# Interim report first nine months

# 2011

RECORDATI

Recordati, established in 1926,
is a European pharmaceutical group,
listed on the Italian Stock Exchange
(Reuters RECI.MI, Bloomberg REC IM,
ISIN IT 0003828271),
dedicated to the research, development,
manufacturing and marketing of pharmaceuticals
and pharmaceutical chemicals,
with headquarters in Milan, Italy
and operations in the main European countries.

# MANAGEMENT REVIEW

## HIGHLIGHTS

### First nine months 2011

#### REVENUE

| € (thousands) | First nine months 2011 | % | First nine months 2010 | % | Change 2011/2010 | % |
|---|---|---|---|---|---|---|
| TOTAL REVENUE | 580,633 | 100.0 | 548,629 | 100.0 | 32,004 | 5.8 |
| Italy | 171,935 | 29.6 | 151,986 | 27.7 | 19,949 | 13.1 |
| International | 408,698 | 70.4 | 396,643 | 72.3 | 12,055 | 3.0 |

#### KEY CONSOLIDATED P/L DATA

| € (thousands) | First nine months 2011 | % of revenue | First nine months 2010 | % of revenue | Change 2011/2010 | % |
|---|---|---|---|---|---|---|
| Revenue | 580,633 | 100.0 | 548,629 | 100.0 | 32,004 | 5.8 |
| EBITDA(1) | 147,027 | 25.3 | 143,915 | 26.2 | 3,112 | 2.2 |
| Operating income | 128,904 | 22.2 | 123,854 | 22.6 | 5,050 | 4.1 |
| Net income | 92,042 | 15.9 | 87,026 | 15.9 | 5,016 | 5.8 |

(1) Earnings before interest, taxes, depreciation and amortization.

#### KEY CONSOLIDATED B/S DATA

| € (thousands) | 30 September 2011 | 31 December 2010 | Change 2011/2010 | % |
|---|---|---|---|---|
| Net financial position(2) | (29,325) | 45,967 | (75,292) | n.s. |
| Shareholders' equity | 606,346 | 576,006 | 30,340 | 5.3 |

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

# Third quarter 2011

## REVENUE

| € (thousands) | Third quarter 2011 | % | Third quarter 2010 | % | Change 2011/2010 | % |
|---|---|---|---|---|---|---|
| TOTAL REVENUE | 179,614 | 100.0 | 172,366 | 100.0 | 7,248 | 4.2 |
| Italy | 48,038 | 26.7 | 44,628 | 25.9 | 3,410 | 7.6 |
| International | 131,576 | 73.3 | 127,738 | 74.1 | 3,838 | 3.0 |

## KEY CONSOLIDATED P&L DATA

| € (thousands) | Third quarter 2011 | % of revenue | Third quarter 2010 | % of revenue | Change 2011/2010 | % |
|---|---|---|---|---|---|---|
| Revenue | 179,614 | 100.0 | 172,366 | 100.0 | 7,248 | 4.2 |
| EBITDA[1] | 46,611 | 26.0 | 46,003 | 26.7 | 608 | 1.3 |
| Operating income | 40,742 | 22.7 | 40,024 | 23.2 | 718 | 1.8 |
| Net income | 29,689 | 16.5 | 27,818 | 16.1 | 1,871 | 6.7 |

(1) Earnings before interest, taxes, depreciation and amortization.

Consolidated revenue in the first nine months 2011 is € 580.6 million, up by 5.8% compared to the same period of the preceding year. Pharmaceutical sales are € 558.6 million, an increase of 5.5% despite sales of lercanidipine down by 16.8% as a result of the entry of generics into the market following this product's patent expiry in 2010.

Operating income, at 22.2% of sales, is € 128.9 million, an increase of 4.1% over the same period of the preceding year. Selling expenses increase by 7.8% mainly to support the launch of the new products.

Net income at 15.9% of sales is € 92.0 million, an increase of 5.8%, higher than that recorded by operating income thanks to lower interest expenses and a lower tax rate.

Net financial position at 30 September 2011 records a net debt of € 29.3 million, compared to a net cash position at 31 December 2010, following the acquisition of the Turkish company Frik Ilaç and of the new product Procto-Glyvenol® in addition to the payment of the 2010 dividend. Shareholders' equity increases to € 606.3 million.

## COMPANY DEVELOPMENT NEWS

The marketing authorizations, the brand and the rights to the product Procto-Glyvenol® were acquired from Novartis Consumer Health for the following countries: Poland, Russia, Turkey, Romania, Czech Republic, Slovakia, Ukraine, Portugal, the Baltic countries and Cyprus. Procto-Glyvenol® is indicated for the localized treatment of internal and external hemorrhoids and is currently on the market in the countries included in the agreement.

The European roll-out of Livazo® (pitavastatin) started with its launches in Spain, by Recordati España and its co-marketer Esteve, and in Portugal, by Jaba Recordati and its co-marketer Delta. Pitavastatin, 1mg, 2mg and 4mg tablets, is a novel statin indicated for the reduction of elevated total and LDL cholesterol in adult patients with primary hypercholesterolaemia and combined (mixed) dyslipidaemia when response to diet and other non-pharmacological measures is inadequate. This medicinal product promises to be an effective new treatment for dyslipidemia, a condition associated with an increased risk for heart disease and stroke. The launch of Livazo® and Alipza® in Spain and in Portugal represents the first step in the commercialization in Europe of this new specialty.

Orphan Europe, the group's wholly-owned subsidiary dedicated to treatments for rare diseases, received an approval to extend the use of Carbaglu® (carglumic acid) to treat hyperammonaemia due to one of the three main organic acidaemias (isovaleric acidaemia, methylmalonic acidaemia or propionic acidaemia). Carbaglu® has orphan drug designation and since 2003 is indicated in the treatment of NAGS deficiency. Organic acidaemias (OA) are usually diagnosed in infancy, can be fatal, and affect especially the central nervous system. They are a group of inherited rare metabolic disorders which disrupt physiologic amino acid degradation causing a build-up of organic acids, which in turn may inhibit the urea cycle function, leading to hyperammonaemia. Acute hyperammonaemia due to OA represents a true medical emergency and Carbaglu®, by restoring the urea cycle and thus reducing blood ammonia levels, prevents brain damage.

In September, the acquisition of 100% of the share capital of Dr. F. Frik ilaç A.s., a Turkish pharmaceutical company with headquarters in Istanbul, was successfully concluded, following, among others, clearance from the relevant competition authority in Turkey. The value of the transaction (enterprise value) is of around $ 130 million of which $ 74,5 million were paid at the closing. Of the remaining balance a portion will be paid in *tranches* on future due dates and a portion comprises the company's debt. This is the second acquisition Recordati has made in Turkey, where it acquired Yeni ilaç in December 2008. Frik ilaç has been one of the fastest growing pharmaceutical companies in Turkey. The company has a core portfolio of original prescription products both in primary care and specialist areas and employs 350 personnel, of which around 260 are medical representatives.

## REVIEW OF OPERATIONS

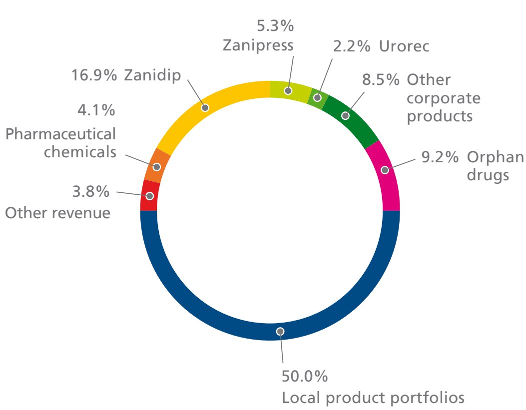
The breakdown of the first nine months 2011 sales is as follows:

| € (thousands) | First nine months 2011 | First nine months 2010 | Change 2011/2010 | % |
|---|---|---|---|---|
| Italy | 168,528 | 149,991 | 18,537 | 12.4 |
| France | 96,752 | 104,966 | (8,214) | (7.8) |
| Germany | 49,404 | 45,736 | 3,668 | 8.0 |
| Portugal | 25,823 | 27,990 | (2,167) | (7.7) |
| Spain | 23,293 | 22,157 | 1,136 | 5.1 |
| United Kingdom | 5,837 | 7,331 | (1,494) | (20.4) |
| Other Western European countries | 14,500 | 12,345 | 2,155 | 17.5 |
| Russia, Turkey, Czech Rep., other C.E.E. countries | 61,404 | 51,361 | 10,043 | 19.6 |
| Other international sales | 113,043 | 107,756 | 5,287 | 4.9 |
| Total pharmaceutical sales | 558,584 | 529,633 | 28,951 | 5.5 |
| Pharmaceutical chemicals sales | 22,049 | 18,996 | 3,053 | 16.1 |
| TOTAL SALES | 580,633 | 548,629 | 32,004 | 5.8 |

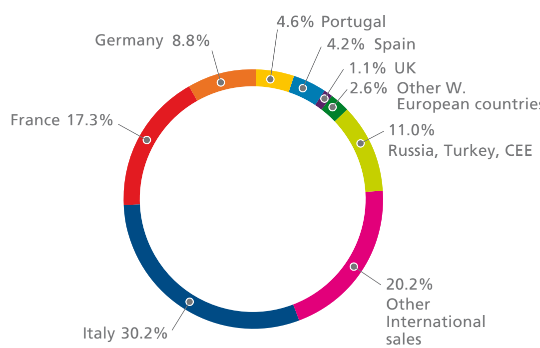
Both years include sales as well as other income.

Pharmaceutical sales are € 558.6 million, up by 5.5%. International pharmaceutical sales grow by 2.7% and those in Italy by 12.4%. Pharmaceutical chemicals sales are € 22.0 million, growing by 16.1%, and now represent 3.8% of total revenues.

### SALES BY BUSINESS:




### PHARMACEUTICAL SALES:



Zanidip® is a specialty containing lercanidipine, Recordati's original calcium channel blocker for the treatment of hypertension. Our lercanidipine based products are sold directly to the market by our own marketing organizations in the five main European countries as well as in Ireland, Greece, Portugal and Turkey. In the other markets they are sold by licensees, and in some of the aforementioned ones co-marketing agreements are in place. Following the expiry of the lercanidipine patent in 2010 competing generic versions manufactured by other producers are now marketed alongside the original Zanidip® and the other brands under which Recordati's lercanidipine based products are sold.

| € (thousands) | First nine months 2011 | First nine months 2010 | Change 2011/2010 | % |
|---|---|---|---|---|
| Direct sales | 54,230 | 66,405 | (12,175) | (18.3) |
| Sales to licensees | 43,815 | 51,367 | (7,552) | (14.7) |
| Total lercanidipine sales | 98,045 | 117,772 | (19,727) | (16.8) |

The reduction of direct sales is due mainly to the lower sales in Italy (-17.6%) and in France (-35.3%) principally due to lower sales volumes as a result of generic competition. Direct sales in the other European countries have suffered an overall reduction of 3.8% while sales to licensees, which represent 44.7% of total lercanidipine sales, are down by 14.7%.

Zanipress® is an original specialty also indicated for the treatment of hypertension developed by Recordati which consists of a fixed combination of lercanidipine with enalapril, a well known drug belonging to the angiotensin conversion enzyme inhibitor class (ACE inhibitor). This product is sold directly by Recordati and /or by its licensees in Australia, Austria, Belgium, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Lebanon, Norway, the Netherlands, Portugal, South Africa and Spain. This product is now available also in Italy where it was launched by Recordati and Innova Pharma with the brands Zanipril® and Lercaprel® and by co-marketers sigma tau and Polifarma with the brands Coripren® and Atover® respectively.

| € (thousands) | First nine months 2011 | First nine months 2010 | Change 2011/2010 | % |
|---|---|---|---|---|
| Direct sales | 19,021 | 14,161 | 4,860 | 34.3 |
| Sales to licensees | 11,911 | 8,636 | 3,275 | 37.9 |
| Total lercanidipine+enalapril sales | 30,932 | 22,797 | 8,135 | 35.7 |

Urorec® (silodosin) is a new specialty indicated for the treatment of symptoms associated with benign prostatic hyperplasia (BPH). Initial launches of Urorec® were made during 2010 and continued during the first nine months of 2011 which includes the launch in Italy. Currently the product is already available in Belgium, France, Germany, Greece, Ireland, Italy, Lebanon, the Netherlands, Portugal, Romania, Russia and C.I.S., and Spain with sales of € 12.8 million in the first nine months. Further launches are planned during the next months.

The roll-out Livazo® (pitavastatin), a novel statin indicated for the reduction of elevated total and LDL cholesterol, started with the launches in Spain and in Portugal. Sales during the period are € 5.2 million.

In the first nine months of 2011 sales of other corporate products which comprise Lomexin® (fenticonazole), Urispas® (flavoxate), Kentera® (oxybutynin transdermal patch), TransAct® LAT (flurbiprofen transdermal patch), rupatadine (Alergoliber®, Rupafin® e Wystamm®), frovatriptan (Isimig® e Pitunal®), Lopresor® (metoprolol) and Procto-Glyvenol® totaled € 44.2 million, up by 9.1%.

Our specialties indicated for the treatment of rare and orphan diseases, marketed directly throughout Europe, in the Middle East and in the U.S.A., and through partners in other parts of the world, generated sales of € 53.2 million in the first nine months of 2011, an increase of 18.2% due mainly to the strong growth of Carbaglu® (carglumic acid).

Sales of pharmaceuticals in Italy are up by 12.4%, as compared to the same period of the preceding year, driven by the growth of Entact® (escitalopram), indicated for the treatment of depression, of Peptazol® (pantoprazole) for the treatment of ulcers, and of the OTC line, in addition to sales of the new entry Cardicor® (bisoprolol) following the license agreement signed in 2010 with Merck KGaA. Cardicor® belongs to the beta-blocker class of drugs and is indicated for the treatment of chronic, stable, moderate to severe heart failure. In the second quarter Urorec® (silodosin) and Zanipril®/Lercaprel® (lercanidipine+enalapril) were launched and milestones of € 4.6 million were received under the co-marketing agreements for the latter product.

Pharmaceutical sales in France are down by 7.8% due to the sales decrease of Zanidip® (lercanidipine) which was partly offset by the growth in sales of Zanextra® (lercanidipine+enalapril), of methadone and of Wystamm® (rupatadine), a systemic antihistamine, as well as by sales of Urorec® (silodosin) launched in the last quarter 2010.

In Germany sales are up by 8.0% thanks to the sales growth of Zanipress® (lercanidipine+enalapril) and of Ortoton® (metocarbamol), in addition to sales generated by Urorec® (silodosin), which was launched on the German market in the second quarter 2010, and by Lopresor® (metoprolol). Increasing sales in Germany of our treatment for rare diseases also contributed to growth.

Sales in Portugal by our subsidiaries are down by 7.7% due to the termination of the Duagen® (dutasteride) license and decreasing Zanidip® (lercanidipine) sales. On the other hand, Zanipress® (lercanidipine+enalapril) performed well. Urorec® (silodosin) was launched in Portugal in January and Livazo® (pitavastatin) in the second quarter.

In Spain sales increase by 5.1% thanks to the growth of Zanipress® (lercanidipine+enalapril) and of Cidine® (cinitapride) in addition to sales of Urorec® (silodosin), launched in Spain during September 2010, and of Livazo® (pitavastatin) launched in May of this year. Sales of the products for the treatment of rare diseases are growing significantly in this market.

Sales in the United Kingdom are down by 20.4% due to the drop in Zanidip® (lercanidipine) sales and the cessation of direct marketing of Kentera® (oxybutynin transdermal patch). Kentera® has been licensed-out to another pharmaceutical company and therefore sales of this product are now included in sales to licensees.

Sales in other countries in Western Europe, up by 17.5%, comprise sales of products for the treatment of rare diseases in a number of countries and sales generated by Recordati Ireland and by Recordati Hellas Pharmaceuticals in their respective local markets. Sales of products for the treatment of rare diseases in these countries is growing significantly.

Revenue generated in Russia and in the other countries within the Commonwealth of Independent States (C.I.S.) is € 27.6 million, up by 39.0% over the same period of the preceding year thanks to the strong growth of all products in the portfolio and to initial sales of fenticonazole and of Urorec®.

Sales in Turkey recorded by Yeni Recordati are € 19.3 million, are down by 4.7% due to an unfavorable currency exchange rate and  to a change in the recognition of the contribution due to the national healthcare system which was previously considered a variable selling expense. On a like-for-like basis in Turkish lira sales grow by 19.1% over the same period of the preceding year. Corporate products Lercadip® (lercanidipine) and Gyno-Lomexin® (fenticonazole) are performing well and sales for the period include revenues from Procto-Glyvenol®, the new product for the treatment of hemorrhoids acquired in January.

Sales generated by Herbacos Recordati in the Czech and Slovak Republics are € 10.5 million, up by 20.4% compared to the same period of the preceding year driven by the good performance of the local products and by revenues from the launch of Procto-Glyvenol® and Kentera®.

In Romania our subsidiary Recordati România and has initiated sales of corporate products Urorec® (silodosin), Lomexin® (fenticonazole) and Procto-Glyvenol®.

Other international sales grow by 5.6% and comprise the sales to and other revenues from our licensees of our corporate drugs as well as Bouchara Recordati's export sales. The reduction in lercanidipine sales was more than offset by sales of silodosin, lercanidipine+enalapril and pitavastatin to our licensees. Sales of the products for the treatment of rare diseases grow by 83.4%.

# FINANCIAL REVIEW

## INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus the first nine months of 2010:

| € (thousands) | First nine months 2011 | % of revenue | First nine months 2010 | % of revenue | Change 2011/2010 | % |
|---|---|---|---|---|---|---|
| **Revenue** | 580,633 | 100.0 | 548,629 | 100.0 | 32,004 | 5.8 |
| Cost of sales | (196,845) | (33.9) | (179,490) | (32.7) | (17,355) | 9.7 |
| **Gross profit** | 383,788 | 66.1 | 369,139 | 67.3 | 14,649 | 4.0 |
| Selling expenses | (176,624) | (30.4) | (163,913) | (29.9) | (12,711) | 7.8 |
| R&D expenses | (43,961) | (7.6) | (46,021) | (8.4) | 2,060 | (4.5) |
| G&A expenses | (31,590) | (5.4) | (31,182) | (5.7) | (408) | 1.3 |
| Other income (expense), net | (2,709) | (0.5) | (4,169) | (0.8) | 1,460 | (35.0) |
| **Operating income** | 128,904 | 22.2 | 123,854 | 22.6 | 5,050 | 4.1 |
| Financial income (expense), net | (2.825) | (0.5) | (3,273) | (0.6) | 448 | (13.7) |
| **Pretax income** | 126,079 | 21.7 | 120,581 | 22.0 | 5,498 | 4.6 |
| Provision for income taxes | (34,037) | (5.9) | (33,555) | (6.1) | (482) | 1.4 |
| **Net income** | 92,042 | 15.9 | 87,026 | 15.9 | 5,016 | 5.8 |
| Attributable to: | | | | | | |
| Equity holders of the parent | 92,034 | 15.9 | 87,021 | 15.9 | 5,013 | 5.8 |
| Minority interests | 8 | 0.0 | 5 | 0.0 | 3 | 60.0 |

Revenue for the period is € 580.6 million, an increase of € 32.0 million compared to the first nine months of 2010. For a detailed analysis please refer to the preceding "Review of Operations".

Gross profit is € 383.8 million with a margin of 66.1% on sales, down compared to that of the first nine months of 2010 due to the lower proportion of lercanidipine to total product sales.

Selling expenses increase compared to the same period of the preceding year mainly due to marketing expenses incurred to support the launch of new products. R&D expenses are € 44.0 million, a reduction as compared to the same period of the preceding year due mainly to lower amortization charges. G&A expenses are up by 1.3%.

Other expenses net of other income are € 2.7 million and include the pay-back due to AIFA (the Italian medicines agency) in substitution for the 5% price reduction on selected products and costs associated with the acquisition of the Turkish company Frik Ilaç.

Net financial charges are € 2.8 million (€ 3.3 million in the same period of 2010), a reduction as compared to the first nine months of 2010 due to currency exchange gains realized.

The effective tax rate during the period is 27.0%, an improvement compared to that in the same period of the preceding year.

Net income at 15.9% of sales is € 92.0 million, an increase of 5.8% over the same period of the preceding year. The growth is higher than that recorded by operating income thanks to lower financial charges and a lower tax rate.

## NET FINANCIAL POSITION

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

| € (thousands) | 30 September 2011 | 31 December 2010 | Change 2011/2010 | % |
|---|---|---|---|---|
| Cash and short-term financial investments | 162,447 | 161,680 | 767 | 0.5 |
| Bank overdrafts and short-term loans | (23,207) | (3,506) | (19,701) | n.s. |
| Loans – due within one year [(1)] | (26,662) | (16,265) | (10,397) | 63.9 |
| **Net liquid assets** | **112,578** | **141,909** | **(29,331)** | **(20.7)** |
| Loans – due after one year[(1)] | (141,903) | (95,942) | (45,961) | 47.9 |
| **Net financial position** | **(29,325)** | **45,967** | **(75,292)** | **n.s.** |

(1) Includes the fair value of the hedging derivatives (fair value hedge).

At 30 September 2011 the net financial position shows a net debt of € 29.3 million compared to a net cash position of € 46.0 million at 31 December 2010. During the period dividends were distributed for a total of € 54.6 million, € 32.0 million were paid to Novartis Consumer Health for the acquisition of the product Procto-Glyvenol® and the Turkish company Frik Ilaç was acquired which involved a cash outlay of $ 74.5 million and the undertaking of the company's debt for an amount equivalent to € 29.8 million.

## RELATED PARTY TRANSACTIONS

Tax liabilities shown in the consolidated balance sheet at 30 September 2011 include those payable to the controlling company Fimei S.p.A. for an amount of € 4.2 million. This amount refers to tax liabilities computed by the parent Recordati S.p.A. based on estimated taxable income and transferred to the controlling company consequent to the participation in a tax consolidation grouping under tax laws in Italy.

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

## THIRD QUARTER 2011 REVIEW

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus the third quarter of 2010:

| € (thousands) | Third quarter 2011 | % of revenue | Third quarter 2010 | % of revenue | Change 2011/2010 | % |
|---|---|---|---|---|---|---|
| **Revenue** | **179,614** | **100.0** | **172,366** | **100.0** | **7,248** | **4.2** |
| Cost of sales | (63,306) | (35.2) | (58,100) | (33.7) | (5,206) | 9.0 |
| **Gross profit** | **116,308** | **64.8** | **114,266** | **66.3** | **2,042** | **1.8** |
| Selling expenses | (50,921) | (28.4) | (50,096) | (29.1) | (825) | 1.6 |
| R&D expenses | (13,011) | (7.2) | (13,154) | (7.6) | 143 | (1.1) |
| G&A expenses | (9,545) | (5.3) | (9,856) | (5.7) | 311 | (3.2) |
| Other income (expense), net | (2,089) | (1.2) | (1,136) | (0.7) | (953) | 83.9 |
| **Operating income** | **40,742** | **22.7** | **40,024** | **23.2** | **718** | **1.8** |
| Financial income (expense), net | (545) | (0.3) | (1,890) | (1.1) | 1,345 | (71.2) |
| **Pretax income** | **40,197** | **22.4** | **38,134** | **22.1** | **2,063** | **5.4** |
| Provision for income taxes | (10,508) | (5.9) | (10,316) | (6.0) | (192) | 1.9 |
| **Net income** | **29,689** | **16.5** | **27,818** | **16.1** | **1,871** | **6.7** |
| Attributable to: | | | | | | |
| Equity holders of the parent | 29,687 | 16.5 | 27,815 | 16.1 | 1,872 | 6.7 |
| Minority interests | 2 | 0.0 | 3 | 0.0 | (1) | (33.3) |

Revenue for the period is € 179.6 million, an increase of 4.2% compared to the third quarter 2010. Pharmaceutical sales are € 173.1 million, up 4.1%. Sales of pharmaceutical chemicals are € 6.5 million, growing by 6.2%.

Gross profit is € 116.3 million with a margin of 64.8% on sales, down compared to that of the third quarter 2010 due to the lower proportion of lercanidipine to total product sales.

Selling expenses increase compared to the same period of the preceding year mainly due to marketing expenses incurred to support the launch of new products. R&D expenses are € 13.0 million, a reduction as compared to the same period of the preceding year due mainly to lower amortization charges. G&A expenses are down by 3.2%.

Other expenses net of other income are € 2.1 million and include the pay-back due to AIFA (the Italian medicines agency) in substitution for the 5% price reduction on selected products and costs associated with the acquisition of the Turkish company Frik Ilaç.

Net financial charges are € 0.5 million (€ 1.9 million in the same period of 2010), an increase over the third quarter of 2010 due to currency exchange gains realized.

The effective tax rate during the period is 26.1%, a reduction compared with that in the same period of the preceding year.

Net income at 16.5% of sales is € 29.7 million, an increase of 6.7% over the same period of the preceding year.

## SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

The group's business performance was in line with expectations during October. For the full year 2011 we expect to achieve revenues above € 750 million, operating income above € 160 million and net income above € 110 million.

Milan, 25 October 2011
Giovanni Recordati
*Chairman and Chief Executive Officer*

# CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 30 SEPTEMBER 2011

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

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2011

## INCOME STATEMENT

| € (thousands) | First nine months 2011 | First nine months 2010 |
|---|---|---|
| Revenue | 580,633 | 548,629 |
| Cost of sales | (196,845) | (179,490) |
| Gross profit | 383,788 | 369,139 |
| Selling expenses | (176,624) | (163,913) |
| R&D expenses | (43,961) | (46,021) |
| G&A expenses | (31,590) | (31,182) |
| Other income (expense), net | (2,709) | (4,169) |
| Operating income | 128,904 | 123,854 |
| Financial income (expense), net | (2,825) | (3,273) |
| Pretax income | 126,079 | 120,581 |
| Provision for income taxes | (34,037) | (33,555) |
| Net income | 92,042 | 87,026 |
| Attributable to: | | |
| Equity holders of the parent | 92,034 | 87,021 |
| Minority interests | 8 | 5 |
| Earnings per share | | |
| Basic | € 0.462 | € 0.433 |
| Diluted | € 0.439 | € 0.420 |

Earnings per share (EPS) are based on average shares outstanding during each year, 199,317,295 in 2011 and 198,022,888 in 2010, net of average treasury stock which amounted to 9,807,861 shares in 2011 and to 11,102,268 shares in 2010.
Diluted earnings per share is calculated taking into account stock options granted to employees.

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 30 SEPTEMBER 2011

## ASSETS

| € (thousands) | 30 September 2011 | 31 December 2010 |
|---|---|---|
| Non-current assets | | |
| Property, plant and equipment | 55,419 | 53,017 |
| Intangible assets | 139,280 | 113,512 |
| Goodwill | 372,029 | 305,741 |
| Other investments | 1,930 | 1,930 |
| Other non-current assets | 1,253 | 2,485 |
| Deferred tax assets | 25,127 | 20,221 |
| Total non-current assets | 595,038 | 496,906 |
| Current assets | | |
| Inventories | 98,990 | 85,190 |
| Trade receivables | 150,108 | 126,575 |
| Other receivables | 19,577 | 26,734 |
| Other current assets | 4,488 | 2,825 |
| Fair value of hedging derivatives *(fair value hedge)* | 1,824 | 1,164 |
| Short-term financial investments, cash and cash equivalents | 162,447 | 161,680 |
| Total current assets | 437,434 | 404,168 |
| Total assets | 1,032,472 | 901,074 |

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 30 SEPTEMBER 2011

## EQUITY AND LIABILITIES

| € (thousands) | 30 September 2011 | 31 December 2010 |
|---|---|---|
| **Shareholders' equity** | | |
| Share capital | 26,141 | 26,141 |
| Additional paid-in capital | 83,719 | 83,719 |
| Treasury stock | (50,511) | (52,579) |
| Hedging reserve *(cash flow hedge)* | (4,599) | (4,299) |
| Translation reserve | (11,013) | (592) |
| Other reserves | 24,782 | 25,733 |
| Retained earnings | 445,757 | 389,284 |
| Net income for the year | 92,034 | 108,571 |
| **Group shareholders' equity** | **606,310** | **575,978** |
| Minority interest | 36 | 28 |
| **Shareholders' equity** | **606,346** | **576,006** |
| **Non-current liabilities** | | |
| Loans – due after one year | 143,589 | 96,767 |
| Staff leaving indemnities | 18,791 | 19,259 |
| Deferred tax liabilities | 5,858 | 5,699 |
| Other non-current liabilities | 4,411 | 606 |
| **Total non-current liabilities** | **172,649** | **122,331** |
| **Current liabilities** | | |
| Trade payables | 102,906 | 93,068 |
| Other payables | 54,769 | 53,536 |
| Tax liabilities | 19,772 | 9,691 |
| Other current liabilities | 1,308 | 620 |
| Provisions | 20,116 | 21,413 |
| Fair value of hedging derivatives *(cash flow hedge)* | 4,599 | 4,299 |
| Loans – due within one year | 26,800 | 16,604 |
| Bank overdrafts and short-term loans | 23,207 | 3,506 |
| **Total current liabilities** | **253,477** | **202,737** |
| **Total equity and liabilities** | **1,032,472** | **901,074** |

RECORDATI S.P.A. AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2011

| € (thousands) | First nine months 2011 | First nine months 2010 |
|---|---|---|
| Net income for the period | 92,042 | 87,026 |
| Gains/(losses) on cash flow hedges | (300) | (1,695) |
| Gains/(losses) on translation of foreign financial statements | (10,421) | 6,282 |
| Income and expense for the period recognized directly in equity | (10,721) | 4,587 |
| Comprehensive income for the period | 81,321 | 91,613 |
| Attributable to: | | |
| Equity holders of the parent | 81,313 | 91,608 |
| Minority interests | 8 | 5 |

## RECORDATI S.P.A. AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CHANGES IN GROUP SHAREHOLDERS' EQUITY

| € (thousands) | Share capital | Additional paid-in capital | Treasury stock | Hedging reserve | Translation reserve | Other reserves | Retained earnings | Net income for the period | Minority Interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2009** | **26,141** | **83,719** | **(59,103)** | **(4,040)** | **(6,178)** | **25,025** | **332,836** | **110,560** | **19** | **508,979** |
| Allocation of 2009 net income: | | | | | | | | | | |
| - Dividends | | | | | | | | (54,355) | | **(54,355)** |
| - Retained earnings | | | | | | 8 | 56,197 | (56,205) | | |
| Increase in the reserve for share based payments | | | | | | 761 | 206 | | | **967** |
| Sales of treasury stock | | | 3,974 | | | | (839) | | | **3,135** |
| Comprehensive income for the year | | | | (1,695) | 6,82 | | | 87,021 | 5 | **91,613** |
| **Balance at 30 September 2010** | **26,141** | **83,719** | **(55,129)** | **(5,735)** | **104** | **25,794** | **388,400** | **87,021** | **24** | **550,339** |
| **Balance at 31 December 2010** | **26,141** | **83,719** | **(52,579)** | **(4,299)** | **(592)** | **25,733** | **389,284** | **108,571** | **28** | **576,006** |
| Allocation of 2010 net income: | | | | | | | | | | |
| - Dividends | | | | | | | | (54,613) | | **(54,613)** |
| - Retained earnings | | | | | | | 53,958 | (53,958) | | |
| Increase in the reserve for share based payments | | | | | | (951) | 2,274 | | | **1,323** |
| Purchase of own shares | | | (13,127) | | | | | | | **(13,127)** |
| Disposal of own shares | | | 15,195 | | | | 241 | | | **15,436** |
| Comprehensive income for the year | | | | (300) | (10,421) | | | 92,034 | 8 | **81,321** |
| Balance at 30 September 2011 | 26,141 | 83,719 | (50,511) | (4,599) | (11,013) | 24,782 | 445,757 | 92,034 | 36 | 606,346 |

## RECORDATI S.P.A. AND SUBSIDIARIES
## CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2011

| € (thousands) | First nine months 2011 | First nine months 2010 |
|---|---|---|
| Operating activities | | |
| Cash flow | | |
| Net Income | 92,042 | 87,026 |
| Depreciation of property, plant and equipment | 7,862 | 7,992 |
| Amortization of intangible assets | 10,261 | 12,069 |
| **Total cash flow** | **110,165** | **107,087** |
| (Increase)/decrease in deferred tax assets | (817) | 1,551 |
| Increase/(decrease) in staff leaving indemnities | (518) | (560) |
| Increase/(decrease) in other non-current liabilities | 3,964 | (5,665) |
| | **112,794** | **102,413** |
| Changes in working capital | | |
| Trade receivables | (15,741) | 6,716 |
| Inventories | (8,297) | 2,910 |
| Other receivables and other current assets | 8,337 | 331 |
| Trade payables | 339 | 7,655 |
| Tax liabilities | 9,106 | 891 |
| Other payables and other current liabilities | 756 | (2,322) |
| Provisions | (1,901) | (1,790) |
| **Changes in working capital** | **(7,401)** | **14,391** |
| **Net cash from operating activities** | **105,393** | **116,804** |
| Investing activities | | |
| Net (investments)/disposals in property, plant and equipment | (7,002) | (6,040) |
| Net (investments)/disposals in intangible assets | (33,978) | (25,254) |
| Net (increase)/decrease in equity investments | (63,354)(1) | (300)(2) |
| Net (increase)/decrease in other equity investments | 0 | 1,792 |
| Net (increase)/decrease in other non-current receivables | 1,250 | 1,328 |
| **Net cash used in investing activities** | **(103,084)** | **(28,474)** |
| Financing activities | | |
| Net financial position of acquired companies | (11,003) | 55 |
| Medium/long term loans granted | 44,743 | 0 |
| Re-payment of loans | (690) | (1,945) |
| (Increase)/decrease in treasury stock | 2,309 | 3,135 |
| Effect on shareholders' equity of application of IAS/IFRS | 1,323 | 967 |
| Dividends paid | (54,613) | (54,355) |
| Change in translation reserve | (3,312) | 1,721 |
| **Net cash from/(used in) financing activities** | **(21,243)** | **(50,422)** |
| **Changes in short-term financial position** | **(18,934)** | **37,908** |
| Short-term financial position at beginning of year * | 158,174 | 64,923 |
| Short-term financial position at end of period * | 139,240 | 102,831 |

* Includes cash and cash equivalents net of bank overdrafts and short-term loans.
(1) Acquisition of **Frik Ilaç**: Working capital (3,895), Cash and cash equivalents 11,003, Fixed assets (78,713), Medium and long-term loans 12,305, Deferred tax assets (4,089), Termination indemnity and other benefits 50. Acquisition of **FIC** and **FIC Médical**: Change in purchase price (15).
(2) Acquisition of **Artmed International**: Working capital 52, Cash and cash equivalents (55), Fixed assets (322), Medium and long-term loans 25.

# NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2011

## 1. GENERAL

The consolidated condensed financial statements at 30 September 2011 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in attachment 1. In the first nine months of 2011 the consolidation perimeter changed following the acquisition of the Turkish pharmaceutical company Dr. F. Frik Ilaç A.S. in September. The recognition of this company in the accounts is not yet definite, and could be subject to change as allowed by IFRS 3, due to the short period of time elapsed since the closing of the operation and the need to acquire further information to establish the fair value of the company's assets and liabilities. The balance sheet of the newly acquired company was consolidated at 30 September 2011 while the profit and loss accounts will be consolidated as from 1 October 2011. Furthermore, the consolidation perimeter changed following the reorganization of the company structure in France through the merger by incorporation of the companies Orphan Europe Holding S.A. and Orphan Europe Operations S.a.s. into Recordati Orphan Drugs S.a.s. and the establishment of Recordati Polska sp. z.o.o. in Poland. The company ArtMed International S.r.l., which was acquired last year, was redenominated Recordati România S.r.l..

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The first nine months consolidated financial statements were prepared in accordance with the IAS 34 requirements for interim reporting. The statements do not include the full information required for the annual financial statements and must therefore be read together with the annual report for the full year ended 31 December 2010, prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and in compliance with the European Union's guidelines on the preparation of consolidated financial statements.

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

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

## 3. REVENUE

Net revenue for the first nine months of 2011 is € 580.6 million (€ 548.6 million in the same period of the preceding year) and can be broken down as follows:

| € (thousands) | First nine months 2011 | First nine months 2010 | Change 2011/2010 |
|---|---|---|---|
| Net sales | 557,077 | 524,151 | 32,926 |
| Royalties | 4,772 | 6,156 | (1,384) |
| Up-front payments | 10,044 | 12,881 | (2,837) |
| Other revenue | 8,740 | 5,441 | 3,299 |
| **Total revenue** | **580,633** | **548,629** | **32,004** |

## 4. OPERATING EXPENSES

Overall operating expenses in the first nine months of 2011 are € 451.7 million, an increase as compared to the € 424.8 million in the same period of the preceding year and are analyzed by function. Personnel costs are € 140.6 million and include a cost for stock options of € 1.3 million. Total depreciation and amortization charges are € 18.1 million, down by € 1.9 million compared to the first nine months of 2010.

The following table summarizes the main components of other income (expense) which comprises non-recurring events, operations and matters which are not often repeated in the ordinary course of business.

| € (thousands) | First nine months 2011 | First nine months 2010 | Change 2011/2010 |
|---|---|---|---|
| Amounts due to the Italian public healthcare scheme | (1,667) | (2,612) | 945 |
| Costs related to the acquisition of Frik Ilaç | (1,515) | 0 | (1,515) |
| Others | 473 | (1,557) | 2,030 |
| **Total other income (expense), net** | **(2,709)** | **(4,169)** | **1,460** |

The amount due to the Italian public healthcare scheme refers to the pay back due to the Italian medicines agency (AIFA) in substitution for the 5% price reduction on selected products. This mechanism which was already applied during previous years, was extended to 2011. The amount due is based on the sales of the selected products during 2010 and is spread equally over the year.

## 5. FINANCIAL INCOME AND EXPENSE

In the first nine months of 2011 and in the same period of 2010 financial items record a net expense of € 2.8 million and € 3.3 million respectively which are comprised as follows:

| € (thousands) | First nine months 2011 | First nine months 2010 | Change 2011/2010 |
|---|---|---|---|
| Exchange gains (losses) | 769 | 222 | 547 |
| Interest expense on loans | (4,199) | (2,982) | (1,217) |
| Net interest income (expense) on short-term financial position | 995 | (64) | 1,059 |
| Interest cost in respect of defined benefit plans | (390) | (449) | 59 |
| **Total financial income (expense), net** | **(2,825)** | **(3,273)** | **448** |

The increase in interest expense is mainly due to the loan agreement with Centrobanca undersigned by the Parent Company to fund a three year research and investment program.

The improvement of the net interest (expense) on the short-term net financial position is mainly due to the increase in amounts invested and to a more efficient use of the liquidity within the group.

The change in fair value of hedging derivatives is positive by € 0.7 million and refers to the measurement of the cross-currency interest rate swap covering the series of long term senior unsecured notes privately placed in 2004 with the objective of eliminating the exchange risk linked to the *tranches* denominated in U.S. dollars and in pounds sterling. This amount is equivalent to the change in the fair value of the underlying debt as compared to its nominal value with a combined zero effect on the income statement as the transaction is perfectly hedged.

## 6. PROPERTY, PLANT AND EQUIPMENT

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

| € (thousands) | Land & buildings | Plant & machinery | Other equipment | Advances/ construction in progress | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at 31.12.10 | 42,056 | 163,950 | 42,975 | 3,867 | 252,848 |
| Additions | 103 | 1,344 | 1,257 | 4,587 | 7,291 |
| Disposals | 0 | (40) | (561) | 0 | (601) |
| Changes in reporting entities | 2,642 | 0 | 1,433 | 0 | 4,0765 |
| Other changes | 288 | 806 | 609 | (2,890) | (1,187) |
| **Balance at 30.09.11** | **45,089** | **166,059** | **45,714** | **5,564** | **262,426** |
| Accumulated depreciation | | | | | |
| Balance at 31.12.10 | 24,974 | 138,955 | 35,902 | 0 | 199,831 |
| Additions | 1,084 | 5,426 | 1,352 | 0 | 7,862 |
| Disposals | 0 | (36) | (548) | 0 | (584) |
| Changes in reporting entities | 86 | 0 | 728 | 0 | 813 |
| Other changes | 1 | (834) | (82) | 0 | (915) |
| **Balance at 30.09.11** | **26,144** | **143,511** | **37,352** | **0** | **207,007** |
| Carrying amount at | | | | | |
| 30 September 2011 | 18,945 | 22,549 | 8,361 | 5,564 | 55,419 |
| 31 December 2010 | 17,082 | 24,995 | 7,073 | 3,867 | 53,017 |

The additions during the period refer mainly to investments in the Italian plants and in the headquarters building.

## 7. INTANGIBLE ASSETS

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

| € (thousands) | Patent rights and marketing authorizations | Distribution, license, trademark and similar rights | Other | Advance payments | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at 31.12.10 | 106,812 | 111,986 | 14,792 | 12,376 | 245,966 |
| Additions | 32,072 | 1,594 | 87 | 354 | 34,107 |
| Disposals | (21) | (114) | 0 | 0 | (135) |
| Changes in reporting entities | 0 | 1,630 | 755 | 0 | 2.385 |
| Other changes | (157) | 12,216 | (18) | (12,160) | (119) |
| **Balance at 30.09.11** | **138,706** | **127,312** | **15,616** | **570** | **282,204** |
| Accumulated amortization | | | | | |
| Balance at 31.12.10 | 60,029 | 57,820 | 14,605 | 0 | 132,454 |
| Additions | 3,799 | 6,432 | 30 | 0 | 10,261 |
| Disposals | (21) | (104) | 0 | 0 | (125) |
| Changes in reporting entities | 0 | 166 | 168 | 0 | 334 |
| Other changes | 27 | (24) | (3) | 0 | 0 |
| **Balance at 30.09.11** | **63,834** | **64,290** | **14,800** | **0** | **142,924** |
| Carrying amount at | | | | | |
| 30 September 2011 | 74,872 | 63,022 | 816 | 570 | 139,280 |
| 31 December 2010 | 46,783 | 54,166 | 187 | 12,376 | 113,512 |

During the period the marketing authorizations, the brand and the rights to the product Procto-Glyvenol® were acquired from Novartis Consumer Health for an amount of € 32.0 million. The additions to licenses comprise an amount of € 1.0 million covering the renewal of the license to Adagen® by sigma tau.

## 8. GOODWILL

Net goodwill at 30 September 2011, amounting to € 372.0 million, relates to the following acquisitions, which represent the same number of cash generating units:

- Doms Adrian/companies belonging to the Bouchara group/ FIC and FIC Médical: € 57.7 million;
- Merckle Recordati: € 48.8 million;
- Companies belonging to the Jaba group: € 32.8 million;
- the Orphan Europe group: € 110.6 million;
- Yeni Ilaç: € 34.2 million;
- Herbacos-Bofarma: € 14.3 million;
- ArtMed International: € 0.2 million;
- Frik Ilaç per € 73.4.

The recognition of goodwill related to the acquisition of Frik Ilaç is not yet definite, and could be subject to change as allowed by IFRS 3. Goodwill related to Yeni Ilaç, to Herbacos-Bofarma and to ArtMed International is calculated in local currency and converted into Euro at the period-end exchange rate. The conversion of Herbacos-Bofarma's and ArtMed Intermantional's goodwill resulted in a comprehensive increase of € 0.2 million as compared to 31 December 2010, while the conversion of Yeni Ilaç's goodwill resulted in a decrease of € 7.3 million.

In compliance with IFRS 3 goodwill is no longer amortized. Instead, it shall be tested for impairment on an annual basis or more frequently if specific events or circumstances indicate a possible loss of value. During the period no events or circumstances arose to indicate possible value loss related to any of the abovementioned items, as confirmed by the updated three year business plan approved by the Board of Directors on 6 May 2011.

## 9. OTHER INVESTMENTS

At 30 September 2011 other investments amount to € 1.9 million, unchanged compared to those at 31 December 2010, and comprise mainly the holding in PureTech Ventures LLC (U.S.A.), an investment company specialized in start-up companies dedicated to new therapies, medical devices and new research technologies.

## 10. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 30 September 2011 are € 1.3 million, a reduction of € 1.2 million compared to those at 31 December 2010 which is mainly due to the reversal of the residual receivable (€ 1.5 million) related to the settlement from Swedish Orphan due in 2012 now booked to current assets.

## 11. DEFERRED TAX ASSETS AND LIABILITIES

At 30 September 2011 deferred tax assets and liabilities increase by € 4.9 million and € 0.2 million respectively as compared to those at 31 December 2010. The increase of deferred tax assets is due mainly to the consolidation of the new Turkish company for an amount of € 4.1 million.

## 12. SHAREHOLDERS' EQUITY

Shareholders' Equity at 30 September 2011 is € 606.3 million, an increase of € 30.3 million compared to that at 31 December 2010 for the following reasons:

- net income for the period (increase of € 92.0 million),
- cost of stock option plans set-off directly in equity (increase of € 1.3 million),
- sale of 2,843,750 own shares in treasury stock for the servicing of the 2006-2009 stock option plan (increase of € 15.4 million),
- purchase of 1,983,566 own shares (decrease of € 13.1 million),
- change in the fair value of hedging derivatives qualifying as a cash flow hedge (decrease of € 0.3 million),
- translation adjustments (decrease of € 10.4 million),
- dividend distribution (decrease of € 54.6 million).

All consolidated companies are 100% owned except for the Italian subsidiary of Orphan Europe which is 99% owned, giving rise to a minority interest of € 34.0 thousand.

As at 30 September 2011 the Company has two stock option plans in place in favor of certain group employees, the 2006-2009 plan, under which options were granted on four occasions, and the 2010-2013 plan under which options were granted on 9 February 2011. The strike price of the options is the average of the parent company's listed share price during the 30 days prior to the grant date. Stock options granted under the 2006-2009 plan are vested over a period of four years and options not exercised within the fifth year of the date of grant expire. Stock options granted under the 2010-2013 plan are vested over a period of five years and options not exercised within the eighth year of the date of grant expire. Options may not be exercised if the employee leaves the company before they are vested.

Stock options outstanding at 30 September 2011 are analyzed in the following table.

| € (thousands) | Strike price (€) | Options outstanding at 1.1.2011 | Options granted during 2011 | Options exercised during 2011 | Options cancelled or expired | Options outstanding at 30.09.2011 |
|---|---|---|---|---|---|---|
| Date of grant | | | | | | |
| 6 April 2006 | 6.4975 | 1,365,000 | - | (1,350,000) | - | 15,000 |
| 29 October 2008 | 4.0730 | 2,783,750 | - | (735,000) | (40,000) | 2,008,750 |
| 11 February 2009 | 3.8940 | 155,000 | - | (30,000) | (15,000) | 110,000 |
| 27 October 2009 | 4.8700 | 3,915,000 | - | (728,750) | (105,000) | 3,081,250 |
| 9 February 2011 | 6.7505 | - | 4,330,000 | - | - | 4,330,000 |
| Total | | 8,218,750 | 4,330,000 | (2,843,750) | (160,000) | 9,545,000 |

At 30 September 2011, 9,345,921 own shares are held as treasury stock, a decrease of 860,184 shares as compared to those at 31 December 2010. The change is to be attributed to the buy-back of 1,983,566 shares on the stock exchange for an overall value of € 13.1 million and to the sale of 2,843,750 shares for an overall value of € 15.4 million to service the exercise of stock options issued under the 2006-2009 plan. The overall purchase cost of the shares held in treasury stock is € 50.5 million with an average unit price of € 5.40.

## 13. LOANS

At 30 September 2011 medium and long-term loans, which include a negative effect of € 1.8 million resulting from the measurement at fair value of the guaranteed senior notes issued and privately placed in 2004, are € 170.4 million, an increase of € 57.0 million compared to those at 31 December 2010. This change arises from loans granted and reimbursements made during the period (€ 44.7 million and € 0.7 million respectively), the consolidation of the Turkish company Frik Ilaç (€ 12.3 million) and the change in fair value of the guaranteed senior notes issued and privately placed (increase of € 0.7 million).

On 30 November 2010 the Parent Company undersigned a loan agreement with Centrobanca to fund a three year research and investment program. The loan, for which Centrobanca received funding from the European Investment Bank, amounts to € 75.0 million of which € 30 million were cashed in during 2010 and € 45 million in the first quarter of 2011, net of the € 0.3 million expenses. The main terms and conditions provide for a variable interest rate and a duration of 12 years with semi-annual repayments of capital from June 2012 through December 2022. The loan agreement includes the following financial covenants which, if not met, could lead to a request for immediate repayment of the loan:

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

The above conditions were amply fulfilled during the period.

The series of guaranteed senior notes issued at the end of 2004 by Recordati S.A. (Luxembourg) 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 abovementioned conditions. The measurement at fair value of the swaps at 30 September 2011 generated an asset of € 1.8 million, an amount equivalent to the change in the fair value of the underlying debt. This amount is recognized in the balance sheet as a variation of debt and under current assets as ‘Fair value of hedging derivatives *(fair value hedge)*’.

The total amount of the notes was simultaneously covered with a further interest rate swap, qualifying as a cash flow hedge, to fix a range (which at 30 September 2011 is between 3.84% and 4.85%) within which the interest rate can fluctuate in order to optimize the cost of financing for the duration of the notes. The € 4.6 million fair value of the cash flow hedge is recognized directly in equity and stated as a current liability (see Note 18).

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

The note and guarantee agreement covering the guaranteed senior notes includes the following financial covenants which, if not met, could lead to a request for immediate repayment of the notes:

- consolidated net worth at any time must not be less than the sum of € 170,0 million plus 25% of consolidated net earnings for each fiscal year;
- 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 EBIT to consolidated net interest expense for any period of four fiscal quarters must exceed 3.00 to 1.00.

At each quarter end starting 31 December 2004 the above conditions were amply fulfilled.

## 14. STAFF LEAVING INDEMNITIES

The staff leaving indemnity fund at 30 September 2011 is of € 18.8 million, a decrease of € 0.5 million as compared to that at 31 December 2010.

## 15. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 30 September 2011 refer entirely to the residual amount due for the acquisition of the Turkish company Frik Ilaç. The residual liability due in 2012 for the acquisition of Orphan Europe, following the settlement with Swedish Orphan, in the amount of € 0.6 million, net of the present value adjustment, is now booked to current liabilities.

## 16. CURRENT ASSETS

Inventories are € 99.0 million, an increase of € 13.8 million compared to those stated at 31 December 2010. The consolidation of Frik Ilaç accounts for € 5.5 million of the increase.

The balance of trade receivables at 30 September 2011 is € 150.1 million and is stated net of a € 12.3 million provision for doubtful accounts which reflects the collection risk connected with certain customers and geographic areas. The consolidation of Frik Ilaç accounts for an increase of € 7.8 million.

Other receivables decrease by € 7.2 million compared to those at 31 December 2010, mainly due to a reduction of tax credits, and include the current installment due related to the Swedish Orphan settlement (€ 1.5 million).

Other current assets are € 4.5 million and refer mainly to prepaid expenses. A portion of this amount is to be attributed to the acceptance by the Italian companies of the extension of the pay-back option that AIFA (the Italian Medicines Agency) granted pharmaceutical companies as an alternative to the 5% price reduction imposed on 27 September 2006 on selected reimbursable specialties. The suspension of the price reduction applies to the period 1 January to 31 December 2011 in exchange for the payment of 5% of sales recorded in 2010. The amount to be paid back of € 2.2 million is to be spread over the application period and the prepaid amount at 30 September 2011 is € 0.5 million.

## 17. CURRENT LIABILITIES

Trade payables, which include the accrual for invoices to be received, are € 102.9 million. The consolidation of Frik Ilaç accounts for an increase of 9.5 million.

Other payables increase by € 1.2 million compared to those at 31 December 2010 and include the current portion of the residual amount due for the acquisition of Frik Ilaç (€ 6.2 million) and the residual liability due for the acquisition of Orphan Europe, following the settlement with Swedish Orphan (€ 1.3 million).

Tax payables increase by € 10.1 million and result mainly from the provision of income taxes for the period.

## 18. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGE)

The measurement at fair value of the interest rate swaps covering the cash flows related to medium and long-term loans gave rise to a € 4.6 million liability at 30 September 2011. This amount represents the unrealized opportunity of paying the current expected future rates instead of the rates agreed. This amount refers entirely to the interest rate swap defining a collar which limits the fluctuation of the interest rates payable on the guaranteed senior notes issued by Recordati S.A. Chemical & Pharmaceutical Company.

## 19. SHORT-TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

Short term financial investments, cash and cash equivalents at 30 September 2011 are € 162.4 million and comprise short term time deposits, denominated mainly in Euro which have maturities of six months or less, and bank current accounts. During the period the second tranche of the loan granted by Centrobanca was cashed (see Note 13). The consolidation of Frik Ilaç accounts for an increase of € 6.5 million.

## 20. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans are € 23.2 million and are comprised mainly of interest accrued on existing loans, current account overdrafts and temporary use of lines of credit. The significant increase compared to the balance at 31 December 2010 is to be attributed mainly to the consolidation of Frik Ilaç which accounts for € 17.5 million.

## 21. OPERATING SEGMENTS

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

The following table shows financial information for these two business segments as at 30 September 2011 and includes comparative data.

| € (thousands) | Pharmaceutical segment* | Orphan drugs segment | Non-allocated | Consolidated accounts |
|---|---|---|---|---|
| **First nine months 2011** | | | | |
| Revenues | 527,388 | 53,245 | - | 580,633 |
| Expenses | (415,011) | (36,718) | - | (451,729) |
| **Operating income** | **112,377** | **16,527** | **-** | **128,904** |
| First nine months 2010 | | | | |
| Revenues | 503,590 | 45,039 | - | 548,629 |
| Expenses | (391,871) | (32,904) | - | (424,775) |
| **Operating income** | **111,719** | **12,135** | **-** | **123,854** |

* Includes the pharmaceutical chemicals operations

| € (thousands) | Pharmaceutical segment* | Orphan drugs segment | Non-allocated** | Consolidated accounts |
|---|---|---|---|---|
| 30 September 2011 | | | | |
| Non-current assets | 476,187 | 116,921 | 1,930 | 595,038 |
| Inventories | 93,386 | 5,604 | - | 98,990 |
| Trade receivables | 131,863 | 18,245 | - | 150,108 |
| Other current assets | 19,714 | 4,351 | - | 24,065 |
| Short-term investments, cash and cash equivalents | - | - | 164,271 | 164,271 |
| **Total assets** | **721,150** | **145,121** | **166,201** | **1,032,472** |
| Non-current liabilities | 28,089 | 970 | 143,590 | 172,649 |
| Current liabilities | 184,718 | 14,153 | 54,606 | 253,477 |
| **Total liabilities** | **212,807** | **15,123** | **198,196** | **426,126** |
| **Net capital employed** | **508,343** | **129,998** | | |
| 31 December 2010 | | | | |
| Non-current assets | 377,218 | 117,758 | 1,930 | 496,906 |
| Inventories | 79,815 | 5,375 | - | 85,190 |
| Trade receivables | 113,937 | 12,638 | - | 126,575 |
| Other current assets | 23,064 | 6,495 | 1,164 | 30,723 |
| Short-term investments, cash and cash equivalents | - | - | 161,680 | 161,680 |
| **Total assets** | **594,034** | **142,266** | **164,774** | **901,074** |
| Non-current liabilities | 24,082 | 1,482 | 96,767 | 122,331 |
| Current liabilities | 159,641 | 18,687 | 24,409 | 202,737 |
| **Total liabilities** | **183,723** | **20,169** | **121,176** | **325,068** |
| **Net capital employed** | **410,311** | **122,097** | | |

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

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

## 22. LITIGATION AND CONTINGENT LIABILITIES

The parent company and some subsidiaries are party to certain legal actions, the outcomes of which are not expected to result in any significant liability.

On 29 September 2006 the Company received a notice of tax assessment from the Internal Revenue Service stating certain additional taxes for the fiscal year 2003 in the amount of: corporate tax of € 2.3 million, IRAP of € 0.2 million and VAT of € 0.1 million and additional tax liabilities of € 2.6 million. The Company believed no amount was due as it considered the assessment flawed both from a legitimacy as well as a substantive point of view, and was supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first degree judgement before the Provincial Tax Commission was concluded partially in the Company's favour with decision n. 539/33/07 dated 11 October 2007, filed on 16 October 2007. An appeal was filed against that judgment with the Regional Tax Commission of Milan firstly by the Milan office of the Tax Authorities with notice served on 8 November 2008 and secondly by the Company with notice served on 7 January 2009. With a decision dated June 10, 2009 n. 139/32/09, filed on November 27, 2009 the Regional Tax Commission of Milan rejected the interlocutory appeal presented by the Company and accepted the principal appeal of the *Agenzia delle Entrate di Milano* (Inland Revenue of Milan). On the basis of that decision, the claims included in the above mentioned tax assessment for the year 2003 have been essentially fully confirmed and the Company has paid all amounts due. On 26 May 2010 the Company appealed that decision before the *Corte suprema di cassazione* (Supreme Court of Cassation).

On 26 January 2011 the Frankfurt court issued a judgement of first instance on the lawsuit which was filed by Innova Pharma against Bayer Healthcare following the termination of the Octegra® license agreement, unilaterally decided by Bayer on the basis of a contractual interpretation which the company deemed arbitrary. Innova Pharma, which considers the termination invalid, took legal action to obtain compensation for the damages incurred. The abovementioned judgement rejected Innova Pharma's claim considering Bayer's unilateral termination valid. The company decided to appeal the court's decision and the first hearing took place on 27 September 2011. The sentence is expected to be issued on 25 October 2011.

RECORDATI S.P.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 30 SEPTEMBER 2011

## ATTACHMENT 1.

| Consolidated Companies | Head Office | Share Capital | Currency | Consolidation Method |
|---|---|---|---|---|
| RECORDATI S.P.A.<br>Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals | Italy | 26,140,644.50 | Euro | Line-by-line |
| RECOFARMA S.R.L.<br>Dormant, holds pharmaceutical marketing rights | Italy | 1,258,400.00 | Euro | Line-by-line |
| INNOVA PHARMA S.P.A.<br>Marketing and sales of pharmaceuticals | Italy | 1,920,000.00 | Euro | Line-by-line |
| RECORDATI ESPAÑA S.L.<br>Development, production, marketing and sales of pharmaceuticals | Spain | 238,966,000.00 | Euro | Line-by-line |
| RECORDATI S.A. Chemical and Pharmaceutical Company<br>Holding company | Luxembourg | 68,000,000.00 | Euro | Line-by-line |
| BOUCHARA RECORDATI S.A.S.<br>Development, production, marketing and sales of pharmaceuticals | France | 4,600,000.00 | Euro | Line-by-line |
| RECORDATI PORTUGUESA LDA<br>Dormant | Portugal | 24,940.00 | Euro | Line-by-line |
| FARMARECORD LTDA<br>Dormant, holds pharmaceutical marketing rights in Brazil | Brazil | 166.00 | BRL | Line-by-line |
| RECORDATI CORPORATION<br>Sales Agent for pharmaceutical chemicals | U.S.A. | 11,979,138.00 | USD | Line-by-line |
| RECORDATI IRELAND LTD<br>Development, production, marketing and sales of pharmaceuticals | Ireland | 200,000.00 | Euro | Line-by-line |
| RECORDATI S.A.<br>Dormant, holds pharmaceutical marketing rights | Switzerland | 2,000,000.00 | CHF | Line-by-line |
| LABORATOIRES BOUCHARA RECORDATI S.A.S.<br>Development, production, marketing and sales of pharmaceuticals | France | 14,000,000.00 | Euro | Line-by-line |
| MERCKLE RECORDATI GmbH<br>Marketing and sales of pharmaceuticals | Germany | 600,000.00 | Euro | Line-by-line |
| RECORDATI PHARMACEUTICALS LTD<br>Marketing and sales of pharmaceuticals | United Kingdom | 15,000,000.00 | GBP | Line-by-line |
| RECORDATI HELLAS PHARMACEUTICALS S.A.<br>Marketing and sales of pharmaceuticals | Greece | 13,900,000.00 | Euro | Line-by-line |
| JABA RECORDATI S.A.<br>Development, production, marketing and sales of pharmaceuticals | Portugal | 2,000,000.00 | Euro | Line-by-line |
| JABAFARMA PRODUTOS FARMACÊUTICOS S.A.<br>Development, production, marketing and sales of pharmaceuticals | Portugal | 50,000.00 | Euro | Line-by-line |
| BONAFARMA PRODUTOS FARMACÊUTICOS S.A.<br>Development, production, marketing and sales of pharmaceuticals | Portugal | 50,000.00 | Euro | Line-by-line |
| RECORDATI ORPHAN DRUGS S.A.S.*<br>Holding company | France | 57,000,000.00 | Euro | Line-by-line |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | PERCENTAGE OF OWNERSHIP | | | | | |
| Recordati S.p.A. *(parent)* | Recordati S.A. *(Lux)* | Merckle Recordati GmbH | Bouchara Recordati S.A.S. | Recordati España S.L. | Recordati Orphan Drugs S.A.S. | Orphan Europe S.A.R.L. | FIC S.A.S. | Herbacos Recordati s.r.o. | Yeni Recordati Ilaç A.S. | Total |
| 100.00% | | | | | | | | | | 100.00% |
| 100.00% | | | | | | | | | | 100.00% |
| 68.447% | 31.553% | | | | | | | | | 100.00% |
| 100.00% | | | | | | | | | | 100.00% |
| 99.94% | 0.06% | | | | | | | | | 100.00% |
| 98.00% | 2.00% | | | | | | | | | 100.00% |
| | 100.00% | | | | | | | | | 100.00% |
| | 100.00% | | | | | | | | | 100.00% |
| | 100.00% | | | | | | | | | 100.00% |
| | 100.00% | | | | | | | | | 100.00% |
| | | | 100.00% | | | | | | | 100.00% |
| | 55.00% | | | 45.00% | | | | | | 100.00% |
| 3.33% | 96.67% | | | | | | | | | 100.00% |
| 0.68% | 99.32% | | | | | | | | | 100.00% |
| | | | | 100.00% | | | | | | 100.00% |
| | | | | 100.00% | | | | | | 100.00% |
| | | | | 100.00% | | | | | | 100.00% |
| | 90.00% | 10.00% | | | | | | | | 100.00% |

| Consolidated Companies | Head Office | Share Capital | Currency | Consolidation Method |
|---|---|---|---|---|
| ORPHAN EUROPE SWITZERLAND GmbH<br>Marketing and sales of pharmaceuticals | Switzerland | 20,000.00 | CHF | Line-by-line |
| ORPHAN EUROPE MIDDLE EAST FZ LLC<br>Marketing and sales of pharmaceuticals | United Arab Emirates | 100,000.00 | AED | Line-by-line |
| ORPHAN EUROPE NORDIC A.B.<br>Marketing and sales of pharmaceuticals | Sweden | 100,000.00 | SEK | Line-by-line |
| ORPHAN EUROPE PORTUGAL LDA<br>Marketing and sales of pharmaceuticals | Portugal | 5,000.00 | Euro | Line-by-line |
| ORPHAN EUROPE S.A.R.L.<br>Development, production, marketing and sales of pharmaceuticals | France | 320,000.00 | Euro | Line-by-line |
| ORPHAN EUROPE UNITED KINGDOM LTD<br>Marketing and sales of pharmaceuticals | United Kingdom | 50,000.00 | GBP | Line-by-line |
| ORPHAN EUROPE GERMANY GmbH<br>Marketing and sales of pharmaceuticals | Germany | 25,564.69 | Euro | Line-by-line |
| ORPHAN EUROPE SPAIN S.L.<br>Marketing and sales of pharmaceuticals | Spain | 1,775,065.49 | Euro | Line-by-line |
| ORPHAN EUROPE ITALY S.R.L.<br>Marketing and sales of pharmaceuticals | Italy | 40,000.00 | Euro | Line-by-line |
| ORPHAN EUROPE BENELUX BVBA<br>Marketing and sales of pharmaceuticals | Belgium | 18,600.00 | Euro | Line-by-line |
| FIC S.A.S.<br>Marketing and sales of pharmaceuticals | France | 100,000.00 | Euro | Line-by-line |
| FIC MEDICAL S.A.R.L.<br>Marketing and sales of pharmaceuticals | France | 9,999.89 | Euro | Line-by-line |
| YENI RECORDATI ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret A.S<br>Development, production, marketing and sales of pharmaceuticals | Turkey | 132,760,664.00 | TRY | Line-by-line |
| HERBACOS RECORDATI s.r.o.<br>Marketing and sales of pharmaceuticals | Czech Republic | 25,600,000.00 | CZK | Line-by-line |
| RECORDATI SK s.r.o.<br>Marketing and sales of pharmaceuticals | Slovakia | 33,193.92 | Euro | Line-by-line |
| RUSFIC LLC<br>Marketing and promotion of pharmaceuticals | Russian Federation | 3,560,000.00 | RUB | Line-by-line |
| RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S.<br>Marketing and sales of pharmaceuticals | Turkey | 5,000.00 | TRY | Line-by-line |
| RECORDATI ROMÂNIA S.R.L. **<br>Promotion of pharmaceuticals | Romania | 95,200.00 | RON | Line-by-line |
| DR. F. FRIK ILAÇ Sanayi Ve Ticaret A.S.***<br>Marketing and sales of pharmaceuticals | Turkey | 40,000,057.00 | TRY | Line-by-line |
| RECORDATI POLSKA sp. z o.o.****<br>Non operational | Poland | 20,000.00 | PLN | Line-by-line |

* During the period this company incorporated Orphan Europe Holding S.A. and Orphan Europe Operations S.a.s.
** Acquired in 2010, P&L consolidated from 1 July 2010, previously named ArtMed International S.r.l.
*** Acquired in 2011, only Balance Sheet consolidated.
**** Established in 2011.

| PERCENTAGE OF OWNERSHIP | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Recordati S.p.A. *(parent)* | Recordati S.A. *(Lux)* | Merckle Recordati GmbH | Bouchara Recordati S.A.S. | Recordati España S.L. | Recordati Orphan Drugs S.A.S. | Orphan Europe S.A.R.L. | FIC S.A.S. | Herbacos Recordati s.r.o. | Yeni Recordati Ilaç A.S. | Total |
| | | | | | 100.00% | | | | | 100.00% |
| | | | | | 100.00% | | | | | 100.00% |
| | | | | | 100.00% | | | | | 100.00% |
| | | | | | 100.00% | | | | | 100.00% |
| | | | | | 100.00% | | | | | 100.00% |
| | | | | | | 100.00% | | | | 100.00% |
| | | | | | | 100.00% | | | | 100.00% |
| | | | | | | 100.00% | | | | 100.00% |
| | | | | | | 99.00% | | | | 99.00% |
| | | | | | 99.46% | 0.54% | | | | 100.00% |
| | | | 100.00% | | | | | | | 100.00% |
| | | | | | | | 100.00% | | | 100.00% |
| | | | | 100.00% | | | | | | 100.00% |
| | 100.00% | | | | | | | | | 100.00% |
| | | | | | | | | 100.00% | | 100.00% |
| | | | 100.00% | | | | | | | 100.00% |
| | | | | | | | | | 100.00% | 100.00% |
| | 100.00% | | | | | | | | | 100.00% |
| | | | | | | | | | 100.00% | 100.00% |
| 100.00% | | | | | | | | | | 100.00% |

# RECORDATI S.P.A. AND SUBSIDIARIES
# DECLARATION BY THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

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

Milan, 25 October 2011

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

RECORDATI

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