# INTERIM REPORT FIRST QUARTER

# 2010

RECORDATI

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

# MANAGEMENT REVIEW

## HIGHLIGHTS

### REVENUE

| € (thousands) | First quarter 2010 | % | First quarter 2009 | % | Change 2010/2009 | % |
|---|---|---|---|---|---|---|
| Pharmaceuticals | 179,627 | 96.6 | 176,804 | 96.3 | 2,823 | 1.6 |
| Pharmaceutical chemicals | 6,229 | 3.4 | 6,883 | 3.7 | (654) | (9.5) |
| **TOTAL REVENUE** | **185,856** | **100.0** | **183,687** | **100.0** | **2,169** | **1.2** |
| Italy | 56,437 | 30.4 | 55,522 | 30.2 | 915 | 1.6 |
| International | 129,419 | 69.6 | 128,165 | 69.8 | 1,254 | 1.0 |

### KEY CONSOLIDATED DATA

| € (thousands) | First quarter 2010 | % of revenue | First quarter 2009 | % of revenue | Change 2010/2009 | % |
|---|---|---|---|---|---|---|
| Revenue | 185,856 | 100.0 | 183,687 | 100.0 | 2,169 | 1.2 |
| EBITDA(1) | 49,710 | 26.7 | 48,219 | 26.3 | 1,491 | 3.1 |
| Operating income | 43,075 | 23.2 | 40,635 | 22.1 | 2,440 | 6.0 |
| Net income | 29,974 | 16.1 | 27,619 | 15.0 | 2,355 | 8.5 |

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

| € (thousands) | 31 March 2010 | 31 December 2009 | Change 2010/2009 | % |
|---|---|---|---|---|
| Net financial position(2) | (2,557) | (19,743) | 17,186 | (87.0) |
| Shareholders' equity | 542,016 | 508,979 | 33,037 | 6.5 |

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

Consolidated revenue in the first quarter of 2010 is € 185.9 million, an increase of 1.2% over the same period of the preceding year. Pharmaceutical sales are € 179.6 million, an increase of 1.6% despite the expiry in January of the composition of matter patent covering lercanidipine in the main European countries. Pharmaceutical chemicals sales are € 6.2 million, down by 9.5%.

Operating income, at 23.2% of sales, is € 43.1 million, an increase of 6.0% over the same period of the preceding year. R&D expenses grow by 7.4% reaching 8.8% of sales.

Net income is € 30.0 million, an increase of 8.5%, higher than that recorded by operating income thanks to lower financial expenses.

Net financial position at 31 March 2010 records net debt of € 2.6 million, a reduction of € 17.2 million as compared to 31 December 2009. Shareholders' equity increased to € 542.0 million.

# COMPANY DEVELOPMENT NEWS

At the end of January Recordati was granted Marketing Authorization by the European Commission for the medicinal products Urorec® and Silodyx™ 4 mg, 8 mg, hard capsules, intended for treatment of the signs and symptoms of benign prostatic hyperplasia (BPH). Following national post-authorization procedures, as relevant, product launch could begin as from September 2010. Benign prostatic hyperplasia (BPH, enlargement of the prostate) is characterized by urination difficulties such as weak urine stream, increased frequency and urgency, nocturia. The prevalence of this condition is increasing due to the progressive ageing of the male population. BPH is frequently observed in men over fifty, and its symptoms significantly reduce quality of life. 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. Recordati also has the right to appoint co-marketers where deemed appropriate. Development of the drug was conducted by Recordati for its territories, by Watson Pharmaceuticals in North America and by Kissei Pharmaceutical Co. Ltd. for the rest of the world. Silodosin is already available in North America, in Japan and other countries in Asia.

Also in January an agreement was finalized with Novartis for the acquisition in Greece and in other European countries of Lopresor® (metoprololo), a well known selective beta blocker for the treatment of different cardiovascular disorders, in particular hypertension and angina pectoris. Under the agreement Recordati acquires the product's marketing authorizations and know-how including manufacturing rights and 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.

In March Recordati received approval by the Food and Drug Administration (FDA) in the U.S. 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. 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.

Also during March a license agreement was signed with Lee's Pharmaceutical Holding Ltd for the sales and marketing of Zanidip® (lercanidipine) in the People's Republic of China.

# REVIEW OF OPERATIONS

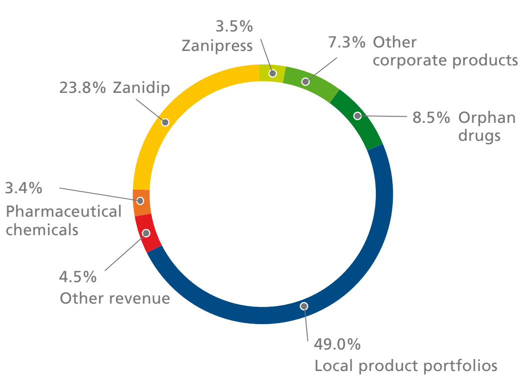
The breakdown of the first quarter 2010 sales is as follows:

| € (thousands) | First quarter 2010 | First quarter 2009 | Change 2010/2009 | % |
|---|---|---|---|---|
| Italy | 55,583 | 54,850 | 733 | 1.3 |
| France | 36,908 | 38,074 | (1,166) | (3.1) |
| Germany | 15,494 | 14,653 | 841 | 5.7 |
| Portugal | 8,112 | 11,072 | (2,960) | (26.7) |
| Spain | 6,908 | 7,405 | (497) | (6.7) |
| United Kingdom | 2,475 | 3,520 | (1,045) | (29.7) |
| Other Western European countries | 4,289 | 3,705 | 584 | 15.8 |
| Russia, Turkey, Czech Rep., other C.E.E. countries | 14,621 | 12,283 | 2,338 | 19.0 |
| Other international sales | 35,237 | 31,242 | 3,995 | 12.8 |
| Total pharmaceutical sales | 179,627 | 176,804 | 2,823 | 1.6 |
| Pharmaceutical chemicals sales | 6,229 | 6,883 | (654) | (9.5) |
| TOTAL SALES | 185,856 | 183,687 | 2,169 | 1.2 |

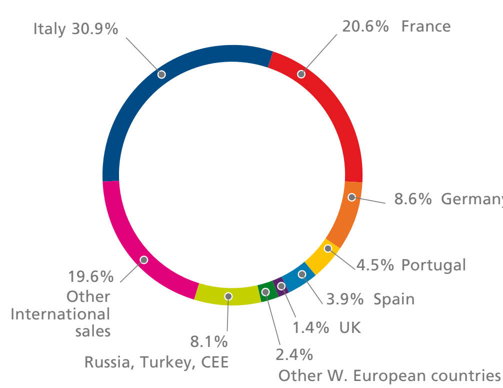
Both years include sales as well as income from up-front payments, royalties and miscellaneous items.

Pharmaceutical sales are € 179.6 million, up 1.6% despite the expiry in January of the composition of matter patent covering lercanidipine in the main European countries. International pharmaceutical sales grow by 1.7% and those in Italy are up by 1.3%. Pharmaceutical chemicals sales are € 6.2 million, down by 9.5%, and now represent 3.4% of total revenues.

## SALES BY BUSINESS:




## PHARMACEUTICAL SALES:




On 21 January 2010 the composition of matter patent covering lercanidipine expired in the main European countries. Therefore, competing generic versions manufactured by other producers can be 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) | First quarter 2010 | First quarter 2009 | Change 2010/2009 | % |
|---|---|---|---|---|
| Direct sales | 26,571 | 32,758 | (6,187) | (18.9) |
| Sales to licensees | 17,662 | 18,471 | (809) | (4.4) |
| **Total lercanidipine sales** | **44,233** | **51,229** | **(6,996)** | **(13.7)** |

In Italy sales of Zanedip® and Lercadip® are down by 23.2% due to the price reduction in place as from mid February following the market entry of generic versions of lercanidipine. In France Zanidip® sales are down by 24.0% due mainly to lower sales volumes as a result of generic competition. Direct sales in the other European countries have suffered an overall reduction of 6.1% while sales to licensees, which represent 39.9% of total lercanidipine sales, are down by 4.4%.

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, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Lebanon, Norway, the Netherlands, Portugal, South Africa and Spain and further launches are planned during 2010.

| € (thousands) | First quarter 2010 | First quarter 2009 | Change 2010/2009 | % |
|---|---|---|---|---|
| Direct sales | 4,247 | 1,385 | 2,862 | 206.6 |
| Sales to licensees | 2,178 | 1,669 | 509 | 30.5 |
| **Total lercanidipine+enalapril sales** | **6,425** | **3,054** | **3,371** | **110.4** |

In the first quarter 2010 sales of other corporate products which comprise Lomexin® (fenticonazole), Urispas® (flavoxate), Kentera® (oxybutynin transdermal patch), TransAct® LAT (flurbiprofen transdermal patch), rupatadine (Alergoliber®, Rupafin® e Wystamm®), and frovatriptan (Isimig® e Pitunal®) totaled € 13.5 million, up 78.0% mainly due the growth of Lomexin® (fenticonazole) sales, the acquisition of the marketing rights to TransAct® LAT and the launch of Wystamm® (rupatadine) in France as well as the growth of rupatadine based products in other markets.

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 the first quarter 2010 total € 15.7 million, an increase of 31.6%, with all products performing well.

Sales of pharmaceuticals in Italy are up by 1.3% as compared to the first quarter of the preceding year. Among the main drivers we underline the growth of Entact® (escitalopram), indicated for the treatment of depression, of the analgesic Tora-Dol® (ketorolac tromethamine) and of Rextat® and Lovinacor®, lovastatin based anti-cholesterol treatments. In addition, the marketing of TransAct® LAT (flurbiprofen transdermal patch) started as from the second half 2009. The specialties for the treatment of rare diseases also grew significantly.

Pharmaceutical sales in France are down by 3.1% due to the sales decrease of Zanidip® (lercanidipine) which was partly offset by the sales of Zanextra® (lercanidipine+enalapril), launched in the second quarter 2009, and by the sales of our own generic version of lercanidipine. Sales of methadone and of the specialties for the treatment of rare diseases are growing. Furthermore, Wystamm® (rupatadine), a systemic antihistamine, was successfully launched in January.

In Germany sales are up 5.7% mainly thanks to the growth of Zanipress® (lercanidipine+enalapril), of Claversal® (mesalazine), of Mirfulan® (zinc oxide based skin healing ointment), of Rupafin® (rupatadine) and of Ortoton® (metocarbamol).

Sales in Portugal by our subsidiaries are down 26.7% mainly due to the completion of a plan to reduce stocks in some distribution channels.

In Spain sales are down by 6.7% mainly due to the reduction of Zanidip® (lercanidipine) sales. The corporate products Zanipress® (lercanidipine+enalapril) and Alergoliber® (rupatadine) are performing well.

Sales in the United Kingdom are down 29.7% due exclusively to the drop in Zanidip® (lercanidipine) sales. The specialties for the treatment of rare diseases record significant growth.

Sales in other countries in Western Europe comprise sales of products for the treatment of rare diseases in a number of countries, sales in Ireland generated by Recordati Ireland and sales in Greece generated by Recordati Hellas Pharmaceuticals.

Revenue generated in Russia and in the other countries within the Commonwealth of Independent States (C.I.S.) is € 4.6 million slightly down compared with the same period of the preceding year. Sales in Turkey recorded by Yeni Recordati are € 6.2 million, up 47.2%, and include sales of Lercadip® (lercanidipine), Urispas® (flavoxate) and Gyno-Lomexin® (fenticonazole) which were previously marketed by licensees and are now sold directly by our subsidiary as from July 2009. Sales generated by Herbacos Recordati in the Czech and Slovak Republics are € 2.9 million, an increase of 3.8% compared to the same period of the preceding year. Sales in these countries of our treatments for rare diseases are growing significantly.

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. The 12.8% increase recorded in the first quarter is due mainly to the growth in sales and other revenue generated by our licensing-out business which includes that related to products for the treatment of rare diseases.

# FINANCIAL REVIEW

## INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus the first quarter of 2009:

| € (thousands) | First quarter 2010 | % of revenue | First quarter 2009 | % of revenue | Change 2010/2009 | % |
|---|---|---|---|---|---|---|
| **Revenue** | **185,856** | **100.0** | **183,687** | **100.0** | **2,169** | **1.2** |
| Cost of sales | (59,699) | (32.1) | (60,158) | (32.8) | 459 | (0.8) |
| **Gross profit** | **126,157** | **67.9** | **123,529** | **67.2** | **2,628** | **2.1** |
| Selling expenses | (55,323) | (29.8) | (54,857) | (29.9) | (466) | 0.8 |
| R&D expenses | (16,428) | (8.8) | (15,300) | (8.3) | (1,128) | 7.4 |
| G&A expenses | (10,433) | (5.6) | (10,918) | (5.9) | 485 | (4.4) |
| Other income (expense), net | (898) | (0.5) | (1,819) | (1.0) | 921 | (50.6) |
| **Operating income** | **43,075** | **23.2** | **40,635** | **22.1** | **2,440** | **6.0** |
| Financial income (expense), net | (780) | (0.4) | (1,451) | (0.8) | 671 | (46.2) |
| **Pretax income** | **42,295** | **22.8** | **39,184** | **21.3** | **3,111** | **7.9** |
| Provision for income taxes | (12,321) | (6.6) | (11,565) | (6.3) | (756) | 6.5 |
| **Net income** | **29,974** | **16.1** | **27,619** | **15.0** | **2,355** | **8.5** |
| Attributable to: | | | | | | |
| Equity holders of the parent | 29,974 | 16.1 | 27,618 | 15.0 | 2,356 | 8.5 |
| Minority interests | 0 | 0.0 | 1 | 0.0 | (1) | (100.0) |

Revenue for the quarter is € 185.9 million, an increase of € 2.2 million over the first quarter 2009. A detailed analysis can be found in the preceding "Review of Operations".

Gross profit is € 126.2 million with a margin of 67.9% on sales, a slight improvement over that of the first quarter 2009.

Selling expenses increase slightly over the same period of the preceding year but decrease as a percent of sales. R&D expenses, at € 16.4 million, increase by 7.4% over those of the preceding year. G&A expenses decrease by 4.4%.

Other expenses net of other income are € 0.9 million and refer mostly to the pay-back due to AIFA (the Italian medicines agency) in substitution for the 5% price reduction on selected products.

Net financial charges are € 0.8 million (€ 1.5 million in the same period of 2009), down due to lower interest rates and to the reduction of bank overdrafts and short-term loans.

The effective tax rate during the period is 29.1%, in line with the same period of the preceding year.

Net income is € 30.0 million, an increase of 8.5% over the same period of the preceding year. The growth is higher than that recorded by operating income thanks to lower financial charges.

## FINANCIAL POSITION

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

| € (thousands) | 31 March 2010 | 31 December 2009 | Change 2010/2009 | % |
|---|---|---|---|---|
| Cash and short-term financial investments | 87,633 | 93,775 | (6,142) | (6.5) |
| Bank overdrafts and short-term loans | (6,304) | (28,852) | 22,548 | (78.2) |
| Loans – due within one year | (1,816) | (2,419) | 603 | (24.9) |
| **Net liquid assets** | **79,513** | **62,504** | **17,009** | **27.2** |
| Loans – due after one year(1) | (82,070) | (82,247) | 177 | (0.2) |
| **Net financial position** | **(2,557)** | **(19,743)** | **17,186** | **(87.0)** |

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

At 31 March 2010 net debt is reduced by € 17.2 million compared to that at 31 December 2009 thanks to the cash generated during the period. In January an amount of € 14.0 million was paid to Novartis for the acquisition of the beta blocker Lopresor® (metoprolol) in Greece and in other European countries.

## RELATED PARTY TRANSACTIONS

The balance sheet accounts as at 31 March 2010 include current liabilities of € 0.4 million and non-current liabilities of € 0.7 million due to Mr. William Gunnarsson, a member of the Board of Directors of Recordati S.p.A., connected with the acquisition of the Orphan Europe group of companies.

Tax liabilities include an estimated net tax amount of € 2.5 million, computed by the parent company based on estimated taxable income, payable to 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.

# SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

In April Recordati signed a license agreement with Esteve, a leading pharmaceutical company in the Spanish market, for the marketing and sales in Spain of pitavastatin. Pitavastatin is a novel "statin" for the treatment of hypercholesterolemia. Esteve will co-market the product together with Recordati España, the Spanish subsidiary of the Recordati group. The drug is currently being evaluated by the UK Medicines and Healthcare products Regulatory Agency (MHRA), and is expected to be approved in Europe in the second half of 2010.

The group's business performance was in line with expectations during April. For the full year 2010 we expect to achieve revenues in excess of € 700 million, operating income in excess of € 140 million and net income in excess of € 95 million.

Milan, 6 May 2010

Giovanni Recordati
*Chairman and Chief Executive Officer*

# CONSOLIDATED FINANCIAL STATEMENTS

## RECORDATI S.P.A AND SUBSIDIARIES
## CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE PERIOD ENDED 31 MARCH 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 in compliance with the European Union's guidelines on the preparation of consolidated financial statements, and were prepared in accordance with the IAS 34 requirements for interim reporting

## RECORDATI S.P.A. AND SUBSIDIARIES
## CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 31 MARCH 2010

### INCOME STATEMENT

| € (thousands) | First quarter 2010 | First quarter 2009 |
|---|---|---|
| Revenue | 185,856 | 183,687 |
| Cost of sales | (59,699) | (60,158) |
| Gross profit | 126,157 | 123,529 |
| Selling expenses | (55,323) | (54,857) |
| R&D expenses | (16,428) | (15,300) |
| G&A expenses | (10,433) | (10,918) |
| Other income (expense), net | (898) | (1,819) |
| Operating income | 43,075 | 40,635 |
| Financial income (expense), net | (780) | (1,451) |
| Pretax income | 42,295 | 39,184 |
| Provision for income taxes | (12.321) | (11,565) |
| Net income | 29,974 | 27,619 |
| Attributable to: | | |
| Equity holders of the parent | 29,974 | 27,618 |
| Minority interests | 0 | 1 |
| Earnings per share | | |
| Basic | € 0.152 | € 0.140 |
| Diluted | € 0.144 | € 0.136 |

Earnings per share (EPS) are based on average shares outstanding during each year, 197,652,801 in 2010 and 197,035,301 in 2009, net of average treasury stock which amounted to 11,472,355 shares in both 2010 and 2009.
Diluted earnings per share is calculated taking into account new shares authorized but not yet issued.

# RECORDATI S.P.A. AND SUBSIDIARIES
# CONSOLIDATED BALANCE SHEET AT 31 MARCH 2010

## ASSETS

| € (thousands) | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Non-current assets | | |
| Property, plant and equipment | 53,908 | 55,381 |
| Intangible assets | 110,022 | 96,512 |
| Goodwill | 306,228 | 303,653 |
| Other investments | 3,723 | 3,716 |
| Other non-current assets | 3,840 | 3,804 |
| Deferred tax assets | 19,380 | 21,793 |
| Total non-current assets | 497,101 | 484,859 |
| Current assets | | |
| Inventories | 88,265 | 86,627 |
| Trade receivables | 142,302 | 132,621 |
| Other receivables | 18,723 | 22,990 |
| Other current assets | 4,764 | 2,607 |
| Fair value of hedging derivatives *(fair value hedge)* | 1,190 | 0 |
| Short-term financial investments, cash and cash equivalents | 87,633 | 93,775 |
| Total current assets | 342,877 | 338,620 |
| Total assets | 839,978 | 823,479 |

# RECORDATI S.P.A. AND SUBSIDIARIES
# CONSOLIDATED BALANCE SHEET AT 31 MARCH 2010

## EQUITY AND LIABILITIES

| € (thousands) | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Shareholders' equity | | |
| Share capital | 26,141 | 26,141 |
| Additional paid-in capital | 83,719 | 83,719 |
| Treasury stock | (59,103) | (59,103) |
| Hedging reserve *(cash flow hedge)* | (5,293) | (4,040) |
| Translation reserve | (2,269) | (6,178) |
| Other reserves | 25,432 | 25,025 |
| Retained earnings | 443,396 | 332,836 |
| Net income for the year | 29,974 | 110,560 |
| Group shareholders' equity | 541,997 | 508,960 |
| Minority interest | 19 | 19 |
| Shareholders' equity | 542,016 | 508,979 |
| Non-current liabilities | | |
| Loans – due after one year | 83,260 | 79,990 |
| Staff leaving indemnities | 19,556 | 19,895 |
| Deferred tax liabilities | 5,646 | 5,661 |
| Other non-current liabilities | 5,704 | 6,179 |
| Total non-current liabilities | 114,166 | 111,725 |
| Current liabilities | | |
| Trade payables | 89,057 | 81,751 |
| Other payables | 47,211 | 48,406 |
| Tax liabilities | 14,390 | 12,555 |
| Other current liabilities | 654 | 517 |
| Provisions | 19,071 | 21,978 |
| Fair value of hedging derivatives *(cash flow hedge)* | 5,293 | 4,040 |
| Fair value of hedging derivatives *(fair value hedge)* | 0 | 2,257 |
| Loans – due within one year | 1,816 | 2,419 |
| Bank overdrafts and short-term loans | 6,304 | 28,852 |
| Total current liabilities | 183,796 | 202,775 |
| Total equity and liabilities | 839,978 | 823,479 |

# RECORDATI S.P.A. AND SUBSIDIARIES
# STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2010

| € (thousands) | First quarter 2010 | First quarter 2009 |
|---|---|---|
| Net income for the period | 29,974 | 27,619 |
| Gains/(losses) on cash flow hedges | (1,253) | (1,525) |
| Gains/(losses) on translation of foreign financial statements | 3,909 | 64 |
| Income and expense for the period recognized directly in equity | 2,656 | (1,461) |
| Comprehensive income for the period | 32,630 | 26,158 |
| Attributable to: | | |
| Equity holders of the parent | 32,630 | 26,157 |
| Minority interests | 0 | 1 |

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

| € (thousands) | Share capital | Additional paid-in capital | Treasury stock | Hedging reserve | Translation reserve | Other reserves | Retained earnings | Net income for the period | Minority Interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 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: | | | | | | | | | | |
| - Retained earnings | | | | | | | 100,424 | (100,424) | | |
| Increase in the reserve for share based payments | | | | | | 214 | | | | **214** |
| Comprehensive income for the year | | | | (1,525) | 64 | | | 27,618 | 1 | **26,158** |
| **Balance at 31 March 2009** | **26,063** | **81,320** | **(59,103)** | **(4,057)** | **(7,032)** | **25,947** | **381,344** | **27,618** | **14** | **472,114** |
| **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: | | | | | | | | | | |
| - Retained earnings | | | | | | | 110,560 | (110,560) | | |
| Increase in the reserve for share based payments | | | | | | 407 | | | | **407** |
| Comprehensive income for the year | | | | (1,253) | 3,909 | | | 29,974 | | **32,630** |
| **Balance at 31 March 2010** | **26,141** | **83,719** | **(59,103)** | **(5,293)** | **(2,269)** | **25,432** | **443,396** | **29,974** | **19** | **542,016** |

# RECORDATI S.P.A. AND SUBSIDIARIES
# CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2010

| € (thousands) | First quarter 2010 | First quarter 2009 |
|---|---|---|
| Operating activities | | |
| Cash flow | | |
| Net Income | 29,974 | 27,619 |
| Depreciation of property, plant and equipment | 2,784 | 2,747 |
| Amortization of intangible assets | 3,851 | 4,837 |
| **Total cash flow** | **36,609** | **35,203** |
| (Increase)/decrease in deferred tax assets | 2,413 | 649 |
| Increase/(decrease) in staff leaving indemnities | (339) | (235) |
| Increase/(decrease) in other non-current liabilities | (490) | (1,449) |
| | **38,193** | **34,168** |
| Changes in working capital | | |
| Trade receivables | (9,681) | (11,693) |
| Inventories | (1,638) | (4,840) |
| Other receivables and other current assets | 2,110 | (596) |
| Trade payables | 7,306 | (3,986) |
| Tax liabilities | 1,835 | 6,490 |
| Other payables and other current liabilities | (1,058) | (3,686) |
| Provisions | (2,907) | (200) |
| **Changes in working capital** | **(4,033)** | **(18,511)** |
| **Net cash from operating activities** | **34,160** | **15,657** |
| Investing activities | | |
| Net (investments)/disposals in property, plant and equipment | (1,311) | (1,301) |
| Net (investments)/disposals in intangible assets | (17,361) | (166) |
| Net (increase)/decrease in equity investments | 0 | (20,007)(1) |
| Net (increase)/decrease in other equity investments | (7) | 0 |
| Net (increase)/decrease in other non-current receivables | (36) | (31) |
| **Net cash used in investing activities** | **(18,715)** | **(21,505)** |
| Financing activities | | |
| Net financial position of acquired companies | 0 | 1,680 |
| Effect of application of IAS/IFRS | 407 | 214 |
| Re-payment of loans | (780) | (1,108) |
| Change in translation reserve | 1,334 | 1,552 |
| **Net cash from/(used in) financing activities** | **961** | **2,338** |
| Changes in short-term financial position | 16,406 | (3,510) |
| Short-term financial position at beginning of year * | 64,923 | 4,107 |
| Short-term financial position at end of period * | 81,329 | 597 |

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

(1) Acquisition of **Herbacos-Bofarma**: Working capital (127), Cash and cash equivalents (1,680), Fixed assets (21,457), Deferred tax liabilities 780, Medium and long-term loans 2,477.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2010

## 1. GENERAL

The consolidated financial statements at 31 March 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 first quarter 2010 consolidation perimeter remains unchanged.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The first quarter consolidated condensed financial statements were prepared in accordance with the IAS 34 requirements for interim reporting. The statements do not include the full information required for the annual financial statements and must therefore be read together with the annual report for the full year ended 31 December 2009, prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and in compliance with the European Union's guidelines on the preparation of consolidated financial statements.

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

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

## 3. REVENUE

Net revenue for the first quarter 2010 is € 185.9 million (€ 183.7 million in the same period of the preceding year) and can be broken down as follows:

| € (thousands) | First quarter 2010 | First quarter 2009 | Change 2010/2009 |
|---|---|---|---|
| Net sales | 178,132 | 179,019 | (887) |
| Royalties | 2,225 | 1,801 | 424 |
| Up-front payments | 3,583 | 815 | 2,768 |
| Other revenue | 1,916 | 2,052 | (136) |
| **Total revenue** | **185,856** | **183,687** | **2,169** |

## 4. OPERATING EXPENSES

Overall operating expenses in the first quarter 2010 are € 142.8 million, a decrease as compared to the € 143.1 million in the same period of the preceding year and are analyzed by function. Personnel costs are € 46.5 million and include a cost for stock options of € 0.4 million. Total depreciation and amortization charges are € 6.6 million, down by € 1.0 million compared to the first quarter 2009.

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

| € (thousands) | First quarter 2010 | First quarter 2009 | Change 2010/2009 |
|---|---|---|---|
| Pay back AIFA (Italian Medicines Agency) | (892) | (1,178) | 286 |
| Personnel restructuring charges | 0 | (590) | 590 |
| Others | (6) | (51) | 45 |
| **Total other income (expense), net** | **(898)** | **(1,819)** | **921** |

The pay back of € 0.9 million refers to the amount 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 due is based on the sales of the selected products during 2009 and is spread equally over the year.

## 5. FINANCIAL INCOME AND EXPENSE

In the first quarter 2010 and in the same period of 2009 financial items record a net expense of € 0.8 million and € 1.5 million respectively which are comprised as follows:

| € (thousands) | First quarter 2010 | First quarter 2009 | Change 2010/2009 |
|---|---|---|---|
| Exchange gains (losses) | 181 | (21) | 202 |
| Interest expense on loans | (949) | (1,034) | 85 |
| Net interest income (expense) on short-term financial position | 122 | (220) | 342 |
| Interest cost in respect of defined benefit plans | (134) | (176) | 42 |
| Change in fair value of hedging derivatives | 3,447 | 2,224 | 1,223 |
| Change in fair value of hedged item | (3,447) | (2,224) | (1,223) |
| **Total financial income (expense), net** | **(780)** | **(1,451)** | **671** |

The reduction of net financial expense 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 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 reduction in the fair value of the underlying debt as compared to its nominal value with a combined zero effect on the income statement as the transaction is perfectly hedged.

## 6. PROPERTY, PLANT AND EQUIPMENT

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

| € (thousands) | Land & buildings | Plant & machinery | Other equipment | Advances/ construction in progress | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at 31.12.09 | 39,445 | 158,724 | 41,440 | 5,234 | 244,843 |
| Additions | 21 | 415 | 148 | 633 | 1,217 |
| Disposals | 0 | (26) | (26) | (4) | (56) |
| Other changes | 225 | 1.859 | 281 | (2,010) | 355 |
| **Balance at 31.03.10** | **39,691** | **160,972** | **41,843** | **3,853** | **246,359** |
| Accumulated depreciation | | | | | |
| Balance at 31.12.09 | 23,578 | 131,674 | 34,210 | 0 | 189,462 |
| Additions | 378 | 1,923 | 483 | 0 | 2,784 |
| Disposals | 0 | (25) | (26) | 0 | (51) |
| Other changes | 3 | 228 | 25 | 0 | 256 |
| **Balance at 31.03.10** | **23,959** | **133,800** | **34,692** | **0** | **192,451** |
| Carrying amount at | | | | | |
| 31 March 2010 | 15,732 | 27,172 | 7,151 | 3,853 | 53,908 |
| 31 December 2009 | 15,867 | 27,050 | 7,230 | 5,234 | 55,381 |

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

## 7. INTANGIBLE ASSETS

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

| € (thousands) | Patent rights and marketing authorizations | Distribution, license, trademark and similar rights | Other | Advance payments | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at 31.12.09 | 91,958 | 96,681 | 14,941 | 9,496 | 213,076 |
| Additions | 14,240 | 2,751 | 16 | 138 | 17,145 |
| Disposals | (12) | (625) | 0 | 0 | (637) |
| Other changes | 268 | 1,810 | (7) | (1,794) | 277 |
| **Balance at 31.03.10** | **106,454** | **100,617** | **14,950** | **7,840** | **229,861** |
| Accumulated amortization | | | | | |
| Balance at 31.12.09 | 56,596 | 45,289 | 14,679 | 0 | 116,564 |
| Additions | 1,224 | 2,590 | 37 | 0 | 3,851 |
| Disposals | (12) | (625) | 0 | 0 | (637) |
| Other changes | 66 | 0 | (5) | 0 | 61 |
| **Balance at 31.03.10** | **57,874** | **47,254** | **14,711** | **0** | **119,839** |
| Carrying amount at | | | | | |
| 31 March 2010 | 48,580 | 53,363 | 239 | 7,840 | 110,022 |
| 31 December 2009 | 35,362 | 51,392 | 262 | 9,496 | 96,512 |

Additions during the period include € 14.0 million paid to Novartis for the acquisition of Lopresor® (metoprolol).

## 8. GOODWILL

Net goodwill at 31 March 2010, amounting to € 306.2 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: € 41.8 million;
- Herbacos-Bofarma: € 14.5 million.

Goodwill related to Yeni Ilaç and to Herbacos-Bofarma is calculated in local currency and converted into Euro at the period-end exchange rate which resulted in an overall increase of € 2.6 million as compared to 31 December 2009.

In compliance with IFRS 3 goodwill is no longer amortized. Instead, it shall be tested for impairment on an annual basis or more frequently if specific events or circumstances indicate a possible loss of value. During the period no event or circumstance arose to indicate possible value loss related to any of the abovementioned items.

## 9. OTHER INVESTMENTS

During the period this line remained substantially unchanged and includes the holding in PureTech Ventures LLC (U.S.A.), an investment company specialized in start-up companies dedicated to new therapies, medical devices and new research technologies.

## 10. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 31 March 2010 are € 3.8 million and include the present value of the residual receivable (€ 2.8 million) related to the settlement from Swedish Orphan which is due in two equal installments payable in 2011 and in 2012.

## 11. DEFERRED TAX ASSETS AND LIABILITIES

At 31 March 2010 deferred tax assets decrease by € 2.4 million as compared to those at 31 December 2009 while deferred tax liabilities remain substantially unchanged.

## 12. SHAREHOLDERS' EQUITY

Shareholders' Equity at 31 March 2010 is € 542.0 million, an increase of € 33.0 million compared to that at 31 December 2009 for the following reasons:

- net income for the period (increase of € 30.0 million)
- cost of stock option plans set-off directly in equity (increase of € 0.4 million)
- change in the fair value of hedging derivatives (decrease of € 1.3 million)
- translation adjustments (increase of € 3.9 million)

All consolidated companies are 100% owned except for the Italian subsidiary of Orphan Europe which is 99% owned, giving rise to a minority interest of € 19.0 thousand.

As at 31 March 2010 the Company has one stock option plan in place, the 2006-2009 plan, under which options were granted on four occasions, in favor of certain group employees. The strike price of the options is the average of the parent company's listed share price during the 30 days prior to the grant date. Stock options 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 March 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 31.03.2010 |
|---|---|---|---|---|---|---|
| Date of grant | | | | | | |
| 6 April 2006 | 6.4975 | 1,865,000 | - | 0 | (7,500) | 1,857,500 |
| 29 October 2008 | 4.0730 | 3,790,000 | - | 0 | (85,000) | 3,705,000 |
| 11 February 2009 | 3.8940 | 220,000 | - | 0 | 0 | 220,000 |
| 27 October 2009 | 4.8700 | 4,065,000 | - | 0 | (80,000) | 3,985,000 |
| **Total** | | **9,940,000** | **-** | **0** | **(172,500)** | **9,767,500** |

Stock option plans may be served by using shares held in treasury stock or by issuing new shares.

At 31 March 2010, 11,472,355 shares are held as treasury stock, unchanged as compared to those at 31 December 2009. The overall purchase cost of the shares held in treasury stock is € 59.1 million with an average unit price of € 5.15.

## 13. LOANS

At 31 March 2010 medium and long-term loans, which include the measurement at fair value of the guaranteed senior notes issued and privately placed in 2004, are € 85.1 million, an increase of € 2.6 million compared to those at 31 December 2009. This change arises from reimbursements during the period (€ 0.8 million) and the change in fair value of the guaranteed senior notes issued and privately placed (increase of € 3.4 million).

The note and guarantee agreement covering the guaranteed senior notes issued by Recordati S.A. (Luxembourg) includes covenants which require the maintenance of the following financial conditions by the Company:

- 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 starting from 2004;
- 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.

The series of guaranteed senior notes, issued at the end of 2004, comprises *tranches* in various currencies at fixed interest rates. The *tranches* denominated in currencies other than the Euro have been covered with a cross-currency interest rate swap effectively converting the whole debt into Euro at a variable interest rate equivalent to the Euribor 6 months rate plus a spread. The *tranches* denominated in Euro have been covered with an interest rate swap effectively converting the interest charges on the debt from fixed to variable at the same abovementioned conditions. The measurement at fair value of the swaps at 31 March 2010 generated an asset of € 1.2 million, an amount equivalent to the change in 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 March 2010 is between 3.68% 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 € 5.3 million fair value of the cash flow hedge is recognized directly in equity and stated as a current liability (see Note 18).

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

## 14. STAFF LEAVING INDEMNITIESI

The staff leaving indemnity fund at 31 March 2010 is of € 19.6 million, a decrease of € 0.3 million as compared to that at 31 December 2009.

## 15. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 March 2010 amount to € 5.7 million include:

- The residual liability due for the acquisition of Orphan Europe following the settlement with Swedish Orphan for a total amount of € 1,2 million, net of the € 0.1 million present value adjustment, due in two equal installments payable in 2011 and in 2012;
- the balance due to Amdipharm in 2011 for the acquisition of the marketing rights to TransAct® LAT for an amount of € 4.5 million.

## 16. CURRENT ASSETS

Inventories are € 88.3 million and increase by € 1.6 million over those stated at 31 December 2009.

The balance of trade receivables at 31 March 2010 is € 142.3 million and is stated net of a € 8.1 million provision for doubtful accounts which reflects the collection risk connected with certain customers and geographic areas.

Other receivables decrease by € 4.3 million compared to those at 31 December 2009 mainly due to the reduction of tax credits (€ 2.9 million) and include the current installment due related to the Swedish Orphan settlement (€ 1.5 million).

Other current assets are € 4.8 million and refer mainly to prepaid expenses.

## 17. CURRENT LIABILITIES

Trade payables, which include invoices to be received, are € 89.1 million.

Other payables decrease by € 1.2 million compared to 31 December 2009, of which € 0.5 million refer to the difference between the installment paid at the beginning of 2010 and that to be paid in 2011 of the price still to be paid for the acquisition of FIC and FIC Médical. This caption also includes the € 0.9 million pay-back due to the Italian medicines agency (AIFA) (see Note 4).

Tax liabilities increase by € 1.8 million mainly due to the provision for income tax for the period.

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

The measurement at fair value of the interest rate swaps covering the cash flows related to medium and long-term loans gave rise to a € 5.3 million liability at 31 March 2010. This amount represents the unrealized benefit of paying the current expected future rates instead of the rates agreed. This amount refers entirely to the interest rate swap defining a collar which limits the fluctuation of the interest rates payable on the guaranteed senior notes issued by Recordati S.A. Chemical & Pharmaceutical Company.

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

Short term financial investments, cash and cash equivalents at 31 March 2010 are € 87.6 million and comprise short term time deposits denominated mainly in Euro and Pounds sterling which have maturities of three months or less and bank current accounts.

## 20. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans are € 6.3 million, down by € 22.5 million compared to those at 31 December 2009. They are comprised mainly of current account overdrafts and temporary use of lines of credit. In April 2008 Recordati S.p.A. had finalized two financing agreements with Italian and international banks of high standing. The two contracts provide for two revolving lines of credit for a period of two years and for an amount of € 50 million each. The interest rate agreed is the Euribor for the draw down period plus 40 basis points. These lines of credit include covenants which are in line with those already included in our current loan agreements. As at 31 March 2010 these lines of credit were not drawn down (at 31 December 2009 € 20.0 million were drawn down).

## 21. OPERATING SEGMENTS

The financial information reported by line of business and by geographical area, in compliance with IFRS 8 – *Operating segments*, is prepared using the same accounting principles and reporting standards used for the preparation and disclosure of the Group consolidated financial statements. Following the acquisition of Orphan Europe two main business segments can be identified, the pharmaceutical segment and the orphan drugs segment. The following table shows financial information for these two business segments as at 31 March 2010 and includes comparative data.

| € (thousands) | Pharmaceutical segment* | Orphan drugs segment | Non-allocated | Consolidated accounts |
|---|---|---|---|---|
| First quarter 2010 | | | | |
| Revenues | 170,137 | 15,719 | - | 185,856 |
| Expenses | (131,084) | (11,697) | - | (142,781) |
| Operating income | 39,053 | 4,022 | - | 43,075 |
| First quarter 2009 | | | | |
| Revenues | 171,766 | 11,921 | - | 183,687 |
| Expenses | (133,654) | (9,398) | - | (143,052) |
| Operating income | 38,112 | 2,523 | - | 40,635 |

* Includes the pharmaceutical chemicals operations

| € (thousands) | Pharmaceutical segment* | Orphan drugs segment | Non-allocated** | Consolidated accounts |
|---|---|---|---|---|
| **31 March 2010** | | | | |
| Non-current assets | 374,010 | 119,368 | 3,723 | 497,101 |
| Inventories | 83,758 | 4,507 | - | 88,265 |
| Trade payables | 127,571 | 14,731 | - | 142,302 |
| Other current assets | 19,033 | 4,454 | 1,190 | 24,677 |
| Short-term investments, cash and cash equivalents | - | - | 87,633 | 87,633 |
| **Total assets** | **604,372** | **143,060** | **92,546** | **839,978** |
| Non-current liabilities | 28,912 | 1,994 | 83,260 | 114,166 |
| Current liabilities | 159,119 | 11,264 | 13,413 | 183,796 |
| **Total liabilities** | **188,031** | **13,258** | **96,673** | **297,962** |
| **Net capital employed** | **416,341** | **129,802** | | |
| **31 March 2009** | | | | |
| Non-current assets | 361,623 | 119,520 | 3,716 | 484,859 |
| Inventories | 81,907 | 4,720 | - | 86,627 |
| Trade payables | 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.

## 22. LITIGATION AND CONTINGENT LIABILITIES

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

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 February 2001 by the competent court. 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. The hearing of 17 June 2008 adjourned the case until 30 March 2010 for final pleadings. During said hearing the Court held that the case is ready for decision and granted the parties a term to submit the final briefs. The Company is firm in its belief that the conversion operation was perfectly legal as supported, not only by the positive judgment of the court of first instance, but also by the positive reaction of the market and the very high percent of shareholders opting for the conversion.

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 believes no amount is due and considers the assessment flawed both from a legitimacy as well as a substantive point of view, and is supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first 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 Parent 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. The ruling for the next stage of litigation is currently being prepared for submission by the Parent Company.

A lawsuit is pending before the Frankfurt courts 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 deems arbitrary. Innova Pharma, which considers the termination invalid, has taken legal action to obtain compensation for the damages incurred. The first hearing took place on 6 May 2009. A second hearing was held on 25 November 2009 for the examination of witnesses. The hearing planned to take place on 17 March 2010 was cancelled and a new hearing was scheduled for 30 June 2010 for further examination of witnesses.

# RECORDATI S.P.A. AND SUBSIDIARIES
# SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 MARCH 2010

## ATTACHMENT 1.

| Consolidated Companies | Head Office | Share Capital | Currency | Consolidation Method |
|---|---|---|---|---|
| RECORDATI S.P.A.<br>Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals | Italy | 26,140,644.50 | Euro | Line-by-line |
| RECOFARMA S.R.L.<br>Dormant, holds pharmaceutical marketing rights | Italy | 1,258,400.00 | Euro | Line-by-line |
| INNOVA PHARMA S.P.A.<br>Marketing and sales of pharmaceuticals | Italy | 1,920,000.00 | Euro | Line-by-line |
| RECORDATI ESPAÑA S.L.<br>Development, production, marketing and sales of pharmaceuticals | Spain | 94,000,000.00 | Euro | Line-by-line |
| RECORDATI S.A. Chemical and Pharmaceutical Company<br>Holding company | Luxembourg | 68,000,000.00 | Euro | Line-by-line |
| BOUCHARA RECORDATI S.A.S.<br>Development, production, marketing and sales of pharmaceuticals | France | 4,600,000.00 | Euro | Line-by-line |
| RECORDATI PORTUGUESA LDA<br>Dormant | Portugal | 24,940.00 | Euro | Line-by-line |
| FARMARECORD LTDA<br>Dormant, holds pharmaceutical marketing rights in Brazil | Brazil | 166.00 | BRL | Line-by-line |
| RECORDATI CORPORATION<br>Sales Agent for pharmaceutical chemicals | U.S.A. | 11,979,138.00 | USD | Line-by-line |
| RECORDATI IRELAND LTD<br>Development, production, marketing and sales of pharmaceuticals | Ireland | 200,000.00 | Euro | Line-by-line |
| RECORDATI S.A.<br>Dormant, holds pharmaceutical marketing rights | Switzerland | 6,000,000.00 | CHF | Line-by-line |
| LABORATOIRES BOUCHARA RECORDATI S.A.S.<br>Development, production, marketing and sales of pharmaceuticals | France | 14,000,000.00 | Euro | Line-by-line |
| MERCKLE RECORDATI GmbH<br>Marketing and sales of pharmaceuticals | Germany | 268,939.53 | Euro | Line-by-line |
| RECORDATI PHARMACEUTICALS LTD<br>Marketing and sales of pharmaceuticals | United Kingdom | 15,000,000.00 | GBP | Line-by-line |
| RECORDATI HELLAS PHARMACEUTICALS S.A.<br>Marketing and sales of pharmaceuticals | Greece | 11,700,000.00 | Euro | Line-by-line |
| JABA RECORDATI S.A.<br>Development, production, marketing and sales of pharmaceuticals | Portugal | 2,000,000.00 | Euro | Line-by-line |
| JABAFARMA PRODUTOS FARMACÊUTICOS S.A.<br>Development, production, marketing and sales of pharmaceuticals | Portugal | 50,000.00 | Euro | Line-by-line |
| BONAFARMA PRODUTOS FARMACÊUTICOS S.A.<br>Development, production, marketing and sales of pharmaceuticals | Portugal | 50,000.00 | Euro | Line-by-line |

| PERCENTAGE OF OWNERSHIP | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Recordati S.p.A. (parent) | Recordati S.A. (Luxembourg) | 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-Bofarma s.r.o. | Yeni Ilaç A.S. | Total |
| 100.00% | | | | | | | | | | | 100.00% |
| 100.00% | | | | | | | | | | | 100.00% |
| 90.00% | 10.00% | | | | | | | | | | 100.00% |
| 100.00% | | | | | | | | | | | 100.00% |
| 99.94% | 0.06% | | | | | | | | | | 100.00% |
| 98.00% | 2.00% | | | | | | | | | | 100.00% |
| | 100.00% | | | | | | | | | | 100.00% |
| | 100.00% | | | | | | | | | | 100.00% |
| | 100.00% | | | | | | | | | | 100.00% |
| | 100.00% | | | | | | | | | | 100.00% |
| | | 100.00% | | | | | | | | | 100.00% |
| | | | 100.00% | | | | | | | | 100.00% |
| 3.33% | 96.67% | | | | | | | | | | 100.00% |
| 0.81% | 99.19% | | | | | | | | | | 100.00% |
| | | | 100.00% | | | | | | | | 100.00% |
| | | | 100.00% | | | | | | | | 100.00% |
| | | | 100.00% | | | | | | | | 100.00% |

| Consolidated Companies | Head Office | Share Capital | Currency | Consolidation Method |
|---|---|---|---|---|
| RECORDATI ORPHAN DRUGS S.A.S.<br>Holding company | France | 57,000,000.00 | Euro | Line-by-line |
| ORPHAN EUROPE HOLDING S.A.<br>Holding company | France | 1,701,260.00 | Euro | Line-by-line |
| ORPHAN EUROPE OPERATIONS S.A.S.<br>Marketing and sales of pharmaceuticals | France | 5,112,000.00 | Euro | Line-by-line |
| ORPHAN EUROPE SWITZERLAND GmbH<br>Marketing and sales of pharmaceuticals | Switzerland | 20,000.00 | CHF | Line-by-line |
| ORPHAN EUROPE MIDDLE EAST FZ LLC<br>Marketing and sales of pharmaceuticals | United Arab Emirates | 100,000.00 | AED | Line-by-line |
| ORPHAN EUROPE NORDIC A.B.<br>Marketing and sales of pharmaceuticals | Sweden | 100,000.00 | SEK | Line-by-line |
| ORPHAN EUROPE PORTUGAL LDA<br>Marketing and sales of pharmaceuticals | Portugal | 5,000.00 | Euro | Line-by-line |
| ORPHAN EUROPE S.A.R.L.<br>Development, production, marketing and sales of pharmaceuticals | France | 320,000.00 | Euro | Line-by-line |
| ORPHAN EUROPE UNITED KINGDOM LTD<br>Marketing and sales of pharmaceuticals | United Kingdom | 50,000.00 | GBP | Line-by-line |
| ORPHAN EUROPE GERMANY GmbH<br>Marketing and sales of pharmaceuticals | Germany | 25,564.69 | Euro | Line-by-line |
| ORPHAN EUROPE SPAIN S.L.<br>Marketing and sales of pharmaceuticals | Spain | 37,563.27 | Euro | Line-by-line |
| ORPHAN EUROPE ITALY S.R.L.<br>Marketing and sales of pharmaceuticals | Italy | 40,000.00 | Euro | Line-by-line |
| ORPHAN EUROPE BENELUX BVBA<br>Marketing and sales of pharmaceuticals | Belgium | 18,600.00 | Euro | Line-by-line |
| FIC S.A.S.<br>Marketing and sales of pharmaceuticals | France | 100,000.00 | Euro | Line-by-line |
| FIC MEDICAL S.A.R.L.<br>Marketing and sales of pharmaceuticals | France | 9,999.89 | Euro | Line-by-line |
| YENI RECORDATI ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret A.S<br>Development, production, marketing and sales of pharmaceuticals | Turkey | 7,086,614.00 | TRY | Line-by-line |
| HERBACOS RECORDATI s.r.o.<br>Marketing and sales of pharmaceuticals | Czech Republic | 25,600,000.00 | CZK | Line-by-line |
| HB PHARM s.r.o.<br>Marketing and sales of pharmaceuticals | Slovakia | 33,193.92 | Euro | Line-by-line |
| RUSFIC LLC *<br>Marketing and promotion of pharmaceuticals | Russian Federation | 3,560,000.00 | RUB | Line-by-line |
| RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S. *<br>Marketing and sales of pharmaceuticals | Turkey | 5,000.00 | TRY | Line-by-line |

* Established in 2009

| PERCENTAGE OF OWNERSHIP | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Recordati S.p.A. *(parent)* | Recordati S.A. *(Luxembourg)* | 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 |
| | 100.00% | | | | | | | | | | 100.00% |
| 0.035% | 0.035% | | | 99.93% | | | | | | | 100.00% |
| | | | | | 100.00% | | | | | | 100.00% |
| | | | | | | 100.00% | | | | | 100.00% |
| | | | | | | 100.00% | | | | | 100.00% |
| | | | | | | 100.00% | | | | | 100.00% |
| | | | | | | 100.00% | | | | | 100.00% |
| | | | | | | 100.00% | | | | | 100.00% |
| | | | | | | | 100.00% | | | | 100.00% |
| | | | | | | | 100.00% | | | | 100.00% |
| | | | | | | | 100.00% | | | | 100.00% |
| | | | | | | | 99.00% | | | | 99.00% |
| | | | | | | 99.46% | 0.54% | | | | 100.00% |
| | | 100.00% | | | | | | | | | 100.00% |
| | | | | | | | | 100.00% | | | 100.00% |
| | | | 100.00% | | | | | | | | 100.00% |
| | 100.00% | | | | | | | | | | 100.00% |
| | | | | | | | | | 100.00% | | 100.00% |
| | | 100.00% | | | | | | | | | 100.00% |
| | | | | | | | | | | 100.00% | 100.00% |

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

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

Milan, 6 may 2010

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

RECORDATI

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