Annual Report 2010

RECORDATI

The Recordati Group Today

REVENUE

728.1 million euros

NET INCOME

108.6 million euros

EMPLOYEES

2,800

An internationally established pharmaceutical concern listed on the Italian Stock Exchange (now part of the London Stock Exchange) since 1984, Recordati is one of the longer standing Italian pharmaceutical companies. Recordati established its own model of growth and development by pursuing an internationalization and diversification strategy since the 1990's which is still ongoing. Today Recordati has subsidiaries in the main European countries and in recent years this process was extended to Central and Eastern Europe where spending on pharmaceuticals is still growing at a high pace. Recordati is now present directly in Russia and the other C.I.S. markets, in Turkey, in the Czech Republic and Slovakia and since 2010 also in Romania. In addition to its direct presence in these countries Recordati sells its original products in around 130 markets through license agreements.

The most important of the Group's products is lercanidipine, a latest generation calcium channel blocker indicated for the treatment of hypertension, discovered and developed entirely in the Recordati research laboratories. It enjoys considerable success among doctors and occupies a prominent position in the markets on which it is sold. In response to growing demand in the antihypertensive field, the Recordati Group has made available a new specialty, a fixed combination of lercanidipine and enalapril, a widely prescribed ACE inhibitor. Recordati is today an European partner of established international pharmaceutical companies such as the Japanese concerns Kissei and Kowa among many others. Two of the Group's most important new specialties are silodosin, a treatment for benign prostatic hyperplasia discovered by researchers at Kissei and developed for the European and Middle

Recordati is an international specialty pharmaceuticals company. A modern and dynamic concern, it is confident in its ability to meet the challenges and seize the opportunities of a constantly changing marketplace. It generated revenues of € 728.1 million in 2010 with around 2,800 employees.

Together with its geographical expansion The Group has enriched its pharmaceutical product portfolio by developing its own pipeline of products and by acquiring Orphan Europe, a pharmaceutical company specialised in treatments for rare diseases. With its own unique distribution system, a balanced portfolio of products and promising drugs under development, Orphan Europe gives Recordati access to a highly specialised market with significant growth potential. Recently Orphan Europe has initiated direct sales in the U.S.A. following the approval in this country of one of its most important and promising orphan treatments, Carbaglu®.

Eastern markets by Recordati, and pitavastatin, a latest generation statin for controlling hypercholesterolemia. Discovered and developed by Kowa, Recordati was granted a license to market the product in most of Europe. The Recordati Group has achieved broad geographical coverage with its own network of more than 1,400 medical sales representatives. This, and its many years of experience in the regulatory field and its expertise in the management of highly specialised products, makes Recordati an ideal partner for the development and marketing of new products in Europe, especially for those companies which have no direct presence themselves.

The Future of the Group

The continuing enhancement of its product portfolio and development pipeline is of fundamental importance in the Group's strategy going forward. Recordati's proven ability to generate profitable alliances with prominent players in the pharmaceutical industry will continue to be the basis of an increasingly intense activity directed at the identification and execution of new license agreements or development partnerships for innovative products. In the future Recordati's presence in the European pharmaceutical market will increase, in particular in Central and Eastern Europe and neighbouring countries.

Letter from the Chairman

To Our Shareholders,

We are very satisfied with the results obtained in 2010, a year in which we maintained our profitability levels despite the reduction of sales of lercanidipine, our original antihypertensive drug, following the expiry of its patent at the beginning of the year. The development of our presence in emerging markets, the growth of our drugs for the treatment of rare diseases and the revenues generated by our international licensing-out business almost entirely compensated the loss of lercanidipine sales. Group consolidated revenue is € 728.1 million, slightly down (-2.6%) despite the significant reduction in lercanidipine sales (-30.8%).

To begin with, at the end of January Recordati was granted Marketing Authorization by the European Commission for the medicinal products Urorec® and Silodyx™ (silodosin), for the treatment of the symptoms of benign prostatic hyperplasia and, during June, marketing authorization for silodosin based products was also granted by the Russian Federation. The compound was originally developed by Kissei Pharmaceutical Co. Ltd. in Japan and was obtained under license by Recordati for the whole of Europe (45 countries) and for a further 18 countries in the Middle East and Africa. Development of the drug was conducted by Recordati for its territories. In June Urorec® was introduced into the market in Germany by subsidiary Merckle Recordati and in September it was launched in Spain where Recordati España co-markets the product with Almirall. Urorec® is also now available in Ireland and in France where it is marketed by Bouchara Recordati and by our partner Zambon France. The launch of this specialty in the other European markets is expected to take place over the next months, following completion of the reimbursement and pricing procedures in each country.

2010 was a year of many achievements and initiatives for the future development of the Group.

The Group's profitability is in line with that achieved in 2009 while including considerable expenditure in R&D. Operating income, at 21.3% of sales, is € 154.8 million, and net income at 14.9% of sales is € 108.6 million. The Group's net financial position improved by € 65.7 million due to strong cash generation and at 31 December 2010 records net cash of € 46.0 million after having paid dividends for an amount of € 54,4 million. Shareholders' equity further increased to € 576,0 million.

2010 was a year of many achievements and initiatives for the future development of the Group.

The Food and Drug Administration (FDA) in the U.S. granted its approval of the NDA submitted by Orphan Europe for the use of Carbaglu®

(carglumic acid) in pediatric and adult patients for the treatment of acute hyperammonaemia due to the deficiency of the hepatic enzyme N-acetyl glutamate synthase (NAGS deficiency) and as maintenance therapy for chronic hyperammonaemia due to NAGS deficiency. The product is available on the market as from November 2010. NAGS deficiency, a very rare disease involving extremely high plasma levels of ammonia, which leads to permanent and irreversible damage of the central nervous system, is a lifelong serious life-threatening clinical condition. The symptoms start shortly after birth and develop rapidly. Timely diagnosis and prompt effective treatment are essential to prevent patients from permanent neurological damage. Carbaglu® is the only specific treatment of hyperammonaemia due to NAGS deficiency. Carbaglu® does not only save patients' lives, but also assures a good quality of life for patients on a continuous treatment.

signed two license agreements for pitavastatin, one with Esteve, a leading Spanish pharmaceutical company, which will co-market the product together with Recordati España, the subsidiary of the Recordati group in Spain, and the other one with Merck Serono for the co-marketing of the product in France together with the group's French subsidiary Bouchara Recordati.

At year-end Recordati and Nymox Pharmaceutical Corporation finalized a European licensing agreement for the development and commercialization of NX-1207, Nymox's Phase III investigational drug currently in clinical development in the U.S. for the treatment of benign prostatic hyperplasia (BPH). Under the terms of the agreement, Recordati receives exclusive rights to develop and subsequently market and sell NX-1207 in Europe including Russia and the CIS, the Middle East,

"We are very satisfied with the results obtained in 2010, a year in which we maintained our profitability levels despite the reduction of sales of lercanidipine following the expiry of its patent at the beginning of the year."

The Decentralized Procedure for the approval of pitavastatin (Livazo®, Alipza® and other brands) in Europe was concluded with a positive outcome as communicated by the Reference Member State (MHRA, Medicines and Healthcare products Regulatory Agency, UK) following the agreement of all the Concerned Member States. Pitavastatin was licensed by Recordati from the Japanese pharmaceutical company Kowa for the European market. It is available on the market in Japan and in the U.S.. Pitavastatin promises to be an effective new treatment for dyslipidemia, a condition characterized by altered levels of blood cholesterol and other lipids and associated with an increased risk for heart disease and stroke. During 2010 Recordati

the Maghreb area of North Africa and South Africa (i.e. a total of 81 countries). The drug involves a new targeted approach to the treatment of BPH. Recordati made an upfront payment to Nymox of € 10 million and will make subsequent approval and sales milestone payments and tiered supply and royalty payments.

The group's product portfolio was enhanced following the conclusion of an agreement with Novartis for the acquisition in Greece and in other European countries of Lopresor® (metoprolol), a well known selective beta blocker for the treatment of different cardiovascular disorders, in particular hypertension and angina

pectoris. Under the agreement Recordati acquired the product's marketing authorizations and know-how, including manufacturing rights, as well as a free unlimited license for the use of the brand Lopresor®. 2009 sales of Lopresor® (metoprolol) were overall around € 4 million in the countries covered by the agreement, most of which were generated in Greece. Furthermore, in December a license agreement was signed with Merck KGaA for the marketing and sales in Italy of Cardicor® (bisoprolol). Cardicor® belongs to the beta-blocker class of drugs and is indicated for the treatment of chronic, stable, moderate to severe heart failure, associated with reduced systolic ventricular function, to be administered with ACE inhibitors and diuretics. The product is available on the market in Italy and generates annual sales of around € 9 million.

In line with its strategy to extend group operations to the countries of Central and Eastern Europe Recordati acquired ArtMed International, a company dedicated to the promotion of pharmaceutical products in Romania with offices in Bucharest. Furthermore, the rights to the products currently being promoted by ArtMed were also acquired. ArtMed has a staff of 24 employees dedicated to marketing and medical information activities directed at physicians and pharmacists.

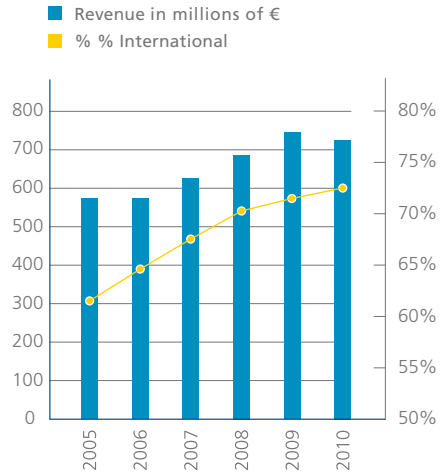
Also in 2010 the worldwide pharmaceutical market was characterized by modest growth in the more mature markets of Western Europe and North America. On the one hand demand for medicines increases due to an ageing population and the growing availability of new treatments, but on the other hand prices are decreasing due to the measures introduced by healthcare authorities to contain pharmaceutical expenditure and to the competition from generic versions of specialties no longer patent protected. However, in emerging markets which include those of Central and Eastern Europe the pharmaceutical market is still growing strongly. Group strategy will therefore continue to be focused on the growth of its international operations which have increased significantly in recent years and which now account for 73% of revenue. Of particular interest are the markets with potential to grow in the future. Together with its geographical expansion, the business will be driven by the development and launch of the new pipeline products and by the acquisition of new specialties.

We believe that the strict implementation of our strategy will enable us to be optimistic regarding the future, to compensate the loss of lercanidipine sales and to start a new growth cycle. In order to achieve these ambitious targets we count, as always, on the entrepreneurship and determination of our management team, the professional skills of our employees and the trust of our shareholders.
We would like to express our gratitude to all of them for their support during 2010.

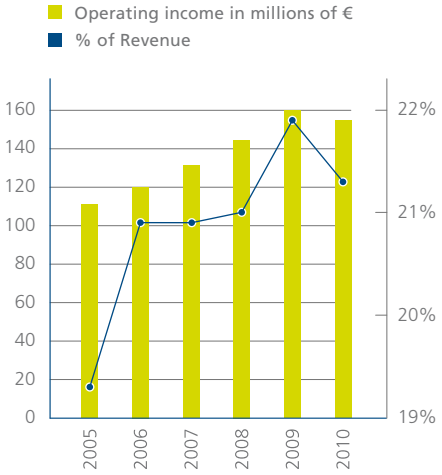
Giovanni Recordati
Chairman and Chief Executive Officer

The Group in Figures

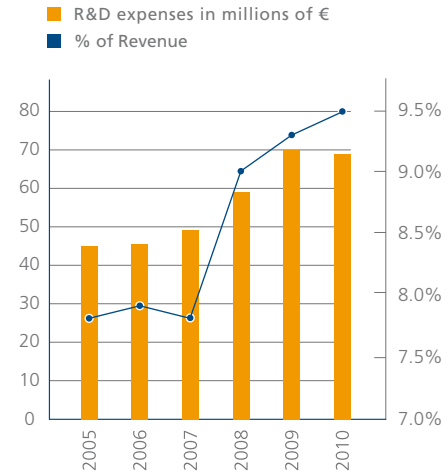
Revenue



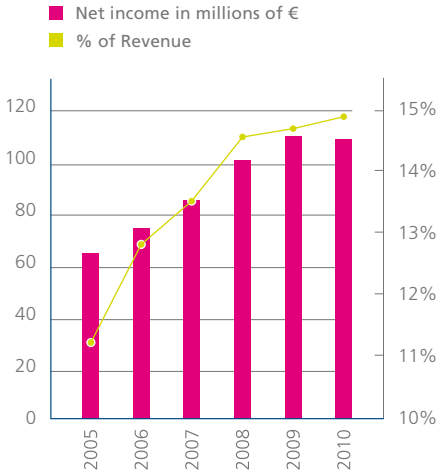
Operating income



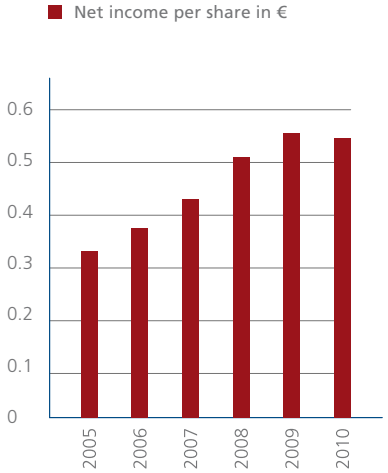
Research and development expenses



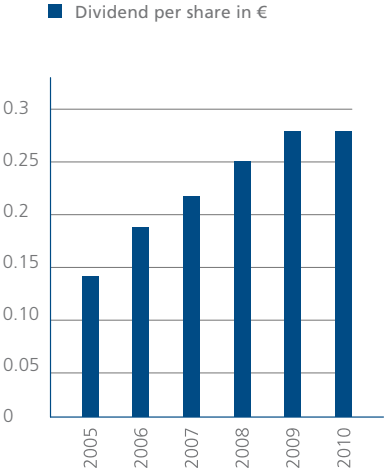
Net income



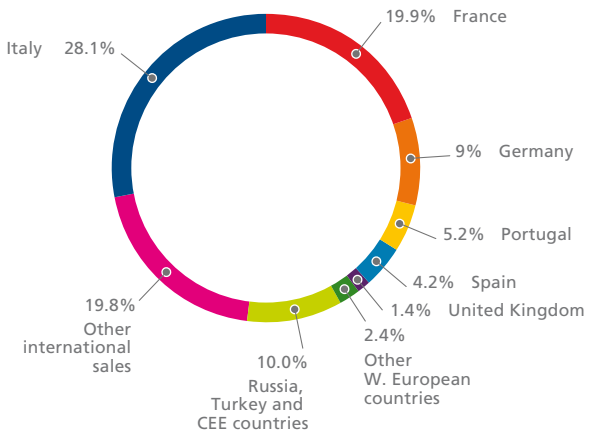
Net income per share



Dividend per share

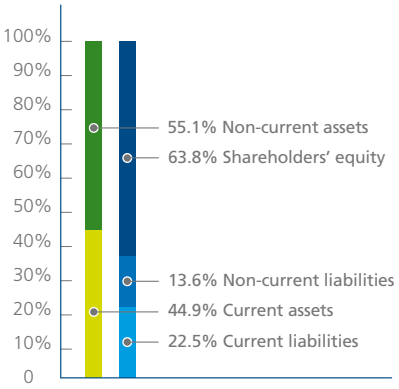


Geographical composition of pharmaceutical sales

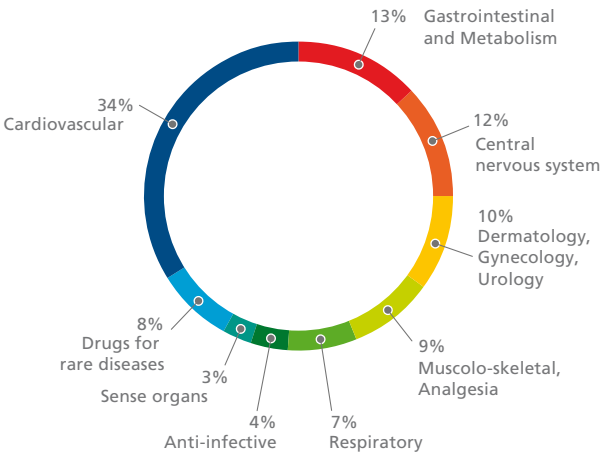


Balance Sheet

At 31 dicember 2010



Pharmaceutical sales by therapeutic area



NET FINANCIAL POSITION

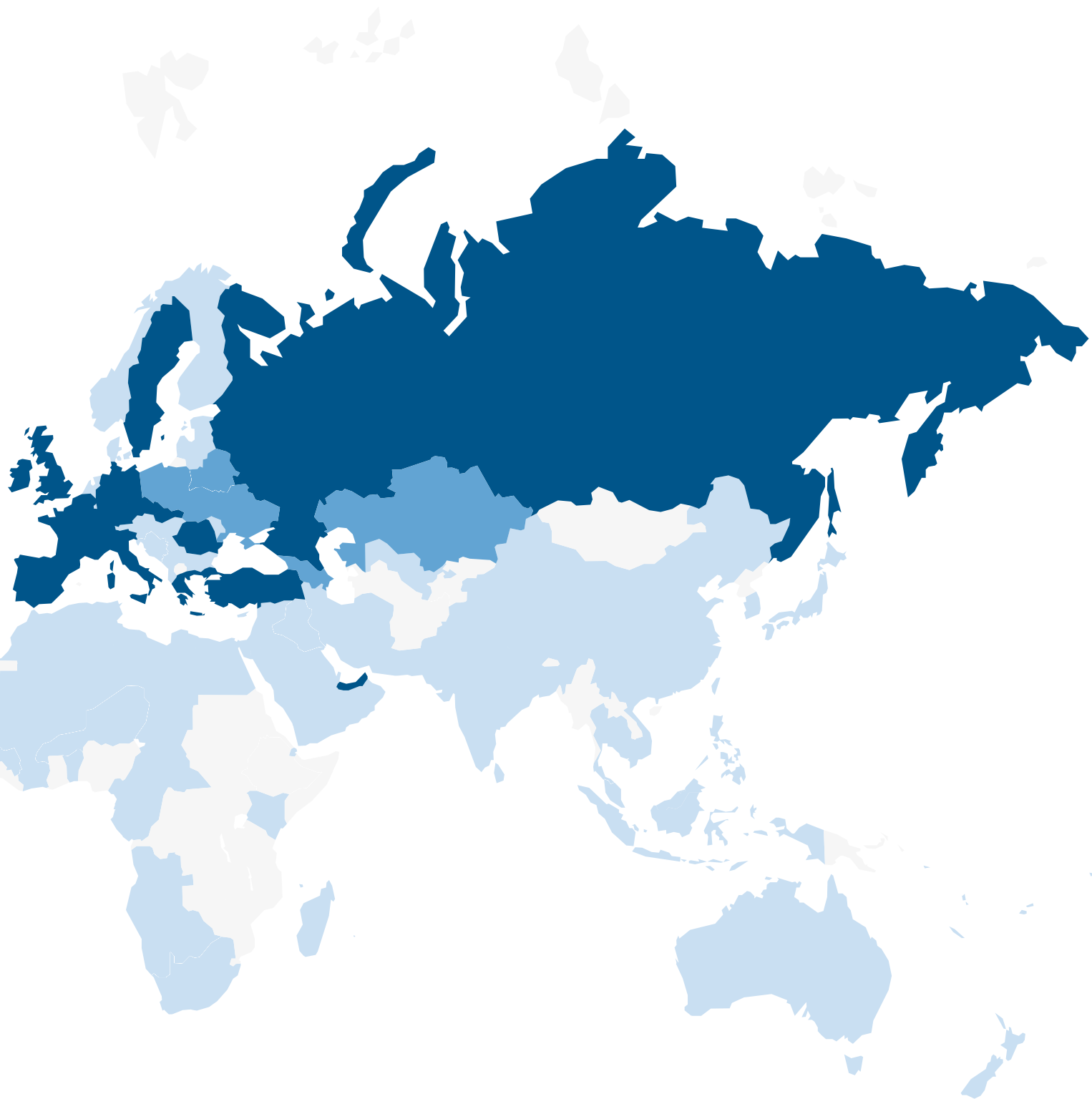
46 million euros

SHAREHOLDERS' EQUITY

576 million euros

Geographical Presence

130
COUNTRIES



17
Subsidiaries

7
Branches

106
Countries where
Recordati products are sold
(under license or exported)

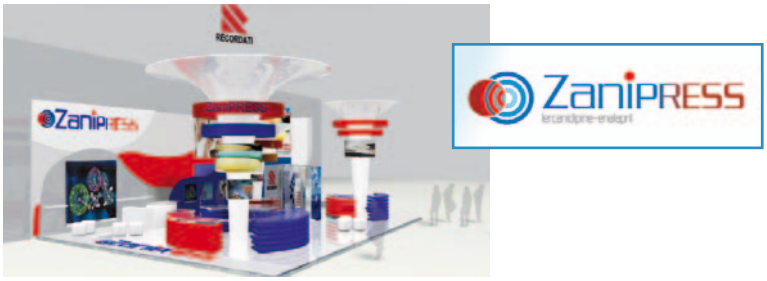
Group Activities

The Recordati Group markets a wide range of innovative products originated by its own research, developed in-house or obtained under license.

ZANIDIP®/CORIFEO®/LERCADIP® (lercanidipine)

Zanidip® (lercanidipine), the Group's main product, is an antihypertensive drug discovered and developed entirely in the Recordati research laboratories. It enjoys considerable success among doctors and is one of the most frequently prescribed calcium channel blockers in the countries in which it is marketed. In 2010 an important license agreement was entered into with Lee's Pharmaceutical for the marketing of Zanidip® in the Chinese People's Republic, a further reinforcement of our distribution network in Asia where it is estimated 200 million people suffer from hypertension.
Lercanidipine is a latest generation calcium blocker that is very effective in controlling hypertension due to its particular mechanism of action and to its peculiar characteristics which are different from those of other pharmaceuticals in the same class. Zanidip® is effective in lowering blood pressure values to optimal levels, thereby reducing the risk of cardiovascular events and their related mortality. It's lipofilicity and high selectivity are properties which render lercanidipine effective with a superior tolerability profile. It ensures protection of the kidneys and the endothelium of the blood vessels.

Thanks to this organ protection characteristic and its metabolic neutrality lercanidipine is well tolerated even in patients affected by other diseases such as diabetes and nephropathy. Lercanidipine is currently marketed in 95 countries.



ZANIPRESS®/ZANEXTRA®/LERCAPREL®/ LERCARIL® (lercanidipine + enalapril)

The use of fixed combinations of antihypertensive agents is growing and is expected to play a significant and increasing role in the treatment of hypertension. As stated by the European Society of Hypertension, combination therapy should be considered as first line treatment for hypertensive patients at high risk for cardiovascular events. Furthermore, the administration of a single pill, for a patient who often takes a number of different medicines every day, increases compliance which is an important success factor in the treatment of hypertension. Most hypertensive patients, and those with other associated risk factors in particular, require more than one antihypertensive drug to keep their blood pressure at desired levels. Zanipress®,

2010 was a year of achievements and new initiatives for the development of Recordati's corporate product portfolio. In addition to its main area of activity, the cardivascular field and in particular that of hypertension, Recordati also operates in the area of urology where important new treatments for benign prostatic hyperplasia (BPH) are being introduced.

a fixed association of lercanidipine (calcium channel blocker) and enalapril (ACE inhibitor), allows the simultaneous administration of two effective active ingredients. In fact, the new specialty associates lercanidipine, a latest generation calcium channel blocker, with enalapril, an ACE inhibitor that is widely prescribed.
The benefits of the combination of these two active ingredients, and in particular its increased effectiveness and excellent tolerability, have been confirmed by the results of clinical trials, such as ACCOMPLISH, which have shown that a combination of a calcium channel blocker plus an ACE inhibitor is more effective than the combination of a calcium channel blocker with a diuretic in reducing cardiovascular risk.
Zanipress® and the other brands (Lercaril®, Lercaprel®, Zanextra®, Zanicombo®) are currently marketed in 16 countries. It is the market leader in Germany and Australia in its class (C9B3, calcium channel blockers + ACE inhibitors).
Launches are planned in additional countries in 2011, not just in Europe, but also in Asia, Africa and Latin America.

UROREC® (silodosin)

Urorec® (silodosin) is a new drug indicated for the treatment of benign prostatic hyperplasia (BPH), a widespread disease, on the increase in aging populations. It manifests in males, generally after the age of fifty, with problems linked to urination, such as reduced urine stream, increased frequency and urgency and nocturia. Silodosin is a powerful antagonist of the α1 adrenergic receptors with a high affinity for α1A receptors. Blockade of the α1A receptors leads to a rapid increase in urine flow and an improvement in both irritative symptoms (frequency, urgency, nocturia) and obstructive symptoms (hesitancy, incomplete emptying of the bladder, intermittency, weak stream). As demonstrated by a study conducted in Europe by Recordati on more than 800 patients, the administration of silodosin leads to an improvement in urine flow after only 2-6 hours and rapid relief from both obstructive and irritative symptoms in the course of 3-4 days. Symptom improvement is maintained during long term treatment. The safety and tolerability of silodosin has been assessed with positive results on 1,600 patients. The low incidence of orthostatic and vasodilatory side effects make it a well tolerated treatment even in patients who take antihypertensive medication. In all the clinical studies conducted until now, Urorec® has been found to be highly effective, so much so that it is considered a valid and innovative alternative to treatments currently in use. The drug is already being marketed successfully under the Urief® brand name in Japan and other Asian countries and is also available in the United States of America as Rapaflo®. Silodosin is the result of original research by the Japanese pharmaceutical company Kissei Pharmaceutical Co. Ltd. and has been licensed to Recordati for the whole of Europe (45 countries) and a further 18 countries in the Middle East and Africa. The clinical development of the product was conducted by Recordati for its own markets, by Watson Pharmaceuticals for North America and by Kissei Pharmaceutical Co. Ltd. for the rest of the world. At the end of January this new speciality was granted authorisation by the European Medicines Agency (EMA) for marketing in Europe and in June it was approved in the Russian Federation. Urorec® in 4 mg and 8 mg rigid capsules is now available in Germany, Spain, France, Ireland and Portugal and further launches are planned in 2011.

LIVAZO® (pitavastatina)

Pitavastatin is an innovative statin that promises to be an important new treatment for dyslipidemia, a condition characterized by altered levels of blood cholesterol and other lipids and associated with an increased risk for heart disease and stroke.
Pitavastatin is indicated for the reduction of elevated total cholesterol (TC) and LDL-C, in adult patients with primary hypercholesterolaemia and combined (mixed) dyslipidaemia when response to diet and other non-pharmacological measures is inadequate.
Statins decrease blood cholesterol primarily by inhibiting a liver enzyme which catalyzes an early limiting step in cholesterol biosynthesis. Several

statins have been launched over the past two decades; however, there is still a strong need for a statin that can fully satisfy the needs for optimal efficacy and safety profiles, and patient acceptability of the treatment. In controlled clinical trials involving more than 1,600 patients it was shown that pitavastatin induces a reduction in LDL-cholesterol (the "bad" cholesterol that contributes to formation of atherosclerotic plaques) and an increase in HDL-cholesterol (the "good" cholesterol that is removed from the arterial walls), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications. Furthermore, it has been shown that pitavastatin is minimally metabolized by the enzymes of the Cytochrome P-450 family, enzymes that play a key role in the metabolism of many drugs, thus minimizing the potential risk for unpredictable responses to treatment or for interaction with drugs metabolized by this pathway. Pitavastatin therefore presents an excellent safety profile due to the lower likelihood of drug-drug interactions than that of most other statins. As a consequence of these properties pitavastatin can be regarded as an effective and safe treatment of dyslipidemia. Pitavastatin was granted under license to Recordati from the Japanese pharmaceutical company Kowa for many European markets. It has been available in Japan since 2003 and was recently launched in the U.S.. The product was approved in Europe during 2010 and will be therefore be launched also in Europe soon under the Livazo®, Alipza® and other brands in 1mg, 2mg and 4mg tablet formulations.

LOMEXIN®/FALVIN® (fenticonazole)

The result of Recordati's original research, Lomexin® (fenticonazole) is an antimycotic that is widely used internationally. Indicated for the treatment of dermatological and gynaecological infections from fungi, molds, yeasts and gram positive bacteria, fenticonazole destroys fungal cells by means of its dual acting mechanism which prevents the formation of ergosterol and inhibits the aspartic proteinase of the candida. Lomexin® has a wide range of action and is also effective at low concentrations without creating resistances.

Available in different forms and very flexible doses, it has an excellent tolerability profile. A modern drug, supported by years of experience in clinical practice, fenticonazole is approved in more than 60 countries and has been used with success since 1993 by more than 45 million patients worldwide.

GENURIN®/URISPAS® (flavoxate)

Flavoxate, a Recordati original research product, is a muscle relaxant of the urinary tract. It is indicated for the symptomatic treatment of dysuria, urgency, nocturia, frequency and incontinency and the treatment of bladder and urethral spasms. It is able to control symptoms associated with urgency and hyper activity of the detrusor, thanks to its action on the transmission of the reflex impulse to empty the bladder. Flavoxate is the first Italian drug to be approved by the American Food and Drug Administration and to be marketed in the United States of America, it is still widely used and has been approved in 54 countries.

KENTERA®
(oxybutynin transdermal patch)

Kentera® OXYBUTYNIN TRANSDERMAL PATCH

Kentera® is an oxybutynin transdermal system indicated for the treatment of symptoms associated with disorders of the lower urinary tract, such as incontinence, frequency and urgency. Kentera® is an innovative treatment indicated for all patients with overactive bladder as it combines the effectiveness of oxybutynin (considered the 'gold standard' for this disorder) with its excellent tolerability, as a transdermal formulation bypasses the first-pass gastrointestinal and hepatic metabolism, and with the ease of use of a patch applied twice a week which constitutes a valid alternative to oral medications.

Under license from Watson Pharmaceuticals, Kentera® is currently marketed in Germany, UK, Greece, Ireland, Austria, Switzerland, Finland, Sweden, Norway, Denmark, Holland, Belgium and Luxembourg by the subsidiaries of the Recordati group and its partners.

TRANSACT® LAT (flurbiprofen transdermal patch)

TransAct® LAT is a transdermal patch containing flurbiprofen, a non steroidal anti-inflammatory drug (NSAID), indicated for the symptomatic relief of localized pain involving the musculoskeletal system. The underlying technology, the excipients and the active ingredient all contribute to the treatment's effectiveness, to its constant release over the twelve hour period and to its localized anti-inflammatory and analgesic action, that is it acts only where the patient feels pain, thereby avoiding the problems connected with the use of NSAIDs delivered systemically. All these characteristics and the efficacy of flurbiprofen, demonstrated by numerous clinical studies, make TransAct® LAT a highly appreciated specialty among doctors and the patients themselves. It is a successful product marketed in many countries in Europe, in Italy it is the second product on the market for patches belonging to the topical anti-rheumatic analgesic class and is the leader in Portugal. TransAct® LAT was obtained under license from Amdipharm.

RUPAFIN®/ALERGOLIBER®/WYSTAMM® (rupatadine)

Rupatadine is a second generation antihistamine which effectively resolves the problems that afflict patients suffering from allergies. It is a histamine antagonist with selective peripheral H1 receptor antagonist activity. It further blocks the receptors of the platelet-activating factor (PAF), a characteristic which distinguishes it from other specialities belonging to the same class of drugs. Rupatadine inhibits allergic effects which affect both the nasal mucosa and other organs targeted

Rupafin® Rupatadina

by the allergic reaction such as the skin controlling symptoms such as sneezing, itching, rhinorrhea, nasal congestion, wheals and rashes. Its pharmacokinetic properties allow quick and effective control of allergies, rapid relief from symptoms and a long-lasting antihistamine action. Rupatadine improves the quality of life for allergic patients increasing their overall well-being: allergic symptoms disappear within just 15 minutes of taking the medication. Under license from Uriach it is marketed in Italy, Germany, Spain and France.

ISIMIG®/PITUNAL® (frovatriptan)

This medicine, which belongs to the triptan group of drugs is indicated for the acute treatment of migraine attacks with or without aura. Frovatriptan is a new selective 5HT1B/1D serotonin receptor agonist. Pain relief is obtained through the activation of the serotonergic receptors reducing the excessive dilatation of intracranial vasculature, as well as the inhibition of the release of inflammatory neuropeptides and reduced signalling to the perivascular nervous terminals of the trigeminal nerve system. Frovatriptan is distinguished from other triptans by its long half-life (26 hours) which ensures long-lasting clinical efficacy and reduces the recurrence rate of migraine attacks. Under license from Menarini, it is marketed in France and in Greece.

LOPRESOR® (metoprolol)

Lopressor® belongs to the beta-blocker class of drugs and is indicated for the treatment of hypertension either alone or in association with other antihypertensive agents. This selective beta blocker is also indicated for long term treatment of angina pectoris. Lopresor® is available in a number of European countries and is particularly widespread in Greece.

Some products or product lines marketed locally by Recordati's subsidiaries detain prominent positions in their markets of reference.

ITALY

The Recordati Group offers a broad range of medications in this country through its organizations Recordati S.p.A. and Innova Pharma S.p.A. and provides doctors and specialists with up-to-date support of high scientific value.

In addition to its historic and established presence in the cardio-metabolic field, the Italian product portfolio also boasts quality medicines in the central nervous system therapeutic area, in gastroenterology and in analgesia. Second in its class, Entact® (escitalopram) is a highly selective antidepressant, with an excellent tolerability profile, which makes it suitable for use also in severe clinical conditions. The range of its therapeutic activity and its tolerability is significantly different from those of other antidepressant agents, and it has therefore been considered an important contribution to the customisation of antidepressant and anxiety treatments. It is well accepted by patients, an aspect of particular importance in the resolution of psychological disorders and in treatment compliance.

Peptazol® (pantoprazole), a proton pump inhibitor frequently used for the treatment of gastroesophageal reflux disease and in the prevention of gastro duodenal ulcers caused by NSAIDs, belongs to a large and competitive market. Its use is growing continuously thanks to its positive and proven pharmacological properties. Its lower potential for pharmacological interactions distinguishes it from other medications. This is an important factor and is widely recognised by doctors because the greatest users of this class of drugs are patients who simultaneously undergo a number of different treatments.

Tora-Dol® (ketorolac tromethamine) is an effective fast-acting non steroidal anti-inflammatory drug which has always been a leader in its class. It is considered by a large number of both specialists and general practitioners as one of the most effective drugs for pain control. It is currently widely used also in hospitals and out-patient clinics for the treatment of post surgical pain and renal colic, that is, for acute and severe pain.

In 2010 Recordati's offering in cardiology was enhanced with the entry of a new product, Cardicor® (bisoprolol), a drug belonging to the beta-blocker class indicated for the treatment of chronic, stable, moderate to severe heart failure, associated with reduced systolic ventricular function, to be administered with ACE inhibitors and diuretics. The product was obtained under license from Merck KGaA.

Recordati has always been close to both family doctors and specialists and each year sponsors a number of educational projects, training courses, symposiums and lectures at major national and international congresses involving themes in psychiatry, neurology, psychoneuropharmacology, internal medicine, cardiology, allergies, pain and prevention. High level courses for specialists are organised by scientific boards of international standing in a number of therapeutic areas such as the cardiovascular and cardio metabolic fields, gastroenterology and psychiatry.

Since 2009 an important instrument is available for doctors, the Interdrugs Project, a multimedia service for real time verification of possible

pharmacological interactions between drugs. The problem of interaction between medications has always played and extremely important role from a clinical viewpoint, above all in view of the possible negative effects that may result from these interactions. It is of particular importance in current times in a country with an aging population and where the elderly frequently take a number of different active ingredients together. The project initially targets interactions between drugs used in psychiatry and those prescribed by neurologists and internists due to the transverse nature intrinsic to these treatments. It is attracting growing interest from thousands of specialists. The service is based on an detailed research database and is available free of charge on the Internet. Interdrugs bears witness to Recordati's commitment to the development of new tools at the service of science and to the diffusion of the most up-to-date scientific knowledge.

Italy, the OTC division

The Italian OTC division is the result of the experience that the company has acquired over more than eighty years in the industry.

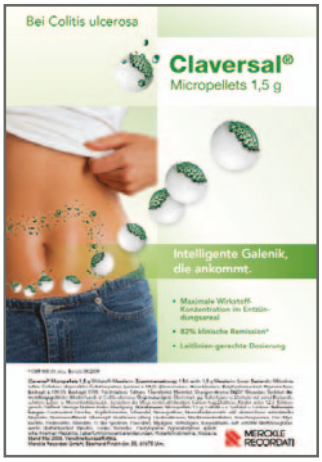
The product portfolio comprises some of the well-known historical Recordati brands together with new and interesting products within constantly evolving markets. A broad range of products belonging to a number of therapeutic areas are offered. This product line includes OTC products (Imidazyl®, Imidazyl Antistaminico®, Proctolyn®, Recofluid®, Recotuss®, Somac Control®, Transcoop®, Antoral Gola®, Valontan®), medical devices (the Alovex® and Eumill® lines) and dietary supplements (Lactò®). Recordati has an excellent reputation in pharmacies and it is growing in the OTC market at a faster rate than the market itself due to the success of many of its products which continue to enjoy considerable appreciation.
The main products in the portfolio are Alovex®, Imidazyl®, Eumill® and Proctolyn®, four market leaders with shares of around 30% each which are performing better that their reference markets.
The Alovex® line comprises Alovex® active protection and Alovex dentizione®. The first is indicated for the treatment of aphthas and mouth sores while the second is a natural product for newborns which provides rapid relief from pain and irritation caused by teething. Alovex dentizione® is well accepted mainly due to its practical and hygienic dispenser which is unique in its kind.
In the decongestant and antihistamine eye drops market, the Imidazyl® brand consolidated its leading position, while in the antihaemorrhoids segment Proctolyn® improved its position.
In the natural eye drops segment the Eumill® line boasts 31% market share driven by the addition of a new product. Eumill Protection®, the lubricating and moisturizing drops which help to counteract the ocular dryness and fatigue caused exposure to video screens, the use of contact lenses and other factors which can alter normal lacrimation, is now available alongside Eumill®, the freshening and soothing eye drops. Recordati also offers a line of OTC cough medicines which comprises Recotuss® Sedativo, syrup and tablets containing dextromethorphan bromide, an effective active principle for the symptomatic treatment of dry cough, and Recofluid®, a fluidifying mucolitic syrup which does not contain saccharose nor glucose and can therefore be administered to diabetics.
In 2010 Somac Control® was launched. This is the first pantoprazole based OTC product to be sold in Italy and is indicated for the short term treatment of the symptoms associated with gastroesophageal reflux, such as heartburn and acidity, in adults. It has a good tolerability profile and reduced interaction with other drugs.
A single small pill acts throughout the 24 hours thus increasing compliance with treatment.

FRANCE

In addition to having achieved leading market positions with Recordati corporate products, Bouchara Recordati holds top positions on the market for its local specialties and offers a line of OTC products which enjoys great success in France. Since 1999 Laboratoires Bouchara Recordati is the exclusive licensee of the Assistance Publique des Hôpitaux de Paris for the production and marketing of methadone. Methadone is a synthetic opioid analgesic, used as a substitute for heroin in somatic abstinence syndromes, in disintoxication from opiates and in maintenance programmes. A highly specialised group and dedicated staff lie behind the success of the disintoxication programmes which today involve four times as many patients as ten years ago. The benefits of treatment with methadone are universally recognised. The most important are the decrease in deaths resulting from the use of narcotics, the reduction of the diffusion of viral infections (HIV, HCV), reduced health, legal and social costs related to the use of drugs and improvements in the health and rehabilitation of addicts. Bouchara Recordati continues to develop the product with the intention of making its administration easier and more accessible. A new capsules formulation, available in five different dosages, which presents many advantages over the traditional syrup contributed to expand its use. Bouchara Recordati successfully developed its presence in the self-medication sector and today is one of the top ten companies in the French OTC market. The Hexa line of products enjoys great success with Hexaspray® as leader in the market for sore throat treatments. Exomuc® is also very successful and ranks second in the market for mucolytic agents. Bouchara Recordati has also developed an important international presence in former French colonies. Through its dynamic export and promotion activities it distributes 40 specialities from its product portfolio in around 30 different countries. The main destinations of these exports are Algeria, Vietnam and Tunisia, and the largest product exported is Zanidip® (lercanidipine).

GERMANY

An important part of the Merckle Recordati operations is linked to its traditional presence in the gastroenterological area and in particular in that of chronic inflammatory intestinal diseases which consist mainly of Crohn's disease and ulcerative colitis. In Germany approximately 320,000 patients suffer from these diseases. The "gold standard" treatment for these diseases is the administration of mesalazine. Claversal® (mesalazine), the established Merckle Recordati brand, is the second largest in its class and offers specialists in the field a full range of formulations. Every year Merckle Recordati organises the "Merckle Recordati Symposium for Gastroenterology" which reached its 16th edition in 2011. Approximately 200 professionals from all over Germany receive a 360° update both on scientific progress and on health economics in the field of gastroenterology. Another strategic area in which Merckle Recordati has developed an established presence is that of orthopaedics. The company has been supplying first class products to orthopaedic specialists for over 40 years. The most important of these include Recosyn® (hyaluronic acid), Ortoton® (metocarbamol), Lipotalon® (dexamethasone palmitate) and SportVis™ (biocompatible hyaluronic acid adapted for soft tissues). Merckle Recordati is traditionally among the top five most highly rated pharmaceutical companies



in the orthopedics field. It was the official supplier to the German Olympics team in the last summer and winter Olympics. The area of urology has now also become strategic for the German subsidiary which was the first to launch Urorec® (silodosin) for the treatment of benign prostatic hyperplasia. Merckle Recordati is also successfully present in this therapeutic area with Kentera® (oxybutynin transdermal patch), indicated for urinary incontinence, and recently the inclusion of Remiprostan® (palmet extract) further enhanced its portfolio.

PORTUGAL

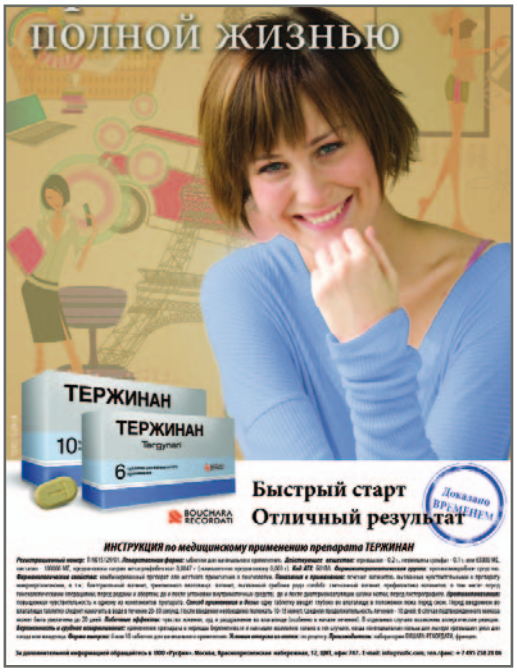
Jaba Recordati is well positioned in the Portuguese pharmaceuticals market, mainly in the cardiovascular and urological fields and in the market for OTC products. Its established presence in the cardiovascular area stems from the strong appreciation shown by the medical community and specialists for the subsidiary's products. Co-Tareg® (valsartan+HCTZ), Jaba Recordati's principal product, is followed by Zanipress® the fixed combination of lercanidipine and enalapril which today is the leading brand in the calcium channel blocker + ACE inhibitor market. Constant growth was also recorded for TransAct® LAT, a leading product in the market for transdermal patches within the topical antirheumatic class of drugs. Indicated for the symptomatic relief of localized pain involving the musculoskeletal system, it is an original delivery system for the administration of flurbiprofen, a well-known and widely used non steroidal anti-inflammatory drug (NSAID). It is better tolerated thanks to this method of delivery. Among the OTC products Guronsan®, a leader in the market for tonics for fatigue, is the most important.

SPAIN

The subsidiary's main product is Cidine® (cinitapride), a drug indicated for the treatment of the symptoms of chronic postprandial dyspepsia. A leader in the gastroprokinetics market it is well known to doctors and frequently used in the gastroenterological field. In order to support family doctors and specialists, Recordati España contributed to the establishment of a "Comité de Expertos en Dispepsia" and published two original studies: "Problemas psicológicos en dispepsia" and "Derecho sanitario para gastroenterologos". In addition to the area of gastroenterology Recordati España is also present in cardiology (Zanipress®, Zanidip®, Dermatrans®, Lopresor®) and in gynecology (Yoduk®, Losferron®, Lomexin®). Recordati España, in collaboration with the Spanish Society of Cardiology, presented the results of the Cardiotens Sutdy which analysed the prevalence and level of control of arterial hypertension in 15,000 patients over a period of 10 years with the objective of improving the treatment of hypertension and understanding its correlation with other cardiovascular diseases. As regards the area of gynecology Recordati España was the first company to educate both doctors and the general public on the risks of damage that iodine deficiency in mothers during pregnancy and lactation can cause to the physical and mental health of infants.

RUSSIA, UKRAINE AND OTHER C.I.S. COUNTRIES

The success of FIC Médical and Rusfic, our organisations which operate in Russia and in the emerging markets of the C.I.S., is largely due to Tergynan® (a fixed association of ternidazol, neomycin, nistatin and prednisolone) a product indicated for the topical treatment of vaginal infections. Tergynan® is a leading product in the class of gynaecological anti-infective and antiseptic drugs in all the countries of the Commonwealth of



Independent States and in Ukraine. Furthermore, the products Polydexa®, Isofra®, Otofa® and Hexaspray® which are indicated for the treatment of ear, nose and throat (ENT) disorders are meeting with increasing medical acceptance.

TURKEY

Yeni Recordati is one of the leaders in the Turkish pharmaceuticals market for urological disorders. The urinary tract anti-infective products Hippurin® (methenamine hippurate) and Purinol® (methenamine+helmitol) and the antibacterial drug Levonidin® (levofloxacin) are enjoying growing visibility and acceptance among doctors and contribute to the success of our Turkish subsidiary. Yeni Recordati has strengthened its network of medical representatives and in addition to the re-launch of Urispas®, the flavoxate based antispasmodic drug indicated for urinary incontinence, which reinforces its presence in the urological field, it has also re-launched Gyno-Lomexin® (fenticonazole) an antimycotic for gynecological use.

CZECH REPUBLIC AND SLOVAKIA

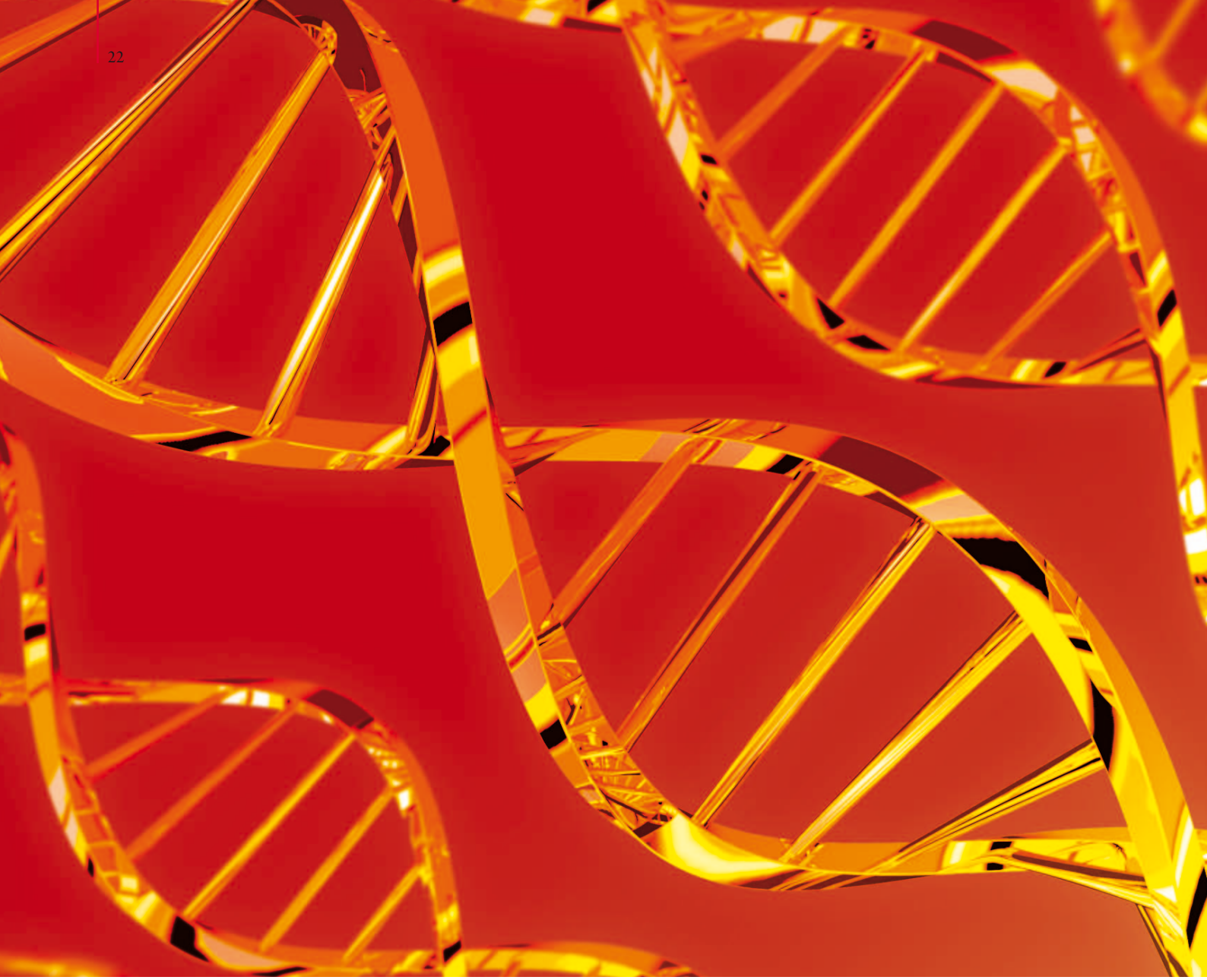
The subsidiary Herbacos Recordati successfully markets pharmaceutical products belonging to a number of therapeutic areas, including analgesic, anti-inflammatory and dermatological drugs and is particularly strong on the market for self-medication products. The analgesics Valetol® and Acylpyrin® are among those most used in the Czech Republic and in Slovakia. With a market share of more than 50%, Acylpyrin® is the market leader on the market for acetylsalicylic acid based drugs and Valetol® is one of the five most frequently sold non opioid analgesics in the Czech Republic.

GREECE

With a strong presence on the cardiovascular market where lercanidipine is the second leading product in its class and Lercaprel® (lercanidipine+enalapril) is growing constantly, Recordati Hellas has expanded its product range to include Lopresor® (metoprolol tartrate USP). This specialty is a selective beta-blocker indicated for the treatment of various cardiovascular diseases and in particular for hypertension and angina pectoris.

ROMANIA

With the acquisition of ArtMed International, a company dedicated to the promotion of pharmaceutical products in Romania with offices in Bucharest, Recordati has further consolidated its presence in Central and Eastern Europe. Artmed has been present on the Romanian pharmaceutical market since 2005 and promotes both prescription and OTC products throughout the territory. The medicines which are currently promoted are indicated prevalently for disorders resulting from nutrition deficiencies in addition to Revada® (diosmin) which is prescribed for venous insufficiency and other indications. This subsidiary's main product is now Lomexin® (fenticonazole) which they recently launched in Romania.



The treatment of rare diseases, a growing commitment

Although each individual disease affects no more than five in 10,000 persons in the European Union it is estimated that between 6,000 and 8,000 distinct rare diseases exist today and that between 27 and 36 million individuals are affected. Over the past years the rare disease healthcare sector is being driven by several political, technological and social advances. The European Commission has enacted legislation at European level to facilitate the marketing authorization of specific treatments and has supported recommendations to implement plans and strategies for the treatment of these diseases. Research of the genetic basis, new technology, early screening and rare disease awareness have provided society with the ability to detect diseases earlier. The pharmaceutical industry has a vital role to play in the support of families affected by rare diseases by developing orphan drugs. Only the combined efforts of the industry, patients and the medical community can result in an improvement of the life of affected persons. Recordati is committed to researching and proposing treatments for rare diseases. Within Orphan Europe, an organisation based in Paris, well trained orphan drug specialists and a scientific product support team collaborate with healthcare professionals, patient groups and their families to improve knowledge and awareness of rare diseases.

Rare diseases are a major public health issue as they can be life-threatening or chronically debilitating.

The Orphan Europe Academy is part of the group and its aim is to provide healthcare professionals with the opportunity to increase knowledge, develop new ideas and strengthen scientific collaboration in the field of rare diseases.




Adagen®	pegademase bovine	Enzyme replacement therapy for the treatment of severe combined immunodeficiency disease associated with adenosine deaminase deficiency (SCID-ADA)
Carbaglu®	carglumic acid	Treatment of hyperammonaemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) *In development* for the treatment of organic acidemias
Cystadane®	betaine anhydrous	Treatment of homocystinuria
Cystagon®	cysteamine bitartrate	Treatment of nephropathic cystinosis
Normosang®	human hemin	Treatment of acute attacks of hepatic porphyria
Pedea®	ibuprofen iv	Treatment of patent ductus arteriosus (PDA)
Sucraid®	sacrosidase	Treatment of congenital sucrase-isomaltase deficiency (CSID)
Vedrop®	tocofersolan	Treatment or prevention of vitamin E deficiency in paediatric patients and adolescents suffering from congenital or hereditary chronic cholestasis
Wilzin®	zinc acetate	Treatment of Wilson's disease (WD)
Cystadrops®	cysteamine chlorhydrate	*In development* for the treatment of ocular manifestations of cystinosis

Nine pharmaceuticals are currently being marketed for the treatment of rare diseases and the development of others is in progress. Our organisation covers a broad geographical area with representatives in Benelux, France, Germany, Italy, Poland, Portugal, Spain, Sweden (covering Nordic & Baltic countries) Switzerland, United Kingdom and the Middle East. Specialists entirely dedicated to the promotion and distribution of these pharmaceuticals satisfy requests from 22 European countries and 15 countries in the Middle East and North Africa. Our specialties are distributed in a further 33 countries worldwide either through commercial agreements or by direct delivery to patients from the Paris headquarters, thanks to a distribution system that is unique in its kind.

Orphan Europe currently markets nine products for the treatment of rare diseases and others are in development.

Research and Development

During 2010 new products were approved, new clinical trials were launched, new molecules were identified to be evaluated, new projects were initiated in new therapeutic areas.

During 2010 important results were obtained: new products were taken through the regulatory path to approval; new clinical trials were launched; new molecules were identified to be evaluated as targets for potential acquisition; new projects were initiated in potentially interesting therapeutic areas of development in addition to those where Recordati is already present. Furthermore, Recordati launched and conducted an extensive revision of its research and development organization to afford the flexibility and performance required by the increasingly complex and diversified environment. Therefore, in 2010 new structures were created and others were reorganized to more adequately face new and demanding standards; highly specialized personnel able to use increasingly sophisticated techniques and instruments joined the group.

PRODUCT DEVELOPMENT PIPELINE

NAME	ORIGINATOR	INDICATION	DEVELOPMENT STATUS
LIVAZO®/ALIPZA®	Kowa	Dyslipidemia	Approved
CARBAGLU®	Recordati	Organic acidemias (OA)	Filed in EU Phase III in U.S.A.
NORMOSANG®	Recordati	Hepatic porphyria	Pre-registration in U.S.
NX 1207	Nymox	Benign prostatic hyperplasia (BPH)	Phase III
lercanidipine/enalapril fixed combination*	Recordati	Essential hypertension	Phase II
CYSTADROPS®	Recordati	Ocular cystinosis	Phase II
REC 0422	Recordati	Overactive bladder and Incontinence	Phase II
REC 1819	Recordati	Overactive bladder and Incontinence	Preclinical
REC 0436	Recordati/UFPeptides	Overactive bladder in patients with spinal lesions	Preclinical
REC 0467	Recordati	Gastroesophageal reflux disease (GERD)	Preclinical

** New dosage First line indication*

The introduction of new products both through our internal research activities and the further development of our products, as well as through the search for development alliances with other pharmaceutical companies, is of fundamental importance for the group's growth in the future. During 2010 a number of products in development belonging to various therapeutic areas (metabolism, diabetes, urological diseases and oncology) and with a variety of structural characteristics, from small molecules through to biotechnology compounds and gene therapy, were identified and examined. Some of these projects are currently in an advanced stage of evaluation to assess their potential and the next development phases with the objective of reinforcing both our primary care product portfolio as well as to introduce new specialized

therapies and new remedies for the treatment of rare diseases.

Research and development activities during 2010 are summarized in the following paragraphs.

LERCANIDIPINE

Recordati conducts research and development activities in the area of cardiovascular disease and in particular as related to hypertension, an asymptomatic condition but a dangerous risk factor in the development of ischemic, coronary, cerebral and renal disease.

As far as the efficacious treatment of hypertension and the optimization of treatment using its original drug lercanidipine are concerned, Recordati is particularly interested in the development of antihypertensive treatments which associate more than one active compound indicated for this condition. Fixed combinations of more than one antihypertensive agent will play a significant and increasing role in hypertension therapy. The new international guidelines for the treatment of hypertension (CHMP Guideline on clinical investigation of medicinal products in the treatment of hypertension; January 22, 2009) establish aggressive targets for blood pressure control in order to minimize the risk of severe cardiovascular events.
Most hypertensive patients, especially those with associated risk factors, require multiple therapies using more than one drug to rapidly achieve and effectively maintain desired blood pressure levels.
Further clinical trials involving the fixed association of lercanidipine with enalapril, currently available in a number of markets and in launch phase in others, are being conducted with the objective of extending its indication.
In particular, a vast phase II factorial design international trial is ongoing to evaluate different dose combinations of lercanidipine and enalapril in comparison with each component administered alone and with placebo in patients with essential hypertension.

PITAVASTATIN

In addition to hypertension, Recordati is also involved in the area of metabolic disorders and in particular dyslipidemia (altered levels of blood cholesterol and other lipids). Cholesterol is a fatty substance that the body uses to synthesize steroid hormones. The body synthesizes its own cholesterol (mostly by the liver cells), but can also extract it from various foods. Some people have an excess of cholesterol in their blood; if this condition is not promptly and correctly managed, one of its consequences is the deposition of cholesterol within the walls of the arteries that may lead to progressive occlusion of the blood vessels (atherosclerosis). Elevated cholesterol levels are now recognized as being associated with an increased risk for heart disease and stroke. One way to lower excessive cholesterol levels in the blood is to modify one's diet (that is, reduce calorie and fat content) and to exercise more (at least 30 minutes daily several days a week). There are also several medicines that can be taken to correct dyslipidemia and statins are among the most widely used.

Statins decrease blood cholesterol primarily by inhibiting a liver enzyme called HMG-CoA reductase which catalyzes an early limiting step in cholesterol biosynthesis. Although other classes of drugs (such as fibrates and resins) are used to lower cholesterol levels, statins are the top players with a global market of 25 billion US$. Several statins have been launched over the past two decades; however, there is still a strong need for a statin that can fully satisfy the needs for optimal efficacy and safety profiles, and patient acceptability of the treatment.

Pitavastatin is a totally synthetic, highly potent statin licensed by Recordati for many European markets from the Japanese pharmaceutical company Kowa. This drug promises to be an important new treatment for dyslipidemia. In controlled clinical trials, conducted for the European approval process, involving more than 1,600 patients, it was shown that pitavastatin induces a reduction in LDL-cholesterol (the "bad" cholesterol that contributes to formation of atherosclerotic plaques) and an increase in HDL-cholesterol

(the "good" cholesterol that is removed from the arterial walls), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications. Pitavastatin has a long duration of action, with reduced variability among patients, and can be given once-daily at any time and irrespective of food intake. Furthermore, it has been shown that pitavastatin is minimally metabolized by the enzymes of the Cytochrome P-450 family, enzymes that play a key role in the metabolism of many drugs; thus, the potential risk for unpredictable responses to treatment, or for interaction with drugs metabolized by this pathway is minimized. Pitavastatin therefore presents an excellent safety profile due to the lower likelihood of drug-drug interactions than that of most other statins. As a consequence of these properties pitavastatin can be regarded as an effective and safe treatment of dyslipidemia.

Pitavastatin has been available on the market in Japan since 2003, and was recently approved by the FDA in the U.S. where it is marketed by Eli Lilly. In Europe, the drug was approved during 2010. The impressive characteristics of pitavastatin, combined with Recordati's extensive clinical and marketing expertise in cardiovascular medicine, will soon provide patients and healthcare professionals with a new important and innovative therapeutic option.

NX-1207, a new targeted approach to the treatment of benign prostatic hyperplasia. Clinical trials in the U.S. show evidence of long lasting benefit without further treatments.

NX-1207

In 2010 a new and important clinical development program in the area of the disorders associated with benign prostatic hyperplasia (BPH) was undertaken. Recordati acquired from Nymox Pharmaceutical Corporation the exclusive European development and commercialization rights to NX-1207, Nymox's Phase III investigational drug currently in clinical development in the U.S. for the treatment of benign prostatic hyperplasia (BPH). The inclusion of NX-1207 in our development pipeline is perfectly in line with our commitment to increase the availability of new effective treatments for significant urological disorders.

Benign prostatic hyperplasia (BPH) or enlarged prostate is a common affliction of older men that causes difficulties with urination that can have a detrimental impact on health and quality of life and that can lead to acute urinary retention, incontinence, and other serious consequences. This disorder, which is associated with growth in prostate size as men age, affects approximately half of men over age 50 and close to 90% of men by age 80. It is estimated that more than 100 million men worldwide suffer from the symptoms of BPH, including more than an estimated 20 million men in Europe alone. This market is anticipated to grow as the population ages.

NX-1207 is a novel patented new chemical entity developed by Nymox. The molecule involves a new targeted approach to the treatment of BPH. The drug is administered by a urologist in an office setting directly into the zone of the prostate where the enlargement occurs. The procedure takes only a few minutes, causes little or no pain or discomfort, and does not require preliminary anaesthesia nor subsequent catheterization. The drug has successfully completed a series of blinded controlled multi-center U.S. clinical trials where a single dose of NX-1207 has been found to produce very promising symptomatic improvements without causing the sexual or cardiovascular side effects associated with currently approved drugs. Long term follow-up studies have shown evidence of long lasting benefit with a significant proportion of men who received a single dose reporting maintained improvement in BPH symptoms without other treatments for several years.

IN-HOUSE RESEARCH PROJECTS

Recordati's original research is primarily focused on the search for innovative treatments to address micturition disorders. Irritative symptoms of the lower urinary tract, such as urgency and frequency, with or without incontinence, are frequent, mainly in women and the elderly. It is estimated that only a small portion of sufferers are adequately treated due mainly to under-diagnosis and under-treatment.

This situation is often due to the unsatisfactory clinical profile of existing treatments. Opportunities therefore exist for the development of effective and well tolerated drugs. Recordati has specific know-how in the area of disorders of the lower urinary tract acquired over forty years of research in this field and is currently developing two innovative products.

The first, REC 0422 is a combination of two existing drugs, indicated for other conditions, which has displayed a significant synergistic effect in pharmacological animal models of unstable bladder. A phase I trial was completed successfully and the safety, tolerability and pharmacokinetic profile of this treatment was established in female patients with unstable bladder. A modified release formulation of this product to simplify its use is under study.

The second, REC 1819 has a completely new mechanism of action at the central nervous system level. Finally, the preclinical evaluation of REC 0436, which represents a structurally different class of compounds to be potentially used, upon intravesical administration, in patients with spinal lesions with the object of improving their lower urinary tract stability, continued.

In a different therapeutic area, formulation studies of REC 0467, a proton pump inhibitor, were initiated in order to obtain a modified release formulation with additional efficacy and 24 hour coverage in the treatment of gastroesophageal reflux disease (GERD).

Recordati is also involved in the research and development of treatments for rare diseases and has a number of projects in its pipeline.

In most cases these specialties are unique life-saving products.

Carbaglu® (carglumic acid) is an orphan drug approved by the European Medicines Agency (EMA) for the treatment of hyperammonaemia due to N-Acetyl Glutamate Synthase (NAGS) deficiency. The NAGS deficiency is an extremely rare inherited metabolic disorder affecting the urea cycle which leads to accumulation of ammonia in the blood. If not adequately and quickly treated, hyperammonaemia causes irreversible brain damage, coma, and eventually death. Carbaglu® is the only existing specific treatment of NAGS deficiency and this genetic disorder demands life-long treatment. At the beginning of 2010 the Food and Drug Administration (FDA) approved the use of Carbaglu® in the U.S.A.. Carbaglu® obtained Orphan Drug Designation in Europe for a further indication: the treatment of organic acidaemias (OA). Clinical development for this indication was completed and the dossier requesting approval for its use in the treatment of hyperammonaemia in OA was submitted to the EMA. Organic acidaemias is a group of metabolic disorders characterized by the enzymatic dysfunction of a specific step in amino acid catabolism, which leads to accumulation of toxic precursors damaging brain, liver, kidney, pancreas, retina, and other organs. Hyperammonaemia is present during every decompensation episode of OA, prompting an effective treatment (such as Carbaglu®) to quickly control severe hyperammonaemia. The prevalence of OAs is 10 times higher than all urea cycle disorders taken together.

Cystadrops® (cysteamine chlorhydrate) are eye drops developed for "ocular manifestations of cystinosis" which cannot be controlled by orally administered cysteamine. Cystinosis affects all body organs, including the eyes. Without proper treatment, cystine crystals accumulate in the cornea, resulting in progressive blurred vision, pain, photophobia and frequent corneal ulceration and eye infections. Cystadrops® was specially formulated in a gel form for a patient-friendly administration with fewer instillations per day. The short-term (6 months) safety and efficacy evaluation part of a phase II clinical study of Cystadrops® was completed and the long-term (at least 2 years) safety and efficacy follow up and analysis is currently ongoing.

Normosang® (human haemin) is indicated for the treatment of acute attacks of hepatic porphyria. Porphyrias are rare, genetic disorders which require immediate medical care during their acute and very painful manifestations. Normosang® is an emergency medicine that it is recognized as the gold standard therapy to stop the attack and prevent neuropathic complications. It is already approved in Europe and Recordati is currently in contact with the Food and Drug Administration to pursue approval of Normosang® in the U.S.A.. Other potential indications are currently under clinical evaluation (phase II) and proof of concept together with specialized academic European centres.

Pedea® (i.v. ibuprofene) is an orphan drug used in the treatment of a serious congenital cardiac malformation, the persistence of patent ductus arteriosus (PDA). A clinical development plan is ongoing to evaluate the safety of high doses of Pedea® in preterm newborn infants with a gestational age of less than 27 weeks with PDA.

Pharmaceutical Chemicals and Production Plants

Current strategy

Recordati's pharmaceutical chemicals strategy today focuses on:

- satisfying the requirements of the pharmaceuticals business
- striving for maximum product quality
- strengthening its presence in highly regulated markets (the United States, Europe and Japan)
- safety of production processes, protection of the environment, health and safety in the workplace

Recordati uses a broad range of technologies to produce competitively maintaining the highest quality standards. The Group's two pharmaceutical chemical production sites, the one at Campoverde in the province of Latina (Italy) and the other in Cork (Ireland) are both equipped with modern plant.

The Campoverde plant mainly supplies the active ingredients used in the preparation of the various pharmaceutical specialties produced by the company, but is also an established independent producer of various active and intermediate ingredients for the pharmaceutical industry internationally. It is one of the most important producers in the world of verapamil, phenytoin, papaverine and dimenhydrinate. Other pharmaceutical chemicals are produced on behalf of important pharmaceutical companies. The facility was one of the first European plants to be inspected by the American Food and Drug Administration and the United States has become, and continues to be, the main market for its production. The Campoverde site covers a surface area of 366,000 sq. m. with an installed area of 170,000 sq. m., and produces approximately 650 metric tonnes per year of finished goods with approximately 2,000 metric tonnes of semi-finished goods handled internally each year. High-tech systems are employed for the management of particularly delicate processes such as the reactions which employ cyanides, high pressure hydrogenations, chloromethylations or those which involve substances which require very stringent safety measures. The plant operates in compliance with Current Good Manufacturing Practices (cGMP) and in conformity with the most stringent international environmental regulations. The Plant Environmental Management System is certified according to the UNI EN ISO 14001:2004 by Det Norske Veritas Italia (DNV) an internationally accredited body.

In order to guarantee adequate and continuous supplies of the active ingredient lercanidipine, an important original Recordati drug, in 2005 a new dedicated plant was constructed in Cork in Ireland. This facility boasts automated process control systems which ensure constant high quality production.

In both Recordati's pharmaceutical chemical plants a vast range of technologies, skills and expertise in the field of organic synthesis is employed which allow it to quickly and effectively study new processes from research stage through to final industrialisation.

The laboratories in the Research and Development section are fitted with the latest equipment and are side by side with an extremely versatile pilot plant equipped for the industrialisation of processes.

Recordati also has four pharmaceutical production facilities all of which operate with full respect for environmental protection regulations and in compliance with Current Good Manufacturing Practices (cGMP). The largest are located in Milan in Italy, and at Montluçon in France. The **Milan** site occupies a surface area of 23,000 sq. m. and has a production capacity of 50 million packages per year. It is specialised in the manufacture and packaging of solid oral forms, drops, injectables and products for topical use. The plant at **Montluçon** covers a surface area of 3,500 sq. m. and is specialised in the production and packaging of liquid, solid oral and spray formulations. It has a production capacity of 24 million packages per year. The other two pharmaceutical production plants are located in **Turkey** and in the **Czech Republic**. The Turkish site occupies a surface area of approximately 12,000 sq. m. with an installed production area of 3,000 sq. m. It has a production capacity of 27-28 million packages per year, of which 60% is dedicated to third party production. It produces oral solid and liquid formulations and products for topical use. The plant in the Czech Republic produces creams, gels and ointments for a total of 2.5 million packages per year, some of which for third parties.

The Recordati Share

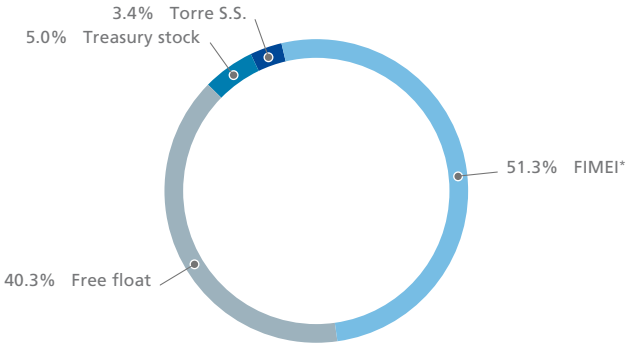
Year	Dividend per Share
2004	€ 0.11
2005	€ 0.1375
2006	€ 0.185
2007	€ 0.215
2008	€ 0.25
2009	€ 0.275
2010	€ 0.275

photo: Niccolò Biddau

THE RECORDATI SHARE

Listing:	Borsa Italiana Blue Chip segment, healthcare
ISIN Code:	IT 0003828271
Ticker:	Bloomberg REC IM, Reuters RECI.MI
Indexes:	FTSE Italia Mid Cap Index FTSE Italia All-Share Pharmaceuticals & Biotechnology Index: ICB Code 4570
Share Capital:	209,125,156 common shares
Nominal value:	€ 0.125 per share
EPS (diluted):	€ 0.524
Dividend per share:	€ 0.275

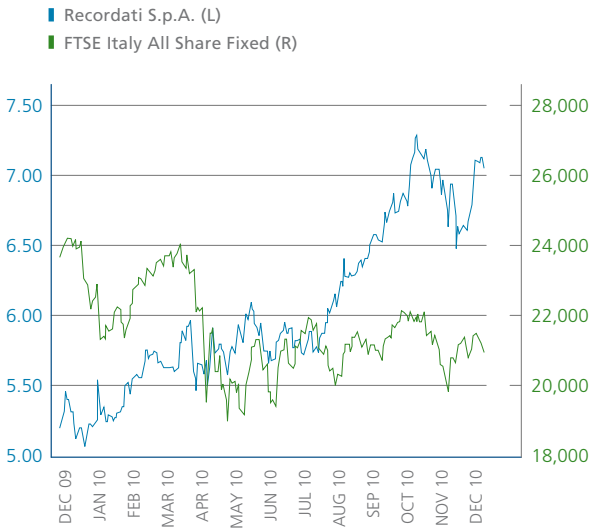
PRINCIPAL SHAREHOLDERS AT 31 DECEMBER 2010



** FIMEI is 100% owned by the Recordati family*

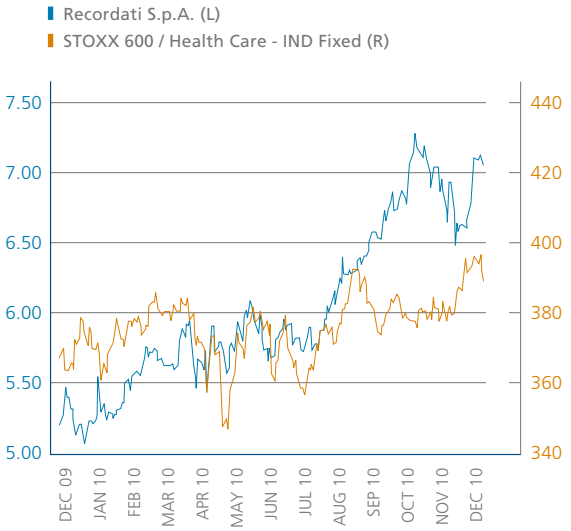
RECORDATI SHARE PERFORMANCE IN 2010

Relative to FTSE Italia All-Share



Source: FactSet

Relative to STOXX 600/Healthcare



Source: FactSet


27.3
27.36
27.35
27.34
27.33

Financial highlights

REVENUE

€ (thousands)	2010	%	2009	%	Change 2010/2009	%
Pharmaceuticals	702,270	96.4	720,636	96.4	(18,366)	(2.5)
Pharmaceutical chemicals	25,864	3.6	26,888	3.6	(1,024)	(3.8)
TOTAL REVENUE	728,134	100.0	747,524	100.0	(19,390)	(2.6)
Italy	199,531	27.4	212,688	28.5	(13,157)	(6.2)
International	528,603	72.6	534,836	71.5	(6,233)	(1.2)

KEY CONSOLIDATED DATA

€ (thousands)	2010	% of revenue	2009	% of revenue	Change 2010/2009	%
Revenue	728,134	100.0	747,524	100.0	(19,390)	(2.6)
EBITDA[1]	181,734	25.0	197,018	26.4	(15,284)	(7.8)
Operating income	154,784	21.3	162,204	21.7	(7,420)	(4.6)
Net income	108,580	14.9	110,566	14.8	(1,986)	(1.8)

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

KEY BALANCE SHEET DATA

€ (thousands)	31 December 2010	31 December 2009	Change 2010/2009	%
Net financial position[3]	45,967	(19,743)	65,710	n.s.
Shareholders' equity	576,006	508,979	67,027	13.2

(3) 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).

PER SHARE DATA

€ (thousands)	2010	2009	Change 2010/2009	%
Net income[4]	0.548	0.561	(0.013)	(2.3)
Shareholders' equity[4]	2.896	2.575	0.321	12.5
Dividend	0.275	0.275	0.0	0.0
SHARES OUTSTANDING:				
- average during the year	198,170,113	197,222,274		
- at December 31	198,919,051	197,652,801		

(4) Net income per share is based on average shares outstanding during the year net of average treasury stock. Average treasury stock amounted to 10,955,043 shares in 2010 and 11,472,355 shares in 2009. Shareholders' equity per share is based on total shares outstanding at year end net of treasury stock. Treasury stock amounted to 10,206,105 shares at 31 December 2010 and 11,472,355 shares at 31 December 2009.

2010 OPERATIONAL AND FINANCIAL REVIEWS

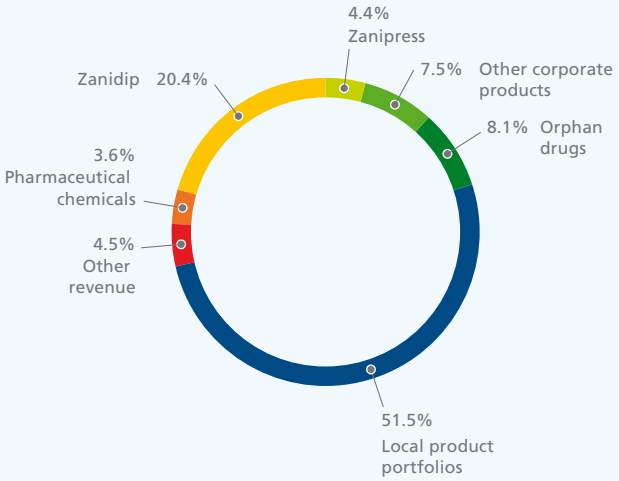
REVIEW OF OPERATIONS

€ (thousands)	2010	2009	Change 2010/2009	%
Pharmaceuticals	702,270	720,636	(18,366)	(2.5)
Pharmaceutical chemicals	25,864	26,888	(1,024)	(3.8)
TOTAL	728,134	747,524	(19,390)	(2.6)

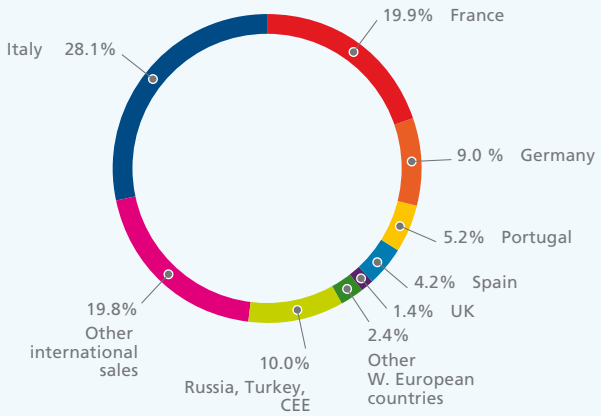
Both years include sales as well as income from up-front payments, royalties and miscellaneous items.

Revenues are down by 2.6% compared to the preceding year with a decrease of 1.2% in international revenues (€ 528.6 million) which now represent 72.6% of total revenue. Pharmaceutical revenue is € 702.3 million, slightly down (-2.5%) due to the lower sales of lercanidipine (-30.8%) due to the competition from generic versions of the product which, however, was mostly offset by the development of our presence in emerging markets, the growth of our drugs for the treatment of rare diseases and the revenues generated by our international licensing-out business. Sales of pharmaceutical chemicals are € 25.9 million, down by 3.8% and represent 3.6% of total revenue.

SALES BY BUSINESS



PHARMACEUTICAL SALES



PHARMACEUTICALS

The group's pharmaceutical business, which represents 96.4% of total revenue, is carried out prevalently in the main European markets through our own subsidiaries but also in the rest of the world through licensing agreements with pharmaceutical companies of high standing. We have gradually extended our European presence to all the main countries through the acquisition of existing marketing organizations with the aim to add our proprietary products, and those obtained under multi-territorial licenses, to the local portfolios. In recent years our portfolio of products marketed in multiple territories has grown. A description of the performance of products sold directly in more than one market (corporate products) during 2010 follows.

Zanidip® (lercanidipine), a calcium channel blocker for the treatment of hypertension discovered and developed by Recordati, is one of the most prescribed calcium channel blockers in the countries where it is present. On 21 January 2010 the composition of matter patent covering lercanidipine expired in the main European countries and therefore, 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. Our lercanidipine based products are sold directly to the market by our own marketing organizations in the five main European markets 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.

€ (thousands)	2010	2009	Change 2010/2009	%
Direct sales	85,491	140,884	(55,393)	(39.3)
Sales to licensees	63,229	74,065	(10,836)	(14.6)
Total lercanidipine sales	148,720	214,949	(66,229)	(30.8)

The reduction of direct sales is due mainly to the lower sales in Italy of Zanedip® and Lercadip® (-44.6%), which derives mostly from their price reduction following the market entry of generic versions of lercanidipine as from mid February, and to the loss in sales of lercanidipine in France (-49.1%) principally due to lower sales volumes as a result of generic competition. In Italy lercanidipine sales are € 27.1 million and in France they are € 26.8 million. Direct sales in the other countries have suffered an overall reduction of 19.6% while sales to licensees, which represent 42.5% of total lercanidipine sales, are down by 14.6%.

Zanipress® is a new 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, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Lebanon, Norway, the Netherlands, Portugal, South Africa and Spain and further launches are planned during 2011.

€ (thousands)	2010	2009	Change 2010/2009	%
Direct sales	19,946	10,548	9,398	89.1
Sales to licensees	11,712	10,218	1,494	14.6
Total lercanidipine+enalapril sales	31,658	20,766	10,892	52.5

In France the lercanidipine/enalapril fixed combination is marketed by Bouchara Recordati and by Pierre Fabre under their respective brands Zanextra® and Lercapress®. Sales of Zanextra® are € 7.2 million. Overall the product has achieved a market share of over 30% in a market segment which is growing by 90%.

In Germany Merckle Recordati sells Zanipress® (lercanidipine+enalapril), which recorded sales of € 6.8 million with an increase of 21.0%. The lercanidipine/enalapril fixed combination is also sold by Berlin Chemie (Menarini group) as Carmen ACE® and by Meda as Zaneril®. Overall this product is the leader in its class with a market share of 50%.

The lercanidipine/enalapril fixed combination is also sold directly by our marketing companies in Portugal, generating sales of € 3.3 million, in Spain with sales of € 2.0 million, in Greece and in Ireland. In Portugal the product is also sold by Delta (Rottapharm/Madaus group) and in Spain it is co-marketed by Meda and by Rottapharm/Madaus.

Lomexin® (fenticonazole), another original Recordati product, is an internationally and widely used antimycotic indicated for the treatment of dermatological and gynecological infections caused by fungi, mould, yeast and gram positive bacteria. Sales of this product for 2010 are € 10.7 million, up 16.8% over the preceding year.

Flavoxate is an antispasmodic for the treatment of urinary incontinence, also originated by Recordati, which is marketed internationally under the brands Genurin® and Urispas®. Sales of this product in 2010 are € 9.8 million, up by 17.3%.

Silodosin, originated by Kissei (Japan) and for which Recordati undertook the clinical development in Europe obtaining marketing approval in 2010 from the European regulatory authorities, is a new product indicated for the treatment of the symptoms of benign prostatic hyperplasia. The product was launched in Germany with the brand Urorec® in June. Urorec® was also launched in September in Spain, where it is co-marketed with Almirall (under the brand Silodyx™), and in Ireland. In November Urorec® was launched in France where the co-marketer is Zambon (which uses the brand Silodyx™). Overall initial sales of silodosin based products are € 2.1 million.

New products obtained under license for multiple territories are now marketed alongside Recordati's traditional proprietary portfolio. Kentera® is a bi-weekly oxybutynin transdermal patch indicated for the symptomatic treatment of urge incontinence and/or increased urinary frequency and urgency as may occur in patients with overactive bladder obtained under license from Watson Pharmaceuticals and marketed in 14 countries. Sales of Kentera® are € 6.1 million in 2010, slightly down compared to the preceding year.

TransAct® LAT, a transdermal patch containing 40 mg of flurbiprofen indicated for the symptomatic relief of localized pain involving the musculoskeletal system, obtained under license from Amdipharm, is sold on the Italian and Portuguese markets as from July 2009. Sales of this product are € 13.2 million in 2010.

Rupatadine is a systemic antihistamine indicated for the treatment of allergies and in particular allergic rhinitis. Under license from Uriach, it is marketed in Spain (Alergoliber®), Italy and Germany (Rupafin®) and as from 2010 in France (Wystamm®). Sales of all brands of rupatadine in 2010 total € 8.0 million, more than double those of the preceding year.

Isimig® (frovatriptan) is a specialty belonging to the triptan group of drugs indicated for the acute treatment of migraine attacks with or without aura. Under license from Menarini it is marketed in France (Isimig®) and Greece (Pitunal®). Sales of this product in 2010 are € 2.7 million.

Lopresor® (metoprolol) is a well known selective beta blocker for the treatment of different cardiovascular disorders, in particular hypertension and angina pectoris, acquired from Novartis for the Greek and other European markets. Sales of this product in 2010, booked starting from July, are € 2.2 million and are generated mostly in Greece.

Our specialties indicated for the treatment of rare and orphan diseases are handled by Orphan Europe that markets them directly all over Europe, in Turkey and in the Middle East and through partners in other parts of the world. Sales of these products in 2010 total € 58.7 million, an increase of 20.1%. The main products in this portfolio are Adagen® (pegademase bovine), indicated for the treatment of severe combined immunodeficiency disease associated with adenosine deaminase deficiency (SCID-ADA deficiency), Carbaglu® (carglumic acid), indicated for the treatment of hyperammonaemia due to N-acetylglutamate synthase deficiency (NAGS deficiency), and Normosang® (human haemin) indicated for the treatment of acute attacks of hepatic porphyria.

The pharmaceutical sales of the Recordati subsidiaries, which include the abovementioned product sales, are broken down as follows:

€ (thousands)	2010	2009	Change 2010/2009	%
Italy	196,979	210,634	(13,655)	(6.5)
France	139,927	162,357	(22,430)	(13.8)
Germany	63,314	65,782	(2,468)	(3.8)
Portugal	36,264	36,827	(563)	(1.5)
Spain	29,644	30,869	(1,225)	(4.0)
United Kingdom	9,857	15,144	(5,287)	(34.9)
Other Western European countries	16,861	15,601	1,260	8.1
Russia, Turkey, Czech Rep., other C.E.E. countries	70,270	54,838	15,432	28.1
Other international sales	139,154	128,584	10,570	8.2
Total pharmaceutical sales	**702,270**	**720,636**	**(18,366)**	**(2.5)**

Both years include sales as well as income from up-front payments, royalties and miscellaneous items

PHARMACEUTICALS, ITALY

€ (thousands)	2010	2009	Change 2010/2009	%
Prescription pharmaceuticals [a]	172,512	186,212	(13,700)	(7.4)
Self-medication pharmaceuticals [b]	24,467	24,422	45	0.2
Pharmaceuticals, Italy	196,979	210,634	(13,655)	(6.5)

(a) Prescription pharmaceuticals include both reimbursable and non-reimbursable drugs.
(b) Self-medication pharmaceuticals include OTC products and other pharmaceuticals not requiring a prescription.

Pharmaceutical sales in Italy are down by 6.5%. The performance of the main products is stated below.

€ (thousands)	Indication	2010	2009	Change 2010/2009	%
Zanedip®/Lercadip®	hypertension	27,106	48,929	(21,823)	(44.6)
Entact®	depression	34,861	32,547	2,314	7.1
Peptazol®	gastric ulcers	21,048	20,205	843	4.2
Tora-Dol®	pain	15,392	15,376	16	0.1
Rextat®/Lovinacor®	hypercholesterolemia	10,347	9.284	1,063	11.4
TransAct® LAT	pain	10,028	4.814	5,214	n.s.

The reduction in sales of Zanedip®/Lercadip® is due mainly to the decision to reduce their price in order to compete with the generic versions of lercanidipine which appeared on the market as from February. Entact® (escitalopram) is growing steadily and is now one of the leading drugs in its class on the anti-depressives market with a share of 12.1%. Sales of Peptazol® (pantoprazole) continue to grow thanks to volume increase. Tora-Dol® (ketorolac) sales are substantially stable despite generic competition. Rextat® and Lovinacor®, lovastatin based drugs indicated for the treatment of hypercholesterolemia, performed well. During 2009 TransAct® LAT, a flurbiprofene transdermal patch, entered the Italian portfolio.

Sales of self-medication products in 2010 are € 24.5 million, substantially in line with those of the preceding year. Sales of Alovex™, our best-selling self medication product indicated for the treatment of oral cavity aphthas, are up by 6.8% to € 5.4 million, consolidating its position as a reference product for this condition. Sales of Proctolyn® (treatment of haemorrhoids) increase by 2.5% and those of Imidazyl® (eye drops) remain substantially unchanged. Significant sales growth was also recorded for Eumill® (single dose eye drops) which, together with Imidazyl®, enhances Recordati's leadership in the eye drops market. Somac Control®, a pantoprazole based antiacid, was launched during 2010.

PHARMACEUTICALS, FRANCE

The 2010 revenue realized by our subsidiaries in France is € 139.9 million, down by 13.8% compared to the preceding year. The decrease is to be attributed mainly to the sales volume reduction of Zanidip® (lercanidipine) following the market entry in France of generic versions of lercanidipine. The following table shows sales of the main products.

€ (thousands)	Indication	2010	2009	Change 2010/2009	%
Zanidip®	hypertension	26,777	52,657	(25,880)	(49.1)
Methadone	drug addiction	20,262	17,646	2,616	14.8
Tenstaten®	hypertension	11,270	12,114	(844)	(7.0)
Hexa line	antibacterial	9,967	11,854	(1,887)	(15.9)
Zanextra®	hypertension	7,062	2,729	4,333	n.s.
Neocodion®	cough	7,018	7,918	(900)	(11.4)

On the other hand methadone sales, as well as revenues generated by drugs for rare diseases (+13.4%) grow significantly. Zanextra® (lercanidipine+enalapril), launched in 2009, is also performing well. The medicines to treat winter maladies such as the Hexa line of products (biclotimol) and the cough medicines Neocodion® and Exomuc® did not perform so well due to the relatively low incidence of seasonal ailments during the winter of 2010. In November Urorec® (silodosin) was launched in France.

PHARMACEUTICALS, GERMANY

Sales generated by our subsidiaries in Germany are € 63.3 million, down by 3.8% compared to the preceding year. The following table shows sales of the main products

€ (thousands)	Indication	2010	2009	Change 2010/2009	%
Claversal®	ulcerative colitis	15,166	16,363	(1,197)	(7.3)
Recosyn®/Suplasyn®	muscolo-skeletal	7,201	7,030	171	2.4
Zanipress®	hypertension	6,834	5,648	1,186	21.0
Ortoton®	muscle relaxant	5,061	4,256	805	18.9
Corifeo®	hypertension	3,715	5,550	(1,835)	(33.1)

Sales in Germany are down mainly due to the reduction of sales of Corifeo® (lercanidipine) as a result of the genericization of the molecule, and of Claversal® (mesalazine) the price of which was decreased. On the other hand, sales of Zanipress® (lercanidipine+enalapril) and of Ortoton® (metocarbamol) developed strongly and Urorec® (silodosin) was launched in June. Sales of the products for rare diseases are also growing significantly in this market (+9.3%).

PHARMACEUTICALS, PORTUGAL

Revenue generated by our subsidiaries in Portugal is € 36.3 million, down by 1.5% mainly due to the completion of the plan to reduce stocks in some distribution channels.

€ (thousands)	2010	2009	Change 2010/2009	%
Prescription pharmaceuticals	33,619	33,556	63	0.0
Self-medication pharmaceuticals	2,640	2,848	(208)	(7.3)
Other revenue	5	423	(418)	n.s.

Zanipress® (lercanidipine+enalapril), launched in 2009, is performing well with sales of € 3.3 million as is TransAct® LAT, a flurbiprofen based transdermal patch acquired in 2009, which generated sales of € 3.2 million in 2010. Sales of Zanidip® (lercanidipine) are down by 17.3%.

PHARMACEUTICALS, SPAIN

Revenues in Spain are € 29.6 million, down by 4.0% compared to the preceding year mainly due to the decrease in Zanidip® (lercanidipine) sales.

€ (thousands)	Indication	2010	2009	Change 2010/2009	%
Cidine®	gastroprokinetic	9,519	10,222	(703)	(6.9)
Zanidip®	hypertension	7,677	9,734	(2,057)	(21.1)
Dermatrans®	angina	2,208	2,851	(643)	(22.6)
Zanipress®	hypertension	1,985	506	1,479	n.s.

Zanipress® (lercanidipine+enalapril) which was launched in Spain in 2009 is performing well. During 2010 Urorec® (silodosin) was launched. Sales of products for rare diseases are up 16.6%.

PHARMACEUTICALS, UNITED KINGDOM

Sales in the United Kingdom are € 9.9 million, down by 34.9% and consist mainly of sales of lercanidipine and of products for the treatment of rare diseases. The latter increase by 7.3%.

OTHER WESTERN EUROPEAN COUNTRIES

Sales in other countries in Western Europe comprise sales of products for the treatment of rare diseases in a number of countries for a total of € 8.2 million, sales in Ireland generated by Recordati Ireland of € 2.4 million and sales in Greece generated by Recordati Hellas Pharmaceuticals of € 6.3 million. In both latter cases sales are almost entirely related to lercanidipine, Zanidip® in Ireland and Lercadip® in Greece. In both countries the lercanidipine/enalapril fixed association is available under the brands Lercaril® and Lercaprel® respectively.

RUSSIA, TURKEY, CZECH REPUBLIC AND OTHER CENTRAL AND EASTERN EUROPEAN COUNTRIES

Revenue generated in Russia and in the other countries within the Commonwealth of Independent States (C.I.S.) is € 27.4 million, up 21.5% over the preceding year. The best selling product in this area is Tergynan®, a medicine indicated for the treatment of gynecological infections, which recorded sales of € 13.4 million. Revenues include pharmaceutical promotion services rendered to third parties for a total of € 4.9 million.

Sales in Turkey recorded by Yeni Recordati are € 27.3 million, a growth of 51.9% over the preceding year, and include € 10.2 million sales of Lercadip® (lercanidipine), Urispas® (flavoxate) and Gyno-Lomexin® (fenticonazole), previously marketed by licensees and now sold directly by our subsidiary.

Sales generated by Herbacos Recordati in the Czech and Slovak Republics are € 12.2 million, unchanged compared to 2009.

During 2010 ArtMed International was acquired in Romania. Sales generated in this market during the second half of the year are € 0.2 million.

Sales in these markets of the specialty products indicated for the treatment of rare and orphan diseases amount to € 3.2 million and grow by 48.9%.

OTHER INTERNATIONAL SALES

Other international sales comprise the sales to and other revenues from our licensees for our original drugs as well as Bouchara Recordati's export sales, except those generated in the C.I.S. which are stated separately.

€ (thousands)	2010	2009	Change 2010/2009	%
Total sales to licensees	94,366	99,719	(5,353)	(5.4)
Bouchara Recordati (export sales)	24,268	23,125	1,143	4.9
Other income	20,520	5,740	14,780	257.5
Total	**139,154**	**128,584**	**10,570**	**8.2**

Sales to international licensees are down by 5.4% due to the decrease in sales of lercanidipine following the market entry of generic versions of the molecule. On the other hand, sales of the lercanidipine/enalapril fixed combination are growing (+14.6%). Sales of silodosin to co-marketers and to licensees, in those countries where Recordati is not present, started during 2010. Sales of flavoxate and of fenticonazole are down partly due to the termination of the license agreements in Turkey where the products are now sold directly by our subsidiary. Sales of products for the treatment of rare diseases in those countries where Orphan Europe is not present directly grow by 67.6% thanks to new license or distribution agreements.

Sales outside France by our French subsidiary Bouchara Recordati are up by 4.9% despite the 5.3% reduction of Zanidip® (lercanidipine) sales.

Other income refers to royalties and up-front payments generated by our international out-licensing business and is growing significantly thanks to the license and co-marketing agreements entered into with leading pharmaceutical companies for the sales and marketing of lercanidipine, silodosin and pitavastatin.

PHARMACEUTICALS

€ (thousands)	2010	%	2009	%	Change 2010/2009	%
Italy	2,552	9.9	2,054	7.6	498	24.2
Europe (Italy excluded)	8,722	33.7	10,229	38.1	(1,507)	(14.7)
America	8,087	31.3	8,937	33.2	(850)	(9.5)
Australasia	5,757	22.2	4,830	18.0	927	19.2
Africa	746	2.9	838	3.1	(92)	(11.0)
Total	**25,864**	**100.0**	**26,888**	**100.0**	**(1,024)**	**(3.8)**

Sales of pharmaceutical chemicals, which comprise active substances produced in the Campoverde d'Aprilia (Latina, Italy) plant, are down by 3.8% as compared to 2009, mainly due to reduced prices as volumes are substantially in line with those sold during the preceding year.

HEALTH, SAFETY AND ENVIRONMENT

The Recordati Group recognizes the management of the environment and safety at the workplace as one of its priorities.

Company policy is implemented through the careful organization of roles with regard to guaranteeing the safety and health of workers. A well-defined corporate organization combined with a systemic approach to the management of safety at the workplace ensures continuous improvement in management with the object of constantly reducing work-related and environmental risks.

In order to define an organization model specifically designed to address health and safety at the workplace, the Company has internal procedures in place to regulate these issues entitled "Procedures for Prevention Management, Accident Management and Medical Services" in which the Supervisory Body is directly involved.

The following common characteristics and measures are present within the system for the management of health, safety and the environment that the Recordati group employs in both its pharmaceutical chemicals and its pharmaceutical plants: risk assessment, training and information for workers, proper maintenance standards, environmental protection systems designed to minimize environmental impacts and appropriate emergency measures and compliance with local legislation on the subject. The group monitors and analyzes accidents and incidents that occur at the various production sites. The results of analyses in relation to industrial accidents are periodically submitted to the Audit Committee. Recordati employs a systemic approach to the management of health, safety and the environment, whereby it sets the specific objective not only of compliance with the various national regulations in force at different production sites, but also of continuous improvement in the management of these matters.

Risk assessment is the principal tool used in the safety management system. It is used to define risk control factors along with the relative measures for prevention and protection to be adopted or monitored in order to reduce the risk to the health and safety of workers to a minimum. The updating of the risk assessment document is a continuous activity, it records the sequence of the actions undertaken to improve the working environment and the activities in progress, and it also includes assessments of new activities or changes made to the work process. The theme of work related stress has already been included in the document and is the subject of specific evaluation, currently in an updating and adjustment phase in line with current legislation regulating this matter.

Training, information and awareness of the workers are considered to be fundamental tools in all matters related to health, safety and the environment. The execution of training and informative programs ensures the creation of awareness and prepares each individual as to their role within the whole company organization. The goal is to increase the attention placed by personnel on risks and the prevention measures put in place in order to reduce accident rates caused by human error, which is the main cause of accidents at the company. Training and the dissemination of information on the organization of safety in the company is provided for all employees, and thanks to the use of remote training the operational forces in the field are also systematically involved.

Maintenance is one of the key activities for prevention. Equipment, plant and machinery are subject to regular maintenance programmes performed by both internal and external personnel.

Out-sourcing to third party contractors is managed by special internal procedures which include: verification that the contractor is suitable and the joint compilation of the "Single Interference Risk Assessment Document" in order to co-ordinate activities and to reduce, and if possible eliminate, potential interferences between the work activities of external firms and the normal operations of the company.
During 2010 a project aimed at adapting and integrating the health and safety management system implemented at Recordati's headquarters in Milan in order to qualify for BS OHSAS 18001:07 certification was initiated and is ongoing.

Particular attention is placed on all aspects of an environmental nature, in order to protect the environment and to prevent any form of pollution.

The environmental factor is controlled and managed in the pharmaceutical chemicals plants within an environmental management system that is part of the general management system. It includes the organizational structure, planned activities, responsibilities, practices, procedures and resources to formulate, implement, review and maintain the company's environmental policies.

The environmental management system goes beyond carefully ensuring that laws and regulations for preventing potential incidents from occurring are complied with. It involves a programme of continuous improvement in corporate conduct towards the surrounding environment.

In July 2010 the Campoverde (Latina, Italy) plant passed an on-site inspection performed by the certifying body DNV (Det Norske Veritas), which renewed its certification of the environmental management system recognizing it as compliant with the UNI EN ISO 14001/04 standard.

FINANCIAL REVIEW

INCOME STATEMENT

The 2010 statement of income includes the consolidation, as from 1 July, of the newly acquired company ArtMed International. The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2009:

€ (thousands)	2010	% of revenue	2009	% of revenue	Change 2010/2009	%
Revenue	**728,134**	**100.0**	**747,524**	**100.0**	**(19,390)**	**(2.6)**
Cost of sales	(240,065)	(33.0)	(235,623)	(31.5)	(4,442)	1.9
Gross profit	**488,069**	**67.0**	**511,901**	**68.5**	**(23,832)**	**(4.7)**
Selling expenses	(216,478)	(29.7)	(223,724)	(29.9)	7,246	(3.2)
R&D expenses	(68,841)	(9.5)	(69,445)	(9.3)	604	(0.9)
G&A expenses	(44,026)	(6.0)	(43,718)	(5.8)	(308)	0.7
Other income (expense), net	(3,940)	(0.5)	(12,810)	(1.7)	8,870	(69.2)
Operating income	**154,784**	**21.3**	**162,204**	**21.7**	**(7,420)**	**(4.6)**
Financial income (expense), net	(3,787)	(0.5)	(5,800)	(0.8)	2,013	(34.7)
Other investments gain (loss), net	0	0.0	(3,752)	(0.5)	3,752	(100.0)
Pretax income	**150,997**	**20.7**	**152,652**	**20.4**	**(1,655)**	**(1.1)**
Provision for income taxes	(42,417)	(5.8)	(42,086)	(5.6)	(331)	0.8
Net income	**108,580**	**14.9**	**110,566**	**14.8**	**(1,986)**	**(1.8)**
Attributable to:						
Equity holders of the parent	108,571	14.9	110,560	14.8	(1,989)	(1.8)
Minority interests	9	0.0	6	0.0	3	50.0

In 2010 international revenues went from € 534.8 million to € 528.6 million, a decrease of 1.2%, and represent 72.6% of total revenue, up as compared to the preceding year. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2010	2009	Change 2010/2009	%
Europe (Italy excluded)	447,820	84.7	465,408	87.0
Australasia	41,794	7.9	34,112	6.4
Africa	20,534	3.9	19,304	3.6
America	18,455	3.5	16,012	3.0
Total	**528,603**	**100.0**	**534,836**	**100.0**

Gross profit is € 488.1 million with a margin of 67.0% on sales, a reduction compared to the preceding year due to the lower proportion of lercanidipine sales to total sales.

Selling expenses decrease by 3.2% following the restructuring of the sales organizations which was implemented during the preceding year.

R&D expenses, at € 68.8 million, remain substantially unchanged compared to the preceding year and now represent 9.5% of sales. Included is the € 10.0 million up-front payment to Nymox for the acquisition of development and marketing rights to NX-1207, an experimental drug for the treatment of benign prostatic hyperplasia.

G&A expenses are also unchanged as compared to those incurred in 2009.

Labor cost in 2010 is € 182.2 million, down by 1.9% compared to 2009. The decrease in the number of employees is due to the restructuring of the sales and marketing organizations implemented during 2009. Personnel and other human resources data at 31 December 2010 and 2009 are shown in the following table:

€ (thousands)	2010	2009
Employees at year-end	**2,792**	**2,830**
Average age	42	42
Average service (years)	7.3	7.0
Labor cost increase (decrease)	**(1.9)%**	**4.6%**
Labor productivity:		
Labor cost on net sales	25.0%	24.8%
Sales per employee (€ thousands) [(a)]	270.7	273.2
Value added per employee (€ thousands) [(a)]	135.3	139.9

Labor cost includes wages, related charges and additional costs.
(a) Data per employee for both years are computed on the average number of personnel, 2,689 in 2010 and 2,737 in 2009.

The strengthening of our corporate organization continued in order to ensure the integration, monitoring and coordination of the foreign subsidiaries in accordance with our internationalization strategy. Personnel training and development represented a substantial portion of the Group's efforts also in 2010. In particular, investments were made for the training of medical representatives and researchers.

Other expenses net of other income at € 3.9 million include the € 2.6 million pay-back due to AIFA (the Italian medicines agency) in substitution for the 5% price reduction on selected products, an estimated amount of € 1.2 million which results from a mandatory discount of 1.83% on the retail selling price of reimbursed medicines to be paid to the Italian regional healthcare systems, and a provision of € 0.6 million following the sentence issued by the Milan Court of Appeal in respect of the litigation with certain savings shareholders (see Note 34 to the Consolidated Financial Statements).

Net financial charges are € 3.8 million, down as compared to 2009 due to lower interest rates, to the reduction of bank overdrafts and short-term loans and to currency exchange gains.

The effective tax rate during the year is 28.1%, slightly above that of the preceding year.

Net income is € 108.6 million, down by 1.8% compared to the preceding year.

FINANCIAL POSITION

Cash generation was strong also during 2010. The net financial position at 31 December 2010 is positive and increases by € 65.7 million over that at 31 December 2009 despite the distribution of dividends for an amount of € 54.4 million and investments made during the year for the future development of the group.

Investment in intangible assets includes the payment of € 14.0 million to Novartis for the acquisition of the cardiovascular drug Lopresor® (metoprolol) and a milestone payment of € 6.3 million due to Kissei following the marketing approval obtained for silodosin. Furthermore a further installment of € 4.5 million for the acquisition of marketing rights to TransAct® LAT was paid.

An amount of € 8.1 million was invested in property, plant and equipment, mainly involving the Milan headquarters and the production plants in Campoverde di Aprilia (Italy) and in Saint Victor (Montluçon, France).

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009	%
Cash and short-term financial investments	161,680	93,775	67,905	72.4
Bank overdrafts and short-term loans	(3,506)	(28,852)	25,346	(87.8)
Loans – due within one year[1]	(16,265)	(2,419)	(13,846)	n.s.
Net liquid assets	**141,909**	**62,504**	**79,405**	**127.0**
Loans – due after one year[1]	(95,942)	(82,247)	(13,695)	16.7
Net financial position	**45,967**	**(19,743)**	**65,710**	**n.s.**

(1) Includes change in fair value (fair value hedge).

Cash is temporarily invested short term with the intention of keeping it available for future investments for the development of the group.

Net working capital for operations at 31 December 2010 is € 63.0 million and is thus comprised:

€ (thousands)	31.12.2010	% of revenue	31.12.2009	% of revenue	Change 2010/2009	%
Trade receivables, net	126,575	17.4	132,621	17.7	(6,046)	(4.6)
Inventories	85,190	11.7	86,627	11.6	(1,437)	(1.7)
Other current assets	29,559	4.1	25,597	3.4	3,962	15.5
Current assets	**241,324**	**33.1**	**244,845**	**32,8**	**(3,521)**	**(1.4)**
Trade payables	93,068	12.8	81,751	10.9	11,317	13.8
Tax payable	9,691	1.3	12,555	1.7	(2,864)	(22.8)
Other current liabilities	75,569	10.4	70,901	9.5	4,668	6.6
Current liabilities	**178,328**	**24.5**	**165,207**	**22.1**	**13,121**	**7.9**
Net working capital for operations	**62,996**	**8.7**	**79,638**	**10.7**	**(16,642)**	**(20.9)**
Days of sales outstanding	68		61			
Inventories as % of cost of sales	35,5%		36.8%			

RECONCILIATION BETWEEN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY AND NET INCOME AND GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND NET INCOME

The reconciliation between the parent company's shareholders' equity and net income and the Group consolidated shareholders' equity and net income is as follows:

	Shareholders' equity		Net income for the year	
€ (thousands)	31.12.2010	31.12.2009	2010	2009
Recordati S.p.A.	321,151	300,830	67,892	70,068
Consolidation adjustments:				
Margin in inventories	(20,536)	(20,455)	(81)	(493)
Related deferred tax	6,454	6,425	29	154
Other adjustments	(47)	(48)	(455)	(282)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already booked by Recordati S.p.A.	176,376	144,404		
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	93,172	83,982	93,172	83,982
Dividends received from consolidated subsidiaries			(51,986)	(48,869)
Translation adjustments	(592)	(6,178)		
Consolidated financial statements	**575,978**	**508,960**	**108,571**	**110,560**

RELATED PARTY TRANSACTIONS

The balance sheet accounts as at 31 December 2010 include current liabilities and non-current liabilities, each for an amount of € 0.4 million, due to Mr. William Gunnarsson, a member of the Board of Directors of Recordati S.p.A., in connection with the acquisition of the Orphan Europe group of companies.

Other assets include an estimated net tax amount of € 3.5 million, computed by Recordati S.p.A. based on estimated taxable income, receivable from the controlling company Fimei S.p.A. 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.

FOURTH QUARTER 2010

€ (thousands)	IV quarter 2010	%	IV quarter 2009	%	Change 2010/2009	%
Revenue	**179,505**	**100.0**	**191,337**	**100.0**	**(11,832)**	**(6.2)**
Cost of sales	(60,575)	(33.7)	(58,597)	(30.6)	(1,978)	3.4
Gross profit	**118,930**	**66.3**	**132,740**	**69.4**	**(13,810)**	**(10.4)**
Selling expenses	(52,565)	(29.3)	(55,104)	(28.8)	2,539	(4.6)
R&D expenses	(22,820)	(12.7)	(19,923)	(10.4)	(2,897)	14.5
G&A expenses	(12,844)	(7.2)	(11,496)	(6.0)	(1,348)	11.7
Other income (expense), net	229	0.1	(5,860)	(3.1)	6,089	(103.9)
Operating income	**30,930**	**17.2**	**40.357**	**21.1**	**(9,427)**	**(23.4)**
Financial income (expense), net	(514)	(0.3)	(1,341)	(0.7)	827	(61.7)
Other investments gain (loss), net	0	0.0	(3,752)	(2.0)	3,752	(100.0)
Pretax income	**30,416**	**16.9**	**35,264**	**18.4**	**(4,848)**	**(13.7)**
Provision for income taxes	(8,862)	(4.9)	(9,975)	(5.2)	1,113	(11.2)
Net income	**21,554**	**12.0**	**25,289**	**13.2**	**(3,735)**	**(14.8)**
Attributable to:						
Equity holders of the parent	21,550	12.0	25,288	13.2	(3,738)	(14.8)
Minority interests	4	0.0	1	0.0	3	300.0

Revenues during the fourth quarter 2010 are € 179.5 million, a decrease of 6.2% compared to the same period of the preceding year. Pharmaceutical sales are € 172.6 million, down 6.7% compared to the fourth quarter 2009 due to the reduction of the sales of lercanidipine based products consequent to the market entry of their generic versions. Pharmaceutical chemicals revenue, at € 6.9 million, is up by 9.5% over the same period of the preceding year.

Operating income is € 30.9 million, down by 23.4%, and at 17.2% of sales is lower than that of the preceding quarters due mainly to the strong increase in R&D expenses which include the up-payment of € 10.0 million to Nymox Pharmaceutical Corporation for the acquisition of the development and marketing rights to a new innovative product for the treatment of benign prostatic hyperplasia.

Net income is down 14.8%, less than the decrease in operating income due to the lower incidence of financial expenses.

MAIN RISKS AND UNCERTAINTIES

The principal risk factors to which the Group is exposed are described below with an indication of the management strategies and policies pursued. They have been classified as follows:

- Risks associated with the external context
- Risks associated with strategy and operations
- Financial risks
- Legal and compliance risks

RISKS ASSOCIATED WITH THE EXTERNAL CONTEXT

Risks associated with changes in legislation and regulations governing the pharmaceutical sector

The pharmaceuticals sector is heavily regulated locally, nationally and internationally and this affects activities at all levels. Group sales consist mainly of products subject to medical prescription which are reimbursed by national healthcare services or other medical insurance schemes which are, however, prevalently of a public nature . While on the one hand this situation protects the Group from general economic trends, on the other it exposes it to changes in local legislation governing public spending on healthcare. For many years the Group has pursued a policy of diversifying and expanding its sales on several geographical markets in order to mitigate dependency on decisions by single national governments to control spending on pharmaceuticals. The pharmaceuticals sector is also exposed to national and international technical standards which regulate pharmaceutical research and development, production and promotion. The Group implements a policy to constantly monitor changes in regulations on all the markets on which it operates, with dedicated organisational units in the Parent Company and in subsidiaries designed to identify and rapidly adopt the most appropriate response strategies.

Risks associated with business expansion into emerging markets

The policies pursued by the Group include the expansion of operations in central and eastern European countries with the highest potential for development and the strongest growth rates. Operations in those countries could present risks associated with political, economic, currency, regulatory and fiscal instabilities or discontinuities. Recordati carefully assesses all growth opportunities in these countries in order to mitigate exposure to these uncertainties and where possible it prefers to acquire local companies with a smaller outlay of capital, rather than other companies that are more exposed to country risk.

Risks associated with market competition

The Group, like any company operating in the pharmaceuticals sector, is subject to competition from products which could determine a contraction in its market share. These consist of both new pharmaceuticals launched by competitors in the same therapeutic classes in which the Group is present and also generic versions of pharmaceuticals coming to market when patents expire. While the Group monitors the market continuously to detect the introduction of competing pharmaceuticals as soon as possible, it also manages risk by pursuing a policy to progressively diversify and broaden the range of its product portfolio in order to reduce dependency on a small number of strategic pharmaceuticals.

RISKS ASSOCIATED WITH STRATEGY AND OPERATIONS

Risks associated with the internationalization of the Group

The Group currently operates in a growing number of countries and is therefore subject to risks arising from the complexity of conducting operations in delocalized areas. In order to address this situation, the Group has put a management system in place with central units which integrate, monitor and co-ordinate the operations of local units on which operational and marketing powers are conferred to be exercised in compliance with guidelines and within limits indicated by the Group.

Risks associated with the expiry of patents

The pharmaceuticals industry makes large investments in research and development and as a consequence it enjoys a high degree of protection on its intellectual properties. Therefore, the expiry of patents covering important pharmaceuticals in product portfolios and the consequent introduction onto the market of generic versions exposes companies to reductions in revenues which can be large. As far as the Group is concerned, the patent for lercanidipine, an important pharmaceutical in the product portfolio, expired at the beginning of 2010 in the main European countries. In order to counter the reduction in this product's sales as a result of future competition from generic pharmaceuticals, the Group plans to launch new products that are currently being registered and also to broaden its operations onto new markets with high growth rates.

Risks associated with investments in research and development

The competitive positioning of the Group depends on the continuous development of its product portfolio through the research and development of new molecules and pharmaceutical products in which it invests a substantial part of its resources. Given the complexity and long periods involved in these initiatives, it is not possible to be certain that investments in research and development will always produce the expected results, because the research conducted may fail or the necessary authorisations to market products may not be obtained. In order to mitigate exposure to these risks, the Group constantly monitors the intermediate results generated at the various stages of the research and development process, in order to select and move forward only with the most reliable initiatives that have the highest probability of an economic return and success. Additionally, prudentially, the costs for investments in research and development are fully expensed in the accounting period in which they are incurred.

Risks associated with the launch of new products

A risk exists in the pharmaceuticals sector that delays in the development process, or in the issue of the necessary authorizations by regulatory authorities, may result in product launches occurring behind schedule with a consequent delay in the achievement of growth targets. In order to mitigate that risk Recordati pursues two policy lines. One is to broaden and balance its pipeline of products, implemented by acquiring pharmaceuticals that are already registered or are about to be registered, or of new products at different stages of development. The other is to pursue a plan of geographical diversification designed to limit dependence on the regulatory authorities of a single country.

Risks associated with pharmacovigilance

The Group, as a holder of drug marketing authorizations, must comply with regulations on pharmacovigilance. These regulations require that holders of marketing authorizations submit to the regulatory bodies information regarding drug safety, within the time limits and in the manner established by these, with particular regard to adverse reactions. The ascertainment

of serious adverse drug reactions can expose the Group to the risk of restrictions being placed on the prescription of a drug, and in the most serious cases, authorization to market the product can be revoked. In order to efficiently handle this risk and to comply with national regulations in the countries where the Group operates, Recordati has assigned specific pharmacovigilance responsibilities within its organizations and has put integrated systems in place to collect, assess, manage and submit the information required to the competent authorities. On the basis of currently available information there are no indications with regard to pharmacovigilance to suggest that critical situations exist for Group products.

Risks associated with the production process

The Group has production plants which produce both intermediate products and active ingredients and also finished pharmaceutical products. Production is by its nature exposed to potential risks of interruption which, if they were to have significant or long lasting effects – caused for example by natural disasters, the revocation of production permits and licenses, interruptions in the supply of important raw materials or energy – could have adverse consequences on the continuity and regularity of sales. In order to mitigate the effects of long lasting interruptions in production processes, the Group uses only reliable suppliers, approved as complying with the relevant technical standards. It also constantly monitors the availability of raw materials and strategic excipients, in order to promptly identify potential local or world "out-of-stock" situations and to take the necessary action to guarantee production autonomy and, in addition, it has identified alternative production sites. Furthermore, in order to reduce losses resulting from potential interruptions or damage to production cycles, the Group has taken out insurance policies for loss of profit and to cover plant rebuilding costs.

Chemical and pharmaceutical production is subject to obligations to comply with environmental, health and safety regulations and with international good manufacturing practices, which are codified in standard operating procedures applicable to the pharmaceuticals sector. It is also subject to inspections by the competent national and international authorities. In order to guarantee proper compliance with those regulations, the Group has put organisational units in place with specific continuous verification and monitoring functions. In addition to this, the environmental management system of the Group's main production plant, located at Campoverde di Aprilia, obtained certification from the accredited international body DNV (Det Norske Veritas, Italy) of compliance with the UNI EN ISO 14001:1996 standard in 2003, which was subsequently confirmed with certification for the UNI EN ISO 14001:2004 standard.

FINANCIAL RISKS

Credit Risk

Credit risk is exposure to potential losses resulting from commercial counterparties failing to meet their obligations. The Group closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system.

Interest Rate Risk

The Group raises funds using debt and invests excess cash in money market and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Group's net financial charges. The Group's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or by using derivative financial instruments for the sole purpose of minimizing such fluctuations and not for speculation. This hedging policy, combined with the low level of net debt, limits the Group's exposure to the risk of fluctuations in interest rates.

Foreign Currency Risk

The Group operates in an international context and has assets and transactions denominated in foreign currency other than euro. It is therefore exposed to risks of foreign currency fluctuations which can affect is operating results and the value of its equity. In the current organization, the net exposure for trade transactions in foreign currency is, however, marginal when compared to the Group's business volumes. Financial assets and liabilities are denominated mainly in euro and when they are in foreign currency, they are hedged with derivatives contracts entered into for the sole purpose of hedging and not for speculation.

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 Group's liquidity are, on the one hand, the cash 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. The Group has at its disposal an ample supply of liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's loans and its financial assets are set out in notes 17, 20 and 29 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group 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 at their natural due dates.

LEGAL AND COMPLIANCE RISKS

Risks associated with product liability

Despite careful compliance with standards and regulations, like any company operating in the pharmaceuticals sector, the Group could be exposed to risks of claims for damages caused by its pharmaceuticals. In order to meet those potential liabilities, the Group has taken out insurance policies to cover all the products marketed and under development. The maximum liability limits are considered adequate and are constantly monitored.

Risks associated with compliance

All operating and marketing activities performed by the Group, both in Italy and abroad, are performed in compliance with the legislation and regulations that apply in the geographical areas in which it operates, including national and international technical standards that apply to the pharmaceuticals sector which regulate pharmaceutical research and development, production, distribution and promotion. As concerns the regulation of drug promotion activities, the Group has formulated a set of ethical rules of conduct. All company personnel are continuously informed of those rules and monitoring, both internally and by independent certifiers, is performed constantly to ensure that they are properly observed. In compliance with Legislative Decree 231/2001 on the administrative liability of legal entities, the Italian companies in the Group have an "Organisation, Management and Control Model" that is continuously updated to comply with the latest amendments to the relevant legislation.

Risks associated with legal action

It is always possible that the Group may be required to meet costs resulting from litigation of various types. In these cases the Group may be called upon to pay extraordinary costs with consequences for operating and financial results. A detailed description of litigation in progress and the relative provisions made to meet future liabilities is given in notes 27 and 34 to the financial statements.

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

In January 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.

Group consolidated sales during the first two months of 2011 are in line with the company's expectations for the whole year which target sales of around € 750 million, operating income of around € 160 million and net income of around € 110 million.

CONSOLIDATED FINANCIAL STATEMENTS

Recordati S.p.A and Subsidiaries
Consolidated Financial Statements at and for the year ended 31 December 2010

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 the interpretations of the International Financial Interpretation Reporting Committee (IFRIC) previously named Standing Interpretations Committee (SIC). The financial statements comply with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting standards were used in the preparation of the financial statements at 31 December 2009.

RECORDATI S.p.A. AND SUBSIDIARIES CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

INCOME STATEMENT

€ (thousands)	Note	2010	2009
Revenue	3	728,134	747,524
Cost of sales	4	(240,065)	(235,623)
Gross profit		488,069	511,901
Selling expenses	4	(216,478)	(223,724)
R&D expenses	4	(68,841)	(69,445)
G&A expenses	4	(44,026)	(43,718)
Other income (expense), net	4	(3,940)	(12,810)
Operating income		154,784	162,204
Financial income (expense), net	5	(3,787)	(5,800)
Other investments gain (loss), net		0	(3,752)
Pretax income		150,997	152,652
Provision for income taxes	6	(42,417)	(42,086)
Net income		108,580	110,566
Attributable to:			
Equity holders of the parent		108,571	110,560
Minority interests		9	6
Earnings per share			
Basic		€ 0.548	€ 0.561
Diluted		€ 0.524	€ 0.541

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 2009.
Diluted earnings per share is calculated taking into account stock options granted to company personnel

RECORDATI S.p.A. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2010

ASSETS

€ (thousands)	Note	31 December 2010	31 December 2009
Non-current assets			
Property, plant and equipment	7	53,017	55,381
Intangible assets	8	113,512	96,512
Goodwill	9	305,741	303,653
Other investments	10	1,930	3,716
Other non-current assets	11	2,485	3,804
Deferred tax assets	12	20,221	21,793
Total non-current assets		496,906	484,859
Current assets			
Inventories	13	85,190	86,627
Trade receivables	14	126,575	132,621
Other receivables	15	26,734	22,990
Other current assets	16	2,825	2,607
Fair value of hedging derivatives *(fair value hedge)*	20	1,164	0
Short-term financial investments, cash and cash equivalents	17	161,680	93,775
Total current assets		404,168	338,620
Total assets		901,074	823,479

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2010

EQUITY AND LIABILITIES

€ (thousands)	Note	31 December 2010	31 December 2009
Shareholders' equity			
Share capital		26,141	26,141
Additional paid-in capital		83,719	83,719
Treasury stock		(52,579)	(59,103)
Hedging reserve *(cash flow hedge)*		(4,299)	(4,040)
Translation reserve		(592)	(6,178)
Other reserves		25,733	25,025
Retained earnings		389,284	332,836
Net income for the year		108,571	110,560
Group shareholders' equity	18	575,978	508,960
Minority interest	19	28	19
Shareholders' equity		576,006	508,979
Non-current liabilities			
Loans – due after one year	20	96,767	79,990
Staff leaving indemnities	21	19,259	19,895
Deferred tax liabilities	22	5,699	5,661
Other non-current liabilities	23	606	6,179
Total non-current liabilities		122,331	111,725
Current liabilities			
Trade payables	24	93,068	81,751
Other payables	25	53,536	48,406
Tax liabilities	26	9,691	12,555
Other current liabilities		620	517
Provisions	27	21,413	21,978
Fair value of hedging derivatives *(cash flow hedge)*	28	4,299	4,040
Fair value of hedging derivatives *(fair value hedge)*		0	2,257
Loans – due within one year	20	16,604	2,419
Bank overdrafts and short-term loans	29	3,506	28,852
Total current liabilities		202,737	202,775
Total equity and liabilities		901,074	823,479

RECORDATI S.p.A. AND SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

€ (thousands)	2010	2009
Net income for the year	108,580	110,566
Gains/(losses) on cash flow hedges	(259)	(1,508)
Gains/(losses) on translation of foreign financial statements	5,586	918
Other gains/(losses)	(190)	0
Income and expense for the year recognized directly in equity	5,137	(590)
Comprehensive income for the year	113,717	109,976
Attributable to:		
Equity holders of the parent	113,708	109,970
Minority interests	9	6

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 year	Minority Interest	Total
Balance at 31 December 2008	**26,063**	**81,320**	**(59,103)**	**(2,532)**	**(7,096)**	**25,733**	**280,920**	**100,424**	**13**	**445,742**
Allocation of 2008 net income:										
- Dividends								(49,259)		(49,259)
- Retained earnings							51,165	(51,165)		
Issue of share capital	78	2,399								2,477
Increase in the reserve for share based payments						(708)	750			42
Other changes							1			1
Comprehensive income for the year				(1,508)	918			110,560	6	109,976
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						890	543			1,433
Sale of own shares			6,524				(294)			6,230
Other changes							2			2
Comprehensive income for the year				(259)	5,586	(190)		108,571	9	113,717
Balance at 31 December 2010	**26,141**	**83,719**	**(52,579)**	**(4,299)**	**(592)**	**25,733**	**389,284**	**108,571**	**28**	**576,006**

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

€ (thousands)	2010	2009
Operating activities		
Cash flow		
Net Income	108,580	110,566
Depreciation of property, plant and equipment	10,645	11,103
Amortization of intangible assets	16,305	23,711
Write-down of assets	305	3,797
Total cash flow	**135,835**	**149,177**
(Increase)/decrease in deferred tax assets	1,572	857
Increase/(decrease) in staff leaving indemnities	(636)	271
Increase/(decrease) in other non-current liabilities	(5,535)	539
	131,236	**150,844**
Changes in working capital		
Trade receivables	6,046	5,248
Inventories	1,437	(2,261)
Other receivables and other current assets	(3,942)	(208)
Trade payables	11,307	(8,931)
Tax liabilities	(2,876)	2,260
Other payables and other current liabilities	5,182	1,185
Provisions	(7,815)	6,882
Changes in working capital	**9,339**	**4,175**
Net cash from operating activities	**140,575**	**155,019**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(8,237)	(7,962)
Net (investments)/disposals in intangible assets	(26,340)	(20,435)
Net (increase)/decrease in equity investments	290[1]	(20,034)[2]
Net (increase)/decrease in other equity investments	1,786	64
Net (increase)/decrease in other non-current receivables	1,319	1,395
Net cash used in investing activities	**(31,182)**	**(46,972)**
Financing activities		
Medium/long term loans	30,000	0
Net financial position of acquired companies	55	1,680
Issue of share capital	0	78
Additional paid-in capital	0	2,399
Change in Treasury stock	6,230	0
Effect of application of IAS/IFRS	1,243	42
Other changes in equity	2	1
Re-payment of loans	(2,484)	(2,926)
Dividends paid	(54,355)	(49,259)
Change in translation reserve	3,167	754
Net cash from/(used in) financing activities	**(16,142)**	**(47,231)**
Changes in short-term financial position	**93,251**	**60,816**
Short-term financial position at beginning of year *	64,923	4,107
Short-term financial position at end of period *	158,174	64,923

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

(1) *Acquisition of Artmed International (300): Working capital 52, Cash and cash equivalents (55), Fixed assets (64),Goodwill (258), Medium and long-term loans 25. Change in Herbacos-Bofarma goodwill 590.*

(2) *Acquisition of Herbacos-Bofarma: Working capital (126), Cash and cash equivalents (1,680), Fixed assets (7,751), Goodwill (13,667), Deferred tax liabilities 713, Medium and long-term loans 2,477.*

RECORDATI S.p.A. AND SUBSIDIARIES

Notes to the consolidated financial statements for the year ended 31 december 2010

1. GENERAL

The consolidated financial statements at 31 December 2010 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.

The consolidation perimeter changed during the year and at 31 December 2010 includes the company ArtMed International Srl, dedicated to the promotion of pharmaceutical products in Romania, which was acquired in June. The profit and loss accounts of the company are consolidated as from 1 July while the consolidated cash flow statement includes the effect of the balance sheet accounts consolidated at 30 June. The recognition of this company in the accounts is to be considered final.

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 financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/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 same accounting policies applied in the preparation of the consolidated financial statements at 31 December 2010 were used in the preparation of the financial statements at 31 December 2009.

No significant changes in accounting policies were applied in the preparation of the consolidated financial statements.

The financial statements of the consolidated companies, prepared by the Board of Directors or the Sole Directors for submission to the respective Shareholders' meetings, have been reclassified and adjusted as required in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS). The criteria applied is consistent with that of the consolidated financial statements at 31 December 2009.

The financial statements have been prepared on the historical cost basis, except for the financial assets available for sale included under the line "Other investments", hedging derivatives (and the relative underlying hedged financial liability) for which their fair value has been applied as prescribed by IAS 39 and defined benefit plans for which the actuarial valuation was carried out as prescribed by IAS 19.

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.

The principal accounting policies adopted are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared according to the same accounting policies adopted by the Company. Where necessary, adjustments are made to bring the accounting policies used in line with those used by the Company.

All intercompany transactions and balances between group enterprises, including unrealized gains, are eliminated on consolidation. Intragroup losses are also eliminated unless they indicate an impairment that requires recognition in the consolidated financial statements.

Subsidiaries are included in the consolidated financial statements from the effective date control is acquired up to the effective date control is transferred out of the group. When control is no longer exercised over a consolidated subsidiary, the results of the subsidiary are consolidated proportionally to the time period during which control was maintained.

The line-by-line consolidation method is applied using the following criteria:

a. The book value of investments in consolidated subsidiaries is eliminated against the relevant shareholders' equity while the assets and liabilities are consolidated on a line-by-line basis.
b. Intercompany payables and receivables and transactions, as well as intra-group profits and losses not yet realized, are eliminated.
c. Any excess of the cost of acquisition over the value of equity at the date of acquisition is recognized as goodwill.
d. Minority interests in the equity of consolidated subsidiaries are shown separately under equity, while minority interests in the net income of such companies are shown separately in the consolidated income statement.

The financial statements of foreign subsidiaries expressed in currencies other than Euro are translated into Euro as follows:
- Assets and liabilities, at year-end exchange rates;
- Shareholders' equity at historical exchange rates;
- Income and expense items at the average exchange rates for the year;
- The goodwill resulting from the acquisition of a foreign company is recognized in the currency of the country in question and translated at year-end exchange rates.

Translation differences arising from this process are shown in the consolidated statement of comprehensive income.

BALANCE SHEET

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

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.

Leasing - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments, and depreciated over their estimated useful life. The corresponding liability to the lessor is included in the balance sheet as a financial liability. Lease payments are apportioned between finance charges and reduction of the financial liability. Finance charges are charged directly in the income statement.

All other leases are classified as operating leases and the rentals payable are charged to income as per the terms of the relevant lease.

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 as from the year of the first sale of relevant products. Amortization of distribution and license rights is calculated over the duration of the contract.

Goodwill - Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and reviewed annually in order to determine any impairment loss.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of remaining goodwill is included in the determination of the profit or loss on disposal.

Impairment - At each balance sheet date, the Group 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 (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 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 (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 (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 associates - An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

Other investments - Other investments are those described by IAS 39 as available-for-sale financial assets. They comprise equity instruments and are measured at fair value. If their market value is not available and their fair value cannot be reasonably determined, these investments are valued at cost and adjusted for loss of value (impairment) if required. The impairment cost is recognized in the income statement.

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, 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, supplies and promotional material are valued at their average 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 manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production.

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.

Non-current assets held for sale and discontinued operations - Comprise those components of an entity, whose operations and cash flows can be distinguished operationally and for financial reporting purposes, that either have been disposed of or that satisfy the criteria to be classified as held for sale.

A non-current asset (or disposal group) classified as held for sale is measured at the lower of fair value less costs to sell it and its carrying amount.

Non-current assets or disposal groups that are classified as held for sale are not depreciated.

Equity - Equity instruments issued by the Company are recorded at the proceeds received. 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 amortised cost method as prescribed by IAS 39. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

If the loans are covered 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 on the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liability recognised in the balance sheet for post-employment benefit plans is the present value of the defined benefit obligation, as adjusted for unrecognised 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.

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 Group 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 hedging instrument qualifying as a "fair value hedge" is recognized immediately in net 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 in net 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 in the consolidated statement of comprehensive income.

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 in net 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 net 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 retranslated on the balance sheet date.

On consolidation, the assets and liabilities of the Group's foreign currency operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in the consolidated statement of comprehensive income and included in the Group's translation reserve. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

INCOME STATEMENT

Revenues - Revenues are recognized when it is probable that the economic benefits associated with the transaction will flow to the Group 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.

Cost of Sales - Represents the cost of goods sold and includes the cost of raw materials, supplies and consumables, finished goods, and direct and indirect production expenses.

Selling expenses - Include all expenses incurred in connection with the products sold during the year, such as payroll and other costs for sales and marketing personnel, promotional expenses and all distribution costs. Promotional expenses for the launch of new products are recognized in the income statement in proportion to the revenues obtained during the launch period.

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 prescribes that development costs must be capitalized when technical and commercial feasibility is achieved. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines under IAS 38 are not met so that development costs are expensed as incurred. 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. Research grants are booked on an accrual basis and are recognized in the income statement as 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 Group 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 number of shares for the effects of all dilutive potential ordinary shares.

3. REVENUE

Net revenue for the years 2010 and 2009 is € 728.1 million and € 747.5 million respectively and can be broken down as follows:

€ (thousands)	2010	2009	Change 2010/2009
Net sales	694,621	729,935	(35,314)
Royalties	7,029	6,227	802
Up-front payments	18,871	4,266	14,605
Other revenue	7,613	7,096	517
Total revenue	728,134	747,524	(19,390)

Please refer to the Review of Operations for the analysis of net sales.

Revenue from up-front payments is € 18.9 million (€ 4.3 million in 2009) and increases significantly over the preceding year thanks to the international licensing-out of corporate products. Among the most significant agreements the following deserve mentioning: the agreement concluded with Leespharm for the marketing and sales of lercanidipine in China, the co-marketing agreements for the commercialization of pitavastatin in Italy and in Spain signed respectively with Polifarma and with Esteve, and the co-marketing agreements stipulated with Almirall in Spain and with Zambon in France for the commercialization of silodosin.

Other revenue includes commissions received by FIC and FIC Médical for promotion services rendered to third parties in the countries belonging to the Commonwealth of Independent States (C.I.S.).

4. OPERATING EXPENSES

Total operating expenses for the years 2010 and 2009 are € 573.4 million and € 585.3 million respectively and are analyzed by function as follows:

€ (thousands)	2010	2009	Change 2010/2009
Cost of sales	240,065	235,623	4,442
Selling expenses	216,478	223,724	(7,246)
Research and development expenses	68,841	69,445	(604)
General and administrative expenses	44,026	43,718	308
Other income (expense), net	3,940	12,810	(8,870)
Total operating expenses	573,350	585,320	(11,970)

Labor cost in 2010 is € 182.2 million, down by 1.9% compared to 2009, anc includes charges of € 1.4 million related to stock option plans determined in accordance with IFRS 2.

Depreciation and amortization charges are € 27.0 million. Depreciation of property, plant and equipment is € 10.6 million, in line with that in 2009. Amortization of intangibles went from € 23.7 million in 2009 to € 16.3 million in 2010, a decrease of € 7.4 million which was due mainly to the effect, worth € 8.4 million, of the lower amortization charges connected with the marketing rights of lercanidipine in the United Kingdom which were fully amortized by the end of the first half of the year.

Furthermore, in 2010, during the revision of the amortization period applied to intangible assets with finite useful lives, the useful life of a number of proprietary products was modified. The said products generated substantially stable, or slightly decreasing, sales and margins over recent years. Based on the aforesaid performance, forecasts for the 2011-2015 period were developed and the estimated present value of the relative expected cash flows was seen to amply cover the residual net book values of the products. It was therefore decided to extend the amortization period to 20 years in accordance with group principles. This extension reduced 2010 amortization charges by € 1.8 million.

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)	2010	2009	Change 2010/2009
Amounts due to the Italian healthcare system	(3,830)	(4,728)	898
Personnel restructuring charges	(482)	(7,114)	6,632
Write-downs	(305)	(45)	(260)
Sale of holding in Atlantic Pharma	487	0	487
Others	190	(923)	1,113
Total other income (expense), net	(3,940)	(12,810)	8,870

The amounts due to the public healthcare system in Italy include:

- The pay back of € 2.6 million due to the Italian medicines agency (AIFA) in substitution for the 5% price reduction on selected products. This mechanism which was already applied during the last three years, was extended to 2010. The amount is calculated on the products' 2009 sales and is linearly spread over the application period.
- An estimated amount of € 1.2 million which results from a mandatory discount of 1.83% on the retail selling price of reimbursed medicines to be paid to the Italian regional healthcare systems.

5. FINANCIAL INCOME AND EXPENSE

In 2010 and 2009 financial items recorded a net expense of € 3.8 million and € 5.8 million respectively which are comprised as follows:

€ (thousands)	2010	2009	Change 2010/2009
Exchange gains (losses)	916	(286)	1,202
Interest expense on loans	(4,140)	(4,011)	(129)
Net interest income (expense) on s/t financial position	35	(775)	810
Interest cost in respect of defined benefit plans	(598)	(728)	130
Total financial income (expense), net	**(3,787)**	**(5,800)**	**2,013**

The improvement of the short-term net financial position is mainly due to lower interest rates and to a more effective use of the liquidity available in foreign currency in some subsidiaries through short term loans issued to the parent.

The change in fair value of hedging derivatives is positive by € 3.4 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 increase 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. PROVISION FOR INCOME TAXES

The provision for income taxes amounts to € 42.4 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies.

The current standard corporate income tax rate in Italy can be reconciled with the tax rate effectively incurred on consolidated pretax income, as follows:

€ (thousands)	2010 %	2009 %
Standard income tax rate on pretax income of the parent company	27.5	27.5
Tax credit on costs incurred for research and development	0	(1.2)
Separate taxation on foreign income	0.4	0
Dividends from foreign subsidiaries	0.5	0.4
Consolidation effect	(3.7)	(3.1)
Other differences, net	0.8	1.1
Effective tax rate on income	**25.5**	**24.7**
IRAP	2.6	2.9
Effective tax rate, including IRAP	**28.1**	**27.6**

IRAP is levied only on the Italian companies and is computed applying a 3.9% rate to a broader taxable base which includes labour cost, interest and certain extraordinary items.

Pursuant to Law 102/09, the Luxembourg subsidiary's 2010 income was restated in accordance with the Italian consolidated law on income tax and the resulting tax due is provided for in the Parent company's financial statements.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, amounts to € 53.0 million and € 55.4 million at 31 December 2010 and 2009 respectively. 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 31.12.09	39,445	158,724	41,440	5,234	244,843
Additions	634	2,870	979	3,651	8,134
Disposals	(28)	(338)	(398)	(47)	(811)
Changes in reporting entities	0	0	216	0	216
Other changes	2,005	2,694	738	(4,971)	466
Balance at 31.12.10	**42,056**	**163,950**	**42,975**	**3,867**	**252,848**
Accumulated depreciation					
Balance at 31.12.09	23,578	131,674	34,210	0	189,462
Additions	1,402	7,381	1,862	0	10,645
Disposals	(11)	(282)	(385)	0	(678)
Changes in reporting entities	0	0	172	0	172
Other changes	5	182	43	0	230
Balance at 31.12.10	**24,974**	**138,955**	**35,902**	**0**	**199,831**
Carrying amount at					
31 December 2010	17,082	24,995	7,073	3,867	53,017
31 December 2009	15,867	27,050	7,230	5,234	55,381

Additions during 2010 of € 8.1 million refer mainly to investments involving the Milan headquarters for an amount of € 4.1 million, the production plants in Campoverde di Aprilia (Italy) for an amount of € 2.2 and the production plant in Saint Victor (Montluçon, France) for an amount of € 0.7 million.

The carrying amount of the group's land and buildings held under financial leases is of € 0.1 million (€ 0.2 million at 31 December 2009).

Changes in reporting entities arise from the consolidation of ArtMed International.

8. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 31 December 2010 and 2009 amounted to € 113.5 million and € 96.5 million respectively. Their composition and variation 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 31.12.09	91,958	96,681	14,941	9,496	213,076
Additions	14,556	10,209	26	9,577	34,368
Write-downs	0	0	0	(305)	(305)
Disposals	(55)	(625)	(206)	0	(886)
Changes in reporting entities	40	0	0	0	40
Other changes	313	5,721	31	(6,392)	(327)
Balance at 31.12.10	**106,812**	**111,986**	**14,792**	**12,376**	**245,966**
Accumulated amortization					
Balance at 31.12.09	56,596	45,289	14,679	0	116,564
Additions	3,254	12,925	126	0	16,305
Disposals	(36)	(625)	(205)	0	(866)
Changes in reporting entities	20	0	0	0	20
Other changes	195	231	5	0	431
Balance at 31.12.10	**60,029**	**57,820**	**14,605**	**0**	**132,454**
Carrying amount at					
31 December 2010	46,783	54,166	187	12,376	113,512
31 December 2009	35,362	51,392	262	9,496	96,512

All intangible assets have a finite useful life and are amortized over a period not exceeding 20 years.

Additions during the year total € 34.4 million and comprise the following:

- € 14.0 million for the acquisition of Lopresor® (metoprolol) from Novartis;
- € 7.3 million which emerge from the conclusion of the agreements with the Merck group under which Recordati obtains a license to market and sell Cardicor® (bisoprolol) in Italy in exchange for co-marketing rights to pitavastatin in France and Belgium. The amount was determined as the fair value which can be reasonably attributed to the rights exchanged between the parties;
- € 6.3 million milestone paid to Kissei Pharmaceutical when marketing approval was obtained for silodosin;
- € 2.0 million milestone paid to Kowa Pharmaceutical Europe when marketing approval was obtained for pitavastatin;
- € 0.9 million for the acquisition of product marketing rights in Romania.

As described in the preceding Note 4, the useful life of a number of the group's proprietary products was revised resulting in lower amortization charges for the year by € 1.8 million.

9. GOODWILL

Goodwill, net of accumulated amortization, at 31 December 2010 and 2009 amounted to € 305.7 million and € 303.6 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31.12.09	341,317
Acquisition of ArtMed International	258
Acquisition of Herbacos-Bofarma, price reduction	(590)
Exchange rate adjustment on goodwill arising from acquisition of Herbacos-Bofarma	783
Exchange rate adjustment on goodwill arising from acquisition of Yeni Ilaç	1,641
Exchange rate adjustment on goodwill arising from acquisition of ArtMed International	(4)
Balance at 31.12.10	**343,405**
Accumulated amortization	
Balance at 31.12.09	37,664
Changes during the year	0
Balance at 31.12.10	**37,664**
Carrying amount at	
31 December 2010	305,741
31 December 2009	303,653

In accordance with IFRS 3, the final allocation was performed of the acquisition price paid for the acquisition of ArtMed International, a Romanian company acquired in 2010. The entire difference between the amount paid and the book value of the assets and liabilities acquired was finally allocated to the item goodwill. The process of measuring the fair value of the assets and liabilities identified at the acquisition date did not in fact produce any items to which the cost of the aggregation could be allocated and it is deemed that the value of the acquisition resides in its strategic nature in that it enables the Company to be present directly in the markets of Central and Eastern Europe. Goodwill recognized upon the acquisition of ArtMed is stated in local currency and its value was therefore adjusted to reflect the change in the exchange rate between the euro and the Romanian ron.

Net goodwill at 31 December 2010, amounting to € 305.7 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: € 41.5 million;
- Herbacos-Bofarma: € 14.1 million;
- ArtMed International: € 0.2 million.

As reported in the preceding note 2 - *Summary of significant accounting policies* and as required by IFRS 3, goodwill is not amortized systematically but is subjected to impairment tests to determine the recoverable value. Goodwill is allocated to the individual cash generating units identified on the basis of the business segments and the markets on which the companies acquired operate. A cash generating unit to which goodwill has been allocated shall be tested for impairment annually, and when there is any indication that it may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognize an impairment loss.

The recoverable amount was determined by calculating the value in use of the individual cash generating units.

The main hypotheses used for calculating the value in use concern the discount rate, the expected operating cash flows during the period assumed for the calculation and the growth rate.

The average weighted cost of capital reflects current market valuations of the cost of money and the specific risk attaching to the cash generating units. It was estimated at 9.70% before tax, with the exception of the cash generating units relating to the Yeni Ilaç (Turkey) and Herbacos-Bofarma (Czech Republic and Slovakia) acquisitions, estimated at 13.60% and 10.60% respectively in order to take into account the characteristics of these countries.

Operating cash flow forecasts for the explicit period of five years were taken from the 2011 budget, approved by the Board of Directors of the Parent Company, and, for the four-year period 2012-2015, from a projection of that forecast based on reasonable assumptions in line with the contents of the budget and consistent with the 2010-2012 business plan approved by the Board of Directors. More specifically, as related to existing products revenues and direct costs were forecast on the basis of historical data taking into account the life of existing contracts. As related to products in development or filed for approval, revenues and direct costs were included in the plan when their commercialization was deemed to be reasonably probable.

The growth rates adopted for the period subsequent to the explicit forecast period were estimated on a prudent basis: at zero for western European countries and at the expected inflation rates for the emerging markets.

The value in use, calculated according to the procedures described for each cash generating unit, was examined and approved by the Board of Directors: in all cases it was greater than the book value recognised in the financial statements at 31 December 2010 and therefore no loss in the value of goodwill was recognised.

10. OTHER INVESTMENTS

Investments in equity instruments of non-consolidated companies are as follows:

	Balance sheet value		Percentage of equity owned	
€ (thousands)	31.12.210	31.12.209	31.12.210	31.12.209
PureTech Ventures LLC	1,472	1,472	14.1%	14.1%
Atlantic Pharma S.A.	0	1,792	0	10.0%
Technogen Associates L.P., U.S.A.	104	104	n.s.	n.s.
Maxygen Inc., U.S.A.	82	118	n.s.	n.s.
Tecnofarmaci S.p.A., Pomezia (Rome)	87	87	4.2%	4.2%
Consorzio C4T, Pomezia (Rome)	78	78	2.3%	2.3%
Alavita Inc., U.S.A.	63	63	n.s.	n.s.
Codexis Inc., U.S.A.	42	-	n.s.	-
DAFNE, Reggello (Florence)	2	2	1.6%	1.6%
Total equity investments	**1,930**	**3,716**		

The main item in this account refers to the investment in the United States company PureTech Ventures LLC which specialises in investments in start-up companies in the field of new therapies, medical devices and new research technologies.

The main variation compared to 31 December 2009 is the sale to the Portuguese pharmaceutical group Tecnimede of the residual 10% investment in the company Atlantic Pharma S.A. for an amount of € 2.3 million.

During 2010 Maxygen Inc., distributed 5,203 shares in Codexis Inc., a U.S. company dedicated to the development and production of biocatalysts and enzymes used to make chemical processes more efficient and of less impact on the environment.

11. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 31 December 2010 are € 2.5 million and include the present value of the residual receivable (€ 1.4 million) related to the settlement from Swedish Orphan which is due in 2012. The booking to current assets of the installment due in 2011 (€ 1.5 million) is the main reason for the decrease of other non-current assets as compared to those as at 31 December 2009.

12. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2010 and 2009 amount to € 20.2 million and € 21.8 million respectively, a decrease of € 1.6 million. The main deferred tax assets and their change in 2010 are analyzed below.

€ (thousands)	2010	2009
Balance at 1 January	21,793	22,650
Additions	3,048	4,002
Utilizations	(4,620)	(4,859)
Balance at 31 December	**20,221**	**21,793**

€ (thousands)	Revaluation of intangible assets	Profit and loss temporary differences	Other	Total
Balance at 31.12.2009	7,079	7,313	7,401	21,793
Additions	0	2,995	53	3,048
Utilization	(1,720)	(2,374)	(526)	(4,620)
Balance at 31.12.2010	**5,359**	**7,934**	**6,928**	**20,221**

"Other" deferred tax assets refers mainly to temporary differences arising from the elimination of unrealized gains on intercompany transactions.

13. INVENTORIES

Inventories at 31 December 2010 and 2009 amount to € 85.2 million and € 86.6 million respectively, net of their respective obsolescence provisions of € 4.3 million and € 4.1 million. Composition of inventories is as follows:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Raw materials and supplies	20,682	21,336	(654)
Intermediates and work-in-process	17,416	14,908	2,508
Finished goods	47,092	50,383	(3,291)
Total inventories	**85,190**	**86,627**	**(1,437)**

14. TRADE RECEIVABLES

Trade accounts receivable at 31 December 2010 and 2009 amount to € 126.6 million and € 132.6 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2010 is € 10.1 million (€ 7.5 million at 31 December 2009) and is considered to be sufficient to cover potential losses of certain receivables which, due to the nature of the customers in question or the destination markets, may be difficult to collect. Average days of sales outstanding are 68 (61 at 31 December 2009).

15. OTHER RECEIVABLES

Other receivables amount to € 26.7 million (€23.0 million at 31 December 2009) and their breakdown is as follows:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Tax receivable	16,177	11,773	4,404
Balances due from employees and agents	2,322	2,945	(623)
Other	8,235	8,272	(37)
Total other receivables	**26,734**	**22,990**	**3,744**

Tax receivable comprises value added tax (VAT) receivable (€ 5.9 million) and advance payments of income tax exceeding those required. Receivables from employees and agents comprise advances on expense accounts and other credits. The "other" line includes the current installment due related to the Swedish Orphan settlement (€ 1.5 million), as well as advances paid to suppliers and other parties and to computed credits under licensing-in agreements.

16. OTHER CURRENT ASSETS

At 31 December 2010 other current assets amount to € 2.8 million (€2.6 million at 31 December 2009) and relate mainly to prepaid expenses.

17. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Short term financial investments	11,922	4,641	7,281
Short term time deposits	75,585	51,304	24,281
Deposits in bank current accounts	74,089	37,760	36,329
Cash on hand	84	70	14
Total short term financial investments, cash and cash equivalents	**161,680**	**93,775**	**67,905**

Short term financial investments as at 31 December 2010 are in euro denominated, low risk financial instruments which can be easily unwound. Short term time deposits have maturities of six months or less and are denominated in euro, in U.S. dollars and in pounds sterling.

At 31 December 2010 cash and cash equivalents are denominated mainly in euro (119.0 million). Cash deposits in U.S. dollars amount to 23.3 million and are held mostly by the U.S. subsidiary Recordati Corporation, while those in pounds sterling are 14.0 million and are held by the UK subsidiary Recordati Pharmaceuticals Ltd..

€ 30.0 million of the increase in liquid funds is to be attributed to the first tranche of a loan received from Centrobanca (see Note 20).

These financial resources are maintained in order to have the necessary funds readily available to support the group's acquisition strategy.

18. SHAREHOLDERS' EQUITY

Share capital – At 31 December 2010 the issued and fully paid share capital consists of 209,125,156 ordinary shares with a par value of € 0.125 each for a total of € 26,140,644.50 and remains unchanged compared to the preceding year.

As at 31 December 2010 the Company has two stock option plans in favor of certain group employees in place, the 2006-2009 plan, under which options were granted on four occasions, and the 2010-2013 plan. 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. The stock options already granted 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.

Stock options outstanding at 31 December 2010 are analyzed in the following table.

€ (thousands)	Strike price (€)	Options outstanding at 1.1.2010	Options granted during 2010	Options exercised during 2010	Options cancelled or expired	Options outstanding at 21.12.2010
Date of grant						
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	-	(42,500)	(22,500)	155,000
27 October 2009	4.8700	4,065,000	-	-	(150,000)	3,915,000
Total		9,940,000	-	(1,266,250)	(455,000)	8,218,750

Additional paid-in capital – At 31 December 2010 additional paid-in capital is € 83.7 million, unchanged compared to the preceding year.

Treasury stock – At 31 December 2010, 10,206,105 shares are held as treasury stock and decrease by 1,266,250 shares compared to those held at 31 December 2009. These shares were used to service stock options granted under the 2006-2009 stock option plan. The total cost incurred for the purchase of current treasury stock is € 52.6 million and the average purchase price per share is € 5.15.

Hedging reserve – In accordance with IAS 39 the € 4.3 million liability arising from the measurement at fair value at 31 December 2010 of interest rate swaps qualifying as a cash flow hedge is recognized directly in equity as a hedging reserve.

Other reserves – These amount to € 25.7 million at 31 December 2010 and include the statutory reserve of the parent company in the amount of € 5.2 million, reserves for grants received for a total of € 15.4 million and reserves for amounts booked directly to equity in application of IFRS 2 of € 3.6 million and in application of IAS 19, recognized in the statement of comprehensive income, of € 1.5 million.

Retained earnings and net income for the year – These amount to € 389.3 million at 31 December 2010 and increase by € 56.4 million as compared to 31 December 2009. Net income for the year is € 108.6 million, a decrease of 1.8% compared to the € 110.6 million 2009 net income.
The shareholders' equity of the Italian companies includes untaxed reserves of € 101.1 million, net of € 16.6 million withholding tax already paid, and their distribution is subject to taxation under fiscal law. In accordance with IAS 12 deferred taxes are not recognized on these reserves until their distribution is resolved

19. MINORITY INTEREST

All consolidated companies are 100% owned except for the Italian subsidiary of Orphan Europe which is 99% owned.

20. LOANS

At 31 December 2010 and 2009, medium and long-term loans include:

€ (thousands)	31.12.2010	31.12.2009
Loans granted to Recordati S.p.A.:		
Loan granted by Centrobanca, at an average annual interest rate of 2.47%, repayable in semi-annual installments starting 2012 through 2022	30,000	-
Istituto Bancario Intesa Sanpaolo loans, guaranteed by mortgages on the Milan and Campoverde plants, at an average annual interest rate of 0.99% repayable in semi-annual installments and entirely repaid in 2010	0	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
Loans granted to other Group companies:		
Various loans granted to Recordati España S.L. at an average annual interest rate of 2.33%	383	600
Loans granted to Bouchara-Recordati S.a.s. at an average annual interest rate of 4.60%	94	247
Various loans granted to FIC S.A.S. at an average annual interest rate of 5.00% entirely repaid in 2010	0	201
Loan granted by Komercni Banka to Herbacos Recordati at an annual interest rate of 2.89%, repayable in quarterly installments through 2012	911	1,689
Loans granted to ArtMed International at an average annual interest rate of 5.00% repayable in 2011	3	-
Guaranteed senior notes issued by Recordati S.A. (Luxembourg) privately placed with international institutional investors:		
€ 15 million at a fixed interest rate of 4.52% due 2011		
$ 40 million at a fixed interest rate of 5.50% due 2014		
€ 26 million at a fixed interest rate of 5.02% due 2014		
£ 5 million at a fixed interest rate of 6.09% due 2014	*80,412	* 80,349
Total amortized cost of loans	112,207	84,666
Portion due within one year	16,265	2,419
Change in the fair value of the portion due within one year	339	0
Total loans in current liabilities	16,604	2,419
Portion due after one year	95,942	82,247
Change in the fair value of the portion due after one year	825	(2,257)
Total loans in non-current liabilities	96,767	79,990

** Net of direct issue costs of € 0.3 million amortized using the effective interest method.*

The average effective interest rate at 31 December 2010, applying the rates resulting from the interest rate swaps, is 4.22%.

At 31 December 2010, the repayment schedule of long-term debt due after 31 December 2011 is as follows:

€ (thousands)	
2012	2.992
2013	2.992
2014	68.139
2015	2.727
2016 and subsequent years	19.092
Total	**95.942**

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 by 31 December 2010. The main terms and conditions provide for the entire receipt of the loan by 31 March 2011, 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.

For the year ended 31 December 2010 the above conditions were amply fulfilled.

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 31 December 2010 generated an asset of € 1.2 million, an amount equivalent to the increase in the fair value of the underlying debt. This amount is recognized in the balance sheet as an increase 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 31 December 2010 is between 3.81% 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 € 4.3 million fair value of the cash flow hedge is recognized directly in equity and stated as a current liability (see Note 28).

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.

21. STAFF LEAVING INDEMNITIES

This provision at 31 December 2010 and 2009 is € 19.3 million and € 19.9 million respectively and reflects the Group's obligation towards its employees determined in accordance with IAS 19. The roll forward of this fund is as follows:

€ (thousands)	2010	2009
Balance at 1 January	19,895	19,624
Additions	1,443	1,493
Utilization	(2,329)	(2,392)
Change in fair value of the TFR funds in Italian companies	250	1,170
Balance at 31 December	**19,259**	**19,895**

The main part of this liability is to be attributed to the staff leaving indemnity fund (TFR, *trattamento fine rapporto*) in the Italian companies. The value of this fund at 31 December 2010 as measured in accordance with IAS 19 amounts to € 13.5 million. The fair value calculation made using actuarial parameters updated at 31 December 2010 determined an adjustment of € 0.3 million compared to the value of the fund at 31 December 2009 which is recognized in the statement of comprehensive income. The remaining part of this provision comprises employee benefit plans in the French subsidiary Laboratoires Bouchara Recordati (€ 3.9 million), in the German subsidiary Merckle Recordati (€ 0.7 million) and in Orphan Europe (€ 0.9 million).

22. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2010 and 2009 are € 5.7 million for both years, and changed as follows:

€ (thousands)	2010	2009
Balance at 1 January	5,661	7,399
Additions	290	850
Utilization	(252)	(3,301)
Changes in reporting entities	0	713
Balance at 31 December	**5,699**	**5,661**

At 31 December 2010 no deferred tax liabilities were calculated on subsidiaries' undistributed earnings because no significant additional tax would have to be paid by the group in the event of these dividend distributions as they are essentially exempt from dual income taxation.

23. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2010 refer entirely to the residual liability due for the acquisition of Orphan Europe following the settlement with Swedish Orphan. The amount due in 2012, valued at net present value, is € 0.6 million.

The significant reduction compared to the balance at 31 December 2010 is mainly due to the transfer to other payables of the balance due to Amdipharm in 2011 for the acquisition of the marketing rights to TransAct® LAT for an amount of € 4.5 million.

24. TRADE PAYABLES

Trade accounts payable, which are entirely of a commercial nature and include allocations for invoices to be received, at 31 December 2010 and 2009 amount to € 93.1 million and € 81.8 million respectively.

25. OTHER PAYABLES

Other accounts payable at 31 December 2010 and 2009 amount to € 53.5 million and € 48.4 million respectively. Their composition is as follows:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Personnel	18,467	19,399	(932)
Social security	11,436	11,363	73
Agents	851	617	234
Balance due for the acquisition of equity	1,290	1,625	(335)
Balance due for the acquisition of product marketing rights	4,810	4,500	310
Other	16,682	10,902	5,780
Total other payables	53,536	48,406	5,130

The balance due for the acquisition of equity comprises the amounts still due for the acquisition of Orphan Europe (€ 0.6 million), of FIC and FIC Médical (€ 0.5 million) and of ArtMed International (€ 0.2 million).

The balance due for the acquisition of product marketing rights refers to the amount due in 2011 for the acquisition of the marketing rights to TransAct® LAT (€ 4.5 million) and to products for the Romanian market (€ 0.3 million).

The line "Other" includes € 6.2 million to be paid to the "Krankenkassen" (German healthcare schemes), a liability which at 31 December 2009 was recognized under provisions due to its uncertainty at that date, and an estimated amount of € 1.2 million which results from a mandatory discount of 1.83% on the retail selling price of reimbursed medicines to be paid to the Italian regional healthcare systems.

26. TAX LIABILITIES

Tax liabilities at 31 December 2010 and 2009 amount to € 9.7 million and € 12.6 million respectively and include tax provisions computed by the companies on the basis of estimated taxable income, net of tax advances already paid, and withholding taxes payable.

27. PROVISIONS

Included are tax provisions and other provisions which comprise amounts set aside for future contingencies which are uncertain as to timing and value.

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Tax	2,343	5,626	(3,283)
Other	19,070	16,352	2,718
Total provisions	21,413	21,978	(565)

Changes in provisions are as follows:

€ (thousands)	2010	2009
Balance at 1 January	21,978	15,094
Additions	11,240	11,646
Utilization	(11,805)	(4,762)
Balance at 31 December	21,413	21,978

Additions during the year are mainly due to a provision of € 7.3 million to cover the risk that certain events contractually defined in the agreement with Merck Serono relative to the licensing of marketing rights to pitavastatin in France and in Belgium, should occur. Also included are provisions for future liabilities related to expired product returns (€ 0.5 million) and for the possible negative outcome of controversies involving the group (€ 1.6 million). A provision of € 0.6 million was also made following the sentence issued by the Milan Court of Appeal which declared the claims of certain savings shareholders, who contested the "automatic" conversion of 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, founded (see Note 34).

Utilization during the year includes the reduction of tax provisions following the payment of the residual amount due in relation to the notice of tax assessment received by the Company 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. On the basis of the decision dated June 10, 2009 n. 139/32/09, filed on November 27, 2009 by which the Regional Tax Commission of Milan essentially fully confirmed the claims included in the above mentioned tax assessment for the year 2003, during 2010 the Company paid € 3.8 million while the remainder had already been paid in previous years. Other provisions are reduced following the transfer to "Other payables" of the amount due to the "Krankenkassen" (German healthcare schemes) described in Note 25.

28. FAIR VALUE OF HEDGING DERIVATIVES

The interest rate swaps covering the cash flows related to medium and long-term loans measured at fair value at 31 December 2010 give rise to a € 4.3 million liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans. The entire liability refers to an 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.

29. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans at 31 December 2010 are € 3.5 million and comprise mainly overdrafts and temporary use of lines of credit. The reduction of € 25.3 million compared to 31 December 2009 is mostly due to the expiry of the revolving lines of credit granted by Italian and international banks of high standing to Recordati S.p.A. in April 2008 which, at year end 2009 were drawn down for an amount of € 20.0 million.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IAS 32 hereunder are stated the balance sheet values and fair values at 31 December 2010 of financial assets and liabilities:

€ (thousands)	Book value	Fair value
Financial assets		
Short-term financial investments, cash and cash equivalents	161,680	161,680
Trade receivables	126,575	126,575
Equity investments	1,930	1,930
Other receivables	26,734	26,734
Hedging derivatives *(fair value hedge)*	1,164	1,164
Financial liabilities		
Borrowings		
- loans at fixed interest rates covered with interest rate swaps	81,576	81,576
- loans at fixed interest rates	404	323
- loans at variable interest rates	31,391	31,391
Trade payables	93,068	93,068
Other payables	63,227	63,227
Hedging derivatives *(cash flow hedge)*	4,299	4,299
Bank overdrafts and short-term loans	3,506	3,506

31. DISCLOSURE OF FINANACIAL RISKS

The Group constantly monitors the financial risks to which it is exposed in order to take immediate mitigating action when necessary. The objective of group financial policy is to achieve a balanced and prudent financial structure in order to fund growth, both organic and through business expansion.

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

Credit Risk – The Group 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 is not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. In particular, at 31 December 2010, total trade receivables of € 136.7 million include € 16.7 million of receivables overdue by more than 90 days. Of these, € 2.7 million are due by Italian public hospitals which, despite their very long payment times, do not represent a significant risk situation. An allowance for doubtful accounts of € 10.1 million, which is considered to be sufficient to cover potential losses on collection, is in place.

Interest Rate Risk – The Group raises funds using debt and invests excess cash in money market and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Group's net financial charges. The Group's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or by using derivative financial instruments, which are used to hedge risk and are never of a speculative nature, to minimize such fluctuations, as described in note 20. As a result of this policy and considering the current amount of net debt, it is believed that the change in current interest rates would not have a significant impact on net financial expenses.

Foreign Currency Risk – The Group is exposed to foreign currency exchange rate fluctuations which can affect its operating results and the value of its equity. In particular, the group is exposed to exchange rate fluctuations on its trade balances denominated in currencies other than the euro. The net exposure to these currencies is, however, marginal when compared to the group's business volumes. As at 31 December 2010 group positions in these currencies are the following:
net receivables in Australian dollars of 4.7 million;
net receivables in pounds sterling of 0.4 million;
net receivables in U.S. dollars of 4.1 million;
net receivables in Japanese yen of 161.2 million.

Some of the group companies are located outside the European Monetary Union and their income statements and balance sheets are converted from their local currencies into euro. At 31 December 2010 the net equity values of these companies are denominated mainly in U.S. dollars (21.7 million), in pounds sterling (13.6 million), in Swiss francs (5.6 million), in Turkish lira (21.7 million), in Czech crowns (213.7 million) and Russian rubles (27.5 million). The effect of exchange rate variations on the conversion of these values is recognized in the consolidated statement of comprehensive income and booked to the translation reserve in shareholders' equity which, at 31 December 2010, is negative by € 0.6 million.

Liquidity Risk – The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for the its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash 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 group has at its disposal an ample supply of liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's financial assets and its loans are set out in notes 17, 20 and 29 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group 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 at their natural due dates.

32. 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 31 December 2010 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
2010				
Revenues	669,362	58,772	-	728,134
Expenses	(529,254)	(44,096)	-	(573,350)
Operating income	**140,108**	**14,676**	**-**	**154,784**
2009				
Revenues	698,645	48,879	-	747,524
Expenses	(545,502)	(39,818)	-	(585,320)
Operating income	**153,143**	**9,061**	**-**	**162,204**

** Includes the pharmaceutical chemicals operations*

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated **	Consolidated accounts
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**		
31 December 2009				
Non-current assets	361,623	119,520	3,716	484,859
Inventories	81,907	4,720	-	86,627
Trade receivables	120,469	12,152	-	132,621
Other current assets	16,909	8,688	-	25,597
Short-term investments, cash and cash equivalents	-	-	93,775	93,775
Total assets	**580,908**	**145,080**	**97,491**	**823,479**
Non-current liabilities	29,846	1,889	79,990	111,725
Current liabilities	154,147	11,060	37,568	202,775
Total liabilities	**183,993**	**12,949**	**117,558**	**314,500**
Net capital employed	**396,915**	**132,131**		

* *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.

The following table presents net revenues by geographic area:

€ (thousands)	2010	2009	Change 2010/2009
Europe	647,351	678,096	(30,745)
of which Italy	*199,531*	*212,688*	*(13,157)*
Australasia	41,794	34,112	7,682
America	18,455	16,012	2,443
Africa	20,534	19,304	1,230
Total revenue	**728,134**	**747,524**	**(19,390)**

The Group's production facilities are located almost exclusively in Europe and therefore non-current assets and Group investments are located for the most part in this area.

33. NET FINANCIAL POSITION

The following table summarizes the Company's net financial position:

€ (thousands)	31.12.2010	31.12.2009	Change 2010/2009
Deposits in bank current accounts and cash on hand	74,173	37,830	36,343
Short-term time deposits	75,585	51,304	24,281
Short-term investments	11,922	4,641	7,281
Liquid assets	**161,680**	**93,775**	**67,905**
Bank overdrafts and short-term loans	(3,506)	(28,852)	25,346
Loans - due within one year	(1,265)	(2,419)	1,154
Loan notes issued (1)	(15,000)	0	(15,000)
Short term borrowings	**(19,771)**	**(31,271)**	**11,500**
Net current financial position	**141,909**	**62,504**	**79,405**
Loans - due after one year	(30,530)	(1,898)	(28,632)
Loan notes issued (1)	(65,412)	(80,349)	14,937
Non-current loans	**(95,942)**	**(82,247)**	**(13,695)**
Net financial position	**45,967**	**(19,743)**	**65,710**

(1) Includes change in fair value (fair value hedge).

34. 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.

In January 2001 certain savings shareholders, who said they owned in total about 1% of 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" conversion provision. These shareholders also presented a motion to suspend the execution 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 the Milan Court of Appeal issued its sentence reversing the decision of the court of first instance and declaring the claims of the appellants founded and condemning the Company to compensate the aforementioned appellants through the payment of an overall amount of € 0,4 million, plus interest at legal rates, and to reimburse all legal expenses incurred. Despite this sentence the Company is firm in its belief that the conversion operation was perfectly legal as supported by the positive reaction of the market and the very high percent of shareholders opting for the conversion. The Company decided, however, not to proceed with a petition to the highest court.

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.

RECORDATI S.p.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2010

ATTACHMENT 1.

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.p.A. *Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals*	Italy	26,140,644.50	Euro	Line-by-line
RECORDATI S.p.A. *Dormant, holds pharmaceutical marketing rights*	Italy	1,258,400.00	Euro	Line-by-line
INNOVA PHARMA S.P.A. *Marketing and sales of pharmaceuticals*	Italy	1,920,000.00	Euro	Line-by-line
RECORDATI ESPAÑA S.L. *Development, production, marketing and sales of pharmaceuticals*	Spain	94,000,000.00	Euro	Line-by-line
RECORDATI S.A. Chemical and Pharmaceutical Company *Holding company*	Luxembourg	68,000,000.00	Euro	Line-by-line
BOUCHARA RECORDATI S.A.S. *Development, production, marketing and sales of pharmaceuticals*	France	4,600,000.00	Euro	Line-by-line
RECORDATI PORTUGUESA LDA *Dormant*	Portugal	24,940.00	Euro	Line-by-line
FARMARECORD LTDA *Dormant, holds pharmaceutical marketing rights in Brazil*	Brazil	166.00	BRL	Line-by-line
RECORDATI CORPORATION *Sales Agent for pharmaceutical chemicals*	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD *Development, production, marketing and sales of pharmaceuticals*	Ireland	200,000.00	Euro	Line-by-line
RECORDATI S.A. *Dormant, holds pharmaceutical marketing rights*	Switzerland	6,000,000.00	CHF	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. *Development, production, marketing and sales of pharmaceuticals*	France	14,000,000.00	Euro	Line-by-line
MERCKLE RECORDATI GmbH *Marketing and sales of pharmaceuticals*	Germany	600,000.00	Euro	Line-by-line
RECORDATI PHARMACEUTICALS LTD *Marketing and sales of pharmaceuticals*	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. *Marketing and sales of pharmaceuticals*	Greece	11,700,000.00	Euro	Line-by-line
JABA RECORDATI S.A. *Development, production, marketing and sales of pharmaceuticals*	Portugal	2,000,000.00	Euro	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. *Development, production, marketing and sales of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. *Development, production, marketing and sales of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S. *Holding company*	France	57,000,000.00	Euro	Line-by-line
ORPHAN EUROPE HOLDING S.A. *Holding company*	France	1,701,260.00	Euro	Line-by-line
ORPHAN EUROPE OPERATIONS S.A.S. *Marketing and sales of pharmaceuticals*	France	5,112,000.00	Euro	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
ORPHAN EUROPE SWITZERLAND GmbH *Marketing and sales of pharmaceuticals*	Switzerland	20,000.00	CHF	Line-by-line
ORPHAN EUROPE MIDDLE EAST FZ LLC *Marketing and sales of pharmaceuticals*	United Arab Emirates	100,000.00	AED	Line-by-line
ORPHAN EUROPE NORDIC A.B. *Marketing and sales of pharmaceuticals*	Sweden	100,000.00	SEK	Line-by-line
ORPHAN EUROPE PORTUGAL LDA *Marketing and sales of pharmaceuticals*	Portugal	5,000.00	Euro	Line-by-line
ORPHAN EUROPE S.A.R.L. *Development, production, marketing and sales of pharmaceuticals*	France	320,000.00	Euro	Line-by-line
ORPHAN EUROPE UNITED KINGDOM LTD *Marketing and sales of pharmaceuticals*	United Kingdom	50,000.00	GBP	Line-by-line
ORPHAN EUROPE GERMANY GmbH *Marketing and sales of pharmaceuticals*	Germany	25,564.69	Euro	Line-by-line
ORPHAN EUROPE SPAIN S.L. *Marketing and sales of pharmaceuticals*	Spain	37,563.27	Euro	Line-by-line
ORPHAN EUROPE ITALY S.R.L. *Marketing and sales of pharmaceuticals*	Italy	40,000.00	Euro	Line-by-line
ORPHAN EUROPE BENELUX BVBA *Marketing and sales of pharmaceuticals*	Belgium	18,600.00	Euro	Line-by-line
FIC S.A.S. *Marketing and sales of pharmaceuticals*	France	100,000.00	Euro	Line-by-line
FIC MEDICAL S.A.R.L. Marketing and sales of pharmaceuticals	France	9,999.89	Euro	Line-by-line
YENI RECORDATI ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret A.S *Development, production, marketing and sales of pharmaceuticals*	Turkey	7,086,614.00	TRY	Line-by-line
HERBACOS RECORDATI s.r.o. *Marketing and sales of pharmaceuticals*	Czech Republic	25,600,000.00	CZK	Line-by-line
HB PHARM s.r.o. *Marketing and sales of pharmaceuticals*	Slovakia	33,193.92	Euro	Line-by-line
RUSFIC LLC * *Marketing and promotion of pharmaceuticals*	Russian Federation	3,560,000.00	RUB	Line-by-line
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S. * *Marketing and sales of pharmaceuticals*	Turkey	5,000.00	TRY	Line-by-line
ARTMED INTERNATIONAL S.R.L. ** *Promotion of pharmaceuticals*	Romania	95,200.00	RON	Line-by-line

** Established in 2009*
*** Acquired in 2010, P&L consolidated from 1 July.*

Consolidated Companies	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 Holding S.A	Orphan Europe Operations S.A.S.	Orphan Europe S.A.R.L	FIC S.A.S.	Herbacos Recordati s.r.o.	Yeni Recordati Ilaç A.S	Total
RECOFARMA S.R.L.	100.00%												100.00%
INNOVA PHARMA S.P.A.	100.00%												100.00%
RECORDATI ESPAÑA S.L.	90.00%	10.00%											100.00%
RECORDATI S.A. Chemical and Pharmaceutical Company	100.00%												100.00%
BOUCHARA RECORDATI S.A.S.	99.94%	0.06%											100.00%
RECORDATI PORTUGUESA LDA	98.00%	2.00%											100.00%
FARMARECORD LTDA		100.00%											100.00%
RECORDATI CORPORATION		100.00%											100.00%
RECORDATI IRELAND LTD		100.00%											100.00%
RECORDATI S.A.		100.00%											100.00%
LABORATOIRES BOUCHARA RECORDATI S.A.S.				100.00%									100.00%
MERCKLE RECORDATI GmbH		55.00%			45.00%								100.00%
RECORDATI PHARMACEUTICALS LTD	3.33%	96.67%											100.00%
RECORDATI HELLAS PHARMACEUTICALS S.A.	0.81%	99.19%											100.00%
JABA RECORDATI S.A.					100.00%								100.00%
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.					100.00%								100.00%
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.					100.00%								100.00%
RECORDATI ORPHAN DRUGS S.A.S		90.00%	10.00%										100.00%
ORPHAN EUROPE HOLDING S.A.	0.035%	0.035%				99.93%							100.00%
ORPHAN EUROPE OPERATIONS S.A.S.							100.00%						100.00%
ORPHAN EUROPE SWITZERLAND GmbH								100.00%					100.00%
ORPHAN EUROPE MIDDLE EAST FZ LLC								100.00%					100.00%
ORPHAN EUROPE NORDIC A.B.								100.00%					100.00%
ORPHAN EUROPE PORTUGAL LDA								100.00%					100.00%
ORPHAN EUROPE S.A.R.L.								100.00%					100.00%
ORPHAN EUROPE UNITED KINGDOM LTD									100.00%				100.00%
ORPHAN EUROPE GERMANY GmbH									100.00%				100.00%
ORPHAN EUROPE SPAIN S.L.									100.00%				100.00%
ORPHAN EUROPE ITALY S.R.L.									99.00%				99.00%
ORPHAN EUROPE BENELUX BVBA								99.46%	0.54%				100.00%
FIC S.A.S.				100.00%									100.00%
FIC MEDICAL S.A.R.L.										100.00%			100.00%
YENI RECORDATI ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret A.S.					100.00%								100.00%
HERBACOS RECORDATI s.r.o.		100.00%											100.00%
RECORDATI SK s.r.o.											100.00%		100.00%
RUSFIC LLC *				100.00%									100.00%
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S. *												100.00%	100.00%
ARTMED INTERNATIONAL S.R.L.**		100.00%											100.00%

* *Established in 2009*
** *Acquired in 2010, P&L consolidated from 1 July.*

RECORDATI S.p.A. AND SUBSIDIARIES
DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

ATTACHMENT 2.

Type of service	Provider of the service	Recipient	Fees Amounts in €
Accounting audit	Auditor of Parent Company	Parent Company	139,845
Accounting audit	Auditor of Parent Company	Subsidiaries	47,702
Accounting audit	Network of auditor of Parent Company	Subsidiaries	382,794
Due diligence	Network of auditor of Parent Company	Parent Company	60,411
Signature on returns and attestations	Auditor of Parent Company	Parent Company	11,500
Signature on returns and attestations	Auditor of Parent Company	Subsidiaries	1,500

ATTESTATION IN RESPECT OF THE CONSOLIDATED 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 Company's financial statements, pursuant to the provisions or Article 154-*bis*, clauses 3 and 4, of Legislative Decree no. 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 Company's consolidated financial statements at and for the year ended 31 December 2010.

2. The undersigned moreover attest that:

2.1. the consolidated financial statements at 31 December 2010:

- have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union through 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; and
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

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

Milan, 9 March 2011

Signed by
Giovanni Recordati
Chief Executive Officer

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

AUDITORS' REPORT

Deloitte.

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AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
RECORDATI INDUSTRIA
CHIMICA E FARMACEUTICA S.p.A.

1. We have audited the consolidated financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. and subsidiaries (the "Recordati Group"), which comprise the balance sheet as of December 31, 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on March 26, 2010.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Recordati Group as of December 31, 2010, and of the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The Directors of Recordati Industria Chimica e Farmaceutica S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure, published in the section "*Corporate Governance*" of the internet website of Recordati Industria Chimica e Farmaceutica S.p.A., in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of the Recordati Group as of December 31, 2010.

DELOITTE & TOUCHE S.p.A.

Signed by
Riccardo Raffo
Partner

Milan, Italy
March 10, 2011

This report has been translated into the English language solely for the convenience of international readers.

CORPORATE GOVERNANCE REPORT AND OWNERSHIP STRUCTURE

FINANCIAL YEAR 2010

pursuant to article 123 bis of the Consolidated Finance Act and article 89 bis of Consob Issuers' Regulations

Approved 9th March 2011 by the Board of Directors

Website: www.recordati.com

GLOSSARY

CG Code: the Corporate Governance Code for listed companies approved by the Corporate Governance Committee in March 2006 and promoted by Borsa Italiana S.p.A.

CC: the Italian Civil Code.

Board: the Board of Directors of the Issuer.

Issuer: Recordati S.p.A.

Year: the financial year to which this Report relates.

Consob Issuers' Regulations: regulations governing issuers as established by Consob regulation no. 11971 of 1999 (as subsequently amended).

Consob Markets Regulations: regulations governing markets as established by Consob regulation no. 16191 of 2007 (as subsequently amended).

Report: the corporate governance report and the ownership structure that issuers are required to prepare pursuant to article 123 bis of the Consolidated Finance Act.

TUF: Legislative Decree no. 58 dated 24 February 1998, *(Testo Unico della Finanza)* the Consolidated Finance Act.

1. THE ISSUER

The Company and the Group that it leads perform research and development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals. They perform their activities in the principal European countries. The primary objective of the corporate governance system is the creation of value for shareholders, without, however, losing sight of the social importance of the activity performed and of all the stakeholders involved.

The corporate governance structure of the Company is based on a conventional organisational model and therefore consists of the following corporate bodies: (i) the Shareholders' Meeting, (ii) the Board of Directors, (iii) the Board of Statutory Auditors. Accounting control is delegated, in compliance with the relative legislation in force, to a firm of auditors registered in the special roll maintained by the Consob.
The Board of Directors has formed two committees from among its members with consultative and proposal-making functions: the Remuneration Committee and the Internal Audit Committee, both consisting exclusively of independent directors.

The Company observes the CG Code, in accordance with the procedures contained in this report.

Unless otherwise indicated, the information contained in this report relates to the date of its approval by the Board of Directors (9th March 2011).

2. OWNERSHIP STRUCTURE (pursuant to Art. 123-*bis*, paragraph 1 of the TUF) (at 9th March 2011)

a) Structure of share capital (pursuant to Art. 123-*bis*, paragraph 1, letter a) of the TUF)

The subscribed and paid up share capital amounts to € 26,140,644.5 and is represented by 208,507,656 ordinary shares each with a par value of € 0.125 as reported in the table at the end of this section. Each share entitles the holder to a proportional part of the profits allocated for distribution; Art. 29 of the By-Laws provides that the net profits on the balance sheet are to be distributed as follows: (a) 5% (five percent) to the legal reserve fund up to the amount established by the law; (b) the remainder, unless the Shareholders' Meeting, as proposed by the Board, resolves to allocate funds for extraordinary reserves or for other purposes, or to postpone part or all of the distribution to all shares to successive years, to be distributed to all shares.
As reported in the table below, there are no other categories of shares, nor other financial instruments that assign the right to subscribe to new share issues, with the exception of the conditions indicated below in the context of stock option plans.

The document entitled "Information on Recordati S.p.A.'s stock option plans" distributed to the market on 17th September 2007 and available on the Company website at the address http://www.recordati.it/rec_it/investors/releases/2007/2007-09-17/ may be consulted for information on existing stock option plans and shares issued at the service of those plans, as may pages --- and --- of the draft separate company annual report in Annex 7 and the information documents for each outstanding stock option plan also available on the company website.

STRUCTURE OF THE SHARE CAPITAL

	No. Shares	% of share capital	Listed/ unlisted
Ordinary shares	209,125,156	100	listed
Shares with limited voting rights	0	0	
Shares with no voting rights	0	0	

OTHER FINANCIAL INSTRUMENTS
(conferring the right to subscribe new share issues)

	Listed/ unlisted	No. of instruments outstanding	Type of shares at the service of the conversion/ exercise	No. of shares at the service of the conversion/ exercise
Convertible bonds	-	0	-	-
Warrants	-	0	-	-

b) Restrictions on transfer of securities
(pursuant to Art. 123-*bis*, paragraph 1, letter b) of the TUF)

The shares of the Company are freely transferable.

c) Significant holdings in share capital
(pursuant to Art. 123-*bis*, paragraph 1, letter c) of the TUF)

The significant holdings, both direct and indirect, in share capital are indicated below, as results from the communications in accordance with TUF Art. 120, updated in accordance with the information available to the Company.

OTHER FINANCIAL INSTRUMENTS

Declarant	Shareholder	Percentage (%) of ordinary share capital	Percentage (%) of voting share capital
FIMEI S.p.A.	FIMEI S.p.A.	51.166%	51.166%
RECORDATI S.p.A.*	RECORDATI S.p.A.*	5,2758%*	5,2758%*
TORRE S.S.	TORRE S.S.	3.198%	3.198%
FIL LIMITED (As the manager of the Fast European Fund which holds 2.70%)		3.067%	3.067%
SCHRODER INVESTMENT MANAGEMENT LTD	SCHRODER INVESTMENT MANAGEMENT LTD	2.013%	2.013%
BLACK ROCK INC	BLACKROCK ASSET MANAGEMENT IRELAND LIMITED	0.011%	0.011%
	BLACKROCK ISTITUTIONAL TRUST COMPANY NA	1.248%	1.248%
	BLACKROCK ADVISORS (UK)	0.478%	0.478%
	BLACKROCK INVESTMENT MANAGEMENT LLC	0.052%	0.052%
	BLACKROCK ASSET MANAGEMENT JAPAN LIMITED	0.016%	0.016%
	BLACKROCK ASSET MANAGEMENT AUSTRALIA LTD	0.009%	0.009%
	BLACKROCK FUND ADVISORS	0.185%	0.185%
	BLACKROCK INTERNATIONAL LIMITED	0.006&	0.006%
	TOTALE	2.010%	2.010%

** Treasury stock, without voting rights in accordance with the law, as at March 8, 2011*

d) Securities with special rights
(pursuant to Art. 123-*bis*, paragraph 1, letter d) of the TUF)

No securities with special rights of control have been issued.

e) Share holding by employees: exercise of voting rights
(pursuant to Art. 123-*bis*, paragraph 1, letter e) of the TUF)

No shareholding system exists for employees which involves the exercise of voting rights which is different from that provided for shareholders in general.

f) Restrictions on voting rights
(pursuant to Art. 123-*bis*, paragraph 1, letter f) of the TUF)

Each ordinary share gives the right to vote without any restrictions.

g) Shareholders' agreements
(pursuant to Art. 123-*bis*, paragraph 1, letter g) of the TUF)

The Company has no knowledge of the existence of shareholders' agreements pursuant to TUF Art. 122.

h) Change of control clauses
(pursuant to Art. 123-*bis*, paragraph 1, letter h) of the TUF)

The Company and some of its subsidiaries are, in relation to their business operations, parties to some licensing agreements that include a clause, which is a normal provision in international agreements, authorising the Licensor to dissolve the contracts in the event of change of direct or indirect control of the Licensee.
In addition, a bond issue by the Luxembourg subsidiary, Recordati S.A. Chemical and Pharmaceutical Company, privately placed with international institutional investors and guaranteed by the Company, includes a clause, as is normal in financial operations of this type, which authorises the creditors to obtain an immediate refund if the control of the Company changes.

Furthermore, the Company signed a finance agreement in 2010 with Centrobanca (Banca di Credito Finanziario e Mobiliare S.P.A) for a total of 75 million euro which, as is normal practice in financial transactions of this type, contains a clause which requires the immediate repayment of the loan if the control of Recordati S.P.A. changes.

i) Authorisation for increase of share capital and acquisition of treasury shares (pursuant to Art. 123-*bis*, paragraph 1, letter m) of the TUF)

The Board of Directors was authorized to increase share capital, pursuant to CC Art. 2443, by a Shareholders' Meeting of 11 April 2007.
The increase in the share capital may be performer in one or more tranches, gratuitously or by payment, for a total maximum amount of € 50,000,000 within a period of no more than five years from the date of the resolution, by issuing ordinary shares and/or warrants for the subscription to such shares, to assign or to offer as an option to shareholders, with the right pursuant to the joint provisions of CC Art. 2441, last paragraph and TUF Art. 134, second paragraph, to offer subscription to the shares to Recordati S.p.A. employees or to subsidiaries of the Company in relation to the stock option plans decided by the Shareholders' Meeting (and therefore with the possibility to exclude the option rights to one fourth of the new issue).
To this date, the Board has not yet acted on this mandate, not even partially.
That same Shareholders' Meeting authorised Directors, in accordance with Art. 2420-*ter* of the C.C. to decide the issue in one or more tranches, for a total maximum nominal amount of € 80,000,000, of bonds convertible to ordinary shares, or valid warrants to subscribe to such shares, to offer in option to shareholders within a period of no more than five years from the date of resolution, in observance of applicable law and regulations concerning the issuing of bonds, and at the same time, deciding an increase of share capital for the amount that corresponds to the nominal

value of the shares to be attributed in conversion.
To this date, the Board has not yet acted on this mandate not even partially.

In partial implementation of the authorization conferred on the Board of Directors by the Shareholders' Meetings held on 10 April 2002, (expired on 10 April 2007), on 7 April 2004 and 27 October 2004, the Board decided some increases in the capital by payment, only partially performed and expired in 2009, at the service of the stock option plans adopted by the Company at the same time as it granted options as part of those same plans.

The By-Laws do not authorize the Board to issue financial instruments of participation.

In ordinary session on 13th April 2010 a Shareholders' Meeting renewed the authorisation to purchase and assign treasury shares, pursuant to CC articles 2357 *et seq*., until approval of the financial statements at 31st December 2010, scheduled for 13th April 2011. In particular, the maximum number of shares that may be acquired, after accounting for the number of treasury shares already held in the Company's portfolio, is 20,000,000, which corresponds to a total potential payment of not more than € 120,000,000, at a minimum price not less than the nominal value of Recordati shares (€ 0,125) and a maximum price not greater than the average of official Borsa prices during the five sessions prior to the acquisition, plus 5%. Purchases must be made on regulated markets, in observance of Art. 144*bis*, paragraph one, letter b), of the Consob Issuers' Regulations and according to standard practices recommended by the Consob in accordance with TUF article 180.

At the closing date of the Year, the Company held 10,206,105 treasury shares in portfolio, which represent 4.8804% of the share capital.

On the basis of that resolution, on 15th February 2011, as disclosed to the market on that date, the Company commenced a treasury stock programme to purchase ordinary shares of Recordati to use at the service of stock option plans for employees of companies belonging to the Recordati Group already adopted by the Company and of plans that might be adopted in future, also pursuant to and for the purposes of market practices concerning the purchase of treasury stock for the constitution of "share inventories" permitted by the CONSOB, at the service of plans, in accordance with Art. 180, paragraph 1, letter c) of Legislative Decree No. 58/1998, with resolution No. 16839 2009.
As part of the implementation of that programme, as at March 8, 2011, the Company purchased 1,007,000 ordinary shares for a total investment of 6,797,778.8 million euro.

As at March 8, 2011 the Company holds n. 11,033,105.00 treasury shares in portfolio representing 5.2758% of the share capital.

In consideration of the expiry of the current authorisation which will occur on 13th April 2011, the Board resolved to submit a proposal to the shareholders' meeting convened to approve the 2010 annual report to renew the authorisation to purchase and assign treasury stock in order to maintain the necessary operational flexibility over an appropriate time horizon. The Directors Report on the relative item on the agenda, which will be made available within the legal time limits on the Company website and elsewhere, may be consulted for further information.

j) Management and co-ordination (pursuant to Art. 2497 *et seq* of the CC)

Although controlled by Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A., the Company is not subject to management and co-ordination by the same, pursuant to CC articles 2497 et seq.

Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A. is a mere financial holding company with no operations of any kind; no procedures exist to furnish authorizations or instructions to the Company in its relations with the Parent Company and therefore the Company sets its own strategic and operating policies in full autonomy.
The fully controlled Italian subsidiaries have acknowledged management and co-ordination by the Company and have fulfilled legal disclosure requirements in this respect.

The information required by Art. 123 *bis*, paragraph one, letter i) of the TUF *("agreements between the Company and directors, members of the board of directors or the supervisory board, which provide for the payment of indemnities in the event of resignation, dismissal without just cause or if the contract of employment is interrupted following a public tender offer")* is given in the section on directors remuneration (Section 9).

The information required by Art. 123 *bis*, paragraph one, letter l) of the TUF *("regulations for the appointment and replacement of directors and for amendments to the Corporate By-Laws, if different from those applicable by law in the absence of alternative provision")* are given in the section of the report on the Board of Directors (section 4.1).

3. COMPLIANCE (pursuant to Art. 123-bis, paragraph 2, letter a) of the TUF)

The Company observes the CG Code, in accordance with the procedures contained in this report, which may be consulted on the website of Borsa Italiana at the address www.borsaitaliana.it . Reasons are given where the Company has decided not to follow those principles or operating criteria in the relative section of this Report.

Neither the Company nor its strategic subsidiaries are subject to foreign laws that influence the corporate governance structure of the Company itself.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND SUBSTITUTION (pursuant to Art. 123-*bis*, paragraph 1, letter l) of the TUF)

The appointment and replacement of Directors is regulated by articles 15, 16 and 18 of the By-Laws, the text of which, last amended by the Board of Directors on 26th October 2010 in order to make compulsory amendments to comply with Legislative Decree No. 27/2010 in implementation of the "shareholders rights" EU Directive, is reproduced for your information in full below:

Art. 15) The Board of Directors shall be appointed from lists of candidates presented by shareholders, according to the procedures as indicated below, in which the candidates are identified by progressive numbers.
The lists, signed by the shareholders who present them, must be deposited at the registered office of the Company at least twentyfive days prior to the date of the first convention of the Shareholders' Meeting, available to anyone who requests to see them and they will also be subject to other forms of publicity in accordance with laws and regulations in force at the time.
Every shareholder, shareholders who participate in a significant shareholders' agreement pursuant to TUF Art. 122, the parent company, subsidiaries and companies subject to joint control pursuant to TUF Art. 93, may not present or contribute to the presentation of more than one list, not even by means of another person or trustee, nor may they vote for different lists, and each candidate may be listed in only one list or will be disqualified. The subscriptions and votes expressed in violation of this prohibition will not be attributed to any list.

Only shareholders individually or jointly possessing a total number of shares with voting rights representing at least 2.5% of capital stock with voting rights at ordinary meetings, or representing a lesser percentage as established by binding legislative or regulatory provisions which shall be specified in the notice of meeting, shall have the right to submit lists.
The following items must be filed for each list within the respective deadlines set out above and as provided by applicable regulations: (i) statements by each candidate to the effect that each accepts candidacy and declares, assuming full responsibility, that there are no reasons preventing the candidate from being elected or rendering him unsuitable for the office, and that the candidate meets any specific requirements for the relevant office; (ii) a curriculum vitae detailing each candidate's personal and professional characteristics and indicating that the candidate may be considered independent.

The specific certification demonstrating title to the necessary number of shares for the presentation of the list, issued by a legally authorised intermediary must also be deposited within the time limits set by the relative regulations at the time when the lists is deposited at the Company.

Lists that are presented but are not in accordance with the provisions as above will be considered as not presented.
The Board of Directors will be elected as follows:
a) all of the Directors to be appointed, except one, will be selected from the list that obtained the greatest number of votes, following the progressive order in which they are listed on the list;
b) the remaining director shall be the candidate placed at the number one position on the minority list, which shall not be connected in any way, even indirectly, with those who submitted or voted for the list indicated in letter a) above, which obtains the second-highest number of votes. For this purpose, lists that did not obtain a percentage of votes equal to at least half of that required for presentation of the lists as at the fourth paragraph of this article will not be considered.
For the purposes of the appointment of directors as indicated at point b) above, in the event of a tie between lists, the list presented by shareholders possessing the larger shareholding, or subordinately the larger number of shareholders, shall prevail.
If the candidates elected by the method as above do not include an adequate number of independent Directors with the characteristics as established for statutory auditors at TUF Art. 148, third paragraph, equal to the minimum number established by the law in relation to the total number of Directors, the last non-independent candidate, according to the progressive numbering, of the list that obtained the greatest number of votes as at letter a) of the paragraph above, will be substituted by the first independent candidate, according to the progressive numbering, of the non-elected candidates on the same list, or if not possible, by the first independent candidate, according to the progressive numbering, of the non-elected candidates of the other lists, according to the number of votes obtained by each. This procedure of substitution will be followed until the board of directors is composed of a number of members who have the qualifications as at TUF Art. 148, third paragraph, equal at least to the minimum legal number. If this procedure does not produce the latter result, the substitution will be effected by resolution of the Shareholders' Meeting by relative majority, after presentation of candidates who possess the qualifications as cited above.
If only one list is presented, all of the Directors will be selected from the same list. If no list is presented the Shareholders' Meeting will decide by legal majority, without following the procedure as above.
Any different or additional compulsory provisions of the law or regulations will form an exception to these provisions.

Article 16) - The fees to be paid to the Board of Directors shall be established by the Shareholders' Meeting for the entire period of their term, or for each financial year, and may take the form of profit-sharing.

Article 18) - Unless already provided for by the Shareholders' Meeting, the Board shall appoint a Chairman and may appoint a Vice-Chairman from among its members. The Board shall also appoint one or more Managing Directors from among its members. The Chairman shall have all the powers vested in him by law; in the case of his absence or inability to attend for any reason, the said powers shall be exercised by the Vice-Chairman, or in his absence, by the most senior Director.
Finally, the Board shall appoint a Secretary, who need not be a member of the Board.

It is also underlined that, on the basis of the By-Laws in force, the right to submit slates is only held by shareholders who, individually or together with other shareholders submitting slates, hold voting shares representing at least 2.5% of the voting capital in an Ordinary Meeting, or representing a lower percentage established by mandatory laws or regulations. In this respect in accordance with articles 144-*quater* and 144-septies of the Issuers' Regulations and CONSOB resolution No. 17633 of 26th January 2011, the percentage of the share capital required to present lists is currently 2%.

On the basis of Art. 147-*ter*, paragraph one of the TUF, the By-Laws also state that for the purposes of the distribution of votes among directors to be elected, no account is taken of slates that have not obtained a percentage of votes equal to at least half of that required for the presentation of slates.

In order to ensure the election of at least one minority director, the By-Laws state that all the directors to be elected except for one shall be drawn from the slate which obtained the greatest number of votes in the order in which they are listed on that slate. The remaining director is the candidate placed in the number one position on the minority slate, which shall not be connected in any way, even indirectly, with the shareholders who submitted or voted for the majority slate and which obtained the majority of votes from the shareholders. In the case of a tied vote between slates, the minority director shall be drawn from the slate presented by the shareholders in possession of the greater number of shares or, secondarily, with the greatest number of shareholders.

As concerns the mechanism adopted to ensure that a minimum number of independent directors are elected in compliance with Art. 147-*ter*, paragraph four of the TUF, the By-Laws state that if the number of independent directors is not reached, the non independent candidate elected in last place on the majority list shall be replaced by the first independent candidate in progressive order not elected on that slate, or, if there is none, by the first independent candidate in progressive order not elected on the other slates, according to the number of votes obtained by each.
Finally if this procedure does not lead to the aforementioned result, the directors shall be replaced by a resolution passed by relative majority of the shareholders' meeting upon presentation of candidates satisfying the above requirements of independence.

If only one slate is presented, the By-Laws also state that all of the Directors to be elected shall be selected from that slate. If no slate is presented the Shareholders' Meeting shall decide by legal majority, without following the procedures just described.

The By-Laws to not lay down any additional requirements for the independence of Directors with respect to those contained in Art. 148 of Legislative Decree No. 58/1998, because the Company adheres to the CG and the Board of Directors verifies possession of the requirements of independence in accordance with the CG and consequently when a shareholders' meeting appoints Directors, the Board of Directors invites candidates to the position of Director contained on lists to declare these requirements.

The table at the end of this section may be consulted for details of those directors currently in office who meet the requirements for independence

in accordance with the TUF and those that are independent in accordance with the CC.

The Issuer reports that it is not governed by any further laws and regulations concerning the composition of the Board of Directors.

4.2 COMPOSITION
(pursuant to Art. 123-*bis*, paragraph 2, letter d) of the TUF)

The By-Laws currently in force state that the Company is managed by a Board of Directors consisting of a number of members varying between six and sixteen. A shareholders' resolution of 11 April 2008 set the number of directors elected at nine and their term of office until the date of the Shareholders' Meeting convened to approve the 2010 Annual Report.
The members of the Board of Directors in office at the end of the Year are indicated below. They were elected by a Ordinary Shareholders' Meeting on 11 April 2008. On that occasion only one slate of candidates for the office of director was presented by the shareholder FIMEI S.p.A.
The slate presented by FIMEI S.p.A. consisted of the following candidates to the Board of Directors for the years 2008-2009-2010:

Ing. Giovanni Recordati	
Dr. Alberto Recordati	
Sig. Andrea Recordati	
Dr. Federico Nazzari	
Dr. Mario Garraffo	Independent
Avv. Carlo Pedersoli	Independent
Prof. Marco Vitale	Independent
Dr. William R. Gunnarsson	Independent
Dr. Walter Wenninger	Independent

All the candidates listed above were elected with 118,254,933 shares in favour out of 118,289 233 shares voting (99,971%). The voting share capital represented 56,912% of the share capital of the Issuer.
The personal and professional characteristics of each Director are documented in Attachment 1 to this Report along with the offices held by directors in other listed companies.

The table at the end of this section and the specific indications given in section 4.6 may be consulted for an assessment of the independence of the directors in office.

		Board of Directors									Internal control committee		Remuneration Committee	
Office	Members	In office since	In Office until	Slate (M/m)*	Exec.	Non Exec.	Indep. according to CG Code	Indep. according to TUF	% **	Number of other offices ***	****	% **	****	% **
Chairman and CEO	GIOVANNI RECORDATI	11.4,2008	Approval of 2010 AR	M	X				100	0				
Director	ALBERTO RECORDATI	11.4,2008	Approval of 2010 AR	M	X				100	0				
Director	MARIO GARRAFFO	11.4,2008	Approval of 2010 AR	M		X	X (*)	X	100	3	X	100	X	
Director	FEDERICO NAZZARI	11.4,2008	Approval of 2010 AR	M	X			X	85,7	0				80
Director	CARLO PEDERSOLI	11.4,2008	Approval of 2010 AR	M		X	X (*)	X	85,7	0	X	100	X	
Director	ANDREA RECORDATI	11.4,2008	Approval of 2010 AR	M	X				100	0				
Lead indep. director	MARCO VITALE	11.4,2008	Approval of 2010 AR	M		X	X (*)	X (*)	71,42	0	X	100		
Director	WILLIAM GUNNARSSON	11.4,2008	Approval of 2010 AR	M		X	X	X	87.5	0			X	80
Director	WALTER WENNINGER	11.4,2008	Approval of 2010 AR	M		X	X	X	100	5			X	100

(*) The Board has qualified Prof. Marco Vitale, Dr. Mario Garraffo and Avv. Pedersoli as independent, even though they have been directors of the Company for more than nine years during the past twelve, and in the case of Prof. Vitale even though he has been appointed as a professional consultant to the Company with an annual fee of € 50,000.00 (evaluated a non significant amount), considering that by their specific expertise and professional commitment to constant control and stimulation of the Board, they have demonstrated that they have maintained their characteristics of independence and freedom of judgement in evaluating the operations carried out by management. For the Director Avv. Carlo Pedersoli in particular, compliance with the requirement of having been a board member in no more than nine of the last twelve years lapsed on 1st March 2011. Further information is given in Section 4.6.

** M/m are given in this column where "M" indicates a member elected from the majority slate and "m" from a minority slate.*
*** This column contains the percentage attendance of directors at the relative board and committee meetings (number of presences/number of meetings held during the actual period office of the person concerned).*
**** This column gives the number of appointments as a director or statutory auditor held by the person concerned in other companies listed on regulated markets, including foreign markets, in financial, banking or insurance companies or in large companies, as in the list contained in Attachment 1 of this document. which may be consulted.*
***** An "X" in this column indicates that the Director is a member of the committee.*
In this respect, on 23rd November 2010, Dr. Federico Nazzarri resigned from the Remuneration Committee and the Board of Directors appointed Dr. Garraffo to replace Dr. Garraffo.

INDICATE THE QUORUM REQUIRED FOR THE PRESENTATION OF SLATES WHEN DIRECTORS WERE LAST APPOINTED: 2% of the share capital

Number of meetings held during the year in question:	Board meetings:	Audit committee:	Remuneration committee:
	7	5	5

Maximum number of offices held in other companies

The Board of Directors has not set any general criterion for the maximum number of positions as director or statutory auditor in other companies that are considered compatible with performing duties as a director of the Company. It has done this because it feels that it is best to allow individual directors to assess this compatibility themselves.

4.3 ROLE OF THE BOARD OF DIRECTORS
(pursuant to Art. 123-*bis*, paragraph 2, letter d) of the TUF)

During the Year the Board of Directors met seven times, with sessions that lasted an average of approximately two hours, on the following dates: 11th February 2010; 5th March 2010; 13th April 2010; 6th May 2010; 28th July 2010; 26th October 2010 and 24th November 2010. For the current year nine meetings are planned, and the Board has already met on 13th January 2011 and 9th February 2011.

The promptness and completeness with which information is provided before board meetings is ensured by the Chairman with the distribution of documents relating to the items on the agenda to members a few days immediately preceding the date set for the meetings.

On rare occasions it has not been possible to provide information concerning some items on the agenda until the time of the board meeting itself for reasons of confidentiality and urgency.

During the course of the year the following persons attended board meetings in order to provide additional information on the items on the agenda: the Group CFO and General Manager for the co-ordination of operations (who is also the Financial Reporting Officer), the chief of Group Operational Control and Reporting, the Chief of Corporate Development and the Chief of the Legal Service and Corporate Affairs (who also acted as the Secretary to the Board).

In accordance with Art. 23 of the By-laws, the Board is the corporate body endowed with the broadest powers to handle ordinary and extraordinary management of the Company and it has the right to conclude all acts that it deems appropriate in order to conduct business and to achieve the corporate purposes, excluding only those reserved by the law exclusively for the Shareholders' Meeting. In accordance with CC. Art. 2365, paragraph 2, the Board of Directors is also authorized to decided on the following matters:

- mergers in the cases established by CC articles 2505 and 2505 bis;
- establishment or suppression of secondary offices;
- specification of the Directors who are entitled to represent the Company;
- reduction of share capital in the event of withdrawal of a shareholder;
- alignment of the By-Laws to provisions of the law and regulations;
- transfer of the registered office from one municipality to another in national territory.

The Board is also entitled to appoint and dismiss, following an obligatory opinion from the Board of Statutory Auditors, the Financial Reporting Officer, pursuant to TUF Art. 154-*bis*.

The Board is also responsible, in compliance with the CG Code, for the following:

- examination and approval of strategic, industrial and financial plans of the Company and the Recordati Group, the corporate governance system and the structure of the Group;
- evaluation of whether the organisational, administrative and financial structures of the Company and its strategic subsidiaries, as defined herein and as configured by the responsible organs, are adequate, with particular reference to the system of internal control and management of conflicts of interest;
- attribution and cancellation of mandates to CEOs and the Executive Committee, defining the extent, means and intervals (at least quarterly), with which the delegates must refer to the Board about the activities carried out in exercising their mandates;
- establishment, after examination of the proposals from the Remuneration Committee, and heard the opinion of the Board of Statutory Auditors, of the remuneration of CEOs and other Directors with special mandates, as well as the division, for the individual members, of the total allotment for compensation of the Board, if the Shareholders' Meeting has not already decided the matter;
- evaluation of business trends, in accordance with the law and the By-Laws, especially in the light of information provided by the delegated bodies and periodic comparison of results with budget previsions;
- examination and approval prior to strategic economic or financial operations of the Company and its subsidiaries, with particular attention to situations in which one or more Directors have an interest, whether personal or on behalf of third parties, and in general, to operations with related parties in accordance with the Regulations for Related-Party Transactions approved by the Board of Directors itself on 24th November 2010; establish guidelines to identify significant operations;
- conduct, once a year, an evaluation of the size and functionality of the Board of Directors and its committees and possibly indicate the type of professional figures whose presence on the Board would be useful;
- communication, in the corporate governance report, of the means of application of the CG Code and in particular, of the number of Board and Executive Committee meetings held during the year and the relative percentage of participation of each Director.

On the date of the approval of this Report, the Board took the following actions in relation to the above:

- it studied and approved the 2011 budget of the Group;
- it approved the most significant corporate provisions including update of the Organisational, management and control structures pursuant to Legislative Decree 231/01;
- it identified the subsidiaries with strategic characteristics, based principally on dimensional criteria (revenues) or evaluation of the special characteristics of the market on which the subsidiary operates (such as the orphan drugs market). The following companies are qualified as strategic subsidiaries: Laboratoires Bouchara Recordati S.a.s, Recordati Ireland Ltd., Jaba-Recordati S.A., Merckle Recordati GmbH, Innova Pharma S.p.A. and Orphan Europe SARL;
- it issued a positive evaluation of the adequacy of organisational, administrative and accounting structures, with particular reference to the internal control system and management of conflicts of interest, on the basis of the information provided to the Board in specific reports and other documentation (such as organisational diagrams) presented by the manager responsible for internal control, the Internal Audit Committee, the Supervisory Authority pursuant to Legislative Decree no. 231/2001 and by the Chairman and CEO himself. On 11.4.2008, having examined the proposals submitted by the relative committee and having obtained an opinion from the Board of Statutory Auditors, the Board of Director set the remuneration of the CEO and the other Directors who occupy particular positions and decided how the total remuneration due to the members of the board was to be distributed. Lastly, on 13.4.2010 the Board of Directors confirmed the decisions taken with regard to Directors with special positions (other than the CEO) and also approved some amendments to the Group variable

remuneration incentive scheme. Finally the Board approved the 2010 targets for the Chairman and Chief Executive Officer, under the variable remuneration incentive scheme which applies to him also;
- it evaluated management trends, with particular attention to the information provided by the Chairman and CEO, at the same time it compared the results with the budget previsions;
- it studied and approved strategic operations of the Company and its subsidiaries in advance, when such operations were strategically significant in relation to the economic and financial welfare of the Company (with particular reference to participation in other undertakings and special drugs).

The Board of Directors on November 24, 2010 approved the "Procedure concerning related-party transactions" –available on the Company's website –fixing general principle for the identification of the related-party transactions. Please refer to Section 12 of teh present Report.

Consequently on that same date the Board of Directors amended the "Regulations for significant transactions with related parties or when a Director has an interest in the transaction", adopted in 2008, restricting it to significant transactions or transactions in which a Director bears and interest. On the basis of the current Regulations for significant transactions with related parties or when a Director has an interest in the transaction", the following types of transactions are considered to be strategic, operating, capital or financial for the Company, reserved to the exclusive decision of the Board of Directors, except for transactions performed with or between other companies belonging to the Recordati Group (unless atypical or unusual and/or to be concluded under non standard conditions):

a) assumption of financial liability of more than Euro 50 million for any single operation;
b) transfer of real estate for amounts of more than Euro 25 million, where the industrial operations of the Company or its subsidiaries are conducted at the time of the transfer;
c) acquisition or transfer of industrial property rights of the Company or its subsidiaries for amounts of more than Euro 25 million for any single operation;
d) acquisition, transfer or any other provision in relation to holdings in other companies, likewise the acquisition or transfer of companies or company branches, for amounts of more than Euro 25 million for any single operation;
e) acquisition or transfer of special drugs or products in general, for amounts of more than Euro 25 million for any single operation;
f) granting of real or personal guarantees for amounts of more than Euro 25 million for any single operation;
g) investments and disinvestment, other than those specified at the letters above, for amounts of more than Euro 15 million for any single operation.

On the basis of the procedures as above, the Board is also responsible for studying and approving both transactions in which one or more Directors have an interest, whether personal or on behalf of third parties.

The Board of Directors conducted an evaluation of the size, composition and functioning of the Board and its committees. This evaluation was conducted by asking each Director to compile a questionnaire prepared by the Legal Service and Corporate Affairs Office of the Company.
The results of that questionnaire were discussed in a board meeting of 13th January 2011. The results of the evaluation were positive and potential improvements were suggested by some Directors.

The Shareholders' Meeting has not authorized any general or advance exception to the ban on competition as at CC Art. 2390.

4.4 EXECUTIVE OFFICERS AND BODIES

Chairman and Chief Executive Officer

In accordance with article 24 of the By-Laws, representation of the Company shall be attributed to the Chairman of the Board of Directors or, in the event of his absence or inability to attend for any reason, to the Vice-Chairman, with sole signing authority for implementation of all resolutions of the Board unless otherwise resolved. The Chairman or, in the event of his absence or impediment for any reason, the Vice-Chairman, shall represent the Company before the law, with the power to take legal action and institute judicial and administrative proceedings at all levels of jurisdiction, including with respect to revocation and cassation proceedings, and appointing lawyers and attorneys for lawsuits.
In accordance with article 25 of the By-Laws, the Board of Directors may delegate all or part of its powers and functions not only to the Chairman, but also to the Vice-Chairman and one or more executive directors and it may grant special mandates to individual Directors or managers of the Company, including the power of attorney, determining their functions and powers under the law. In accordance with article 26 of the By-Laws, the Board may also delegate all or part of its powers to an Executive Committee.

On 11 April 2008 the Board of Directors appointed Ing. Giovanni Recordati not only to the position of Chairman of the Board of Directors but also to that of Chief Executive Officer with the purpose of improving the efficiency of the management of the Company.
In his role as Chief Executive Officer, Ing. Giovanni Recordati has been authorised, within the limits permitted by Law, to exercise the broadest powers for the ordinary and extraordinary management of the Company, expressly including the power to appoint directors and his agents, persons with specific duties, experts and agents of the Company in general for specific actions or types of action, with the sole, exclusive and mandatory exclusion of the following operations reserved to the Board of Directors, except for operations performed with or between other companies of the Recordati Group:

a) assumption of financial liability of more than € 50 million for any single operation;
b) transfer of real estate for amounts of more than € 25 million, where the industrial operations of the Company or its subsidiaries are conducted at the time of the transfer;
c) the purchase or sale of intellectual property of the Company or its subsidiaries for amounts exceeding € 5 million for each transaction;
d) acquisition, transfer or any other provision in relation to holdings in other companies, likewise the acquisition or transfer of companies or company branches, for amounts of more than € 25 million for any single operation;
e) the purchase and sale of proprietary medicinal products and generic products, for amounts exceeding € 25 million each;
f) the grant of real or personal guarantees for amounts of more than € 25 million for any single operation;
g) investments and disinvestment, other than those specified at the letters above, for amounts of more than € 15 million for any single operation.

The Chairman and Chief Executive Officer also: (i) convenes the Board meetings and ensures that the members of the Board and the Board of Statutory Auditors are provided, with reasonable advance notice, excepting situations of necessity or urgency, with the documentation and information necessary to enable them to express an informed opinion about the matters submitted to their examination and approval, (ii) coordinates the activities of the Board and conducts the proceedings of Board meetings; (iii) continuously provides information about the frequent variations of the law and the regulations that govern the sector and their impact on the Company, in order to develop the awareness of all Directors in relation to the situation and dynamics of the Company.

Executive Committee
No executive committee has been formed.

Reporting to the Board
The Chairman and Chief Executive Office reported to the Board in individual board meetings on the activities performed in exercising the powers conferred on him by the Board.

4.5 OTHER EXECUTIVE DIRECTORS
In addition to the Chairman and CEO, the other Directors that qualify as executives are Dr. Alberto Recordati, Dr. Andrea Recordati and Dr. Federico Nazzari. Dr. Alberto Recordati, Vice-Chairman of the Board of Directors, co-ordinates R&D and (since February 2011) "Group Licensing-in" activities, and he is also a director of some subsidiaries in the Group (including one of strategic importance). Dr. Andrea Recordati, the former Chief of "Western Europe", has taken responsibility for the "International Pharmaceutical Division" and the co-ordination of licensing-out activities since February 2011 and he has also filled the position of Managing Director of some strategic subsidiaries.

On 13th April 2010, the Board of Directors conferred powers on the Director Dr. Federico Nazzari, until the date of the approval of the annual report for the year ended 31.12,2010, necessary for performing the following activities both in the interest of the Parent Company and in the interest of subsidiaries:

a) supervision, development, co-ordination and management of activities and relations with institutions, such as, for example, external relations and public relations in general, participation in congresses and cultural and scientific activities and publications of a general and institutional nature;
b) management of relations with Farmindustria and the co-ordination, in general, of all activities with sector associations in which the Group is present;
c) management of relations with persons and institutions in the business, scientific, academic and political spheres;
d) management of relations with public administrations and central, peripheral and local government institutions with particular reference to those with responsibilities for health, the environment and economics;
e) assisting the Chairman and Chief Executive Office with other projects and special assignments as required.

These are activities of an institutional nature, which, as such, are not strictly management functions.

During the course of meetings of the Board of Directors, the Chairman and Chief Executive Officer gives necessary information on the affairs of the Company and the Group, which includes information on the most important changes in legislation and regulations in the sector and their impact on the Company. No additional specific initiatives were necessary to increase the Directors' knowledge of the company and its dynamics, considering, moreover, that all members of the Board have a deep knowledge of Company and the Group, either because of the many years in office or great experience acquired working in the sector.

4.6 INDEPENDENT DIRECTORS
On that occasion the Board confirmed its previous assessment concerning the relationship between the Company and Prof. Vitale, attributable to a professional engagement worth € 50,000.00 annually, considering the relationship cited as not significant for the purposes of independence in consideration of the small quantitative nature of the engagement. Furthermore, the Board of Directors decided not to include the requirement relating to a Director holding office for more than nine of the last twelve years among those pursuant to the CG on the basis of which the assessment of the independence of Directors is performed. This is because, with precise reference to Prof. Vitale, Dr. Garraffo and from March 2010, Avv. Pedersoli, the Board considered that because of their specific expertise and professionalism and for their constant work in supervising and stimulating the Board they have demonstrated that they have maintained their characteristics of independence and freedom of judgement in assessing the work of management intact. Furthermore, the Board of Directors noted that the continuation of a Director in office for more than nine years should not in itself be considered a negative requirement for qualification as independent if the other requirements of the CG are satisfied. This is because great experience of the specific affairs of the issuer, the stature and professionalism of the persons considered, the absence of interests and significant relations with the Company constitute a value to be considered positively and such as to consider their capacity to judge freely and without bias to be untarnished.

The Board of Statutory Auditors verified that the criteria and procedures of evaluation adopted by the Board to evaluate the independence of its members were implemented correctly.

The independent directors, at and before the beginning of meetings of the Board of Directors, verified each time the absence of any specific matters that might be significant in relation to their roles as independent Directors.

4.7 LEAD INDEPENDENT DIRECTOR
Considering the existence of the situation in which the same person holds the offices of Chairman and CEO, in compliance with the CG Code, the Board has designated independent Director Prof. Vitale to be the lead independent director, to guide the independent Directors, with particular reference to the independent Directors, in order to improve the activities and functioning of the Board. The lead independent director collaborates with the Chairman in order to ensure that the Directors receive complete and timely information, and is also authorised to convene special meetings of the independent Directors only, at his own discretion or at the request of other Directors.

5. CONFIDENTIALITY OF CORPORATE INFORMATION

Following amendments to TUF introduced by Law no. 62/2005 (EC Law 2004) on matters of market abuse, in 2006 the Board of Directors approved the proposal of the Chairman and CEO for "Internal regulations for handling confidential information" (to substitute an internal procedure for the management and external communication of information and confidential documents, adopted in 2001 in accordance with the Corporate Governance Code in force at the time).
These regulations govern the internal management and external communication of information about Recordati S.p.A. and its subsidiaries, with particular reference to confidential and significant information (meaning information that could become confidential, but does not yet have the characteristics of specificity as defined at TUF Art. 181), and the institution of a specific register of the persons who have access to the information as above, a "Register of persons who have access to confidential information", in accordance with Art. 115 *bis* of the TUF. In particular these regulations establish the obligations of confidentiality of all persons who have access to significant and confidential information; identify the persons responsible for evaluating the significance of the same information; establishes the rules for access to the same information by persons outside of the Company; establishes some principles and rules for the management of documents and correspondence containing significant or confidential information; establishes the methods of communicating confidential information, and other information about the Company.
In implementing these regulations, a procedure for "Management of the register persons who have access to confidential information" has been adopted, which establishes the method of keeping and updating the same.

The Company also keeps the register in question on behalf of the other companies of the group (Group Register), having been authorised to do so by the subsidiaries and the holding company.

In 2006 the Board also decided the adoption of an "internal dealing" procedure to discipline communications about transactions in Recordati S.p.A. shares or other related financial instruments issued by "significant persons", in order to implement the provisions at TUF Art. 114, paragraph 7 (and the provisions of the regulations for application of the same).
Initially some executives holding management positions, insofar as they had regular access to confidential information, were considered (together with directors, statutory auditors, the general manager and the parent company FIMEI S.p.A.) "significant persons" for the purposes of this procedure, even if they did not hold the power to make management decisions which might affect the future development and prospects of the Company.

On 17 December 2008, the Board of Directors, having taken account of the organisational and decision-making structure of the Company and of the Group, and having considered in particular that every management decision that might affect the future development and prospects of the Group is always and in any event authorized either by the Board of Directors or by the Chairman and Chief Executive Office, in virtue of the powers conferred upon them, decided to review the list of "significant persons", excluding all executives, with the sole exception of the Chief Financial Officer and General Manager of the Group.

6. INTERNAL COMMITTEES OF THE BOARD

The Board of Directors has formed a Remuneration Committee and an Internal Audit Committee from among its members both with consultative and proposal-making functions, consisting exclusively of independent Directors.

7. APPOINTMENTS COMMITTEE

The Board has not found it necessary to form an Appointments Committee because, until the present time and in the presence of a shareholder with legal control of the Company, no difficulties have been encountered in preparing proposals of candidates.

8. REMUNERATION COMMITTEE

The Board has formed an internal Remuneration Committee. The Remuneration Committee met five times during the year on the following dates: 11th February 2010, 5th March 2010, 12th April 2010, 6th May 2010, 26th October 2010. The percentage attendance of Committee members at meetings is shown in the table contained in section 4.2 of this Report.
The Committee met during the year on 13th January 2011, 8th February 2011 and 9th February 2011.
The Committee is currently composed of three non executive and independent Directors (see Section 4.6): Dr. Walter Wenninger, the Chairman, Dr. William Gunnarsson and Dr. Mario Garraffo. With regard to this composition, on 24th November 2010 the Board of Directors acknowledged the resignation of Dr. Federico Nazzarri, an executive Director, on 23rd November 2010, and appointed Dr. Garraffo, an independent Director, to replace him, following considerations concerning internal committees of the Board of Directors and for the purposes of regulations for related-party transactions in accordance with recent regulatory changes. Directors must abstain from participating at Committee meetings, which formulate proposals for the Board that relate to their own remuneration.
At the invitation of the Committee Chairman, with reference to specific points on the agenda, some persons who are not Committee members have participated at times at Committee meetings, specifically the Chairman of the Board and CEO, Chief Officer of Human Resources of the Group, the Chief Financial Officer and General Manager of the Group.
The Chief of the Legal Service and Corporate Affairs attended to take minutes of meetings.

Role of the Remuneration Committee

The Remuneration Committee has the following functions:
- to present proposals for the remuneration of Directors and Directors endowed with special mandates to the Board and to monitor application of the resolutions adopted by the Board;
- to periodically evaluate the criteria adopted in relation to the remuneration of Managers with strategic responsibilities, to monitor application of the same on the basis of information provided by the CEO and to provide the Board with general guidelines about these matters;
- to perform the functions assigned by the Board of Directors in relation to the administration of stock option plans to be offered to employees and/or Directors of the Company and of subsidiaries, for shares of the Company or options on the same, without prejudice to the general responsibility of the Board itself for the supervision of this matter.
- following approval of the Regulations for related-party transactions by the Board of Directors on 24th November 2010, to express an opinion, either binding of non binding, on related-party transactions of major importance and on related-party transactions of minor importance concerning remuneration in compliance with those Regulations.

The activities of the committee in the meetings just mentioned were designed to: formulate proposals for the adoption of a new stock option plan, assess the criteria adopted for the remuneration of executives with strategic responsibilities and the Group 2010 MBO (Management By Objectives) variable remuneration incentive scheme in particular; formulate proposals concerning the remuneration for Board members on whom particular powers have been conferred; assess the 2010 objectives for the Chairman and Chief Executive Officer; assess the impact of the new article 7 of the CG concerning the remuneration of Directors and any activities that may be required to comply with it; formulate an opinion on the variable remuneration paid to the Chairman, CEO and General Manager and other senior managers with strategic responsibilities, also in accordance with the Regulations for related-party transactions.

Minutes of all meetings of the Remuneration Committee have been drawn up regularly.

The Committee had access to the information and Company offices that were necessary for the performance of its duties; it did not consider it necessary to make use of external consultants.
The committee did not incur any expenses in the exercise of its duties during the Year.

9. DIRECTORS' REMUNERATION

A significant part of the remuneration of the Chairman and CEO *Ing.* Giovanni Recordati and of the executive directors *Dott.* Alberto Recordati and *Sig.* Andrea Recordati depends on the economic results of the Company and the achievement of specific objectives, by means of an MBO (management by objectives) system. It must be considered, however, that that variable remuneration is paid to those persons not as directors but as senior managers with strategic responsibilities.

A stock option plan is in force for executive Directors (with the exception of *Dr.* Nazzari as an executive director in the sense already mentioned) and to managers with strategic responsibilities. In addition, stock option plans are also available to *Ing.* Giovanni Recordati (who also holds the office of General Manager), *Dr.* Alberto Recordati and *Sig.* Andrea Recordati, not in relation to being Directors but rather in their roles as managers with strategic responsibilities.
Remuneration of non-executive directors is not linked to the profits of the Company, but rather is determined by considering the presence or not in the Committees as above and as results from the relative table on Directors' remuneration contained in the 2010 Annual Report.
The current structure of Directors' remuneration will be subject to analysis and may be subject to change in order to comply with the provisions of Legislative Decree No. 259 of 30th December 2010 which implements European Commission recommendations No. 2004/913/EC and No. 2009/385/EC concerning the remuneration of listed companies, which entered into force on 22nd February 2011.

Indemnities for directors in the case of resignation, dismissal or termination of contract following a public tender offer (pursuant to Art. 123-*bis*, paragraph 1, letter i) of the TUF)

In compliance, amongst other things with Consob Communication No. DEM/11012984 of 24.02.2011 in accordance with Art. 114, paragraph 5, of the Consolidated Finance Act, no agreements have been stipulated between the Issuer and the Directors that provide for payment of indemnities in the event of resignation, dismissal without just cause or termination of contract following a public tender offer.

Further disclosures required by Consob Communication No. DEM/11012984 of 24.02.2011

We report the following In compliance with Consob Communication No. DEM/11012984 of 24.02.2011 in accordance with Art. 114, paragraph 5, of the Consolidated Finance Act:

Effects of end of contract on rights granted under share based incentive schemes.

Ing. Giovanni Recordati, Dr. Alberto Recordati and Dr. Andrea Recordati form part of the beneficiaries of outstanding company stock option plans in their capacities as senior managers of strategic importance to the Company (and not in their capacities as Directors).

Details are given of those plans which regulate the effects of the end of employment contracts on the option rights granted.

2006 – 2009 Stock Option Plan

Unless established otherwise by the Board or the Committee Chairman, the termination of a Participant's employment contract with the Company or, according to the case, with another company of the Group, depending on the context (the "Termination of the Employment Contract"), for any reason, will result in the automatic exclusion of the Participant from the Plan and the permanent and irrevocable loss of validity for the tranches not yet vested of the Options already granted at the date of Termination Of The Employment Contract.

Without prejudice to the previous paragraph if at the date of Termination of the Employment Contract, a Participant in the Plan possesses Options which have already vested in relation to one or more tranches, but which have not yet been exercised, the Participant may exercise those Options, in relation to the tranches already vested, within 30 days of the date of the Termination of the Employment Contract, while those Options shall lose all validity if they are not exercised within that period.

Without prejudice to the above in the event of the Termination of the Employment Contract due to death or permanent invalidity of a Participant in the Plan, the Options already granted on the date of the Termination of the Employment Contract shall become immediately exercisable by the heirs of the Participant in the case of the death of the latter, or by the Participant in person or his/her legal representative if incapacitated in the case of permanent invalidity, for a period of one year following the date of the Termination of the Employment Contract. After that period of one year has passed, the Options shall permanently and irrevocably lose their validity.

In all cases, the termination of the employment contract of a Participant with the Company as a result of the transfer of the latter to another company in the Group, does not constitute a case of Termination of the Employment Contract for the purposes of the provisions that precede this paragraph. However, it does constitute Termination of Employment in cases where a change of control occurs, in the sense of a transfer to third parties (i) of the subsidiary to which the Participant belongs by the Company or (ii) of the company or the part of the company in which the Participant works by the Company or one of its subsidiaries.

2010-2013 Stock Option Plan

Unless established otherwise by the Board or the Committee Chairman, the termination of a Participant's employment contract with the Company or, according to the case, with another company of the Group, depending on the context (the "Termination of the Employment Contract"), for any reason, will result in the automatic exclusion of the Participant from the Plan and the permanent and irrevocable loss of validity for the tranches not yet vested of the Options already granted at the date of Termination Of The Employment Contract.

Without prejudice to the previous sub section, if at the date of Termination of the Employment Contract, a Participant in the Plan possesses Options which have already vested in relation to one or more tranches, but which have not yet been exercised, the Participant may exercise those Options, in relation to the tranches already vested, within 30 days of the date of the Termination of the Employment Contract, while those Options shall lose all validity if they are not exercised within that period.

Without prejudice to the above, in the event of the Termination of the Employment Contract due to death or permanent invalidity of a Participant in the Plan, the Options already granted on the date of the Termination of the Employment Contract shall become immediately exercisable by the heirs of the Participant in the case of the death of the latter, or by the Participant in person or his/her legal representative if incapacitated in the case of permanent invalidity, for a period of one year following the date of the Termination of the Employment Contract. After that period of one year has passed, the Options shall permanently and irrevocably lose their validity.

In all cases, the termination of the employment contract of a Participant with the Company as a result of the transfer of the latter to another company in the Group, does not constitute a case of Termination of the Employment Contract for the purposes of the provisions that precede this paragraph. However, it does constitute Termination of Employment in cases where a change of control occurs, in the sense of a transfer to third parties (i) of the subsidiary to which the Participant belongs by the Company or (ii) of the company or the part of the company in which the Participant works by the Company or one of its subsidiaries.

No agreements have been stipulated between the Issuer and the Directors that provide for the assignment or maintenance of non monetary benefits for persons whose employment contract has ended (known as "post-retirement perks") or for special consultancy contracts for a period following the termination of the employment contract.
No agreements have been stipulated between the Issuer and the

Directors that provide for the payment of indemnities for non competition commitments.

10. INTERNAL AUDIT COMMITTEE

The Board has established an Internal Audit Committee, comprising the following non-executive and independent (within the meaning described above) directors: Marco Vitale, Mario Garraffo and Carlo Pedersoli.

This Committee is responsible for analysing problems and defining important policies for the auditing of company activities, providing consultancy and making proposals to the Board of Directors with regard to the preparation, analysis and functioning of the internal control system.

During the Year, the Committee met five times on: 11th February 2010, 5th March 2010, 22nd July 2010, 26th October 2010 and 24th November 2010. In the current year, the Committee met on 13th January 2011, 9th February 2011. The percentage attendance of Committee members at meetings is shown in the table contained at the end of section 4.2 of this Report.
Two of the three members of the Committee have experience in accounting and financial matters.

The entire Board of Statutory Auditors has been constantly invited to participate in the Committee's work.

At the invitation of the Chairman of the Committee and with regard to individual items on the agenda, various non-members have participated in meetings, in particular the Chairman and Chief Executive Officer, the Group Finance Director and General Manager, the Internal Control Officer, the Supervisory Board set up pursuant to Legislative Decree 231/01 and representatives of the Audit Firm. The Legal Service and Corporate Affairs Office is always involved for the minuting of meetings.

Duties assigned to the Internal Audit Committee

The Internal Audit Committee assists the Board of Directors in carrying out a number of tasks within the remit of the Board, namely:
- define the guidelines for the internal control system, so that the principal risks to which the Company and its subsidiaries are exposed are correctly identified and adequately measured, managed and monitored, and also determine criteria to assess whether such risks are compatible with a sound and proper management of the business;
- identify an Executive Director (generally one of the Chief Executive Officers) responsible for monitoring the functionality of the internal control system; - evaluate, at least once a year, the adequacy, efficiency and effectiveness of the internal control system;
- describe, in the Corporate Governance Report, the key components of the internal control system and express its evaluation of the overall adequacy of the system.

The Internal Audit Committee also:
- assesses, together with the Financial Reporting Officer and with the auditors, the correct use of accounting principles and their consistency in the preparation of the consolidated financial statements;
- at the request of the specially appointed Executive Director, expresses opinions on specific aspects concerning the identification of the principal business risks and concerning the design, construction and management of the internal control system;
- examines the work plan prepared by the Internal Control Officer and his periodic reports;
- evaluates the proposals submitted by the audit firm with a view to being awarded the contract, as well as the work plan prepared for the audit and the results set out in the report and in any management letter;
- reports to the Board on the activities undertaken and on the adequacy of the internal control system, at least once every six months, at the time of approval of the annual accounts and half-yearly report;
- makes proposals to the Board of Directors regarding changes to be made to the Organisational Model established pursuant to Legislative Decree 231/01 adopted by the Company;
- makes proposals to the Board of Directors regarding the appointment of members of the Supervisory Board set up pursuant to Legislative Decree 231/01 and regarding the allocation of the annual budget to that body;
- expresses an opinion on the appointment and dismissal of the internal control officer(s);
- expresses an opinion on the appointment of the financial reporting officer;
- expresses an opinion on the Regulations for Related-Party Transactions which the Company must adopt in compliance with CONSOB Regulation No. 17221 of 12th March 2010 and also on any subsequent amendments to those regulations;
- expresses an opinion, either binding or not binding, on related-party transactions of major importance and on related-party transactions of minor importance in compliance with the aforementioned regulations governing related-party transactions adopted by the Company, unless the consist of related-party transactions which concern remuneration;
- performs any additional tasks that are assigned to it by the Board of Directors.

The monitoring of the effectiveness of the legal auditing process has been referred by the Board of Directors to the Board of Statutory Auditors, as per the powers granted to it by current legislation (D.Lgs. 39/2010).

The Committee's activities in the aforementioned meetings mainly concerned: an evaluation of the adequacy of the accounting principles; the formulation of a proposal concerning the appointment of a new independent member of the Supervisory Committee; an examination of the reports of the Supervisory Committee set up pursuant to Legislative Decree 231/01 and of the Internal Control Officer; an examination of the work plan prepared by the Internal Control Officer; examination of the new regulations concerning a legal audit (Legislative Decree No. 39 of 27th January 2010); the formulation of an opinion concerning the related-part transaction regulations; an examination of the reports furnished by the managers of the Group prevention and protection service on safety at the workplace; the submission of proposals to the Board regarding updates to the Model established pursuant to Legislative Decree 231/01; the submission of a proposal to the Board concerning the spending budget of the Supervisory Committee for the operating expenses of the committee itself concerning the application of the organisation, management and control model pursuant to Legislative Decree 231/01. The committee also reported to the Board on the activities undertaken and on the adequacy of the internal control system, at the time of approval of the annual accounts and half-yearly report.

Meetings of the Internal Audit Committee were properly minuted.

The Committee had the opportunity to access company information and access the units necessary to perform its duties; it did not make use of external advisors.
The committee did not incur any expenses in the performance of its duties during the Year.

11. INTERNAL AUDIT SYSTEM

The internal audit system consists of a structured and organic set of procedures and organisational units designed to prevent or limit the consequences of unexpected results, to enable corporate objectives to be achieved and to ensure both compliance with the law and regulations and proper and transparent reporting internally and to markets. The internal control system permeates the whole Company, involving a variety of staff with specific roles and responsibilities.

The Board has defined the guidelines for the internal control system, so that the principal risks to which the Company and its subsidiaries are exposed are correctly identified and adequately measured, managed and monitored. It has also determined the criteria to establish whether such risks are compatible with a sound and proper management of the business.

The Board positively assessed the adequacy, effectiveness and actual functioning of the internal control system on the basis of information provided in meetings in the form of reports presented by the Internal Audit Committee and by the Supervisory Committee pursuant to Legislative Decree 231/01.

The heads of each department are responsible for designing and managing the internal control system and for monitoring its functioning on the basis of the guidelines laid down by the Board of Directors.

The structural components of the internal control system consist of: the Code of Ethics, which defines the principles and underlying values of the Company's ethical code and the rules of conduct that are based on those principles; the system of powers and delegations with general and specific authorisations and the internal delegation of powers, according to the responsibilities assigned; corporate operating procedures; IT systems to support both management and production activities and also accounting and financial processes. With regard to compliance, the Issuer has had an organisational model in place pursuant to Legislative Decree No. 231/2001 since April 2003 which is continuously updated and also a control model pursuant to Law No. 262/2005 for financial reporting (further information is given below on the "Risk management and internal control systems in relation to financial reporting").

The control instruments described above are monitored by management and also independently by the Group Internal Audit Function by means of auditing activities contained in the annual audit plan. The results of auditing activities are reported to the Chairman and Chief Executive Officer and to management and also periodically to the Internal Audit Committee and to the Board of Statutory Auditors.

The internal control system, as just defined, covers financial reporting which forms an integral part of it and is also governed by organisational procedures and instructions which ensure compliance with the general principles of control laid down by the Issuer (e.g. a proper separation of functions, a proper system of authorisations and powers, checks and balances, accountability, etc.). It is based on the main established reference models (e.g. CoSO Report) being subject at the same time to verification and periodic update by means of a review of the risks to which the Company is exposed.

The financial reporting process of the Issuer was subjected to a series of procedural and organisational initiatives with action taken to create an internal controls system for administrative and accounting activities designed to guarantee the reliability, accuracy, completeness and promptness of financial reporting and to regularly produce management, operating and financial reports to the board and to the statutory and external auditors.

The roles involved with specific reference to financial reporting processes are: the Board of Directors, CEO, Internal Control Officer (who fills the role of the officer responsible for the Internal Audit Function), Internal Audit Function, Internal Audit Committee and the Financial Reporting Officer.
The Financial Reporting Officer in conjunction with the CEO is responsible for putting adequate administrative and accounting procedures in place for the preparation of the separate Parent Company and consolidated financial statements.

With regard to the latter, Legislative Decree No. 39/2010 ("Consolidated Legal Audit Act"), which implements EC Directive No. 2006/43/EC concerning the legal audit of annual accounts and entered into force on 7th April 2010, assigned new functions to the Board of Statutory Auditors in its role of "Internal Audit and Accounting Audit Committee", specifying that it should supervise the financial reporting process and the effectiveness of internal control, internal audit, if applicable and risk management systems. Further information is given in Section 14 on the Board of Statutory Auditors.

With regard to a description of the main characteristics of the internal control system with regard to financial reporting, the Issuer has implemented a model for the administrative and accounting control of the Issuer (hereinafter also the "262 Control Model) for some time now in order to ensure the effectiveness of that system. It has also assigned responsibility for verifying proper application of that model and for monitoring the functioning and adequacy of the Internal Control System in relation to the model to the Manager appointed to prepare corporate accounting documents.
The 262 Control Model control model consists of a set of corporate rules and procedures designed to enable objectives of reliability, accuracy, completeness and promptness in financial reporting to be achieved by identification and management of the main risks attaching to the preparation and disclosure of financial information.

The 262 Control Model consists of

- administrative and accounting risk assessment;
- administrative and accounting manuals and procedures,

which are closely related one to the other and subject to continuous update and periodic assessment.

More specifically administrative and accounting risk assessment is the constant process of identifying and assessing risks attaching to accounting and financial information and it is performed by the Manager appointed to prepare corporate accounting documents with the support of the Group Internal Audit Function. This process is performed annually by means of:

- the identification, by means of quantitative (size) and qualitative (importance) criteria, of items in the financial statements and in financial information which may be highly sensitive and significant or involve risks of error or omission, with reference to the financial statements of the Parent or to the consolidated financial statements of the Group;
- the identification of the relative processes and accounting information input for each significant item of the financial statements and of financial information and of the relative controls to manage the risks identified.

If control activities are not found to be adequately documented or regulated in relation to risk areas identified following periodic risk assessment, it is the responsibility of the function responsible for the process, to provide adequate support documentation, with the support of the Financial Reporting Officer and, if necessary, the Internal Audit Function, to enable the existing controls in the area subjected to analysis to be assessed.

When risks were identified following annual risk assessment activities, the Company and the Group put procedures, protocols and documents in place to control administrative and accounting activities.
The body of the administrative and accounting manuals and procedures is comprised of the following principal documents:

- the Group Accounting and Reporting Manual, designed to ensure the application of uniform criteria in the Group with regard to the recognition, classification and measurement in the accounts of operating and financial events;
- a system of internal certification by the management and administrative chiefs (CEO and Financial Controller) of the subsidiaries of the Recordati Group with regard to the accuracy, reliability and completeness of accounting information and its compliance with Group accounting policies and local regulations. This system, set out in the Group Accounting and Reporting Manual, is designed, amongst other things, to support the signing of certifications and attestations required by law of the Financial Reporting Officer and of the Chief Executive Officer;
- administrative and accounting procedures and protocols for closing accounts at the end of accounting periods and preparing annual financial statements and reporting packages which define control responsibilities, activities and rules to follow for the administration and accounts of the Parent Company and its subsidiaries;
- procedures for preparation of the consolidated financial statements which regulate the operations and controls to be performed for the preparation of the consolidated financial statements, describing, amongst other things, the activities to be performed in the consolidation IT system adopted by the Group and used in its subsidiaries and which define the responsibilities of the various functions for the proper functioning of that system;
- calendar of end of period activities: a document which is updated and distributed monthly, which gives deadlines for the process of closing accounts and preparing financial statements, reporting packages and the consolidated financial statements;
- operational procedures which define the activities, responsibilities and management operations in terms of authorisation, implementation, control, official approval and recognition in the accounts for those accounting and reporting areas considered significant, in co-ordination with annual accounting and administrative risk assessment. Those responsible for the functions and for the subsidiaries involved in the process of preparing and managing accounting and financial information are responsible for the proper functioning and update of the administrative and accounting internal control system in relation to all the processes and accounting reporting under their control and they must constantly monitor those administrative and accounting procedures in order to ensure that they are properly applied and appropriate to the existing processes;
- tables of administrative and accounting controls, which describe the control activities implemented in each administrative and accounting process in relation to the risk identified and the related control objectives and which summarise the results of control testing activities performed by the Internal Audit Function. The controls described by those tables represent the application of control principles described in administrative and accounting control procedures. These tables are therefore used as a tool for the identification of the key controls in place, specific to each significant process, and for the identification of tests to be performed to assess the adequacy of the administrative and accounting internal audit system. These tables are constantly updated by the Internal Audit Function.

The Financial Reporting Officer appointed to prepare corporate accounting documents assesses and testifies to the adequacy of the 262 Control Model, which is the administrative and accounting internal control system just described and to the proper functioning of the procedures in place at least twice annually, when the half year and annual financial statements (consolidated financial statements of the Group and separate financial statements of the Parent Company) are approved. He is supported by the independent testing activity performed by the Group Internal Audit Function designed to assess the adequacy of the design and proper implementation and operational effectiveness of the controls in place.

Independent testing is performed continuously throughout the year on the basis of the annual audit plan drawn up by the Internal Audit Function, approved by the Internal Audit Committee of the Company. The results of testing activities, assessments of possible areas for improvement and the relative corrective action are officially published in an annual report addressed to the Internal Control Officer, the Manager appointed to prepare corporate accounting documents and the CEO.

The Financial Reporting Officer appointed to prepare corporate accounting documents is also responsible for monitoring the administrative and accounting internal control system on the basis of information received from the chiefs of corporate functions and reports on the activities performed by the Internal Audit function, in order to ensure that the body of procedures is updated and that the controls identified by means of the administrative and accounting procedures are actually implemented.

11.1 EXECUTIVE DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL SYSTEM

The Board of Directors has identified the Chairman and Chief Executive Officer, Giovanni Recordati, as the Executive Director responsible for monitoring the functionality of the internal control system.

The Executive Director responsible for monitoring the functionality of the internal control system:
- has identified, with the help of the Internal Control Officer, the principal business risks, taking account of the characteristics of the activities undertaken by the Company and by its subsidiaries and has regularly informed the Board of those risks;
- has implemented the guidelines defined by the Board and, with the help of the Internal Control Officer and other competent units within the Company, has designed, constructed and managed the internal control system while constantly checking its overall adequacy, efficiency and effectiveness;
- has brought the system, again with the help of the Internal Control Officer and other competent units within the Company, into line with changes in operating conditions and in the legislative and regulatory framework;
- has proposed to the Board the appointment of the Internal Control Officer and has given an assessment of the suitability of the latter's remuneration.

11.2 INTERNAL CONTROL OFFICER

The Board has appointed Giovanni Minora, Head of Group Auditing, as Internal Control Officer, at the proposal of the Executive Director responsible for monitoring the functionality of the internal control system and having consulted with the Internal Audit Committee.

Note that the Group Auditing Unit, of which *Dr.* Minora is the Head, reports hierarchically to the Chairman and Chief Executive Officer and has no connection with any operational area.

The Board, having consulted with the Internal Audit Committee, has assessed the suitability of the remuneration paid to the Internal Control Officer as an employee of the Company (defined at the time of recruitment) according to the Company's policies.

The Officer's duties are as follows:
a) explain the proposed annual work programme to the Internal Audit Committee so that the Internal Audit Committee can make any suggestions;
b) help the Executive Director responsible for monitoring the functionality of the Internal Control System with the design, management and monitoring of the Internal Control System and with the identification of the various risk factors;
c) plan and carry out, in a manner consistent with the annual work plan, any direct and specific auditing tasks within Recordati S.p.A. and within all the subsidiaries, particularly in relation to companies having strategic importance, in order to identify any shortcomings in the Internal Control System in the various areas of risk;
d) check that the rules and procedures for auditing processes are observed and that all individuals involved act in accordance with the predetermined objectives;
e) carry out checks at his own initiative or at the request of the Board of Directors, the Internal Audit Committee, the Executive Director responsible for monitoring the functionality of the Internal Control System or the Board of Statutory Auditors;
f) report on the results of his auditing activities to the Executive Director responsible for monitoring the functionality of the Internal Control System;
g) prepare a half-yearly summary report on the activities undertaken during the period for the Internal Audit Committee and for the Board of Statutory Auditors;
h) where critical aspects emerge requiring urgent intervention, immediately inform the Executive Director responsible for monitoring the functionality of the Internal Control System, the Internal Audit Committee and the Board of Statutory Auditors in order to update them on the results of his actions.

In particular, during the Year, the Internal Control Officer:
- explained the annual work programme to the Internal Audit Committee;
- had direct access to all the necessary information to carry out his role;
- carried out direct and specific auditing tasks, in a manner consistent with the annual work plan;
- reported to the Executive Director responsible for monitoring the functionality of the Internal Control System on the results of the auditing activities undertaken during the Year;
- reported on his actions and on the results of the activities undertaken to the Internal Audit Committee and to the Board of Statutory Auditors of the Company.

The Internal Control Officer had access to an operating budget which was used to carry out the audits and checks performed in the Year.

11.3 ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001.

The Company has adopted and effectivel implemented a model which represents an organisational and operational tool aimed at preventing the Company's employees and colleagues from committing the crimes specified in Legislative Decree 231/01.

The duties of monitoring the adequacy, updating and effectiveness of the Model have been transferred by the Company to a Supervisory Board having collective form, comprising two external members and one Company employee.

The organization, management and control model is constantly updated and monitored with particular attention paid to preventing crimes and to risk assessment, following the new regulatory changes.

The Model consists of a general part and a specific part, arranged into different sections. The general part includes, *inter alia*, the Code of Ethics, the Disciplinary System and the By-Laws of the Supervisory Board. The specific part includes, *inter alia*, a "map" of the areas where the risk of crime is more marked and a significant number of "protocols" through which measures are put in place to prevent the commission of offences in the areas identified in the map. A similar model has been adopted for the subsidiaries Innova Pharma S.p.A. and Orphan Europe Italia S.r.l.
A presentation of the Model adopted by the Company is available on the Company's website at http: //www.recordati.it/rec_it/cg/compliance_programs/

For subsidiaries of strategic importance located abroad, policies with a function similar to those of the Organisational Model pursuant to Legislative Decree 231/01 adopted by the Company have been implemented and are being implemented, where considered necessary, and a training programme is underway on the Group Code of Ethics.

11.4 AUDIT FIRM

Deloitte & Touche S.p.A. is the Audit Firm appointed to audit the Company. The appointment was formally made by the Shareholders' Meeting on 6 April 2005 and extended for the years 2008-2009-2010 by the Shareholders' Meeting on 11 April 2007. The appointment of Deloitte & Touche expires at the time of the shareholders' meeting held to approve the 2010 Annual Report, which will be asked to appoint a new audit firm on the basis of a proposal submitted by the Board of Statutory Auditors, because Deloitte cannot be appointed again because it has reached the maximum number of years of engagement permitted by law.

11.5 THE FINANCIAL REPORTING OFFICER

On 3 May 2007, the Board of Directors, having noted the favourable opinion of the Board of Statutory Auditors and of the Internal Audit Committee, appointed Fritz Squindo, Chief Financial Officer (and now also Genral Manager), as the Financial Reporting Officer.

During that meeting, it was confirmed that he satisfied the requirements of respectability and professionalism laid down in the applicable legislation and in the Company's By-Laws, which stipulate, in Art. 26, that the Financial Reporting Officer must not only satisfy the requirements of respectability laid down by law for those performing administrative and managerial duties but also the requirements of professionalism characterised by specific competence in administrative and accounting matters. This competence, to be verified by the Board of Directors, must be acquired through working experience in a position of adequate responsibility over a suitable period of time.
The Financial Reporting Officer is given duties and powers to perform that assignment, which include the provisions of the operational guidelines for that manager approved by the Board of Directors on 3 May 2007.

12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

Subject to the opinion in favour of the Internal Audit Committee identified as the Committee Responsible pursuant to Art. 4 paragraph 3 of CONSOB Regulation No. 17221 of 12th March 2010, in a meeting held on 24th November 2010, the Board adopted "Regulations for related-party transactions" in accordance with Art. 2391-*bis* of the Italian Civil Code, with Art. 9.c.1 of the CG and with the Regulations just mentioned to replace that part relating to related-party transactions contained in the "Procedure for significant transactions with related parties or when a Director has an interest in the transaction" adopted in 2008, which remains in force for the regulation of significant transactions or those where a Director bears an interest in the transaction.

The Regulations for Related-Party Transactions (the full text is available on the Company website at www.recordati.it in the "Corporate Governance" section), in force since 1st January 2011, defines the guidelines and the criteria for the identification of related-party transactions and it gives details of the roles, responsibilities and operating procedures designed to ensure adequate reporting transparency and the relative proper conduct in form and substance for those transactions. The Company has also issued internal rules in order to ensure that the Regulations are fully implemented.

The following was performed on the basis of the new Regulations:

- the Internal Audit Committee was identified as the Committee Responsible for issuing a reasoned opinion on both transactions of major importance and transactions of minor importance, except for related-party transactions concerning remuneration, for which the Committee Responsible would be the Remuneration Committee. As already reported both committees are composed exclusively of independent Directors;
- a related-party transaction is defined as any transfer of resources, services or obligations (i.e. any contractual commitment) between Recordati – either directly or through its subsidiaries – and one or more Recordati Related Parties, independently of whether any consideration has been agreed upon;
- a Recordati related party is defined as:
  (a) the parent of Recordati and its shareholders;
  (b) any other party which, either directly or indirectly, including through subsidiaries, trust companies or intermediaries and/or jointly with other parties (also defined as related parties):
  (i) exercises Control over Recordati, is controlled by it or is subject to Common Control;
  (ii) holds an interest in the share capital of Recordati such that it is able to exert Significant Influence over it;
  (c) an associate company of Recordati;
  (d) a joint venture in which Recordati SpA is a venturer;
  (e) an executive with strategic responsibilities of Recordati or its parent;
  (f) a close member of the family of one of the parties referred to in letters (a), (b) or (e);
  (g) an entity in which one of the parties referred to in letters (e) or (f) exercises Control, Joint Control or Significant Influence or holds, either directly or indirectly, a significant proportion, and in any case not less than 20%, of the voting rights;
  (h) a collective or individual, Italian or foreign, supplementary pension fund, formed for the benefit of Recordati employees, or any other entity related to it, to the extent by which that fund has been formed or promoted by Recordati, or in the circumstance that Recordati may influence its decision-making processes.
- Executives with Strategic Responsibilities are defined as those persons who have power over and responsibility, either directly or indirectly, for the planning, management and control of the activities of the Company, including the directors (executive and non executive) of the company itself, full members of the Board of Statutory Auditors, the general managers, the manager appointed to prepare corporate accounting documents (the "Financial Reporting Officer") and all those additional persons identified from time to time such by the Board of Directors, and proposed by the Chief Executive of the Company;
- Transactions of Major Importance are defined as those related-party transactions for which at least one of the relevance indicators contained in the aforementioned Attachment No. 3 of the Consob Regulations and which are applicable according to the characteristics of each related-party transaction (i.e. value of the transaction in relation to shareholders' equity or, if greater, to capitalisation; total assets of the entity involved in the transaction compared to the total assets of the Company; total liabilities of the entity acquired compared to the total assets of the Company) exceeds 5%;
- Transactions of Minor Importance are defined as those related-party transactions which are not transactions of major importance and not transactions of negligible amount i.e. transactions for an individual amount of less than 150,000 euro.

The Regulations do not apply to:

- Transactions of Negligible Amount unless they are more than one Transaction of Negligible Amount performed as part of a single plan, the total value of which exceeds the sum of 150,000 euro;
- intercompany transactions provided that no Significant Interests of other related parties of the Company exist in the subsidiaries of Recordati or in associate companies of Recordati which are counterparties to the transaction. It is considered that the existence of "Significant Interests" of other related parties could be determined by:
  - the existence of a significant amount receivable by the Chief Executive Officer of the Parent from a subsidiary;
  - one or more directors or other executives with strategic responsibilities shared between companies who benefit from share based incentive schemes (or in any case variable remuneration) dependent on the results of subsidiaries or associate companies with which the transaction is performed;
  - an interest held in a subsidiary or associate company (even indirectly) by the party that controls the parent.
- shareholders' resolutions pursuant to Art. 2389, paragraph one of the Italian Civil Code, concerning the remuneration due to members of the Board of Directors and resolutions concerning the remuneration of Directors appointed to special positions which forms part of the total amount determined in advance by shareholders in accordance with Art. 2389, paragraph three of the Italian Civil Code;
- shareholders' resolutions pursuant to Art. 2402 of the Italian Civil Code, concerning the remuneration due to members of the Board of Statutory Auditors;
- remuneration schemes based on financial instruments approved by shareholders in accordance with Art. 114-*bis* of the Consolidated Finance Act and the relative transactions to implement them;
- decisions (other than those referred to under the preceding letter c) concerning the remuneration of Directors, Directors appointed to special positions and other executives with strategic responsibilities, when (i) the Company has adopted a remuneration policy (the formulation of which involved a committee formed exclusively of non executive directors, the majority of which are independent) (ii) the Company has submitted a report which illustrates the remuneration policy to a shareholders meeting for approval or a consultative vote, and (iii) the remuneration actually assigned is consistent with that policy;
- decisions, to be taken when a professional arrangement is established with Recordati, concerning the remuneration of executives with strategic responsibilities, other than Directors and members of the Board of Statutory Auditors;
- transactions which fall within the ordinary performance of operating activities and the related financial activities concluded under conditions equivalent to market conditions or standards (i.e. conditions similar to those normally practiced with non related parties for transactions of an analogous nature, magnitude and risk or based on regulated tariffs or on compulsory prices or those practised for parties with which the Company is obliged by law to negotiate a determined consideration). The "ordinary performance" is identified by considering the contents, recurrence, function or purpose and timing of the transaction and also the nature of the counterparty, even if it is a related party. Operating Activities are defined as the main revenue generating activities and all other normal activities of the Company that are not classifiable as investment or financial activities pursuant to International Financial Reporting standard seven adopted by EC Regulation No. 1126 of 2008, as subsequently amended from time to time. Should the exemption contained in this point apply, the Company is nevertheless required,

without prejudice to Art. 114, paragraph 1 of the Consolidated Finance Act, to comply with the provisions of Art. 13, paragraph 3, letter c), points i) and ii) of the Consob Regulation No. 17221 of 12th March 2010;
- demerger transactions in the strict sense of the proportional type, share issues with option rights reserved to shareholders and to any holders of financial instruments (therefore issuances which are performed without excluding their option rights) and transactions for the purchase/sale of treasury stock if performed, other conditions remaining the same, to the benefit of both related parties and all others holding rights;
- transactions to be performed on the basis of instructions for the purposes of stability issued by the supervisory authority, without prejudice to disclosure obligations under Consob Regulations.

The regulations for significant transactions or where a Director holds an interest regulate transactions in which a director holds an interest either on his own behalf or on behalf of third parties, even potential or indirect, and it expressly reserves them to the approval of the Board of Directors. In these cases that Director must promptly inform the Board and the Board of Statutory Auditors respectively of his interest in a timely and thorough manner - specifying the nature, terms, origin and extent of that interest - and must stay away from the meeting during the respective negotiations unless the Board considers his participation in the discussion and resolution to be necessary, depending on the specific circumstances, including, inter alia, the need to maintain the required quorums. A similar disclosure obligation exists for any Auditor who holds an interest, including a potential or indirect interest, in relation to the aforesaid matters or transactions.

13. APPOINTMENT OF AUDITORS

The appointment of Statutory Auditors is regulated by article 26 of the By-Laws, the text of which, last amended by the Board of Directors on 26th October 2010 in order to make compulsory amendments to comply with Legislative Decree No. 27/2010 in implementation of the "shareholders rights" EU Directive, is reproduced below:

"Art. 26) The Shareholders' Meeting shall appoint the Board of Statutory Auditors, comprising three statutory auditors and two alternate auditors, who may be re-elected, and shall determine their remuneration. Their powers, duties and term of office shall be as established by law.
Auditors shall satisfy the requirements laid down in current laws and regulations. As regards requirements of professionalism, the matters and sectors of activity strictly connected with that of the company are the research, production and sale of chemical and pharmaceutical products.
The minority shareholders shall elect one Statutory Auditor and one Alternate Auditor.
Unless otherwise provided for in laws or regulations, the Board of Statutory Auditors shall be appointed according to the procedures set out in the following paragraphs on the basis of lists submitted by Shareholders in which candidate are listed by means of a progressive number.
The list must specify whether each candidate is nominated for the position of Statutory Auditor or for the position of Alternate Auditor.
Only Shareholders individually or jointly possessing a total number of shares with voting rights representing at least 2.5% of capital stock with voting rights or representing a lesser percentage as established or provided by binding legal or regulatory provisions which shall be specified in the notice of meeting shall have the right to present lists.
Each shareholder, including shareholders who have signed a shareholders' agreement pursuant to Art. 122 of Legislative Decree no. 58/1998, the holding entity, subsidiaries, and jointly controlled entities are not permitted to submit or help to submit more than one list or vote for different lists, including through an intermediary or trust company. Each candidate may only be present on one list failing which he will be ineligible. Votes cast in violation of the above prohibition shall not be attributed to any list.
Submitted lists shall be deposited at the Company's registered office at least twentyfive days before the date scheduled for the Shareholders' Meeting at first call without prejudice to any further forms of disclosure required by any rules or regulations from time to time in force.
Without prejudice to all other rules prescribed by the rules and regulatoins in force the following documents shall be submitted together with each list by the deadline specified above:
a) information on the identity of the shareholders who have submitted the lists, indicating the total percentage of capital stock held;
b) a declaration by shareholders other than those who hold, including jointly, a controlling interest or relative majority, attesting to the absence of any forms of association with such shareholders, as provided by applicable regulations;
c) a thorough report of the personal characteristics of candidates and a declaration from the said candidates attesting that they possess the requirements established by law, together with their acceptance of the candidature.
Lists not satisfying the requirements specified above shall be considered as not having been submitted.
Auditors shall be elected as follows:
1. *from the list which obtained the highest number of votes at the Shareholders' Meeting, two statutory auditors and one alternate auditor shall be elected, based on the progressive order with which they are listed in the sections of the list;*
2. *from the second list which obtained the highest number of votes at the Shareholders' Meeting and which, in accordance with regulations in force, has no connection, not even indirectly, with those who submitted and voted for the list which obtained the highest number of votes, one statutory auditor, who shall chair the Board of Statutory Auditors, and one alternate auditor shall be elected, based on the progressive order with which they are listed in the list.*

In the event of a tie between lists for the appointment of the Auditors indicated in point 2 of the foregoing paragraph, the list submitted by shareholders owning the largest shareholding or, alternatively, the list submitted by the largest number of shareholders shall prevail.
Should a single list or no list be submitted, all candidates for the posts of Statutory and Alternate Auditors named on the list or respectively those voted for by the shareholders' meeting shall be elected provided that they obtain the respective majority of the votes cast in the Shareholders' Meeting.
Should they no longer satisfy the requirements laid down by law and in the by-laws, the auditor shall leave office.
Should it become necessary to replace a statutory auditor, the alternate auditor belonging to the same list as the outgoing auditor shall take the latter's place or, failing this, should the minority auditor leave office, he shall be replaced by the next candidate on the list from which the outgoing auditor was elector, or, alternatively, by the first candidate on the minority list that obtained the second highest number of votes.
It is understood that the board of statutory auditors shall continue to be chaired by the minority auditor.
The procedure outlined below shall be followed when the shareholders' meeting is required to appoint statutory and/or alternate auditors to complete the board: if it is necessary to replace auditors elected on the basis of the majority list, the replacements shall be appointed by relative majority vote without list voting; if, however, it is necessary to replace auditors elected on the basis of the minority list, the shareholders' meeting shall replace them by a relative majority vote by choosing them from the candidates on the list from which the outgoing auditor was elected or on the list that obtained the second highest number of votes.
Should the application of the above procedures not result in the replacement of the auditors designated by minority shareholders for whatever reason, the shareholders' meeting shall hold a relative majority vote, following the presentation of candidatures by shareholders that, individually or together with others, possess shareholdings with voting rights that represent at least the percentage indicated above in relation to the procedure for the presentation of lists. However, votes registered by shareholders who hold the relative majority of voting rights that may be exercised in the meeting as identified in disclosures made

in accordance with applicable regulations, whether directly, indirectly, or jointly with other shareholders who have signed a shareholders' agreement as indicated in article 122 of Italian Legislative Decree No. 58/1998, shall not be considered in establishing the outcome of said vote.
Members of the Board of Statutory Auditors may participate in meetings remotely by means of audio-visual connection, video conferencing or telephone link-up systems.
In the above case:
- the following must always be established:
a) the identity of all members attending at each connection point shall be verified;
b) each member attending shall be permitted to express a personal opinion verbally, to view, receive or send any documentation and to participate simultaneously in the discussion of the points at issue and pass resolutions;
- meetings of the Board of Statutory Auditors shall be considered to be held at the place where both the Chairman and Secretary are located.
The legal audit of the Company's accounts shall be performed by the Audit Firm on the basis of applicable regulations".

It is underlined that the right to submit lists is only held by shareholders who, individually or together with other shareholders submitting lists, hold voting shares representing at least 2.5% of the voting capital in the Ordinary Meeting, or representing any lower percentage established by mandatory laws or regulations. In accordance with articles 144-quater and 144-septies of the regulations adopted by CONSOB Resolution No 11971 of 14.4,1999 and CONSOB Resolution No. 17633 of 26th January 2011, the percentage of the share capital required to present lists of candidates to supervisory bodies is currently 2%.
The minority lists shall elect one Statutory Auditor and one Alternate Auditor. As regards the appointment mechanism adopted for choosing the candidates on the various lists submitted, note that, again according to the above transcribed Art. 26 of the By-Laws, two statutory auditors and one alternate auditor are elected from the list which obtained the highest number of votes in the Shareholders' Meeting, based on the progressive order with which they are listed in the sections of the list; from the second list which obtained the highest number of votes after the first list and which has no connection, not even indirectly, with the shareholders who submitted or voted for the list which obtained the highest number of votes, one statutory auditor, who will chair the Board of Statutory Auditors, and one alternate auditor are elected, based on the progressive order with which they are listed in the list.

14. AUDITORS

The composition of the Board of Statutory Auditors in office on the closing date of the Year is shown below. The Board was appointed by the Ordinary Shareholders' Meeting of 11 April 2008 and its term of office will expire at the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2010.
The personal and professional characteristics of each auditor are contained in attachment 1 of this Report.

Office	Members	In office since	In Office until	Slate (M/m)*	Indep. according to CG Code	Indep. according to TUF	** (%)	Number of other offices ***
Chairman	MARCO NAVA	11.4,2008	Approval of 2010 AR	M	X	X	100	26
Statutory auditor	MARCO RIGOTTI		Approval of 2010 AR	M	X	X	90	6
Statutory auditor	ACHILLE SEVERGNINI	11.4,2008	Approval of 2010 AR	M	X	X	100	14
Alternate auditor	MARCO ANTONIO VIGANO'	11.4,2008	Approval of 2010 AR	M	X	X	-	20
Alternate auditor	VALERIO PIACENTINI	11.4,2008	Approval of 2010 AR	M	X	X	-	7

* *M/m are given in this column where "M" indicates a member elected from the majority slate and "m" from a minority slate.*
** *This column contains the percentage attendance of Auditors at the relative board meetings of Statutory Auditors (number of presences/number of meetings held during the actual period office of the person concerned).*
*** *This column gives the number of appointments as Director or Statutory Auditor held by the person pursuant to article 148-bis of the TUF. The full list of offices is attached, pursuant to article 144-quinquiesdecies of the CONSOB Issuers' Regulations, to the audit report prepared by the Statutory Auditors in accordance with article 153, paragraph 1 of the TUF.*

During the Year, the Board of Statutory Auditors met ten times. The meeting took place on the following dates: 11th February 2010, 24th February 2010, 11th March 2010, 17th March 2010, 26th March 2010, 21st April 2010, 11th June 2010, 27th July 2010, 26th October 2010 and 11th November 2010. As regards the current year, the Board of Statutory Auditors met on 14th January 2011, 20th January 2011 (3rd March 2011 scheduled).
The percentage attendance of Auditors in these meetings is shown in the table above.

The Board of Statutory Auditors conducted an internal verification of its independence after its appointment. It was found from the outcome of that verification that all the Statutory Auditors in office possessed the requirements for independence according to Art. 148 of the TUF and also with regard to the criteria contained in the CG Code. That assessment was repeated with a positive outcome in 2010.

In the procedure prepared by the Company governing significant transactions, or in which a Director holds an interest, it was specified that, as is the case for the Directors, any auditor who holds a personal or third party interest in a specific transaction of the Company must inform the other Auditors and the Board in a timely and thorough manner about the nature, terms, origin and extent of his interest.

The Board of Statutory Auditors has checked the independence of the audit firm Deloitte & Touche S.p.A., checking both compliance with legislative provisions and the nature and extent of services other than financial auditing provided to a number of subsidiaries by the same audit firm and by the entities belonging to the latter's network. As far as the Company is concerned, no services other than financial auditing were provided by the audit firm.

The Board of Statutory Auditors, in the performance of its activities, liaised with the Head of the Group Auditing Unit and with the Internal Audit Committee through the constant presence in Committee meetings, in which the Head of the Group Auditing Unit also usually participates.

As already reported in Section 11, Legislative Decree No. 39/2010 ("Consolidated Legal Audit Act"), which implements EC Directive No. 2006/43/EC concerning the legal audit of annual accounts and entered into force on 7th April 2010, assigned new functions to the Board of Statutory Auditors in its role of "Internal Audit and Accounting Audit Committee". In detail Art. 19 of that decree establishes that that committee supervises the following:

a) the financial reporting process;
b) the effectiveness of internal control, internal audit, if applicable, and risk management systems;.
c) the legal audit of annual and consolidated accounts;
d) the independence of the legal auditor or legal audit firm, with regard in particular to the provision of non auditing services to the entity subject to a legal accounting audit.

15. RELATIONS WITH SHAREHOLDERS

The Company has created a specific section on its website called "Investors", which is easily identifiable and accessible and which contains important information about the Company for its shareholders so that they can exercise their rights in an informed manner. The Company has also created a special section on its website entitled "Regulated information" in which information that is regulated is published as required by article 65 *bis* of the Issuers' Regulations.

As part of the Company's organisational structure, Marianne Tatschke has been identified as investor relations manager. In addition, the tasks of the Group Legal Service and Corporate Affairs Office also include the task of looking after relations with shareholders in general.

16. SHAREHOLDERS' MEETINGS

We report firstly that the legislation and regulations concerning shareholders' rights was amended substantially by Legislative Decree No. 27/2010 for the "Implementation of EC Directive No. 2007/36/EC, concerning the exercise of some of the rights of company shareholders" and by CONSOB Resolution No. 17592 of 14th December 2010 which amended its Issuers' Regulations as a consequence.

On 26th October 2010 the Board of Directors amended the Corporate By-Laws in order to make compulsory amendments to comply with Legislative Decree No. 27/2010. Proposals will be submitted In the Shareholders' Meeting convened for 13th April 2011, in first call and for 14th April 2011, in second call, to make amendments of an optional nature, considered advisable by the Board of Directors, to the Corporate By-Laws in accordance with Legislative Decree No. 27/2010. The Directors Report, which will be disclosed to the public within the legal time limits may be consulted for further information on this point.

Moreover, in accordance with the new Art. 84 *ter* of the Issuers' Regulations the Company makes the reports on matters placed on the agenda available by publishing them, amongst other things, on its website.

In accordance with Art. 9 of the Corporate By-Laws in force (in the version last amended by the Board of Directors on 26th October 2010), Shareholders' Meetings are convened within the legal time limits on the Company website and, where necessary due to mandatory provisions or decided by the directors, in the Official Gazette and in the newspaper "Il Sole 24 Ore", as well as according to other procedures provided for by the legislation and regulations currently in force.

In accordance with Art. 12 of the Corporate By-Laws in force, resolutions of ordinary and extraordinary meetings, on the first and successive calls, are valid if made in the presence of the required number of persons and the majorities required by law. Therefore an ordinary Shareholders' Meeting is validly constituted in first call with the attendance of shareholders accounting for at least half of the share capital with voting rights at the meeting itself and resolutions are passed by an absolute majority of those participating, including abstentions.
An ordinary shareholders' meeting is validly constituted in second call no matter what proportion of the share capital is represented and resolutions are passed by an absolute majority of those participating, including abstentions.
An extraordinary shareholders' meeting is validly constituted in first call with the attendance of shareholders accounting for at least half of the share capital and resolutions are passed with the vote in favour of shareholders representing at least two thirds of the share capital.
An extraordinary shareholders' meeting is validly constituted in second call with the attendance of shareholders accounting for at least a third of the share capital and resolutions are passed with the vote in favour of shareholders accounting for at least two thirds of the share capital present at the meeting.

Following amendments made to regulations concerning the right to participate in Shareholders' Meetings and voting rights, on the basis of Art. 83-sexies of the TUF, legitimate authorisation to participate in shareholders' meetings and to exercise voting rights is certified by a communication to the issuer, performed by the intermediary, in compliance with its accounting entries, certifying the party entitled to vote on the basis of information relating to the end of the accounting day of the seventh trading day prior to the date set for the shareholders' meeting in first call or second call. Nevertheless the legitimate right to participate and vote remains, should the communications be received by the Company later than the aforementioned time limit, provided they are received before the commencement of the proceedings of each single session of the shareholders' meetings.

In accordance with Art. 10 of the Company By-Laws, as per the text amended by the Board of Directors on 26th October 2010, those holding the right to vote may be represented by a written proxy, where no incompatibilities and limitations exist pursuant to the legislation and regulations in force. The Company may be notified of the proxy for participation in the Shareholders' Meeting by sending the document to the email address indicated in the Notice of Meeting.
Furthermore, the new Art. 135-*undecies* of the TUF, inserted by Legislative Decree No. 27/2010 introduced a *"Designated representative of a listed company" "unless the Corporate By-Laws stipulate otherwise, listed companies designate a representative for each Shareholders' Meeting to which shareholders may grant an authorisation, by the end of the second day of market trading prior to the date set for the shareholders' meeting in first or second call, with voting instructions on all or some of the motions on the agenda. The proxy is valid solely for proposals in relation to which voting instructions have been given."*
At present Recordati's Corporate By-Laws contain no provisions in this respect, and this new provision is therefore considered applicable to future Shareholders' Meetings of the Company, until different provisions are introduced to the Company By-Laws.
The Board believes that there are no conditions that require the adoption of particular initiatives regarding attendance of Meetings and the exercise of voting rights by shareholders such as, for example, postal voting.

In accordance with Art. 127-ter of the TUF, shareholders may submit questions on the items on the agenda even before the Shareholders' Meeting. Answers are given to questions received prior to the Shareholders' Meeting, subject to verification of the relevance and the legitimacy of the asker, at the latest during the meeting itself and the Company has the right to give a single answer to questions having the same content.

The Board does not perceive any current need, taking into account the holding of previous meetings, to draw up any regulations governing Shareholders' Meetings and believes that the powers granted to the Chairman of the Shareholders' Meeting by law and in the Corporate By-Laws are sufficient to ensure that Shareholders' Meetings can be held in an orderly and functional manner and to guarantee that each shareholder has the opportunity to discuss the items placed on the agenda.

The Board of Directors, through the Chairman and Chief Executive Officer, reported, in the Shareholders' Meeting held on 13th April 2010, on activities undertaken and those planned, and responded to questions posed by a number of shareholders. The volume containing a copy of the draft separate financial statements and consolidated financial statements, with the accompanying reports and the Directors' Reports on the proposals concerning items placed on the agenda was handed out at the entrance and also sent to shareholders who had taken part in recent meetings in order to ensure adequate disclosure of the necessary information so that they could take the decisions for which they are responsible with full knowledge of the facts.

During the year, there were no changes in the market capitalisation of the Company's shares or in the composition of its corporate structure sufficient to require consideration of a proposal to the Shareholders' Meeting for changes to the Corporate By-Laws concerning the percentages established for the exercise of the actions and prerogatives provided for the protection of minorities.

17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (pursuant to Art. 123-*bis*, paragraph 2, letter a) of the TUF)

The Issuer does not apply any additional corporate governance practices, other than those described in the preceding sections of this Report.

18. CHANGES OCCURRING SINCE THE END OF THE YEAR

No changes in the structure of the corporate governance of the company have occurred since the end of the Year.

Milan, 9 March 2011

On behalf of the Board of Directors
The Chairman
Ing. Giovanni Recordati

ATTACHMENT 1

PROFESSIONAL OVERVIEW OF THE DIRECTORS

GIOVANNI RECORDATI

Giovanni Recordati holds a degree in chemical engineering from the Politecnico di Milano and a master's degree in Management Sciences from Imperial College London.
He joined Recordati in 1974 as a researcher. In 1980, he was appointed as Central Production Manager and, in 1984, as Deputy General Manager for Operations and Research. In 1990, he was appointed Chief Executive Officer with responsibility for managing the operational activities of the Group's Italian and foreign companies. He has been a member of the Board of Directors since 1977. Presently he is Chairman, Chief Executive Officer and general manager of Recordati S.p.A. as well as holding positions in other group positions.

ALBERTO RECORDATI

Alberto Recordati graduated from University of London King's College in 1977 with a degree in biochemistry and in 1984 successfully completed a research PhD within the Biochemistry Department of Charing Cross Hospital Medical School part of that same university.
He joined Recordati in 1984 as a researcher in the biochemistry laboratories. In 1987 he was appointed Head of the Planning and Product Development Office. From 1990 to 1992, he worked for the US subsidiary Pharmetrix Corp as research project coordinator. In 1992 he was appointed Industrial Manager for Biochemicals with responsibility for biochemical/microbiological research and for the Cascina dè Pecchi biochemical/fermentation production site. In 1995, he became Head of the Chemical Research and Technologies Division. In 1999, he was appointed director in charge of the fine chemicals sector and in 2004 Deputy Chairman of Recordati S.p.A. He has held responsibility for co-ordinating the "Drug Discovery" and "Drug Development" activities of the Company since 2008 and also for licensing-in activities since 2011 .

ANDREA RECORDATI

Andrea Recordati gained a Bachelor of Arts in medieval and modern history from the University of London Royal Holloway and Bedford New College. Between September 1995 and March 1998, he took part in the United Kingdom SmithKline Beecham Management Access Program, starting off as Assistant Product Manager in Consumer Healthcare and then, for one year, occupying the role of medical representative in Essex before becoming Project Manager responsible for the development and implementation of an innovative SmithKline Beecham marketing initiative.
He joined Recordati in 1998 as Project Leader for a project aimed at improving Sales Force productivity and better use of marketing investments. In April 1998, he joined the Board of Directors of the Company.
In 1999, he was given responsibility for Pharmaceutical Business Development.
In March 2002, the Lercanidipine Business Unit was set up and he was appointed head of that unit. Since November 2002, he has been responsible for setting up the subsidiary Recordati Ireland and its industrial plant and, subsequently, for setting up the UK subsidiary. In September 2006, he was appointed Sole Director of the German subsidiary Merckle Recordati GmbH. In August 2007, the Northern and Central Europe Branches Division was set up and he was appointed head of that division. That division was enlarged in 2010 to include western European companies. In February 2011 he was appointed General Manager of the International Pharmaceuticals Division.

CARLO PEDERSOLI

Carlo Pedersoli was admitted to the Milan bar in 1980.
A partner in the Pedersoli e Associati law firm, he is a civil lawyer who deals predominantly in company and commercial law for national and international clients operating both in the financial/banking sector and in the industrial sector. He has spoken at conferences on company and commercial law, analysing the topic of financial statements, validity of shareholders' resolutions and responsibility of auditors.
As well as forming part of the Board of Directors and of the Internal Audit Committee of Recordati S.p.A., he is also a member of the Board of Directors of Welfare Italia Servizi S.r.l.
He has also been a Director of the companies Riello S.p.A., Sigla Engineering S.p.A., Nextam Partners SGR S.p.A. and Chairman of the company Sistemi Tecnologici Holding S.p.A., the holding company of Sistemi Tecnologici S.p.A. which is in turn the holding company of Sirti S.p.A..

MARCO VITALE

Marco Vitale business economist. He has teached for several years business economy at Pavia University; Bocconi University, Milan; Libero Istituto Universitario Carlo Cattaneo (for which he was vice-president, President of the Scientific Committee, and responsible for management area and which he contributed to create). He has been chairman of Istud (Foundation for the business culture and management), which he also contributed to relaunch, and has been co-ordinator for management area of ISTAO, post-degree management school founded by the economist Prof. Giorgio Fuà.
Former partner of Arthur Andersen & Co., he is founding partner and president of Vitale–Novello & Co. S.r.l., top management consulting firm. In this context he is consultant and member of the board of directors for many important companies.
He is President from March 2010 of Fondo Italiano di Investimenti SGR SpA, constituted by the Treasure Ministry, Confindustria, ABI, Banca Intesa, Unicredit, Monte Paschi, Crediop and some popular banks, with a capital of 1.2 billion Euro, with the aim of sustaining development projects and internationalization of little medium companies.
He has been president from 1984 till 2003 of A.I.F.I. (Italian Venture Capital and Private Equity Association) and promoter and first president of Arca Group, the mutual fund company of popular banks. He has been Vice-president, member of the board and of the Executive Committee of Banca Popolare of Milan from 2001 till 2009 and was Chairman of Bipiemme Gestioni S.G.R., the Asset Management Company of the BPM Group.
President of the Rino Snaidero Scientific Foundation; President of the Scientific Committee of AIdAF (the Italian Family Business Association); member of the Board of Olivetti Foundation; member of the Board of FAI Foundation.
He has been appointed to several important public tasks.
He contributes to important leading newspapers and business magazines.
He published several books including:
Società, bilanci e borse valori in un mercato mobiliare evoluto (Etas-Kompass) ; La riforma delle società per azioni (Giuffré); La lunga marcia verso il capitalismo democratico (Ed. Il Sole-24 Ore) ; Liberare l'economia: le privatizzazioni come terapia alla crisi italiana (Ed. Marsilio) ; Le Encicliche sociali, il rapporto fra la Chiesa e l'economia (Ed. Il Sole-24 ore); Sviluppo e Spirito d'Impresa (Ed. Il Veltro); America. Punto e a capo (Scheiwiller); Il Mito Alfa (Egea editore, Bocconi); Lezioni di Impresa, da tempi e luoghi diversi – I proverbi di Calatafimi (Piccola Biblioteca Inaz, 2008); Gli angeli nella città (ESD Edizioni); Passaggio al Futuro, Oltre la Crisi attraverso la Crisi (Ed. Egea, Bocconi); Corruzione (ESD Bologna 2010);
Responsabilità nell'impresa (Piccola Biblioteca d'Impresa Inaz, 2010).
He was editor in Italy and USA of the bilingual version of the essay of Carlo Cattaneo: "Intelligence as a principle of public economy".

Good mountain - climber, he has covered great part of Italy by bicycle, a good way to observe the Italian economy as it really is and not as people say to be.

Prof. Vitale holds the following additional positions:
- Director ETICA SGR SpA
- Director SAME DEUTZ FAHR SpA
- Chairman SAME DEUTZ FAHR ITALIA SpA
- Director ERMENEGILDO ZEGNA HOLDITALIA SpA
- Chairman of the Board of Directors of VINCENZO ZUCCHI SpA
- Director Snaidero SpA
- Director LUVE
- Director SMEG
- Director Banca Passadore
- Chairman of the Fondo Italiano d'Investimento

FEDERICO NAZZARI

Federico Nazzari has been involved in various roles in the pharmaceutical sector for 40 years. For almost twenty years, he worked for multinationals and for the remainder has worked in various roles in Italian companies.
In 1969, he started his professional career at Upjohn S.p.A. where he remained until 1979. After a spell of three years (1979-1982) at Farmindustria as head of the Technical/Scientific Area, he returned to the same company (1982-1988) to supplement his professional experience in various positions until taking on the role of Deputy General Manager. In 1988, he moved to Maggioni Winthrop as Chief Executive Officer. In 1991, he was recruited by the Istituto Luso Farmaco d'Italia S.p.A. where he was appointed Chairman and Chief Executive Officer until 2000. In the same period he also became Chairman of Lusochimica (company associated with Istituto Luso Farmaco d'Italia S.p.A. and manufacturer of active substances for the pharmaceutical industry). Between 2000 and 2007, he worked for Bracco as Group Vice President General Affairs. In February 2007, he joined the Board of Directors of Recordati S.p.A. with delegated authority for institutional relations.
Over these years, he has taken an interest in the problems of the entire pharmaceutical sector, becoming a member of the Board of Farmindustria, the Italian pharmaceutical industry association of which he was elected Chairman in June 1995 and re-elected for a further two years in 1997 and subsequently in April 2003 for a third term. He is a member of the Technical/ Health Committee of Confindustria, of the Board of Governors and Board of Federchimica (national federation of chemical industries) and of the Management Committees of Assobiotec and Aschimfarma. He is also member of the Technological and Scientific Committee of SEMEION, Science and Communiction Research Centre and is a board member of Orphan Europe Italia Srl.

MARIO GARRAFFO

Mario Garraffo graduated in 1960 with a degree in Economics and Commerce from the Università Bocconi di Milano.
Between 1960 and 1970, he was Controller and Development Director of La Centrale Finanziaria Generale, a holding company principally involved in the area of public services (communications and energy). From 1970 to 1980, he was Investment Director at the IFI group; from 1980 to 1985 he was Chief Executive Officer of IFIL - Finanziaria di Partecipazioni and from 1985 to 1993 Chairman of IFINT (now EXOR).
In 1993, he was appointed Chief Executive Officer of Lazard Italia until the acquisition of Vitale, Borghesi & Co. in 1998. Again in 1998, he was appointed Chief Executive Officer of UNIM, a post which he held until 2000 and as Chairman of General Electric Italia from 2000 to 2004. He was a Senior Advisor for General Electric Europe from 2004 until 2007.
He is an independent director, member of the Internal Audit Committee and of the Remuneration Committee of the Recordati S.p.A.. He has been a Trustee of the Johns Hopkins University of Baltimore and a Trustee of the Johns Hopkins School for Advanced International Studies (SAIS) in Bologna.
From 1995 to 2006 he was President of the Università Bocconi Alumni Association and member of the Board of Directors of the Donna Javotte Bocconi Foundation (founding entity of the Università Bocconi).

Dr. Garraffo holds the following additional positions:
- Chairman IVG SGR SPA
- Chairman METIS SpA
- Director GE INTERBANCA SPA

WILLIAM GUNNARSSON

William Gunnarsson graduated from the Royal Swedish Naval Academy in 1967 and was awarded a degree in economics from the University of Göteborg in 1973.
He started his career in the pharmaceuticals sector at Bristol-Myers, initially as Sales Manager and then as Marketing Manager and Regional Manager for Denmark and Norway. In 1983 he became General Manager of the Pharmaceuticals Division of Bristol-Myers in Scandinavia.
In 1988 he was appointed Chairman of Nobel Pharma, Inc., Japan.
In 1990 he founded Orphan Europe in France, a company specialising in the production and distribution of pharmaceuticals for rare diseases.
In April 2008 he was appointed to the Board of Directors of Recordati S.p.A.
In 2009 he was appointed to the Board of Directors of Axentua Pharmaceutical AB Stockholm Sweden.

The Director Gunnarsson holds positions in the following companies:
- Axentua Pharmaceuticals AB, Stockholm Sweden
- Premacure AB Uppsala, Sweden
- Laccure AB Hälsingborg, Sweden
- Prostalund AB Uppsala, Sweden

WALTER WENNINGER

Walter Wenninger has worked for more than 30 years in the pharmaceuticals industry in Germany, Europe and the United States.

He has been a member of the Management Board of Bayer AG with responsibility for health care and life science and also Chairman of the Board of Directors of Bayer Corp. Pittsburg, USA.
He has been a member of the Board of Trustees of the German Cancer Research Centre of Heidelberg and of the German Cardiac Research Foundation of Frankfurt.
He currently occupies various positions on the boards of directors of European biopharmaceutical firms and he is a member of the executive committee of the Robert-Koch-Foundation in Germany.

The Director Wenninger holds positions in the following companies:
- Chairman of the Board of Directors of Paion AG, Aachen, Germany.
- Chairman of the Board of Directors of Noxxon Pharma AG, Berlin, Germany.
- Deputy Chairman of Santaris Pharma, Horsholm, Denmark.
- Deputy Chairman of Evotec AG, Hamburg, Germany.
- Member of the Novo AIS Advisory Group Hellerup, Denmark.

CURRICULA VITAE OF THE MEMBERS OF THE BOARD OF STATUTORY AUDITORS

STATUTORY AUDITORS

MARCO NAVA, Chairman of the Board of Statutory Auditors

Marco Nava graduated in Economics and Commerce and in Jurisprudence at the Università Cattolica del Sacro Cuore of Milan. He started his career as an accountant in 1988. He has been registered as an auditor since the first publication of the register (1995).
He performs his principal activity as an accountant with his own offices in a partnership of accountants and lawyers.
He is a statutory auditor and external auditor for companies operating in various sectors.
This auditor holds positions in the following companies:
- Chief Executive Officer Nava Viganò Revisori Associati Srl
- Sole Director Immobiliare Binda srl
- Sole director Tazat Srl
- Chairman of the Board of Directors QE Qualità Europe Srl
- Chairman of the Board of Statutory Auditors Cavenaghi SpA
- Chairman of the Board of Statutory Auditors Dott. G. Cavenaghi SpA
- Chairman of the Board of Statutory Auditors Finset srl
- Chairman of the Board of Statutory Auditors Fratelli Re SpA
- Chairman of the Board of Statutory Auditors Generale de Santé Italia SpA
- Chairman of the Board of Statutory Auditors Generale de Santé Toscana Srl
- Chairman of the Board of Statutory Auditors Max Moda SpA
- Chairman of the Board of Statutory Auditors Prodotti naturali SpA
- Chairman of the Board of Statutory Auditors Promunidi Srl
- Statutory Auditor Beaumanoir Italy srl
- Statutory Auditor Elcrom srl
- Statutory Auditor Emiflex SpA
- Statutory Auditor Fimei SpA
- Statutory Auditor Giuseppe & Fratelli Bonaiti SpA
- Statutory Auditor Innova Pharma SpA
- Statutory Auditor J Colors SpA
- Statutory Auditor Junionfin SpA
- Statutory Auditor Marionnaud Parfumeries Italia SpA
- Statutory Auditor Pompetravaini SpA
- Statutory Auditor Recofarma Srl
- Statutory Auditor S.I.S.A. Società Italiana Spalmature ed Affini SpA
- Statutory Auditor Twister Communications SpA

ACHILLE SEVERGNINI

Achille Severgnini graduated in economics and commerce at the free *Istituto Universitario Carlo Cattaneo* of Castellanza in 1998.
He registered with the Milan *Ordine dei Dottori Commercialisti* (association of chartered accountants) in 2002 and has worked in Milan since then as a partner in the firm of auditors Severgnini Commercialisti Associati.

This auditor holds positions in the following companies:
- Statutory Auditor Recordati S.p.A.
- Director Finsev S.p.A.
- Director Giuliani S.p.A.
- Chairman of the Board of Statutory Auditors Bacalum S.p.A.
- Statutory Auditor Colombo Immobiliare '81 S.p.A.
- Statutory Auditor Stella Blu S.p.A.
- Statutory Auditor Immobiliare Valcas S.p.A.
- Statutory Auditor Il loft S.p.A.
- Statutory Auditor Diafin S.p.A.
- Statutory Auditor Fazzini S.p.A.
- Statutory Auditor Imolva S.p.A.
- Statutory Auditor Immobiliare Vitagliano S.p.A.
- Chairman of the Board of Directors of Severgnini Family Office Srl
- Chairman of the Board of Directors of SFO fiduciaria Srl.

MARCO RIGOTTI

Marco Rigotti was born in Milan on 16th June 1967. He graduated in Corporate Economics at the Bocconi University of Milan in 1992, and registered with the *Albo dei Dottori Commercialisti* (association of chartered accountants) of Milan in 1993 and in the register of auditors in 1999.
He left the Consob in 1998 where he performed studies into insider trading and share price manipulation. He practices as an accountant in Milan and performs research at the A. Sraffa Department of Legal Studies at the Bocconi University where he is a lecturer in commercial law and financial reporting.
He is the author of numerous academic publications on company law and financial markets.

This auditor holds positions in the following companies:
- Chairman of the Board of Directors Meridiana fly * S.p.A.
- Chairman of the Board of Statutory Auditors TAS * S.p.A.
- Chairman of the Board of Statutory Auditors TAS NCH HOLDING S.p.A.
- Chairman of the Board of Statutory Auditors ARKIMEDICA * S.p.A.
- Chairman of the Board of Statutory Auditors ZAGLIANI S.p.A. since 1947
- Statutory Auditor POLARIS INVESTMENT ITALIA * Società di Gestione del Risparmio

ALTERNATE AUDITORS

MARCO ANTONIO VIGANO'

Marco Antonio Viganò graduated in Corporate Economics, specialising in freelance professionals, at the Bocconi University of Milan in 1984. He passed state examinations and qualified to practice as an accountant in 1986 when he registered with the *Albo dei Dottori Commercialisti* (association of chartered accountants) of Milan.
He has been registered as an auditor since the first publication of the register (1995). An expert in commercial and tax law, he practices as an accountant and advises companies, groups and organisations operating in a variety of economic sectors.
He has been a lecturer at the *Scuola di Formazione del Praticantato* for accounting students and accountant and auditor for the *Università Cattolica del Sacro Cuore* of Milano.

This auditor holds positions in the following companies:
- Sole Director Chem Investment Consulting Srl
- Chief Executive Officer QE Qualità Europa Srl
- Director R.B.R. Valvole SpA
- Chairman of the Board of Statutory Auditors Beaumanoir Italy srl
- Chairman of the Board of Statutory Auditors Elcrom srl
- Chairman of the Board of Statutory Auditors Marionnaud Parfumeries Italia SpA
- Chairman of the Board of Statutory Auditors SF Foundry Service SpA
- Chairman of the Board of Statutory Auditors Twister Communication Group SpA
- Chairman of the Board of Statutory Auditors Vibro-mac srl
- Chairman of the Board of Directors Masseria Giancamisa soc. agr. Sr
- Chairman of the Board of Directors Nava Viganò Revisori Associati Srl
- Statutory Auditor Emiflex SpA
- Statutory Auditor Finset srl
- Statutory Auditor Fratelli Re SpA
- Statutory Auditor Fratelli Re SpA
- Statutory Auditor Generale de Santé Italia SpA
- Statutory Auditor Immobiliare Parabiago SpA
- Statutory Auditor Immobiliare Risanamento SpA
- Statutory Auditor Junionfin SpA
- Statutory Auditor Pompetravaini SpA

VALERIO PIACENTINI

Valerio Piacentini graduated in corporate economics at the Bocconi University of Milan in 1991.
He registered with the *Albo dei Dottori Commercialisti* (association of chartered accountants) of Milan in 1993 and in the register of auditors in 1999. He practices as an accountant in Milan and performs research at the A. Sraffa Department of Legal Studies at the Bocconi University where he is a lecturer in commercial law.
He is the author of numerous academic publications on company law and financial markets.

This auditor holds positions in the following companies:
- Chairman of the Board of Statutory Auditors Airwell Srl
- Statutory Auditor Faital SpA
- Statutory Auditor Lift Technologies Holding SpA
- Statutory Auditor Dole Italia Spa
- Sole Director Asia Experience Srl
- Chairman of the Board of Statutory Auditors Live Holding Spa
- Statutory Auditor Grey & Grey Italy Srl

This booklet is a summary of the 2010 Report of Board of Directors of Recordati SpA, which has been publicly filed in accordance with Italian law.

All mentions and descriptions of Recordati products are intended solely to inform shareholders of the general nature of the Company's activities and are not intended to indicate the advisability of administering any product in any particular instance.

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Giovanni Recordati
Chairman and Chief Executive Officer

Alberto Recordati
Vice Chairman

Silvano Corbella
University Professor
Economist and Business Consultant

Mario Garraffo
Former Senior Advisor
GE Europe

Germano Giuliani
Chairman Giuliani S.p.A.

Umberto Mortari
Former Chairman and CEO
Merck Sharp & Dohme (Italia) S.p.A.

Carlo Pedersoli
Partner
Pedersoli e Associati Law Firm

Andrea Recordati
General Manager
Pharmaceuticals International

Marco Vitale
Economist and Business Consultant

Walter Wenninger
Former Member of the
Board of Management Bayer AG

AUDIT COMMITTEE

Marco Vitale
President

Mario Garraffo
Carlo Pedersoli

REMUNERATION COMMITTEE

Silvano Corbella
President

Germano Giuliani
Umberto Mortari

STATUTORY AUDITORS

Marco Nava
President

Marco Rigotti
Achille G. Severgnini
Auditors

Marco Antonio Viganò
Antonio Mele
Alternate auditors

AUDITORS

KPMG S.p.A.

MANAGEMENT

Giovanni Recordati
Chairman
and Chief Executive Officer

Alberto Recordati
Vice Chairman

Walter Bevilacqua
Corporate Development

Luciano Bonacorsi
Human Resources

Celestino Di Rollo
Pharmaceuticals, Italy

Duccio Favara
Licensing

Daria Ghidoni
Group Legal Affairs

Safuan Gritli
International Medical and Marketing

Amedeo Leonardi
Drug Discovery

Giovanni Mariani
Logistics and Manufacturing

Giovanni Minora
Group Audit

Diego Provvedini
Drug Development

Andrea Recordati
Pharmaceuticals International

Arnaldo Restelli
Central and Eastern
European Subsidiaries

Paolo Romagnoli
Pharmaceutical Chemicals

Marco Liguori
Special Care and Orphan Drugs
General Manager Orphan Europe

Fritz Squindo
Chief Financial Officer
General Manager for the
Coordination of Group Operations

Marianne Tatschke
Investor Relations & Communications

RECORDATI

Industria Chimica e Farmaceutica S.p.A.

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