



FIRST  
NINE MONTHS

2010

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

# MANAGEMENT REVIEW

## HIGHLIGHTS

### First nine months 2010

#### REVENUE

€ (thousands)	First nine months 2010	%	First nine months 2009	%	Change 2010/2009	%
Pharmaceuticals	529,633	96.5	535,573	96.3	(5,940)	(1.1)
Pharmaceutical chemicals	18,996	3.5	20,614	3.7	(1,618)	(7.8)
<b>TOTAL REVENUE</b>	<b>548,629</b>	<b>100.0</b>	<b>556,187</b>	<b>100.0</b>	<b>(7,558)</b>	<b>(1.4)</b>
Italy	151,986	27.7	157,981	28.4	(5,995)	(3.8)
International	396,643	72.3	398,206	71.6	(1,563)	(0.4)

#### KEY CONSOLIDATED DATA

€ (thousands)	First nine months 2010	% of revenue	First nine months 2009	% of revenue	Change 2010/2009	%
Revenue	548,629	100.0	556,187	100.0	(7,558)	(1.4)
EBITDA <sup>(1)</sup>	143,915	26.2	146,754	26.4	(2,839)	(1.9)
Operating income	123,854	22.6	121,847	21.9	2,007	1.6
Net income	87,026	15.9	85,277	15.3	1,749	2.1

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

€ (thousands)	30 September 2010	31 December 2009	Change 2010/2009	%
Net financial position <sup>(2)</sup>	20,085	(19,743)	39,828	n.a.
Shareholders' equity	550,339	508,979	41,360	8.1

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

## Third quarter 2010

### REVENUE

€ (thousands)	Third quarter 2010	%	Third quarter 2009	%	Change 2010/2009	%
Pharmaceuticals	166,253	96.5	170,447	96.4	(4,194)	(2.5)
Pharmaceutical chemicals	6,113	3.5	6,439	3.6	(326)	(5.1)
<b>TOTAL REVENUE</b>	<b>172,366</b>	<b>100.0</b>	<b>176,886</b>	<b>100.0</b>	<b>(4,520)</b>	<b>(2.6)</b>
Italy	44,628	25.9	47,806	27.0	(3,178)	(6.6)
International	127,738	74.1	129,080	73.0	(1,342)	(1.0)

### KEY CONSOLIDATED DATA

€ (thousands)	Third quarter 2010	% of revenue	Third quarter 2009	% of revenue	Change 2010/2009	%
Revenue	172,366	100.0	176,886	100.0	(4,520)	(2.6)
EBITDA <sup>(1)</sup>	46,003	26.7	49,217	27.8	(3,214)	(6.5)
Operating income	40,024	23.2	39,347	22.2	677	1.7
Net income	27,818	16.1	27,536	15.6	282	1.0

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

Consolidated revenue in the first nine months of 2010 is € 548.6 million, slightly down (-1.4%) compared to the same period of the preceding year. Pharmaceutical sales are € 529.6 million, a decrease of 1.1%. The expiry of the composition of matter patent covering lercanidipine in the main European countries in January involved a 26.8% reduction of this product's sales which was mostly offset by the good sales performance of the rest of the pharmaceutical portfolio and by revenues generated by our international licensing-out business. Pharmaceutical chemicals sales are € 19.0 million, down by 7.8%.

Operating income, at 22.6% of sales, is € 123.9 million, an increase of 1.6% over the same period of the preceding year thanks mainly to the lower SG&A expenses.

Net income is € 87.0 million, an increase of 2.1%, higher than that recorded by operating income thanks to lower financial expenses.

Net financial position at 30 September 2010 records net cash of € 20.1 million, an increase of € 39.8 million as compared to 31 December 2009. Dividends for an amount of € 54.4 million were paid during the period. Shareholders' equity increased to € 550.3 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™ (silodosin), intended for treatment of the signs and symptoms of benign prostatic hyperplasia. 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. During April a co-marketing agreement was entered into with Zambon France, the French subsidiary of the Italian pharmaceutical group Zambon, for the marketing and sales rights in France of silodosin. Zambon will co-market the product under the brand Silodyx™ together with Bouchara Recordati which will be using the brand Urorec®. 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 will co-market the product with Almirall. Urorec® is also now available in Ireland. 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.

Also in January an agreement was finalized 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.

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 Zandip® (lercanidipine) in the People's Republic of China.

In June 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. The price paid is € 1.2 million plus an earn-out based on the gross profit of the 5 products under license to the company. ArtMed has a staff of 24 employees dedicated to marketing and medical information activities directed at physicians and pharmacists.

During July 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, 1mg, 2mg and 4mg tablets, 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. Pitavastatin, a novel "statin", 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. Pitavastatin was licensed by Recordati from the Japanese pharmaceutical company Kowa for the European market. It has been available on the market in Japan since 2003 and was recently launched by the U.S.. 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. Esteve will co-market the product together with Recordati España, the Spanish subsidiary of the Recordati group.

## REVIEW OF OPERATIONS

The breakdown of the first nine months 2010 sales is as follows:

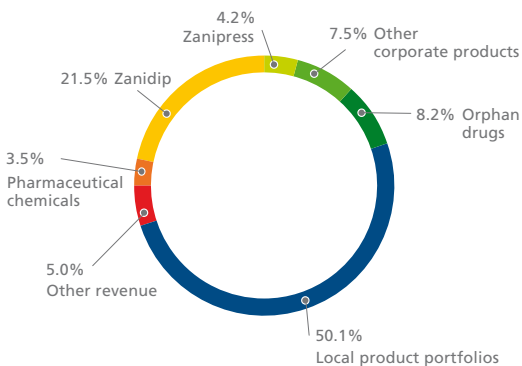
€ (thousands)	First nine months 2010	First nine months 2009	Change 2010/2009	%
Italy	149,991	156,498	(6,507)	(4.2)
France	104,966	114,433	(9,467)	(8.3)
Germany	45,736	51,678	(5,942)	(11.5)
Portugal	27,990	29,508	(1,518)	(5.1)
Spain	22,157	23,043	(886)	(3.8)
United Kingdom	7,331	10,938	(3,607)	(33.0)
Other Western European countries	18,749	14,654	4,095	27.9
Russia, Turkey, Czech Rep., other C.E.E. countries	51,361	38,531	12,830	33.3
Other international sales	101,352	96,290	5,062	5.3
<b>Total pharmaceutical sales</b>	<b>529,633</b>	<b>535,573</b>	<b>(5,940)</b>	<b>(1.1)</b>
<b>Pharmaceutical chemicals sales</b>	<b>18,996</b>	<b>20,614</b>	<b>(1,618)</b>	<b>(7.8)</b>
<b>TOTAL SALES</b>	<b>548,629</b>	<b>556,187</b>	<b>(7,558)</b>	<b>(1.4)</b>

Both years include sales as well as other income.

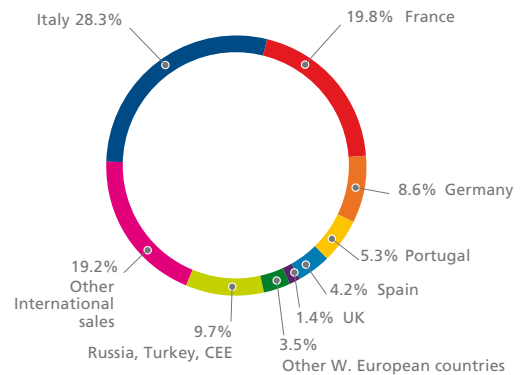
Pharmaceutical sales are € 529.6 million, slightly down (-1.1%) compared to the first nine months 2009. International pharmaceutical sales grow by 0.1% while

those in Italy are down by 4.2%. Pharmaceutical chemicals sales are € 19.0 million, down by 7.8%, and now represent 3.5% 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 are now marketed alongside the original Zanedip® 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 nine months 2010	First nine months 2009	Change 2010/2009	%
Direct sales	66,405	103,341	(36,936)	(35.7)
Sales to licensees	51,367	57,539	(6,172)	(10.7)
<b>Total lercanidipine sales</b>	<b>117,772</b>	<b>160,880</b>	<b>(43,108)</b>	<b>(26.8)</b>

The reduction of direct sales is due mainly to the lower sales in Italy of Zanedip® and Lercadip® (-41.8%), 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 Zanedip® in France (-41.2%) principally due to lower sales volumes as a result of generic competition. Direct sales in the other European countries have suffered an overall reduction of 17.8% while sales to licensees, which represent 43.6% of total lercanidipine sales, are down by 10.7%.

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. Further launches are planned during 2010.

€ (thousands)	First nine months 2010	First nine months 2009	Change 2010/2009	%
Direct sales	14,161	6,393	7,768	121.5
Sales to licensees	8,636	8,012	624	7.8
<b>Total lercanidipine+enalapril sales</b>	<b>22,797</b>	<b>14,405</b>	<b>8,392</b>	<b>58.3</b>

In the first nine months 2010 sales of other corporate products which comprise Lomexin<sup>®</sup> (fenticonazole), Urispas<sup>®</sup> (flavoxate), Kentera<sup>®</sup> (oxybutynin transdermal patch), TransAct<sup>®</sup> LAT (flurbiprofen transdermal patch), rupatadine (Alergoliber<sup>®</sup>, Rupafin<sup>®</sup> e Wystamm<sup>®</sup>), frovatriptan (Isimig<sup>®</sup> e Pitunal<sup>®</sup>), Lopresor<sup>®</sup> (metoprolol) and silodosin (Urorec<sup>®</sup>) totaled € 41.2 million. The 55.6% increase is mainly due to the growth of Lomexin<sup>®</sup> (fenticonazole) and Urispas<sup>®</sup> (flavoxate) sales, the acquisition of the marketing rights to TransAct<sup>®</sup> LAT and to Lopresor<sup>®</sup> (metoprolol), and to the launches of Wystamm<sup>®</sup> (rupatadine) in France and of Urorec<sup>®</sup> (silodosin) in Germany, Ireland and Spain.

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 medicines in the first nine months 2010 total € 45.0 million, an increase of 25.3%, with all products growing strongly.

Sales of pharmaceuticals in Italy are down by 4.2% as compared to the same period of the preceding year due to lower lercanidipine sales. Among the other products we underline the growth of Entact<sup>®</sup> (escitalopram), indicated for the treatment of depression, of the analgesic Tora-Dol<sup>®</sup> (ketorolac tromethamine), of Rextat<sup>®</sup> and Lovinacor<sup>®</sup>, lovastatin based anti-cholesterol treatments, and of the antihistamine Rupafin<sup>®</sup> (rupatadine). In addition, the marketing of TransAct<sup>®</sup> LAT (flurbiprofen transdermal patch) started as from the second half 2009. Sales of the specialties for the treatment of rare diseases also grew significantly.

Pharmaceutical sales in France are down by 8.3% due to the sales decrease of Zanidip<sup>®</sup> (lercanidipine) which was partly offset by the sales of Zanextra<sup>®</sup> (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<sup>®</sup> (rupatadine), a systemic antihistamine, was successfully launched in January.

In Germany sales are down by 11.5% due to the decrease in sales of Corifeo<sup>®</sup> (lercanidipine) partly offset by sales growth of Zanipress<sup>®</sup> (lercanidipine+enalapril). Sales of Recosyn<sup>®</sup>

(hyaluronic acid), Mirfulan<sup>®</sup> (zinc oxide based skin healing ointment) and of Orto-ton<sup>®</sup> (metocarbamol) are growing. Furthermore, Urorec<sup>®</sup> (silodosin) was introduced into the German market in June.

Sales in Portugal by our subsidiaries are down 5.1% mainly due to the completion of the plan to reduce stocks in some distribution channels. The corporate products Zanipress<sup>®</sup> (lercanidipine+enalapril) and TransAct<sup>®</sup> LAT (flurbiprofen transdermal patch) contribute positively.

In Spain sales are down by 3.8% due to the reduction of Zanidip<sup>®</sup> (lercanidipine) sales. We underline the growth of Zanipress<sup>®</sup> (lercanidipine+enalapril) and the good performance of Alergoliber<sup>®</sup> (rupatadine) and the treatments for rare diseases. During September Urorec<sup>®</sup> (silodosin) was also launched in Spain.

Sales in the United Kingdom are down 33.0% due exclusively to the drop in Zanidip<sup>®</sup> (lercanidipine) sales.

Sales in other countries in Western Europe, up by 27.9%, comprise sales of products for the treatment of rare diseases in a number of countries which are growing significantly, 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 € 19.9 million up by 34.0% over the same period of the preceding year. Sales in Turkey recorded by Yeni Recordati are € 20.2 million, up 49.6%, and include sales of Lercadip<sup>®</sup> (lercanidipine), Urispas<sup>®</sup> (flavoxate) and Gyno-Lomexin<sup>®</sup> (fenticonazole) which were previously marketed by licensees and are now sold directly by our subsidiary. Sales generated by Herbacos Recordati in the Czech and Slovak Republics are € 8.7 million, slightly up compared to the same period of the preceding year. Sales in these countries of our treatments for rare diseases increase by 69.0%.

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 5.3% increase recorded in the first nine months is due mainly to the growth in revenue generated by our licensing-out business.



## FINANCIAL REVIEW

### INCOME STATEMENT

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

€ (thousands)	First nine months 2010	% of revenue	First nine months 2009	% of revenue	Change 2010/2009	%
Revenue	548,629	100.0	556,187	100.0	(7,558)	(1.4)
Cost of sales	(179,490)	(32.7)	(177,026)	(31.8)	(2,464)	1.4
Gross profit	369,139	67.3	379,161	68.2	(10,022)	(2.6)
Selling expenses	(163,913)	(29.9)	(168,620)	(30.3)	4,707	(2.8)
R&D expenses	(46,021)	(8.4)	(49,522)	(8.9)	3,501	(7.1)
G&A expenses	(31,182)	(5.7)	(32,222)	(5.8)	1,040	(3.2)
Other income (expense), net	(4,169)	(0.8)	(6,950)	(1.2)	2,781	(40.0)
Operating income	123,854	22.6	121,847	21.9	2,007	1.6
Financial income (expense), net	(3,273)	(0.6)	(4,459)	(0.8)	1,186	(26.6)
Pretax income	120,581	22.0	117,388	21.1	3,193	2.7
Provision for income taxes	(33,555)	(6.1)	(32,111)	(5.8)	(1,444)	4.5
Net income	87,026	15.9	85,277	15.3	1,749	2.1
Attributable to:						
Equity holders of the parent	87,021	15.9	85,272	15.3	1,749	2.1
Minority interests	5	0.0	5	0.0	0	0.0

Revenue for the period is € 548.6 million, a decrease of € 7.6 million compared to the first nine months 2009. The reduction is due to a negative price effect to be attributed mainly to competition from generic lercanidipine. A detailed analysis can be found in the preceding "Review of Operations".

Gross profit is € 369.1 million with a margin of 67.3% on sales, slightly down compared to that of the first nine months 2009 due to the lower proportion of lercanidipine to total product sales.

Selling expenses decrease compared to the same period of the preceding year following the restructuring of the sales organization. R&D expenses are € 46.0 million, a reduction as compared to the same period of the preceding year due to lower amortization charges. G&A expenses are down by 3.2%.

Other expenses net of other income are € 4.2 million and include: a provision of € 1.5 million to cover an estimated contribution which may be required from the pharmaceutical industry if the Italian National Healthcare Scheme's pharmaceutical budget is exceeded, € 2.1 million pay-back due to AIFA (the Italian

medicines agency) in substitution for the 5% price reduction on selected products, an estimated amount of € 0.5 million, which results from a mandatory discount of 1.83% on the retail selling price of medicines applicable as from 31 July, 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 22 to the Consolidated Financial Statements).

Net financial charges are € 3.3 million (€ 4.5 million in the same period of 2009), down 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 period is 27.8%, slightly above that in the same period of the preceding year.

Net income is € 87.0 million, an increase of 2.1% 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)	30 September 2010	31 December 2009	Change 2010/2009	%
Cash and short-term financial investments	108,430	93,775	14,655	15.6
Bank overdrafts and short-term loans	(5,599)	(28,852)	23,253	(80.6)
Loans – due within one year	(1,280)	(2,419)	1,139	(47.1)
<b>Net liquid assets</b>	<b>101,551</b>	<b>62,504</b>	<b>39,047</b>	<b>62.5</b>
Loans – due after one year <sup>(1)</sup>	(81,466)	(82,247)	781	(0.9)
<b>Net financial position</b>	<b>20,085</b>	<b>(19,743)</b>	<b>39,828</b>	<b>n.a.</b>

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

Cash generation during the first nine months 2010 is significant. At 30 September 2010 the net financial position turned positive following a net cash increase of € 39.8 million over the position at 31 December 2009 despite considerable cash outlays during the period. Dividends for an amount of € 54.4 million were distributed, an amount of € 14.0 million

was paid to Novartis for the acquisition of the beta blocker Lopresor® (metoprolol), a € 6.3 million milestone was paid to Kissei following the approval of silodosin and an installment of € 4.5 million was paid for the acquisition of the marketing rights to TransAct® LAT.

## RELATED PARTY TRANSACTIONS

The balance sheet accounts as at 30 September 2010 include current liabilities of € 0.7 million and non-current liabilities of € 0.4 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 € 2.9 million, computed by the parent company based on estimated

taxable income, payable to the controlling company Fimej 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.

### THIRD QUARTER 2010 REVIEW

The following table shows the profit and loss accounts for the third quarter 2010:

€ (thousands)	Third quarter 2010	% of revenue	Third quarter 2009	% of revenue	Change 2010/2009	%
Revenue	172,366	100.0	176,886	100.0	(4,520)	(2.6)
Cost of sales	(58,100)	(33.7)	(55,769)	(31.5)	(2,331)	4.2
<b>Gross profit</b>	<b>114,266</b>	<b>66.3</b>	<b>121,117</b>	<b>68.5</b>	<b>(6,851)</b>	<b>(5.7)</b>
Selling expenses	(50,096)	(29.1)	(53,293)	(30.1)	3,197	(6.0)
R&D expenses	(13,154)	(7.6)	(15,840)	(9.0)	2,686	(17.0)
G&A expenses	(9,856)	(5.7)	(9,783)	(5.5)	(73)	0.7
Other income (expense), net	(1,136)	(0.7)	(2,854)	(1.6)	1,718	(60.2)
<b>Operating income</b>	<b>40,024</b>	<b>23.2</b>	<b>39,347</b>	<b>22.2</b>	<b>677</b>	<b>1.7</b>
Financial income (expense), net	(1,890)	(1.1)	(1,699)	(1.0)	(191)	11.2
<b>Pretax income</b>	<b>38,134</b>	<b>22.1</b>	<b>37,648</b>	<b>21.3</b>	<b>486</b>	<b>1.3</b>
Provision for income taxes	(10,316)	(6.0)	(10,112)	(5.7)	(204)	2.0
<b>Net income</b>	<b>27,818</b>	<b>16.1</b>	<b>27,536</b>	<b>15.6</b>	<b>282</b>	<b>1.0</b>
Attributable to:						
Equity holders of the parent	27,815	16.1	27,533	15.6	282	1.0
Minority interests	3	0.0	3	0.0	0	0.0

Revenue for the third quarter 2010 is € 172.4 million, down 2.6% compared to the same period of the preceding year. Pharmaceutical sales are € 166.3 million, decreasing by 2.5%. Pharmaceutical chemical sales, at € 6.1 million, are down by 5.1%.

Gross profit is € 114.3 million, a margin on sales of 66.3% which is below that achieved during the third quarter of 2009 due to the lower proportion of lercanidipine to total product sales.

Selling expenses decrease compared to the same period of the preceding year following the restructuring of the sales organization. R&D expenses are 13.2 million, down by 17.0% due to lower amortization charges. G&A expenses are substantially stable.

Other expenses net of other income are € 1.1 million and include:

€ 0.5 million pay-back due to AIFA (the Italian medicines agency) in substitution for the 5% price reduction on selected products, an estimated amount of € 0.5 million, which results from a mandatory discount of 1.83% on the retail selling price of medicines applicable as from 31 July, 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 22 to the Consolidated Financial Statements).

Net income is € 27.8 million, up by 1.0% compared to the same period of the preceding year. The increase is lower than that recorded by operating income due to higher financial charges and the effect of a higher tax rate.

## SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

The group's business performance was in line with expectations during October. For the full year 2010 we expect to achieve revenues of around € 725 million, operating income of around € 155 million and net income of around € 105 million.

Milan, 26 October 2010

**Giovanni Recordati**  
*Chairman and Chief Executive Officer*

# CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

## AT 30 SEPTEMBER 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 30 SEPTEMBER 2010

#### INCOME STATEMENT

€ (thousands)	First nine months 2010	First nine months 2009
Revenue	548,629	556,187
Cost of sales	(179,490)	(177,026)
<b>Gross profit</b>	<b>369,139</b>	<b>379,161</b>
Selling expenses	(163,913)	(168,620)
R&D expenses	(46,021)	(49,522)
G&A expenses	(31,182)	(32,222)
Other income (expense), net	(4,169)	(6,950)
<b>Operating income</b>	<b>123,854</b>	<b>121,847</b>
Financial income (expense), net	(3,273)	(4,459)
<b>Pretax income</b>	<b>120,581</b>	<b>117,388</b>
Provision for income taxes	(33,555)	(32,111)
<b>Net income</b>	<b>87,026</b>	<b>85,277</b>
Attributable to:		
Equity holders of the parent	87,021	85,272
Minority interests	5	5
<b>Earnings per share</b>		
Basic	0.439	0.433
Diluted	0.420	0.419

Earnings per share (EPS) are based on average shares outstanding during each year, 198,022,888 in 2010 and 197,155,264 in 2009, net of average treasury stock which amounted to 11,102,268 shares in 2010 and to 11,472,355 shares in 2009.

Diluted earnings per share is calculated taking into account stock options granted to employees.

RECORDATI S.P.A. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET AT 30 SEPTEMBER 2010

**ASSETS**

€ (thousands)	30 September 2010	31 December 2009
<b>Non-current assets</b>		
Property, plant and equipment	53,473	55,381
Intangible assets	109,717	96,512
Goodwill	308,473	303,653
Other investments	1,924	3,716
Other non-current assets	2,476	3,804
Deferred tax assets	20,242	21,793
<b>Total non-current assets</b>	<b>496,305</b>	<b>484,859</b>
<b>Current assets</b>		
Inventories	83,717	86,627
Trade receivables	125,905	132,621
Other receivables	21,167	22,990
Other current assets	4,119	2,607
Fair value of hedging derivatives ( <i>fair value hedge</i> )	2,787	0
Short-term financial investments, cash and cash equivalents	108,430	93,775
<b>Total current assets</b>	<b>346,125</b>	<b>338,620</b>
<b>Total assets</b>	<b>842,430</b>	<b>823,479</b>

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET AT 30 SEPTEMBER 2010

EQUITY AND LIABILITIES

€ (thousands)	30 September 2010	31 December 2009
<b>Shareholders' equity</b>		
Share capital	26,141	26,141
Additional paid-in capital	83,719	83,719
Treasury stock	(55,129)	(59,103)
Hedging reserve ( <i>cash flow hedge</i> )	(5,735)	(4,040)
Translation reserve	104	(6,178)
Other reserves	25,794	25,025
Retained earnings	388,400	332,836
Net income for the year	87,021	110,560
<b>Group shareholders' equity</b>	<b>550,315</b>	<b>508,960</b>
Minority interest	24	19
<b>Shareholders' equity</b>	<b>550,339</b>	<b>508,979</b>
<b>Non-current liabilities</b>		
Loans – due after one year	84,253	79,990
Staff leaving indemnities	19,335	19,895
Deferred tax liabilities	5,573	5,661
Other non-current liabilities	602	6,179
<b>Total non-current liabilities</b>	<b>109,763</b>	<b>111,725</b>
<b>Current liabilities</b>		
Trade payables	89,416	81,751
Other payables	46,044	48,406
Tax liabilities	13,458	12,555
Other current liabilities	608	517
Provisions	20,188	21,978
Fair value of hedging derivatives ( <i>cash flow hedge</i> )	5,735	4,040
Fair value of hedging derivatives ( <i>fair value hedge</i> )	0	2,257
Loans – due within one year	1,280	2,419
Bank overdrafts and short-term loans	5,599	28,852
<b>Total current liabilities</b>	<b>182,328</b>	<b>202,775</b>
<b>Total equity and liabilities</b>	<b>842,430</b>	<b>823,479</b>

RECORDATI S.P.A. AND SUBSIDIARIES  
 STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED  
 30 SEPTEMBER 2010

€ (thousands)	First nine months 2010	First nine months 2009
Net income for the period	87,026	85,277
Gains/(losses) on cash flow hedges	(1,695)	(2,065)
Gains/(losses) on translation of foreign financial statements	6,282	2,989
Income and expense for the period recognized directly in equity	4,587	924
Comprehensive income for the period	91,613	86,201
Attributable to:		
Equity holders of the parent	91,608	86,196
Minority interests	5	5



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

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the period	Minority Interest	Total
<b>Balance at 31 December 2008</b>	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	32	954								986
Increase in the reserve for share based payments						298	295			593
Comprehensive income for the year				(2,065)	2,989			85,272	5	86,201
<b>Balance at 30 September 2009</b>	26,095	82,274	(59,103)	(4,597)	(4,107)	26,031	322,380	85,272	18	484,263
<b>Balance at 31 December 2009</b>	26,141	83,719	(59,103)	(4,040)	(6,178)	25,025	332,836	110,560	19	508,979
Allocation of 2009 net income:										
- Dividends								(54,355)		(54,355)
- Retained earnings						8	56,197	(56,205)		
Increase in the reserve for share based payments						761	206			967
Sales of treasury stock			3,974				(839)			3,135
Comprehensive income for the year				(1,695)	6,282			87,021	5	91,613
<b>Balance at 30 September 2010</b>	26,141	83,719	(55,129)	(5,735)	104	25,794	388,400	87,021	24	550,339

RECORDATI S.P.A. AND SUBSIDIARIES  
 CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED  
 30 SEPTEMBER 2010

€ (thousands)	First nine months 2010	First nine months 2009
<b>Operating activities</b>		
<b>Cash flow</b>		
Net Income	87,026	85,277
Depreciation of property, plant and equipment	7,992	8,452
Amortization of intangible assets	12,069	16,455
<b>Total cash flow</b>	<b>107,087</b>	<b>110,184</b>
(Increase)/decrease in deferred tax assets	1,551	1,636
Increase/(decrease) in staff leaving indemnities	(560)	(566)
Increase/(decrease) in other non-current liabilities	(5,665)	1,817
	<b>102,413</b>	<b>113,071</b>
<b>Changes in working capital</b>		
Trade receivables	6,716	(2,563)
Inventories	2,910	(2,385)
Other receivables and other current assets	331	5,441
Trade payables	7,655	(14,700)
Tax liabilities	891	8,069
Other payables and other current liabilities	(2,322)	(3,253)
Provisions	(1,790)	1,278
<b>Changes in working capital</b>	<b>14,391</b>	<b>(8,113)</b>
<b>Net cash from operating activities</b>	<b>116,804</b>	<b>104,958</b>
<b>Investing activities</b>		
Net (investments)/disposals in property, plant and equipment	(6,040)	(5,620)
Net (investments)/disposals in intangible assets	(25,254)	(20,066)
Net (increase)/decrease in equity investments	(300) <sup>(1)</sup>	(20,034) <sup>(2)</sup>
Net (increase)/decrease in other equity investments	1,792	54
Net (increase)/decrease in other non-current receivables	1,328	1,328
<b>Net cash used in investing activities</b>	<b>(28,474)</b>	<b>(44,338)</b>
<b>Financing activities</b>		
Net financial position of acquired companies	55	1,680
Issue of share capital	0	32
Additional paid-in capital	0	954
(Increase)/decrease in treasury stock	3,135	0
Effect of application of IAS/IFRS	967	593
Re-payment of loans	(1,945)	(2,250)
Dividends paid	(54,355)	(49,259)
Change in translation reserve	1,721	2,461
<b>Net cash from/(used in) financing activities</b>	<b>(50,422)</b>	<b>(45,789)</b>
<b>Changes in short-term financial position</b>	<b>37,908</b>	<b>14,831</b>
Short-term financial position at beginning of year *	64,923	4,107
Short-term financial position at end of period *	102,831	18,938

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

(1) Acquisition of **Artmed International**: Working capital 52, Cash and cash equivalents (55), Fixed assets (322), Medium and long-term loans 25.

(2) Acquisition of **Herbacos-Bofarma**: Working capital (127), Cash and cash equivalents (1,680), Fixed assets (21,484), Deferred tax liabilities 780, Medium and long-term loans 2,477.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2010

## 1. GENERAL

The consolidated financial statements at 30 September 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 first nine months and at 30 September 2010 includes the company Artmed International S.r.l., acquired in June, which is dedicated

to the promotion of pharmaceutical products in Romania. The profit and loss accounts are consolidated as from July 1 while the balance sheet accounts of this company shown on the Cash Flow Statement were consolidated at 30 June 2010. The recognition of the newly acquired company is not yet definite and could be subject to change as allowed by IFRS 3.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The first nine months consolidated 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 nine months 2010 is € 548.6 million (€ 556.2 million in the same period of the preceding year) and can be broken down as follows:

€ (thousands)	First nine months 2010	First nine months 2009	Change 2010/2009
Net sales	524,151	542,958	(18,807)
Royalties	6,156	4,677	1,479
Up-front payments	12,881	3,471	9,410
Other revenue	5,441	5,081	360
<b>Total revenue</b>	<b>548,629</b>	<b>556,187</b>	<b>(7,558)</b>

#### 4. OPERATING EXPENSES

Overall operating expenses in the first nine months 2010 are € 424.8 million, a decrease as compared to the € 434.3 million in the same period of the preceding year and are analyzed by function. Personnel costs are € 133.5 million and include a cost for stock options of € 1.0 million. Total depreciation and amortization charges are € 20.1 million, down by

€ 4.8 million compared to the first nine months 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 nine months 2010	First nine months 2009	Change 2010/2009
Amounts due to the Italian public healthcare scheme	(2,612)	(3,546)	934
Provision for contribution to the Italian public healthcare scheme	(1,500)	0	(1,500)
Sale of holding in Atlantic Pharma	487	0	487
Other risk provisions	(600)	0	(600)
Personnel restructuring charges	0	(2,391)	2,391
Termination of license agreements	0	(414)	414
Others	56	(599)	655
<b>Total other income (expense), net</b>	<b>(4,169)</b>	<b>(6,950)</b>	<b>2,781</b>

The amounts due to the Italian public healthcare scheme include:

- the pay back of € 2.1 million 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,
- an estimated amount of € 0,5 million, which results from a mandatory discount of 1.83% on the retail selling price of medicines applicable as from 31 July, to be paid to the Italian regional healthcare systems.

The provision of € 1.5 million was prudentially recognized to cover an estimated contribution which may be required from the pharmaceutical industry if the Italian National Healthcare Scheme's pharmaceutical budget is exceeded.

The other risk provisions were prudently made following the sentence issued by the Milan Court of Appeal reversing the decision of the court of first instance in the litigation which ensued following the "automatic" conversion provision adopted by the Special Savings Shareholders' Meeting on 26 October 2000 and by the Extraordinary Shareholders' Meeting on 25 October 2000.

#### 5. FINANCIAL INCOME AND EXPENSE

In the first nine months 2010 and in the same period of 2009 financial items record a net expense of € 3.3 million and € 4.5 million respectively which are comprised as follows:

€ (thousands)	First nine months 2010	First nine months 2009	Change 2010/2009
Exchange gains (losses)	222	(466)	688
Interest expense on loans	(2,982)	(2,903)	(79)
Net interest income (expense) on short-term financial position	(64)	(551)	487
Interest cost in respect of defined benefit plans	(449)	(539)	90
<b>Total financial income (expense), net</b>	<b>(3,273)</b>	<b>(4,459)</b>	<b>1,186</b>

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 amounts to € 5.0 million and refers to the measurement of the cross-currency interest rate swap covering the series of long term

senior unsecured notes privately placed in 2004 with the objective of eliminating the exchange risk linked to the tranches denominated in U.S. dollars and in pounds sterling. This amount is equivalent to the change in the fair value of the underlying debt as compared to its nominal value with a combined zero effect on the income statement as the transaction is perfectly hedged.

## 6. PROPERTY, PLANT AND EQUIPMENT

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

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
<b>Cost</b>					
Balance at 31.12.09	39,445	158,724	41,440	5,234	244,843
Additions	181	915	662	4,148	5,906
Disposals	(17)	(187)	(162)	0	(366)
Changes in reporting entities	0	0	227	0	227
Other changes	611	2,867	596	(3,450)	624
<b>Balance at 30.09.10</b>	<b>40,220</b>	<b>162,319</b>	<b>42,763</b>	<b>5,932</b>	<b>251,234</b>
<b>Accumulated depreciation</b>					
Balance at 31.12.09	23,578	131,674	34,210	0	189,462
Additions	1,074	5,543	1,375	0	7,992
Disposals	(17)	(167)	(147)	0	(331)
Changes in reporting entities	0	0	181	0	181
Other changes	7	402	48	0	457
<b>Balance at 30.09.10</b>	<b>24,642</b>	<b>137,452</b>	<b>35,667</b>	<b>0</b>	<b>197,761</b>
<b>Carrying amount at</b>					
<b>30 September 2010</b>	<b>15,578</b>	<b>24,867</b>	<b>7,096</b>	<b>5,932</b>	<b>53,473</b>
<b>31 December 2009</b>	<b>15,867</b>	<b>27,050</b>	<b>7,230</b>	<b>5,234</b>	<b>55,381</b>

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
<b>Cost</b>					
Balance at 31.12.09	91,958	96,681	14,941	9,496	213,076
Additions	14,421	10,084	21	388	24,914
Disposals	(31)	(626)	0	0	(657)
Changes in reporting entities	42	0	0	0	42
Other changes	535	5,636	35	(5,431)	775
<b>Balance at 30.09.10</b>	<b>106,925</b>	<b>111,775</b>	<b>14,997</b>	<b>4,453</b>	<b>238,150</b>
<b>Accumulated amortization</b>					
Balance at 31.12.09	56,596	45,289	14,679	0	116,564
Additions	3,865	8,094	110	0	12,069
Disposals	(12)	(625)	0	0	(637)
Changes in reporting entities	21	0	0	0	21
Other changes	233	173	10	0	416
<b>Balance at 30.09.10</b>	<b>60,703</b>	<b>52,931</b>	<b>14,799</b>	<b>0</b>	<b>128,433</b>
<b>Carrying amount at</b>					
<b>30 September 2010</b>	<b>46,222</b>	<b>58,844</b>	<b>198</b>	<b>4,453</b>	<b>109,717</b>
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) and a

€ 6.3 million milestone paid to Kissei Pharmaceutical following the marketing approval of silodosin.

## 8. GOODWILL

Net goodwill at 30 September 2010, amounting to € 308.5 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: € 43.3 million;
- Herbacos-Bofarma: € 15.0 million;
- Artmed International: € 0.3 million

Goodwill related to Yeni Ilaç, to Herbacos-Bofarma and to

Artmed is calculated in local currency and converted into Euro at the period-end exchange rate. The conversion of Yeni Ilaç's and Herbacos-Bofarma's goodwill resulted in an increase of € 4.6 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, as confirmed by the updating of the three year business plan approved by the Board of Directors on 6 May 2010.

At 30 September the goodwill resulting from the acquisition of Artmed International is not yet definite and could be subject to change as allowed by IFRS 3.

## 9. OTHER INVESTMENTS

At 30 September 2010 this account comprises mainly the holding in PureTech Ventures LLC (U.S.A.), an investment company specialized in start-up companies dedicated to new therapies, medical devices and new research technologies. The reduction

of € 1.8 million compared to the balance at 31 December 2009 derives from the sale of the remaining 10% holding in Atlantic Pharma S.A. which was not sold to the Portuguese group Tecnimede for an amount of € 2.3 million.

## 10. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 30 September 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.

## 11. DEFERRED TAX ASSETS AND LIABILITIES

At 30 September 2010 deferred tax assets decrease by € 1.6 million as compared to those at 31 December 2009 while deferred tax liabilities remain substantially unchanged.

## 12. SHAREHOLDERS' EQUITY

Shareholders' Equity at 30 September 2010 is € 550.3 million, an increase of € 41.4 million compared to that at 31 December 2009 for the following reasons:

- net income for the period (increase of € 87.0 million),
- cost of stock option plans set-off directly in equity (increase of € 1.0 million),
- sale of 771,250 own shares in treasury stock for the servicing of the 2006-2009 stock option plan (increase of € 3.2 million),
- change in the fair value of hedging derivatives qualifying as a cash flow hedge (decrease of € 1.7 million),
- translation adjustments (increase of € 6.3 million),
- distribution of dividends (decrease of € 54.4 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 € 24.0 thousand.

As at 30 September 2010 the Company has two stock option plans in place in favor of certain group employees, the 2006-2009 plan, under which options were granted on four occasions, and the 2010-2013 plan. 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 30 September 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 30.09.2010
<b>Date of grant</b>						
6 April 2006	6.4975	1,865,000	-	0	(55,000)	1,810,000
29 October 2008	4.0730	3,790,000	-	(728,750)	(227,500)	2,833,750
11 February 2009	3.8940	220,000	-	(42,500)	(22,500)	155,000
27 October 2009	4.8700	4,065,000	-	0	(150,000)	3,915,000
<b>Total</b>		<b>9,940,000</b>	<b>-</b>	<b>(771,250)</b>	<b>(455,000)</b>	<b>8,713,750</b>

At 30 September 2010, 10,701,105 shares are held as treasury stock, a reduction of 771,250 shares as compared to those at 31 December 2009. These shares were sold to service the

exercise of stock options issued under the 2006-2009 plan. The overall purchase cost of the shares held in treasury stock is € 55.1 million with an average unit price of € 5.15.



### 13. LOANS

At 30 September 2010 medium and long-term loans, which include a liability of € 2.8 million resulting from the measurement at fair value of the guaranteed senior notes issued and privately placed in 2004, are € 85.5 million, an increase of € 3.1 million compared to those at 31 December 2009. This change arises from reimbursements during the period (€ 1.9 million) and the change in fair value of the guaranteed senior notes issued and privately placed (increase of € 5.0 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 30 September 2010 generated an asset of € 2.8 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 30 September 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 € 5.7 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 INDEMNITIES

The staff leaving indemnity fund at 30 September 2010 is of € 19.3 million, a decrease of € 0.6 million as compared to that at 31 December 2009.

### 15. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 30 September 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, net of the present value adjustment, is of € 0.6 million.

The significant reduction compared to the balance at 31 December 2009 is generated by the reclassification to current liabilities of the € 4.5 million balance due to Amdipharm in 2011 for the acquisition of the marketing rights to TransAct® LAT.

## 16. CURRENT ASSETS

Inventories are € 83.7 million, a reduction of € 2.9 million compared to those stated at 31 December 2009.

The balance of trade receivables at 30 September 2010 is € 125.9 million and is stated net of a € 9.9 million provision for doubtful accounts which reflects the collection risk connected with certain customers and geographic areas.

Other receivables decrease by € 1.8 million compared to those at 31 December 2009 and include the current installment due related to the Swedish Orphan settlement (€ 1.5 million).

Other current assets are € 4.1 million and refer mainly to

prepaid expenses. A portion of this amount is to be attributed to the acceptance by the Italian companies of the extension of the pay-back option that AIFA (the Italian Medicines Agency) granted pharmaceutical companies as an alternative to the suspension of the 5% price reduction imposed on 27 September 2006 on selected reimbursable specialties. The suspension applies to the period 1 January to 31 December 2010 in exchange for the payment of 5% of sales realized in 2009. The amount to be paid back of € 2.6 million is spread over the application period and the prepaid amount at 30 September 2010 is € 0.5 million.

## 17. CURRENT LIABILITIES

Trade payables, which include invoices to be received, are € 89.4 million.

Other payables decrease by € 2.4 million compared to 31 December 2009 and include: € 0.9 million due to be paid to AIFA (the Italian Medicines Agency) following the renewal of the agreement (see Note 16) which provides for the

pay-back of a total amount of € 2.6 million to be paid in three equal installments the first two of which were paid while the remainder will be paid within year-end and an estimated amount of € 0,5 million, which results from a mandatory discount of 1.83% on the retail selling price of medicines applicable as from 31 July, to be paid to the Italian regional healthcare systems.

## 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 € 5.7 million liability at 30 September 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 30 September 2010 are € 108.4 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 € 5.6 million and are comprised mainly of current account overdrafts and temporary use of lines of credit. The reduction of € 23.3 million from the position at 31 December 2009 is due mainly to the expiry of the two revolving lines of credit provided by the two financing

agreements stipulated by Recordati S.p.A. in April 2008 with Italian and international banks of high standing. At 31 December 2009 these lines of credit were drawn down by € 20.0 million.

## 21. OPERATING SEGMENTS

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

can be identified, the pharmaceutical segment and the orphan drugs segment.

The following table shows financial information for these two business segments as at 30 September 2010 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
<b>First nine months 2010</b>				
Revenues	503,590	45,039	-	548,629
Expenses	(391,871)	(32,904)	-	(424,775)
<b>Operating income</b>	<b>111,719</b>	<b>12,135</b>	-	<b>123,854</b>
<b>First nine months 2009</b>				
Revenues	520,276	35,911	-	556,187
Expenses	(406,069)	(28,271)	-	(434,340)
<b>Operating income</b>	<b>114,207</b>	<b>7,640</b>	-	<b>121,847</b>

\* Includes the pharmaceutical chemicals operations

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated**	Consolidated accounts
<b>30 September 2010</b>				
Non-current assets	376,534	117,846	1,925	496,305
Inventories	80,417	3,300	-	83,717
Trade receivables	111,878	14,027	-	125,905
Other current assets	19,397	5,889	2,787	28,073
Short-term investments, cash and cash equivalents	-	-	108,430	108,430
<b>Total assets</b>	<b>588,226</b>	<b>141,062</b>	<b>113,142</b>	<b>842,430</b>
Non-current liabilities	24,063	1,447	84.253	109,763
Current liabilities	154,700	15,015	12.613	182,328
<b>Total liabilities</b>	<b>178,763</b>	<b>16,462</b>	<b>96.866</b>	<b>292,091</b>
<b>Net capital employed</b>	<b>409,463</b>	<b>124,600</b>		
<b>31 December 2009</b>				
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
<b>Total assets</b>	<b>580,908</b>	<b>145,080</b>	<b>97,491</b>	<b>823,479</b>
Non-current liabilities	29,846	1,889	79,990	111,725
Current liabilities	154,147	11,060	37,568	202,775
<b>Total liabilities</b>	<b>183,993</b>	<b>12,949</b>	<b>117,558</b>	<b>314,500</b>
<b>Net capital employed</b>	<b>396,915</b>	<b>132,131</b>		

\* 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 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 is considering the expediency of proceeding 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 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 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. On 26 May 2010 the Company appealed that decision before the *Corte suprema di cassazione* (Supreme Court of Cassation).

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. A third hearing was held on 30 June 2010 for further examination of witnesses.

## RECORDATI S.P.A. AND SUBSIDIARIES

## SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 30 SEPTEMBER 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
RECOFARMA S.R.L. 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	268,939.53	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 FARMACÉUTICOS S.A. Development, production, marketing and sales of pharmaceuticals	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÉUTICOS S.A. Development, production, marketing and sales of pharmaceuticals	Portugal	50,000.00	Euro	Line-by-line



Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
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
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 İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret A.Ş 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 İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. * 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 2010.





## DECLARATION BY THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

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

Milan, 26 October 2010

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

Statements contained in this report, other than historical facts, are "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements are based on currently available information, on current best estimates, and on assumptions believed to be reasonable. This information, these estimates and assumptions may prove to be incomplete or erroneous, and involve numerous risks and uncertainties, beyond the Company's control. Hence, actual results may differ materially from those expressed or implied by such forward-looking statements. All mentions and descriptions of Recordati products are intended solely as information on the general nature of the company's activities and are not intended to indicate the advisability of administering any product in any particular instance.

# RECORDATI

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