in the medium term business plan forecast for each of the years considered, (“Objective”).

When approving annual budgets the Board may adjust the Objective to comply with any amendments that may be made to company business plans.

9. DIVIDEND ENTITLEMENT OF THE SHARES

The shares purchased by a Participant following the exercise of one or more tranches have normal dividend entitlement.

Shares are made available to a Participant, just as quickly as the administrative formalities will allow, in compliance with the instructions given by the Participant when communicating the decision to exercise the Options.

RECORDATI S.p.A. Attachment 8

DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

Amounts in euro

Type of service	Provider of the service	Fees
Accounting audit	Auditor of Parent Company	139,845
Due diligence	Network of auditor of Parent Company	60,411
Signature on returns and attestations	Auditor of Parent Company	11,500

ATTESTATION IN RESPECT OF THE FINANCIAL STATEMENTS UNDER ARTICLE

154-*BIS* OF LEGISLATIVE DECREE 58/98

1. The undersigned, Giovanni Recordati, in his capacity as the Chief Executive Officer of the Company, and Fritz Squindo, as the Manager responsible for the preparation of the financial statements of Recordati S.p.A., pursuant to the provisions or Article 154-*bis*, clauses 3 and 4, of Legislative Decree 58 of 1998, hereby attest

- the adequacy with respect to the Company structure and
- the effective application,

of the administrative and accounting procedures applied in the preparation of the separate company financial statements at 31 December 2010.

2. They also attest that:

2.1 the separate financial statements at 31 December 2010:

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

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

Milan, 9 March 2011

The Chief Executive Officer

Giovanni Recordati

The Manager responsible for preparing the Company's financial reports

Fritz Squindo