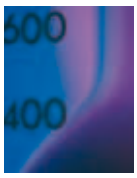
ANNUAL REPORT
2009



THE RECORDATI GROUP TODAY

Revenue

747.5

million euros

Net income

110.6

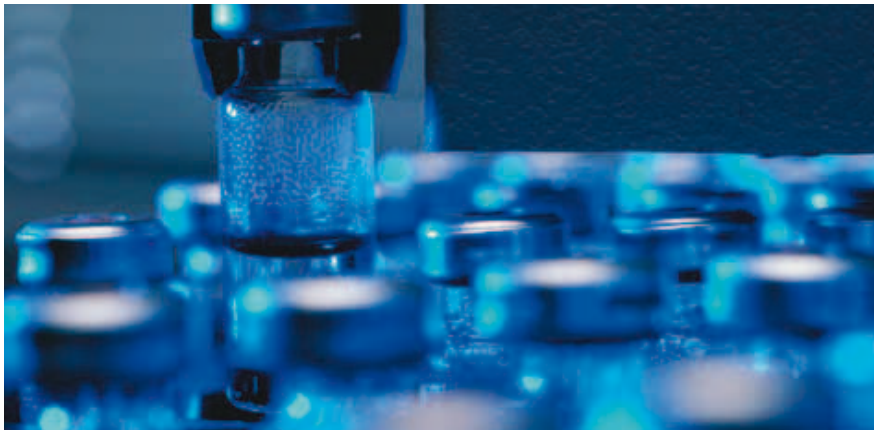
million euros

2,830

employees

Recordati is a leading international pharmaceuticals company. It generated revenues of € 747.5 million in 2009 with 2,830 employees. A modern and dynamic concern, it is confident in its ability to meet the challenges of a constantly changing marketplace.

An internationally established pharmaceutical concern listed on the Italian Stock Exchange (now part of the London Stock Exchange) since 1984, Recordati is one of the longer standing Italian pharmaceutical companies.
Recordati has established its own model of growth and development pursuing an internationalisation strategy with the acquisition firstly of Elmu Quimica Farmaceutica (now Recordati España) in Spain in the early 90's and then of Doms-Adrian and Bouchara (now Bouchara Recordati) in France. It accelerated its expansion programme in 2005 with the acquisition of the branded pharmaceutical operations from Merckle GmbH, now Merckle Recordati, in Germany, the establishment of Recordati Pharmaceuticals in the United Kingdom and of Recordati Hellas in Greece, along with the acquisition of Jaba, now Jaba Recordati, in Portugal. In 2008 Recordati gave a new boost to this process when it entered directly in the Russian and other C.I.S. markets and also in Turkey where spending on pharmaceuticals is still growing at a high pace. In the year just ended it acquired Herbacos- Bofarma, now Herbacos Recordati, in the Czech Republic and in Slovakia.
Together with its geographical expansion The Group has enriched its pharmaceutical product portfolio by developing its own pipeline of products and acquiring Orphan Europe in 2007, a pharmaceutical company specialised in the treatment of rare diseases.
With its own unique distribution system, a balanced portfolio of products and promising pharmaceuticals under development, Orphan Europe gives Recordati access to a highly specialised market with significant growth potential.
The most important of the Group's products is lercanidipine, a latest generation calcium channel blocker indicated for the treatment of hypertension, discovered and developed entirely in the Recordati research laboratories.
It enjoys considerable success among doctors and occupies a prominent position in the markets on which it is sold. In response to growing demand in the antihypertensive field, the Recordati Group has



recently started to market a new specialty, a fixed combination of lercanidipine and enalapril, a widely prescribed ACE inhibitor.
Recordati is today an European partner of established international pharmaceutical companies among which the Japanese concerns Kissei and Kowa and the American company Watson Pharmaceuticals have been recently added to a long list of prominent names.
One of the most important new specialties soon to be marketed by the Group is silodosin, a treatment for benign prostatic hyperplasia discovered by researchers at Kissei and developed for the European and Middle Eastern markets by Recordati, and pitavastatin, a latest generation statin for controlling hypercholesterolemia. Discovered and developed by Kowa, Recordati was granted a license to market the product in Europe.
The Recordati Group has achieved broad geographical coverage with its own network of more than 1,450 medical sales representatives. This, and its many years of experience in the regulatory field and its expertise in the management of highly specialised products, makes Recordati an ideal partner for the development and marketing of new products in Europe, especially for those companies which have no direct presence themselves.

THE FUTURE OF THE GROUP

The continuing enhancement of its product portfolio and development pipeline is of fundamental importance in the Group's strategy going forward.

Recordati's proven ability to generate profitable alliances with prominent players in the pharmaceutical industry will continue to be the basis of an increasingly intense activity directed at the identification and execution of new license agreements or development partnerships for innovative products.

In the future Recordati's presence in the European pharmaceutical market will increase, in particular in Central and Eastern Europe where growth potential is very high.

Letter from the Chairman

The Group's internationalisation plan and the enhancement of its product portfolio continued successfully in 2009 thanks to new acquisitions and the execution of important co-marketing and licensing agreements.

To Our Shareholders,

Our group's financial accounts for the year just ended are significantly improved. Revenues grow by 8.4%, higher than the growth of our reference market. Profits also improved, operating income reached € 162.2 million, up by 12.1% and net income is € 110.6 million (+10.1%). The group's commitment to research and development continued with expenditure growing by 18.0%. The group's net financial position improved by € 61.3 million reducing its net debt to € 19.7 million, despite the investments made during the year and the distribution of dividends for an amount of € 49.3 million, and shareholders' equity further increased to € 509.0 million.

The commitment to and the investment of resources in research and development, which are of fundamental importance in the group's strategy, continued and increased during 2009. A total of € 69.4 million were spent to support these activities, an increase of 18.0% over the preceding year, which now represent 9.3% of sales. The introduction of new products both through our internal R&D activities and through alliances with other pharmaceutical companies is mandatory for the group's growth in the future.

Our new antihypertensive treatment based on a fixed association of lercanidipine with enalapril, was launched in a number of countries. During April Recordati's subsidiary Bouchara Recordati launched the product as Zanextra® in France, the largest market for lercanidipine worldwide. During 2009 it became available also in Portugal, Spain, Greece, Denmark, South Africa, the Netherlands, Norway and Belgium. This new specialty was already on the market in Germany, Australia, Ireland and Finland.

At the end of January 2010 Recordati was granted Marketing Authorization by the European Commission for the medicinal products Urorec® and Silodyx™ (silodosin) 4 mg, 8 mg, hard capsules, intended for treatment of the signs and symptoms of benign prostatic hyperplasia (BPH). 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 has been 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, 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. Following national post-authorization procedures,

as relevant, product launch could start by end 2010 in Europe.

In preparation for the silodosin launch our network of partnerships was extended through the signature of three important license agreements for the marketing and sales of the drug. The first of these was signed in April with Almirall, the international pharmaceutical company based in Spain, which will co-market silodosin on the Spanish market together with Recordati España, our Spanish subsidiary.
The other two agreements were concluded at the end of July, one with Nycomed S.p.A., the Italian subsidiary of the international pharmaceutical group, for the co-marketing of the product in Italy together with Recordati, and the other with Pharmaplan PTY Ltd, a South African pharmaceutical company, for the exclusive marketing and sales in South Africa of the product. Pharmaplan is already Recordati's licensee for the sale of its original products Zanidip® (lercanidipine), Zaneril® (lercanidipine+enalapril) and Lomexin (fenticonazole) in that country.

During June a new agreement was concluded with Pharmathen S.A., a Greek pharmaceutical company, covering the exclusive, global and permanent license for Pharmathen's patent and technology as applied to lercanidipine IR (Immediate Release). The new lercanidipine formulation developed by Pharmathen will be available in two dosages: 8 mg and 16 mg.
The increased bioavailability as compared to the formulation currently on the market allows for dosage reduction. During February of this year the decentralized marketing approval procedure for this new lercanidipine formulation in a number of European countries was concluded favourably. Recordati intends to eventually obtain approval in all countries where lercanidipine is currently marketed.

In July an agreement with Amdipharm, an international pharmaceutical group, for the marketing and sales in Italy and Portugal of TransAct® LAT (local action transcutaneous), a transdermal patch containing 40 mg of flurbiprofen indicated for the symptomatic relief of localized pain involving the musculoskeletal system, was signed. The product is already on the market in Italy and in Portugal with overall annual sales of approximately € 13 million. TransAct® LAT is an original system for the administration of flurbiprofen, a well known and widely prescribed non steroidal anti-inflammatory drug (NSAID), which improves its tolerability profile. Recordati has an established franchise in pain and inflammation management and the addition of this product provides a valid further therapeutic option for the medical practitioner.

The acquisition of Herbacos-Bofarma, a Czech pharmaceutical company with headquarters in Pardubice, marked Recordati's entry into the markets of Central Europe. Herbacos-Bofarma is a well known pharmaceutical company operating in the Czech and Slovak markets with a portfolio of medicines in various therapeutic classes (mainly analgesic, anti-inflammatory and dermatological products). Individual brands have a strong position in particular market segments. Herbacos-Bofarma, acquired for a price of around € 19 million, employs 100 personnel, of which a sales and marketing network of 35 employees. The company is very solid financially and its EBITDA margin is in line with that of the group. Herbacos-Bofarma, today Herbacos Recordati, is well positioned to act as a platform for launching the new products in our pipeline in the Czech and Slovak markets.

During 2009 the worldwide pharmaceutical market was characterized by modest growth in the more mature markets of Western Europe and North America. On the one hand demand for medicines increases due to an ageing population

and the growing availability of new treatments, but on the other hand prices are decreasing due to the measures introduced by healthcare authorities to contain pharmaceutical expenditure and to the competition from generic versions of specialties no longer patent protected. However, in emerging markets which include those of Central and Eastern Europe the pharmaceutical market is still growing strongly. The potential in these markets is therefore interesting considering both the substantially lower pro capite pharmaceutical expenditure than that in the Western countries and the expected economic development that will involve the areas of Central and Eastern Europe.

Our strategy will therefore continue to be focused on the growth of our international operations which have increased significantly in recent years and which now account for over 70% of revenue. Of particular interest are the markets of Central and Eastern Europe. At the same time the development of our business will be driven by the development and launch of the new products in our pipeline and by the acquisition of new specialties. Close attention will be placed on the launch of Zanipress®, on silodosin and on pitavastatin, all of which will be sold by our own marketing organizations in around 80% of the European pharmaceutical market as well as in the new markets of Central and Eastern Europe.

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. We therefore expect our sales and income for this year to be slightly lower than those recorded in 2009. Our targets for 2010 are to achieve sales of around € 700 million, operating income of around € 140 million and net income of around € 95 million. We believe that the strict implementation of our strategy will enable us to be optimistic regarding the future and to start growing again in 2011.

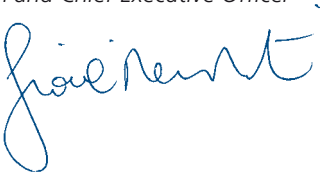
In order to achieve these ambitious targets we count, as always, on the entrepreneurship and determination of our management team, the professional skills of our employees and the trust of our shareholders. We would like to express our gratitude to all of them for their support during 2009.

Sales growth over the preceding year +8.4%

DIVIDENDS

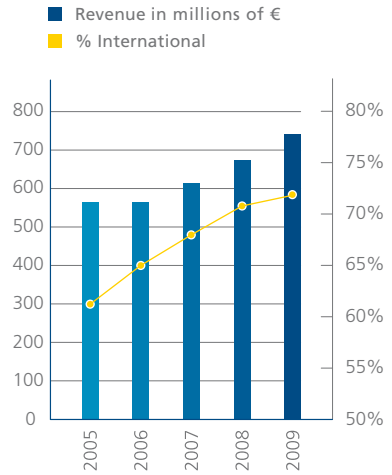
Based on the results obtained, the Board of Directors of the parent company will propose to the shareholders a dividend of € 0.275 per share (€0.25 per share last year) to be paid to all shares outstanding, excluding those in treasury stock, as from 29 April 2010 (trading ex-dividend as of 26 April 2010). This per share dividend includes the accretion deriving from the dividend which would have been due to the shares in treasury stock.

Giovanni Recordati
Chairman and Chief Executive Officer

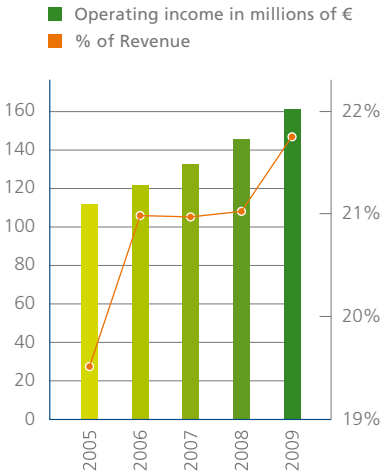


THE GROUP IN FIGURES

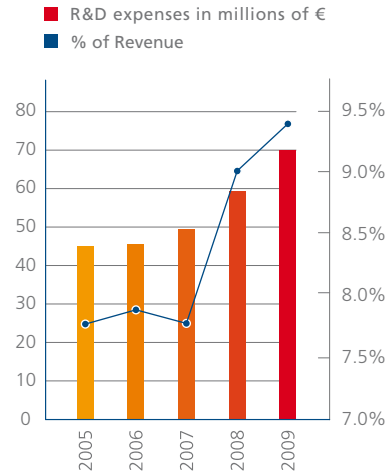
Revenue



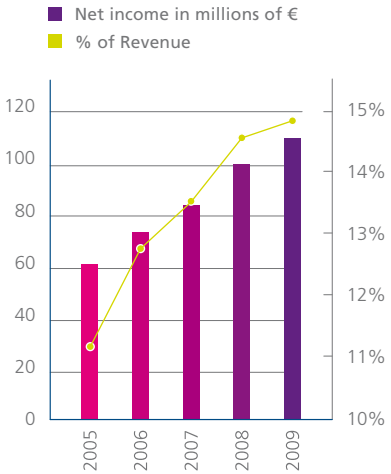
Operating income



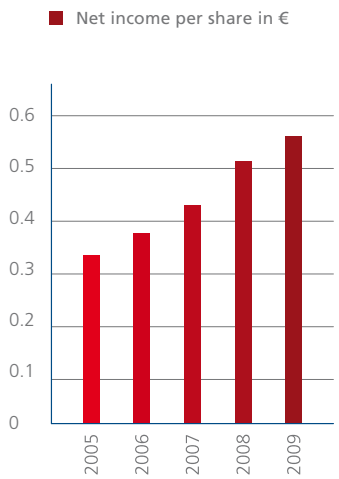
Research and development expenses



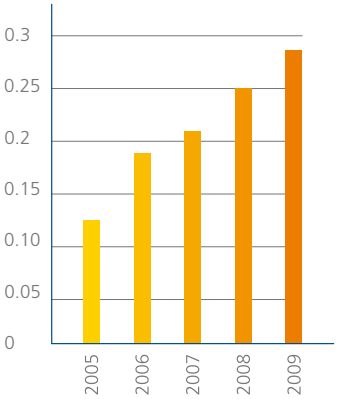
Net income



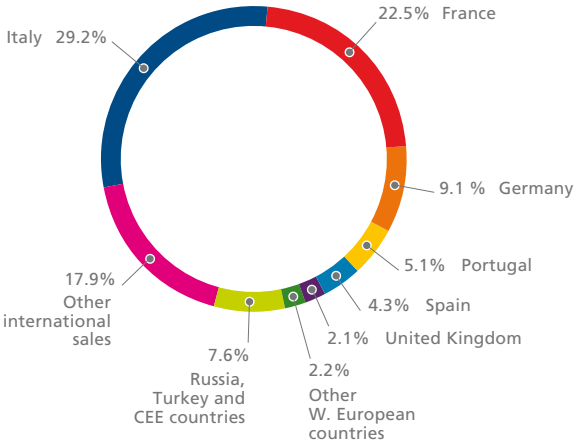
Net income per share



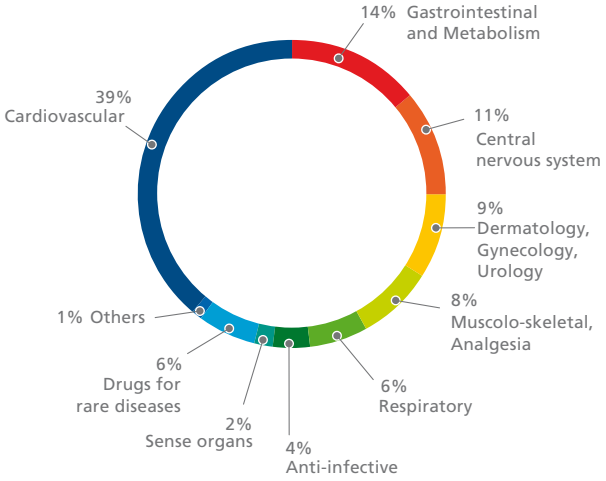
Dividend per share



Geographical composition of pharmaceutical sales



Pharmaceutical sales by therapeutic area



Shareholders' equity

509

million euros

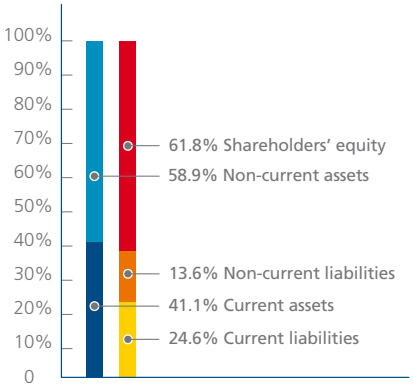
Net financial position

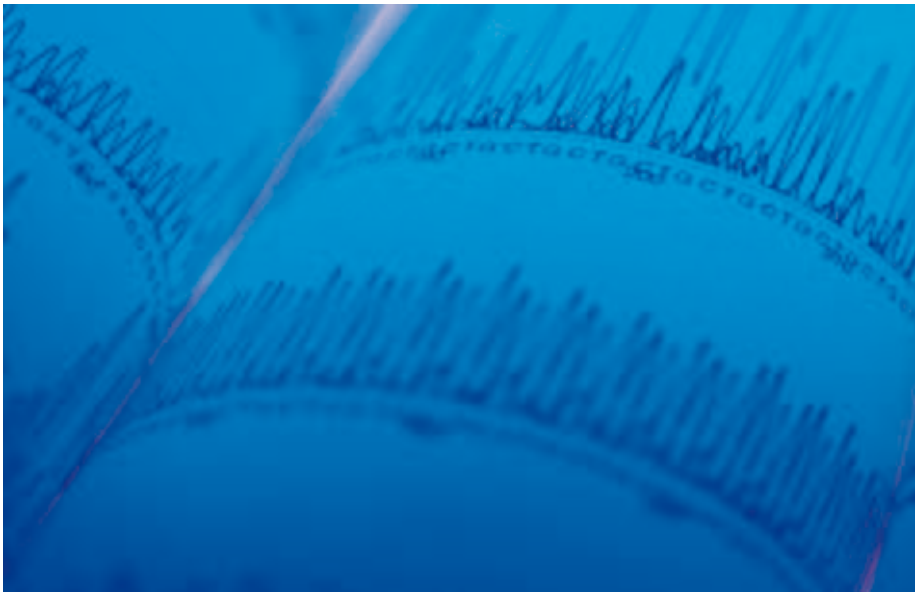
(19.7)

million euros

Shareholders' equity

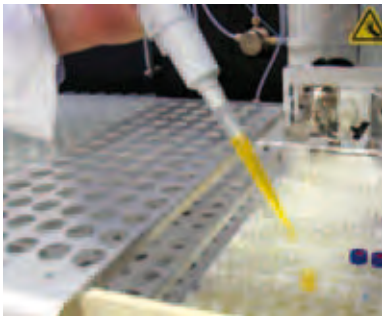
At 31 December 2009





GEOGRAPHICAL PRESENCE

129
Countries



16
Subsidiaries

7
Branches

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

GROUP ACTIVITIES

The Recordati Group markets a wide range of innovative products originated by its own research and development, or obtained under license, in around 100 countries.

The commitment to developing and consolidating the Group's corporate product portfolio continued in 2009. Recordati operates mainly in the cardiovascular field and in particular in that of hypertension, an asymptomatic condition but a dangerous risk factor in the development of ischemic, coronary, cerebral and renal disease.

ZANIDIP®/CORIFEO®/LERCADIP® (lercanidipine)

Zanidip® (lercanidipine) is the most important product for the Group. It is an antihypertensive drug discovered and developed entirely in the Recordati research laboratories. It enjoys considerable success among doctors and is one of the most frequently prescribed in the countries in which it is marketed.
Lercanidipine is a latest generation calcium blocker that is very effective in controlling hypertension due to its particular mechanism of action and to its peculiar characteristics which are different from those of other pharmaceuticals in the same class. Zanidip® is effective in lowering blood pressure values to optimal levels, thereby reducing the risk of cardiovascular events and their related mortality.
It's lipofilicity and high selectivity are properties which render lercanidipine effective with a superior tolerability profile. It ensures protection of the kidneys and the endothelium of the blood vessels.
Thanks to this organ protection characteristic and its metabolic neutrality lercanidipine is well tolerated even in patients affected by other diseases such as diabetes and nephropathy.
Lercanidipine is currently marketed in 94 countries. In 2009 it achieved a market share of 19.3% in its class in the 16 most important ones becoming one of the most frequently prescribed calcium channel blockers in the countries in which it is sold.

Zanidip® is available in 94 countries

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

The use of fixed combinations of antihypertensive agents is growing and is expected to play a significant and increasing role in the treatment of hypertension. As stated recently by the European Society of Hypertension, combination therapy should be considered as first line treatment for hypertensive patients at high risk for cardiovascular events. Furthermore, the administration of a single pill, for a patient who often takes a number of different medicines every day, increases compliance which is an important success factor in the treatment of hypertension.
Most hypertensive patients, and those with other associated risk factors in particular, require more than one antihypertensive drug to keep their blood pressure at desired levels. Zanipress®, a fixed association of lercanidipine (calcium channel blocker) and enalapril (ACE inhibitor), allows the simultaneous administration of two effective active ingredients. In fact, the new specialty associates lercanidipine, a latest generation calcium channel blocker, with enalapril, an ACE inhibitor that is widely prescribed. The benefits of the combination of these two active ingredients,

and in particular its increased effectiveness and excellent tolerability, have been confirmed by the results of clinical trials, such as ACCOMPLISH for example, which have shown that a combination of a calcium channel blocker plus an ACE inhibitor is more effective than the combination of a calcium channel blocker with a diuretic in reducing cardiovascular risk.
Zanipress® and the other brands (Lercaril®, Lercaprel®, Zanextra®, Zanicombo®) are currently marketed in 13 countries (Germany, France, Australia, Ireland, Greece, Denmark, Holland, Finland, Norway, Spain, Portugal, Belgium and South Africa). It is the market leader in Germany and Australia where it has achieved market shares of 47.7% and 43.7% respectively in its class (C9B3, calcium channel blockers + ACE inhibitors). Launches are planned in additional countries between 2010 and 2011, not just in Europe, but also in Asia, Africa and Latin America.

UROREC® (silodosin)

Urorec® (silodosin) is a new drug indicated for the treatment of benign prostatic hyperplasia (BPH), a widespread disease, on the increase in aging populations. It manifests in males, generally after the age of fifty, with problems linked to urination, such as reduced urine stream, increased frequency and urgency and nocturia.
Silodosin is a powerful antagonist of the α_1 adrenergic receptors with a high affinity for α_{1A} receptors. Blockade of the α_{1A} receptors leads to a rapid increase in urine flow and an improvement in both irritative symptoms (frequency, urgency, nocturia) and obstructive symptoms (hesitancy, incomplete emptying of the bladder, intermittency, weak stream).
As demonstrated by a study conducted in Europe by Recordati on more than 800 patients, the administration of silodosin leads to an improvement in urine flow after only 2-6 hours and rapid relief from both obstructive and irritative symptoms in the course of 3-4 days. Symptom improvement is maintained during long term treatment.
The safety and tolerability of silodosin has been assessed with positive results on 1,600 patients. The low incidence of orthostatic and vasodilatory side effects make it a well tolerated treatment even in patients who take antihypertensive medication.
In all the clinical studies conducted until now, Urorec® has been found to be highly effective, so much so that it is considered a valid and innovative alternative to treatments currently in use.
The drug is already being marketed successfully under the Urief® brand name in Japan and other Asian countries and has also been made available recently in the United States of America.
Silodosin is the result of original research by the Japanese pharmaceutical company Kissei Pharmaceutical Co. Ltd. and has been licensed to Recordati for the whole of Europe (45 countries) and a further 18 countries in the Middle East and Africa.
The clinical development of the product was conducted by Recordati for its own markets, by Watson Pharmaceuticals for North America and by Kissei Pharmaceutical Co. Ltd. for the rest of the world. This new speciality has just been granted authorisation by the European Medicines Agency (EMA) for marketing in Europe.
Marketing of Urorec® in 4 mg and 8 mg rigid capsules is planned to commence between the end of 2010 and the beginning of 2011,

Urorec® increases urinary flow within 6 hours

after completing specific post-authorisation formalities in the countries where these are required.

LOMEXIN® (fenticonazole)

The result of Recordati's original research , Lomexin® (fenticonazole) is an antimycotic that is widely used internationally. Indicated for the treatment of dermatological and gynaecological infections from fungi, molds, yeasts and gram positive bacteria, fenticonazole destroys fungal cells by means of its dual acting mechanism which prevents the formation of ergosterol and inhibits the aspartic proteinase of the candida. Lomexin® has a wide range of action and is also effective at low concentrations without creating resistances. Available in different forms and very flexible doses, it has an excellent tolerability profile. A modern drug, supported by years of experience in clinical practice, fenticonazole is approved in more than 60 countries and has been used with success since 1993 by more than 45 million patients worldwide.

GENURIN®/URISPAS® (flavoxate)

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

KENTERA® (oxybutynin transdermal patch)

Kentera® is an oxybutynin transdermal system indicated for the treatment of symptoms associated with disorders of the lower urinary tract, such as incontinence, frequency and urgency. Kentera® is an innovative treatment

Rupatadine resolves allergy symptoms in 15 minutes

indicated for all patients with overactive bladder as it combines the effectiveness of oxybutynin (considered the 'gold standard' for this disorder) with its excellent tolerability, as a transdermal formulation bypasses the first-pass gastrointestinal and hepatic metabolism, and with the ease of use of a patch applied twice a week which constitutes a valid alternative to oral medications.
Under license from Watson Pharmaceuticals, Kentera® is currently marketed in Germany, UK, Greece, Ireland, Austria, Switzerland, Finland, Sweden, Norway, Denmark, Holland, Belgium and Luxembourg by the subsidiaries of the Recordati Group and its partners.

TRANSACT® LAT (flurbiprofen transdermal patch)

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

RUPAFIN®/ALERGOLIBER®/WYSTAMM® (rupatadine)

Rupatadine is a second generation antihistamine which effectively resolves the problems that afflict patients suffering from allergies. It is a histamine antagonist with selective peripheral H1 receptor antagonist activity. It further blocks the receptors of the platelet-activating factor (PAF), a characteristic which distinguishes it from other specialities belonging to the same class of drugs. Rupatadine inhibits allergic effects which affect both the nasal mucosa and other organs targeted by the allergic reaction such as the skin controlling symptoms such as sneezing, itching, rhinorrhea, nasal congestion, wheals and rashes. Its pharmacokinetic properties allow quick and effective control of allergies, rapid relief from symptoms and a long-lasting antihistamine action. Rupatadine improves the quality of life for allergic patients increasing their overall well-being: allergic symptoms disappear within just 15 minutes of taking the medication.
Under license from Uriach it is marketed in Italy, Germany, Spain and France.

ISIMIG®/PITUNAL® (frovatriptan)

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

Some products or product lines marketed locally detain prominent positions in their markets of reference.

Italy

The Recordati Group offers a broad range of medications in this country through its organizations Recordati S.p.A. and Innova Pharma S.p.A. and provides doctors and specialists with up-to-date support of high scientific value.
In addition to its historic and established presence in the cardio-metabolic field, the Italian product portfolio also boasts quality medicines in the therapeutic area of the central nervous system, in gastroenterology and in analgesia.
A leader in its class, Entact® (escitalopram) is a highly selective antidepressant, with an excellent tolerability profile, which makes it suitable for use also in severe clinical conditions. The wide range of its therapeutic activity and its tolerability is significantly different from those of other antidepressant agents, and it has therefore been considered an important contribution to the customisation of antidepressant and anxiety treatments.
It is well accepted by patients, an aspect of particular importance in the resolution of psychological disorders and in treatment compliance.
It currently has a market share of 22.7% on the Italian market for antidepressants.

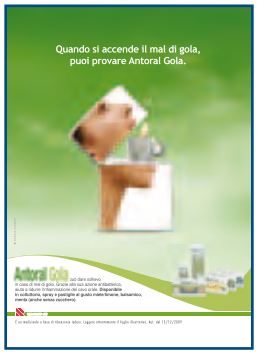
Peptazol® (pantoprazole), a proton pump inhibitor frequently used for the treatment of gastroesophageal reflux disease and in the prevention of gastro duodenal ulcers caused by NSAIDs, belongs to a large and competitive market. Its use is growing continuously thanks to its positive and proven pharmacological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

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

surgical pain and renal colic, that is, for acute and severe pain.

Recordati has always been close to both family doctors and specialists and each year sponsors a number of educational projects, training courses, symposiums and lectures at major national and international congresses involving themes in psychiatry, neurology, psychoneuropharmacology, internal medicine, cardiology, allergies, pain and prevention. High level courses for specialists are organised by scientific boards of international standing in various specific therapeutic areas such as the cardiovascular and cardio metabolic fields, gastroenterology and psychiatry.
In 2009 an important initiative at the service of doctors was launched, the Interdrugs Project, a multimedia service for real time verification of possible pharmacological interactions between drugs.
The problem of interaction between medications has always played and extremely important role from a clinical viewpoint, above all in view of the possible negative effects that may result from these interactions.
It is of particular importance in current times in a country with an aging population and where the elderly frequently take a number of different active ingredients together.
The project initially targets interactions between drugs used in psychiatry and those prescribed by neurologists and internists due to the transverse nature intrinsic to these treatments.
It is attracting growing interest from thousands of specialists.
The service is based on an detailed research database and is available free of charge on the Internet. Interdrugs bears witness to

Italy, the OTC division



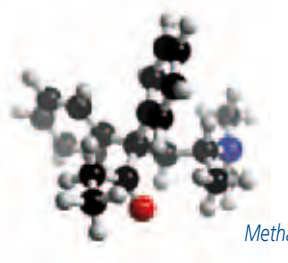
The Italian OTC division is the result of the experience that the company has acquired over more than eighty years in the industry.

The product portfolio comprises some of the well-known historical Recordati brands together with new and interesting products within constantly evolving markets.
A broad range of products belonging to a number of therapeutic areas are offered.
This product line includes OTC products (Imidazyl®, Imidazyl Antistaminico®, Proctolyn®, Recofluid®, Antoral Gola®, Valontan®), medical devices(Linea Alovex®, Eumill®) and dietary supplements (Lactò®).
Recordati has an excellent reputation in pharmacies and it is growing in the OTC market due above all to the success of its products which continue to enjoy considerable appreciation.
The main products in the portfolio are Alovex®, Imidazyl® and Proctolyn®, three market leaders with shares of around 30% each. The Alovex® line indicated for the treatment of aphthas and mouth sores continues to grow.
The formulation was strengthened and the product line expanded in September with the launch of a new formulation, Alovex dentizione®, a natural product for newborns which provides rapid relief from pain and irritation caused by teething.
In the decongestant and antihistamine eye drops market, the Imidazyl® brand maintained its leading position, while in the antihaemorrhoid field Proctolyn® improved its position as did Eumill®, a leader in the market for eye drops to freshen and soothe.

Recordati's commitment to the development of new tools at the service of science and to the diffusion of the most up-to-date scientific knowledge.

France

In addition to being Recordati's leading subsidiary in terms of lercanidipine sales, Bouchara Recordati holds leading positions on the market for its local products and offers a line of OTC products which enjoys great success in France. Since 1999 Laboratoires Bouchara Recordati is the exclusive licensee of the Assistance Publique des Hôpitaux de Paris for the production and marketing of methadone. Methadone is a synthetic opioid analgesic, used as a substitute for heroin in somatic abstinence syndromes, in disintoxication from opiates and in maintenance programmes.
A highly specialised group and dedicated staff lie behind the success of the disintoxication programmes which today involve four times as many patients as ten years ago. The benefits of treatment with methadone are universally recognised. The most important are the decrease in deaths resulting from the use of narcotics, the reduction of the diffusion of viral infections (HIV, HCV), reduced health, legal and social costs related to the use of drugs and improvements in the health and rehabilitation of addicts.
Bouchara Recordati continues to develop the product with the intention of making its administration even easier and more accessible. It launched a new capsules formulation in April 2008, available in five different dosages, which presents many advantages over the traditional syrup.
Bouchara Recordati successfully developed its presence in the self-medication sector and today is one of the top ten companies in the French OTC market. The Hexa line of products enjoys great success with Hexaspray® as leader in the market for sore throat treatments. Exomuc® is also very successful and ranks second in the market for mucolytic agents. Bouchara Recordati has also developed an important international presence in former French colonies. Through its dynamic export and promotion activities it distributes 40 specialities from its product portfolio in around 30 different countries. The main destinations of these exports are Algeria, Vietnam and Tunisia, and the largest product exported is Zanidip® (lercanidipine).



Methadone molecule

Bouchara Recordati is today one of the first 10 companies on the French OTC market

Germany

An important part of the Merckle Recordati operations is linked to its traditional presence in the gastroenterological area and in particular in that of chronic inflammatory intestinal diseases which consist mainly of Crohn's disease and ulcerative colitis.
In Germany approximately 320,000 patients suffer from these diseases. The "gold standard" treatment for these diseases is the administration of mesalazine. Claversal® (mesalazine), the established Merckle Recordati brand, is the second largest in its class and offers specialists in the field a full range of formulations.

Every year Merckle Recordati organises the "Merckle Recordati Symposium for Gastroenterology" which will reach its 15th edition in 2010. Approximately 200 professionals from all over Germany will receive a 360° update both on scientific progress and on health economics in the field of gastroenterology.
Another strategic area in which Merckle Recordati has developed an established presence is that of orthopaedics. The company has been supplying first class products to orthopaedic specialists for over 40 years. The most important of these include Recosyn® (hyaluronic acid), Ortoton® (metocarbamol), Lipotalon® (dexamethasone palmitate) and SportVisTM (biocompatible hyaluronic acid adapted for soft tissues).
Merckle Recordati is among the top five most highly rated pharmaceutical companies in the orthopedics field. It was the official supplier to the German Olympics team in the last summer and winter Olympics.

Portugal

Jaba Recordati is well positioned in the Portuguese pharmaceuticals market, mainly in the cardiovascular and urological fields and in the market for OTC products.
Its established presence in the cardiovascular area stems from the strong appreciation shown by the medical community and specialists for the subsidiary's products.
In 2009 growth was significant for Co-Tareg® (valsartan+HCTZ), Jaba Recordati's principal product, and for Tareg® (valsartan) which together recorded an increase of 26% in the "sartan" drugs market. To these was added the success of Zanipress® the fixed combination of lercanidipine and enalapril. Launched in August, today it is the second leading brand in the calcium channel blocker + ACE inhibitor market by patients treated and it is the second product on the market.
Constant growth was also recorded for TransAct® LAT, a leading product in the market for transdermal patches within the topical anti-rheumatic class of drugs. Indicated for the symptomatic relief of localized pain involving the musculoskeletal system, it is an original delivery system for the administration of flurbiprofen, a well-known and widely used non steroidal anti-inflammatory drug (NSAID). It is better tolerated thanks to this method of delivery.
Particularly important OTC products include Guronsan®, a leader in the market for tonics for fatigue and Aloclair Plus®, a product indicated for the treatment of mouth ulcers and sores which met with great success when launched in September.

Merckle Recordati is one of the top 5 most highly rated pharmaceutical companies in the orthopedics field

Spain

The subsidiary's main product is Cidine® (cinitapride), a drug indicated for the treatment of the symptoms of chronic postprandial dyspepsia. A leader in the gastroprokinetics market with a market share of 30% it is well-known to doctors and frequently used in the gastroenterological field. In order to support family doctors and specialists, Recordati España contributed to the establishment of a "Comité de Expertos en Dispepsia" and published two original studies: "Problemas psicológicos en dispepsia" and "Derecho sanitario para gastroenterologos".
Recordati España was the first company to educate both doctors and the general public on the risks of damage that iodine deficiency in mothers during pregnancy and lactation can cause to the physical and mental health of infants. Our Spanish subsidiary was a pioneer in the diffusion of the innovative concept of prevention in this field.
Today Spain is the first country in Europe to have defined a pharmacological protocol for women during pregnancy and lactation. In 2005 Yoduk® (potassium iodide) was awarded the "Premio Mayo al mejor medicamento" which was conferred in the presence of the Spanish Minister of Health in June 2006.

Russia, Ukraine and other C.I.S. countries

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

Turkey

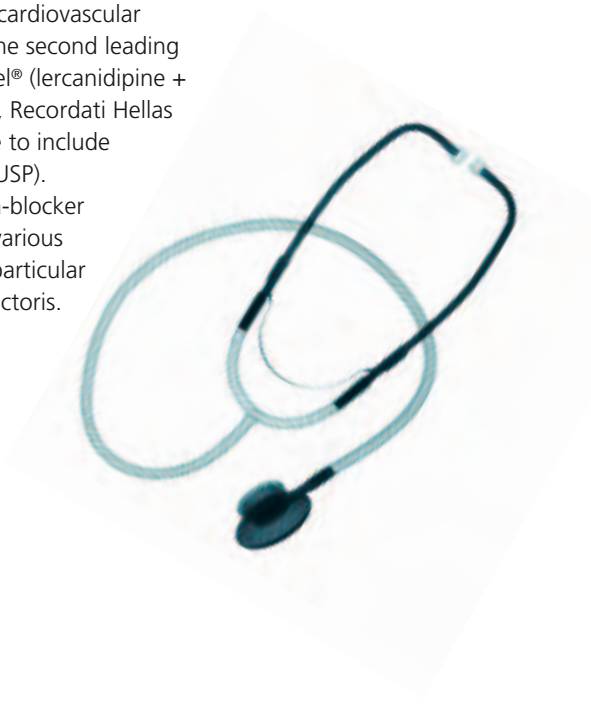
Yeni Recordati, formerly Yeni Ilaç, is one of the leaders in the Turkish pharmaceuticals market for urological disorders. The urinary tract anti-infective products Hippurin® (methenamine hippurate) and Purinol® (methenamine+helmitol) and the antibacterial drug Levonidin® (levofloxacin) are enjoying growing visibility and acceptance among doctors and are contributing to the success of our Turkish subsidiary.
Yeni Recordati has recently re-launched Urispas®, the flavoxate based antispasmodic drug indicated for urinary incontinence, which further strengthens its presence in the urological field.

Czech Republic and Slovakia

With the acquisition in 2009 of Herbacos-Bofarma, a well-known pharmaceutical company on the Czech and Slovakian markets, the Recordati Group extended its presence to include these countries. The new subsidiary Herbacos Recordati successfully markets pharmaceuticals belonging to a number of therapeutic areas, including analgesic, anti-inflammatory and dermatological drugs and is particularly strong on the market for self-medication products.
The analgesics Valetol® and Acylpyrin® are among those most used in the Czech Republic and in Slovakia. With a market share of more than 50%, Acylpyrin® is the market leader on the market for acetylsalicylic acid based drugs and Valetol® is one of the five most frequently sold non opioid analgesics in the Czech Republic.

Greece

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



COMMITMENT TO THE TREATMENT OF RARE DISEASES

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

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

Recordati is committed to researching and proposing treatments for rare diseases.
Within Orphan Europe, an organisation based in Paris, well trained orphan drug specialists operating in 32 countries and a scientific product support team collaborate with healthcare professionals, patient groups and their families to improve knowledge and awareness of rare diseases.
The Orphan Europe Academy is part of the group and its aim is to provide healthcare professionals with the opportunity to increase knowledge, develop new ideas and strengthen scientific collaboration in the field of rare diseases.

32 countries

9 products for the treatment of rare diseases

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

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

Nine pharmaceuticals are currently being marketed for the treatment of rare diseases and the development of others is in progress. Our organisation covers a broad geographical area with representatives in Belgium, France, Germany, Italy, Poland, United Kingdom, Spain, Sweden, Switzerland and the United Arab Emirates. Specialists entirely dedicated to the promotion and distribution of these pharmaceuticals satisfy requests from 22 European countries and 10 countries in the Middle East and North Africa. Our specialties are distributed in a further 57 countries worldwide either through commercial agreements or by direct delivery to patients from the Paris headquarters, thanks to a distribution system that is unique in its kind.

RESEARCH AND DEVELOPMENT

The new low dose formulation of lercanidipine has been approved in **13** European countries

Research and development in Recordati is rapidly changing in preparation for the challenging times to come.

To this end its organization was reinforced to afford the flexibility and performance required by the increasingly complex and diversified business activities. During 2009 new structures were created and others were reorganized to more adequately face new and demanding standards; highly specialized personnel able to use increasingly sophisticated techniques and instruments joined the group; products were taken through the regulatory path to approval; new clinical trials were launched; new molecules became target of analysis and potential acquisition; new projects were initiated in potentially interesting therapeutic areas of development in addition to those where Recordati is already present.

PRODUCT DEVELOPMENT PIPELINE

NAME	ORIGINATOR	INDICATION	DEVELOPMENT STATUS
Urorec®/Silodyx®	Kissei	Benign prostatic hyperplasia (BPH)	Approved
Carbaglu®	Orphan Europe (Recordati)	NAGS deficiency	Approved in EU and in the U.S.
lercanidipine 8/16 mg	Pharmathen	Essential hypertension	Approved
pitavastatin	Kowa	Dyslipidemia	Filed in EU
Carbaglu®	Orphan Europe (Recordati)	Organic acidemias (OA)	Pre-registration in EU
Normosang®	Orphan Europe (Recordati)	Hepatic porphyria	Approved in EU Pre-registration in U.S.
Infasurf®	Ony	Respiratory Distress Syndrome (RDS)	Phase II-III
Stanate®	Rockefeller U. /InfaCare	Neonatal jaundice, hyperbilirubinemia	Phase II-III
Cystagon®	Mylan	Other indication unrelated to nephropathic cystinosis	Phase II-III
new lercanidipine combinations	Recordati	Essential hypertension	Phase II
Cystadrops®	Orphan Europe (Recordati)	Ocular cystinosis	Phase II
REC 0422	Recordati	Overactive bladder and Incontinence	Phase I-II
REC 1819	Recordati	Overactive bladder and Incontinence	Preclinical
REC 0436	Recordati/UFPeptides	Overactive bladder in patients with spinal lesions	Preclinical

Recordati conducts research and development activities in the area of cardiovascular disease and in particular as related to hypertension, an asymptomatic condition but a dangerous risk factor in the development of ischemic, coronary, cerebral and renal disease. The results of clinical studies have shown that blood pressure control reduces the risk of cardiovascular events and associated mortality. Recordati's efforts in this area led to the discovery of lercanidipine, a latest generation drug belonging to the widely used calcium channel blocker class.

In 2009 pharmaceutical development functions were reinforced

In line with its continued interest in the efficacious treatment of hypertension and in an effort to optimize lercanidipine based treatments, Recordati, in collaboration with the Greek pharmaceutical company Pharmathen, conducted a series of studies to develop a new immediate release formulation of the drug in 8 and 16 mg dosage forms. The results obtained were excellent as the new formulation allows a reduction of the daily dose of lercanidipine while maintaining the necessary plasma levels to ensure the continued reduction of blood pressure. During February of this year the decentralized marketing approval procedure for this new lercanidipine formulation in a number of European countries was concluded favourably.

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

Furthermore, the expected increase in the use of these fixed combination therapies for the treatment of hypertension is behind the decision to study the therapeutic and clinical advantages of fixed associations of lercanidipine with other antihypertensive drugs more extensively. In 2009 bioavailability studies involving fixed combinations containing lercanidipine were concluded and the interaction with other drugs studies were initiated.

In addition to hypertension, Recordati is also involved in the area of metabolic disorders and in particular dyslipidemia (altered levels of blood cholesterol and other lipids). Cholesterol is a fatty substance that the body uses to make several important substances. The body synthesizes its own cholesterol, but can also extract it from various foods. Some people have too much cholesterol in their blood; if this condition is not promptly and correctly managed, one of its consequences is the deposition of cholesterol within the walls of the arteries (atherosclerosis) that may lead to progressive occlusion of the blood vessels. Elevated cholesterol levels are now recognized as being associated with an increased

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

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

Carbaglu® (carglumic acid) is an orphan drug approved by the European Medicines Agency for the treatment of hyperammonaemia due to N-Acetyl Glutamate Synthase (NAGS) deficiency.
The NAGS deficiency is an extremely rare inherited metabolic disorder which leads to accumulation of ammonia in the blood. If not adequately and quickly treated, hyperammonaemia causes irreversible brain damage, coma, and eventually death.
Carbaglu® is the only existing specific treatment of NAGS deficiency and this genetic disorder demands life-long treatment.
On 18 March 2010 the Food and Drug Administration (FDA) approved the marketing of Carbaglu® in the United States.

Carbaglu® obtained Orphan Drug Designation in Europe for organic acidaemias (OA). It is in the final clinical development steps leading to the submission to the European Medicines Agency for the treatment of hyperammonaemia in OA. OA is a group of metabolic disorders characterized by the enzymatic dysfunction of a specific step in amino acid catabolism, which leads to accumulation of toxic precursors damaging brain, liver, kidney, pancreas, retina, and other organs.
Hyperammonaemia is present during every decompensation episode of OA, prompting an effective treatment (such as Carbaglu®) to quickly control severe hyperammonaemia.
The prevalence of OAs is 10 times more frequent than all urea cycle disorders taken together.
OA require treatment with Carbaglu® during hyperammonaemic episodes.

Infasurf® is a calf derived surfactant for the prevention and treatment of neonatal respiratory distress syndrome (RDS).
Neonatal RDS is a life-threatening disease which affects mainly premature babies with less than 30 weeks gestational age and surfactants are well established in the treatment of this condition.
The market is growing steadily, mainly due to increasing incidence of premature births from mothers which are not well monitored by health services.
Recordati has an exclusive license agreement with Ony Inc., a U.S. drug development company, for the marketing and sale in Europe of this new surfactant.
Under this agreement Recordati has exclusive rights to Infasurf® in the European Union (except Cyprus, Greece and at this time the United Kingdom) and Croatia, Norway and Switzerland.

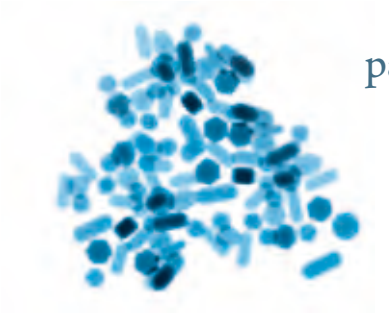
Stanate® (stannsoporfin, tin-mesoporphyrin) is a compound discovered at Rockefeller University and currently under development by InfaCare Pharmaceuticals for the treatment of neonatal hyperbilirubinemia (jaundice).
Jaundice occurs in many newborns, especially if they are premature or as a consequence of underlying congenital diseases which increase its risk and severity.
High levels of hyperbilirubinemia, especially if they rise suddenly, may cause irreversible brain damage.
In severe cases, infants not responding to intensive phototherapy require blood exchange transfusion, a complex and risky procedure.
Stannsoporfin was demonstrated to be efficacious in the prevention and treatment of neonatal jaundice and the new guidelines released by the American Academy of Pediatrics indicate that, if approved, the compound could find immediate application in infants who are not responding to phototherapy.
The drug is currently in clinical development in the U.S.A..
Recordati entered into a license agreement with InfaCare Pharmaceuticals for the development and marketing of this innovative drug in the whole of Europe (45 countries) and in 19 Middle East and North African countries.
Orphan Europe will complete the clinical development of Stanate® in Europe for the submission of the dossier in the corresponding countries.

Cystagon® (cysteamine bitartrate) is indicated for the treatment of nephropathic cystinosis.
Cystinosis is a rare inherited metabolic disorder which ultimately leads to renal failure and the need for kidney transplantation. Cystagon® is a life-long treatment which delays the onset of renal problems.
Other potential indications, unrelated to nephropathic cystinosis but much more common, are under clinical evaluation (phase II) and proof of concept together with specialized academic centers.

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

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

Finally, in 2009 a clinical development plan was initiated in order to evaluate the safety of high doses of Pedea® (i.v. ibuprofene) in preterm newborn infants with a gestational age of less than 27 weeks with patent ductus arteriosus (PDA).



Clinical trials involving 1,600 patients showed pitavastatin's lower risk for interaction with other drugs

risk for heart disease and stroke. If cholesterol levels in the blood are high, several things can be done to lower it, such as modify the diet (i.e., low calorie and fat content) and exercise more (i.e., several days a week for at least 30 minutes). There are also several medicines that can be taken to correct dyslipidemia and statins are among the most widely used.

Statins decrease blood cholesterol primarily by inhibiting a liver enzyme called HMG-CoA reductase which catalyzes an early limiting step in cholesterol biosynthesis. Although other classes of drugs (such as fibrates and resins) are used to lower cholesterol levels, statins are the top players with a global market of 11 billion US$. Several statins have been launched over the past two decades; however, there is still a strong need for a statin that can fully satisfy the needs for optimal efficacy and safety profiles, and patient acceptability of the treatment.

Pitavastatin is a totally synthetic, highly potent statin licensed by Recordati from the Japanese pharmaceutical laboratory Kowa. This drug promises to be the most effective ever in the statin class. In controlled clinical trials involving more than 1,600 patients, it was shown that pitavastatin induces a reduction in LDL-cholesterol (the "bad" cholesterol that contributes to formation of atherosclerotic plaques) and an increase in HDL-cholesterol (the "good" cholesterol that is removed from the arterial walls), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications. Pitavastatin has a longer duration of action, with less variable effects among patients, and can be given once-daily at any time and irrespective of food intake. Furthermore, it has been shown that pitavastatin is minimally metabolized by the enzymes of the Cytochrome P-450 family, enzymes that play a key role in the metabolism of many drugs and substances; thus, the potential risk for unpredictable responses to treatment, or for interaction with drugs metabolized by this pathway is minimized. Thus, a consequence of this unique property is that pitavastatin is ideally suited for the treatment of high-risk, elderly, diabetic multi-treated patients. Finally, pitavastatin has an excellent safety profile, due to the lower likelihood of drug-drug interactions than with most other statins. All the above evidence strongly indicates that pitavastatin should be regarded as an effective and safe treatment of dyslipidemia.

Pitavastatin has been available on the market in Japan since 2003, and was recently approved by the US FDA. In Europe, the drug is currently being evaluated by the UK Medicine Health Regulatory Agency (MHRA), and is expected to be launched in the second half of 2010. The impressive characteristics of pitavastatin, combined with Recordati's extensive clinical and marketing expertise in cardiovascular medicine, will soon provide patients and healthcare professionals with a new important and innovative therapeutic option for the effective control of dyslipidemia.

Recordati's original research is primarily focused on the search for innovative treatments to address micturition disorders. Irritative symptoms of the lower urinary tract, such as urgency and frequency, with or without incontinence, are frequent, mainly in women and the elderly. It is estimated that only a small portion of sufferers are adequately treated due mainly to under-diagnosis and under-treatment. This situation is often due to the unsatisfactory clinical profile of existing treatments. Opportunities therefore exist for the development of effective and well tolerated drugs. Recordati has specific know-how in the area of disorders of the lower urinary tract acquired over forty years of research in this field and is currently taking into development two innovative products. The first, REC 0422 is a combination of two existing drugs, indicated for

other conditions, which has displayed a significant synergistic effect in pharmacological animal models of unstable bladder. A phase I trial is currently underway to evaluate the safety, tolerability and pharmacokinetic profile of this treatment in female patients with unstable bladder The second, REC 1819 has a completely new mechanism of action at the central nervous system level. Finally, REC 0436 represents a structurally different class of compounds to be potentially used in patients with spinal lesions, in view of improving their lower urinary tract stability, upon intravesical administration.

The introduction of new products both through our internal R&D activities and through alliances with other leading pharmaceutical companies is of fundamental importance for the group's growth in the future. In order to increase the efficiency of the research process a new internal model for the identification and evaluation of potentially interesting projects was created and launched. During 2009 a considerable number of products in development belonging to various therapeutic areas (metabolism, diabetes, urological diseases and oncology) were identified and examined. A number of these projects are currently being explored to evaluate their potential and the feasibility of entering into agreements in the future.

The Arrigo Recordati international prize for scientific research

The 2009 edition of the Arrigo Recordati International Prize for Scientific Research, a lifetime achievement award for research in the cardiovascular area, was devoted to the theme "Innovation and advances in imaging diagnostics in heart disease".

The prize was awarded to Valentin Fuster, Director of Mount Sinai Heart, New York, U.S.A..
The Jury's decision recognized the winner for his outstanding and innovative contributions in the field of cardiovascular imaging.
Valentin Fuster developed a highly productive multidisciplinary research team, his innovative contributions are a novel integration of multimodality imaging methods, and groundbreaking research in applying imagin tools to reveal fundamental mechanisms of vascular disease.
The jury of the 2009 edition of the prize, chaired by Robert O. Bonow (Goldberg Distinguished Professor, Northwestern University Feinberg School of Medicine; Chief, Division of Cardiology; Co-Director, Bluhm Cardiovascular Institute, Northwestern Memorial Hospital, Chicago, IL, USA) was composed of experts who have provided leadership throughout their long careers in the fields of cardiology: Jeroen J. Bax (Department of Cardiology, Leiden University Medical Center, Leiden, the Netherlands) and Alessandro Distante (Cardiology Professor, University of Pisa; ISBEM and IFC-CMR, Pisa, Brindisi and Lecce, Italy).
The award ceremony took place on 12th June 2009 during the 19th European Meeting on Hypertension. The prize is an international award which aims to promote scientific research in the field of cardiovascular disease. A prize of € 100,000 is presented every two years to a scientist who has demonstrated dedication to the advancement of scientific knowledge in cardiology. Each edition is devoted to a specific theme.
The theme for the next edition of the prize, which is to be held in 2011 will be: "Prenatal congenital heart disease".

Robert O. Bonow, Chairman of the Jury with Valentin Fuster, winner of the Prize

PHARMACEUTICAL CHEMICALS AND PRODUCTION PLANTS

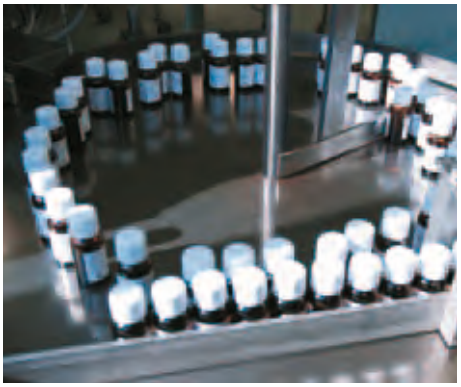
Current strategy

Recordati's pharmaceutical chemicals strategy today focuses on:

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

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

The Campoverde plant mainly supplies the active ingredients used in the preparation of the various pharmaceutical specialties produced by the company, but is also an established independent producer of various active and intermediate ingredients for the pharmaceutical industry internationally. It is one of the most important producers in the world of verapamil, phenytoin, papaverine and dimenhydrinate. Other pharmaceutical chemicals are produced on behalf of important pharmaceutical companies.
The facility was one of the first European plants to be inspected by the American Food and Drug Administration and the United States has become, and continues to be, the main market for its production. The Campoverde site covers a surface area of 366,000 sq. m. with an installed area of 170,000 sq. m., and produces approximately 650 metric tonnes per year of finished goods with approximately 2,000 metric tonnes of semi-finished goods handled internally each year.
High-tech systems are employed for the management of particularly delicate processes such as the reactions which employ cyanides, high pressure hydrogenations, chloromethylations or those which involve substances which require very stringent safety measures.
The plant operates in compliance with Current Good Manufacturing Practices (cGMP) and in conformity with the most stringent international environmental regulations. The Plant Environmental Management System is certified according to the UNI EN ISO 14001:2004 by Det Norske Veritas Italia (DNV) an internationally accredited body.
In order to guarantee adequate and continuous supplies of the active ingredient lercanidipine, an important original Recordati drug, in 2005 a new dedicated plant was constructed in Cork in Ireland. This facility boasts automated process control systems which ensure constant high quality production.
In both Recordati's pharmaceutical chemical plants a vast range of technologies, skills and expertise in the field of organic synthesis is employed which allow it to quickly and effectively study new processes from research stage through to final industrialisation. The laboratories in the Research and Development section are fitted with the latest equipment and are side by side with an extremely versatile pilot plant equipped for the industrialisation of processes.



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

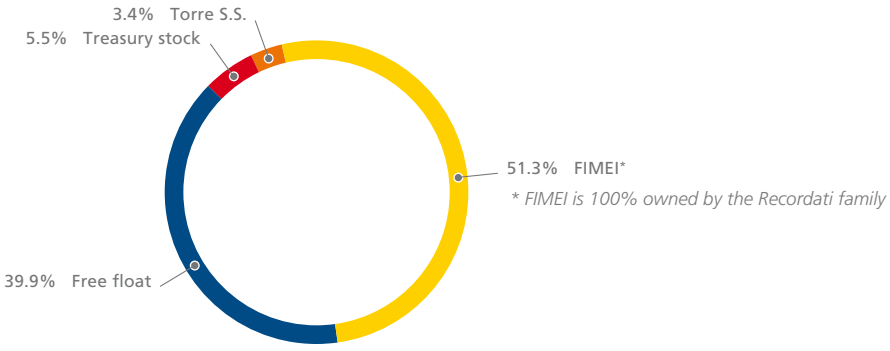
THE RECORDATI SHARE

+420 %

the growth of the Recordati share in the 10 years from 1999 to 2009

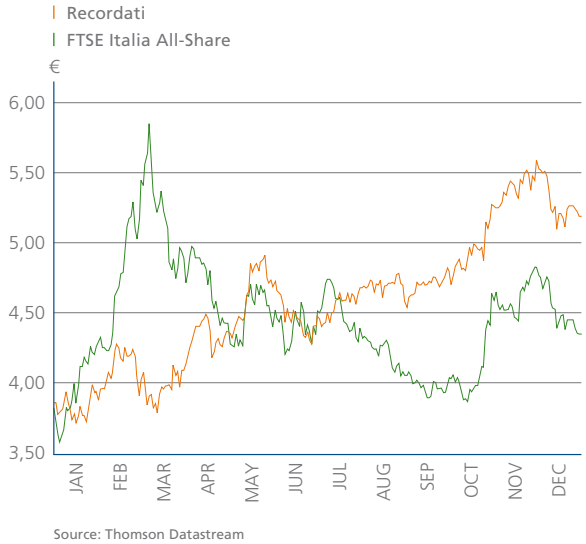
Listing:	Borsa Italiana Blue Chip segment, healthcare
ISIN Code:	IT 0003828271
Ticker:	Bloomberg REC IM, Reuters RECI.MI
Indexes:	FTSE Italia Mid Cap Index FTSE Italia All-Share Pharmaceuticals & Biotechnology Index: ICB Code 4570
Share Capital At 31 December 2009:	209,125,156 common shares
Nominal value:	€ 0.125 per share
EPS (diluted):	€ 0.541
Dividend per share:	€ 0.275

PRINCIPAL SHAREHOLDERS AT 31 DECEMBER 2009



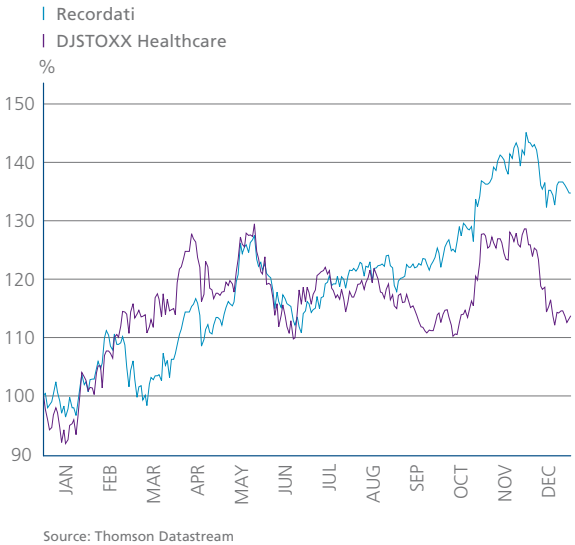
RECORDATI SHARE PERFORMANCE IN 2009

Relative to FTSE Italia All-Share



Source: Thomson Datastream

Relative to DJSTOXX Healthcare



Source: Thomson Datastream

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

photo: Niccolò Biddau


600
400
200

FINANCIAL HIGHLIGHTS

REVENUE

€ (thousands)	2009	%	2008	%	Change 2009/2008	%
Pharmaceuticals	720,636	96.4	658,436	95.5	62,200	9.4
Pharmaceutical chemicals	26,888	3.6	31,198	4.5	(4,310)	(13.8)
TOTAL REVENUE	**747,524**	**100.0**	**689,634**	**100.0**	**57,890**	**8.4**
Italy	212,688	28.5	205,848	29.8	6,840	3.3
International	**534,836**	**71.5**	**483,786**	**70.2**	**51,050**	**10.6**

KEY CONSOLIDATED DATA

€ (thousands)	2009	% of revenue	2008	% of revenue	Change 2009/2008	%
Revenue	747,524	100.0	689,634	100.0	57,890	8.4
EBITDA [1]	197,018	26.4	174,173	25.3	22,845	13.1
Operating income	162,204	21.7	144,730	21.0	17,474	12.1
Net income	110,566	14.8	100,429	14.6	10,137	10.1
Dividends	54,355 [2]		49,259		5,096	10.3
Dividends/net income			49.0%			

[1] Earnings before interest, taxes, depreciation and amortization.
[2] Calculated on the number of shares outstanding at year-end, net of treasury stock which amounted to 11,472,355 shares.

€ (thousands)	31 December 2009	31 December 2008	Change 2009/2008	%
Net financial position [3]	(19,743)	(81,008)	61,265	(75.6)
Shareholders' equity	508,979	445,742	63,237	14.2

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

€ per share [4]	2009	2008	Change 2009/2008	%
Net income	0.561	0.511	0.050	9.8
Shareholders' equity	2.575	2.262	0.313	13.8
Dividend	0.275	0.250	0.025	10.0
Shares outstanding:				
- average during the year	197,222,274	196,667,301		
- at December 31	197,652,801	197,035,301		

[4] Net income per share is based on average shares outstanding during the year net of average treasury stock. Average treasury stock amounted to 11,472,355 shares in both 2009 and 2008. Shareholders' equity per share is based on total shares outstanding at year end net of treasury stock. Treasury stock amounted to 11,472,355 shares at 31 December 2009 and at 31 December 2008.

2009 OPERATIONAL AND FINANCIAL REVIEWS

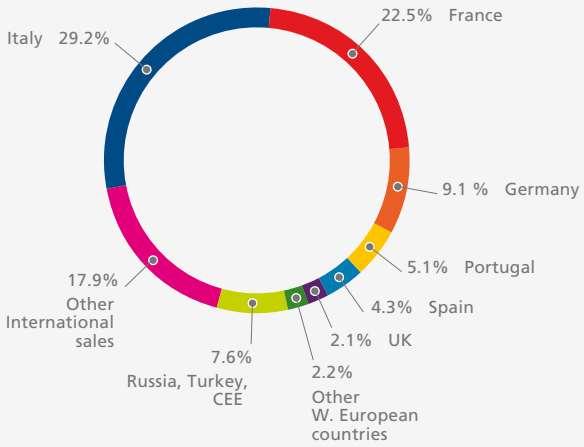
REVIEW OF OPERATIONS

€ (migliaia)	2009	2008	Change 2009/2008	%
Pharmaceuticals	720,636	658,436	62,200	9.4
Pharmaceutical chemicals	26,888	31,198	(4,310)	(13.8)
TOTAL	747,524	689,634	57,890	8.4

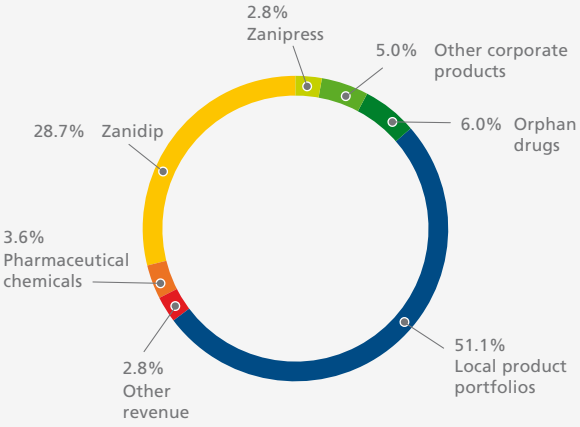
Both years include sales as well as income from up-front payments, royalties and miscellaneous items.

Revenues are up 8.4% over the preceding year with an increase of 10.6% in international revenues (€ 534.8 million) which now represent 71.5% of total revenue. Pharmaceutical revenue grows by 9.4% and includes the consolidation, as from 1 January 2009, of Yeni Recordati in Turkey and of Herbacos Recordati in the Czech Republic and Slovakia which generated sales of € 18.0 million and € 12.2 million respectively. On a like-for-like basis pharmaceutical sales are up by 4.9%.

Pharmaceutical sales



Sales by business



PHARMACEUTICALS

The group's pharmaceutical business, which represents 96.4% of total revenue, is carried out prevalently in the main European markets through our own subsidiaries but also in the rest of the world through licensing agreements with pharmaceutical companies of high standing. We have gradually extended our European presence to all the main countries through the acquisition of existing marketing organizations with the aim to add our proprietary products, and those obtained under multi-territorial licenses, to the local portfolios. In recent years our portfolio of products marketed in multiple territories has grown. A description of the performance of products sold directly in more than one market (corporate products) during 2009 follows.

Zanidip® (lercanidipine), a calcium channel blocker for the treatment of hypertension discovered and developed by Recordati is one of the most prescribed calcium channel blockers in the countries where it is present. 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, Norway, the Netherlands, Portugal, South Africa and Spain and further launches are planned during 2010. 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.

€ (thousands)	2009	2008	Change 2009/2008	%
Direct sales	140,884	132,311	8,573	6.5
Sales to licensees	74,065	69,305	4,760	6.9
Total lercanidipine sales	**214,949**	**201,616**	**13,333**	**6.6**

€ (thousands)	2009	2008	Change 2009/2008	%
Direct sales	10,548	3,220	7,328	227.6
Sales to licensees	10,218	3,658	6,560	179.3
Total lercanidipine+ enalapril sales	**20,766**	**6,878**	**13,888**	**201.9**

In Italy sales of Zanedip® and Lercadip®, the two lercanidipine brands sold directly by Recordati, are € 48.9 million, an increase of 1.9%. Lercanidipine is also sold in Italy under license by Rottapharm/Madaus.

In France lercanidipine is marketed by Bouchara Recordati and by Pierre Fabre and is now the top selling calcium channel blocker on the market. Sales of Zanidip® by Bouchara Recordati are € 52.7 million, an increase of 2.8% over the preceding year. In April our subsidiary, together with co-marketer Pierre Fabre, launched the new specialty product for the treatment of hypertension, a fixed combination of lercanidipine and enalapril, under the brands Zanextra® and Lercapress® respectively. Sales of Zanextra® are € 2.7 million.

In Germany Merckle Recordati sells Corifeo® (lercanidipine), which generated sales of € 5.6 million, up 5.6%, and Zanipress® (lercanidipine+enalapril), which also recorded sales of € 5.6 million with an increase of 75.8%. The lercanidipine/enalapril fixed combination is also sold by Meda as Zaneril® and by Berlin Chemie (Menarini group) as Carmen ACE®.

Sales of Zanidip® in Spain are € 9.7 million, a growth of 1.5% over 2008. In this market lercanidipine is also sold by licensees Meda and Rottapharm/Madaus. Zanipress® (lercanidipine+enalapril) was also launched in Spain with co-marketers Meda and Rottapharm/Madaus.

In the United Kingdom Zanidip®, which is sold exclusively by Recordati Pharmaceuticals, generated sales of € 9.2 million, an increase of 3.3%.

Lercanidipine is also sold directly by our marketing companies in Ireland, generating sales of € 2.5 million, in Greece with sales of € 2.9 million, in Portugal with sales of € 2.9 million and, as from the second half 2009, in Turkey with sales of € 1.5 million. In Greece lercanidipine is also marketed by Galenica and in Portugal by Delta (Rottapharm/Madaus group). During the year the lercanidipine/enalapril fixed combination was also launched in Greece and in Portugal generating overall sales of € 1.6 million together with Ireland.

Lercanidipine is also marketed in a further 86 countries. Of these the main ones are the other European markets, Australia and South Korea.

Lomexin® (fenticonazole), another original Recordati product, is an internationally and widely used antimycotic indicated for the treatment of dermatological and gynecological infections caused by fungi, mould, yeast and gram positive bacteria. Sales of this product for 2009 are € 9.2 million, in line with the preceding year.

Flavoxate is an antispasmodic for the treatment of urinary incontinence, also originated by Recordati, which is marketed internationally under the brands Genurin® and Urispas®. Sales of this product in 2009 are € 8.4 million, in line with those recorded in 2008.

New products obtained under license for multiple territories are now marketed alongside Recordati's traditional proprietary portfolio. Kentera® is a bi-weekly oxybutynin transdermal patch indicated for the symptomatic treatment of urge incontinence and/or increased urinary frequency and urgency as may occur in patients with overactive bladder obtained under license from Watson Pharmaceuticals and marketed in 13 countries. Sales of Kentera® are € 6.7 million in 2009, an increase of 20.2% over the preceding year.

In 2009 TransAct® LAT, a transdermal patch containing 40 mg of flurbiprofen indicated for the symptomatic relief of localized pain involving the musculoskeletal system, was obtained under license from Amdipharm for the Italian and Portuguese markets. Sales of this product are e 6.1 million.

Rupatadine is a systemic antihistamine indicated for the treatment of allergies and in particular allergic rhinitis. Under license from Uriach it is marketed in Spain (Alergoliber®), Italy and Germany (Rupafin®) and as from 2010 in France (Wystamm®). Sales of all brands of rupatadine in 2009 total € 3.7 million, up 44.1% over 2008.

Isimig® (frovatriptan) is a specialty belonging to the triptan group of drugs indicated for the acute treatment of migraine attacks with or without aura. Under license from Menarini it is marketed in France (Isimig®) and Greece (Pitunal®). Sales of this product in 2009 are € 3.0 million, double those of last year.

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 total € 48.9 million, an increase of 11.4%. The main products of its portfolio are Adagen® (pegademase bovine), indicated for the treatment of severe combined immunodeficiency disease associated with adenosine deaminase deficiency (SCID-ADA deficiency), Carbaglu® (carglumic acid), indicated for the treatment of hyperammonaemia due to N-acetylglutamate synthase deficiency (NAGS deficiency), and Normosang® (human haemin) indicated for the treatment of acute attacks of hepatic porphyria.

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

€ (thousands)	2009	2008	Change 2009/2008	%
Italy	210,634	201,642	8,992	4.5
France	162,357	156,743	5,614	3.6
Germany	65,782	58,229	7,553	13.0
Portugal	36,827	43,212	(6,385)	(14.8)
Spain	30,869	28,394	2,475	8.7
United Kingdom	15,144	14,495	649	4.5
Other Western European countries	15,601	13,148	2,453	18.7
Russia, Turkey, Czech Rep., other C.E.E. countries	54,838	24,279	30,559	n.s.
Other international sales	128,584	118,294	10,290	8.7
Total pharmaceutical sales	**720,636**	**658,436**	**62,200**	**9.4**

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

PHARMACEUTICALS, ITALY

€ (thousands)	2009	2008	Change 2009/2008	%
Prescription pharmaceuticals [a]	186,212	178,086	8,126	4.6
Self-medication pharmaceuticals [b]	24,422	23,556	866	3.7
Pharmaceuticals, Italy	**210,634**	**201,642**	**8,992**	**4.5**

[a] *Prescription pharmaceuticals include both reimbursable and non-reimbursable drugs.*

[b] *Self-medication pharmaceuticals include OTC products and other pharmaceuticals not requiring a prescription.*

Pharmaceutical sales in Italy grow overall by 4.5%. The performance of the main products is stated below.

€ (thousands)	Indication	2009	2008	Change 2009/2008	%
Zanedip®/ Lercadip®	hypertension	48,929	48,027	902	1.9
Entact®	depression	32,547	31,073	1,474	4.7
Peptazol®	gastric ulcers	20,205	20,115	90	0.4
Tora-Dol®	pain	15,376	16,116	(740)	(4.6)
Isocef®	infection	8,415	7,872	543	6.9
Elopram®	depression	8,289	8,186	103	1.3

Entact® (escitalopram) is growing steadily and is now one of the leading drugs in its class on the anti-depressives market with a share of 22.7%. Sales of Peptazol® (pantoprazole) increase, despite the price reduction suffered following the entry of generic versions of the drug into the market, thanks to volume growth. Tora-Dol® (ketorolac) sales are substantially stable despite generic competition. During 2009 the marketing rights for TransAct® LAT were acquired and Rupafin® (rupatadine) was launched. Rextat® and Lovinacor®, lovastatin based drugs indicated for the treatment of hypercholesterolemia, performed well.

Sales of self-medication products in 2009 are € 24.4 million, up 3.7% over the preceding year. Sales of Alovex™, our best-selling self medication product indicated for the treatment of oral cavity aphthas, are up by 7.7% to € 5.1 million, consolidating its position as a reference product for this condition. Sales of Proctolyn® (treatment of haemorrhoids) increase by 7.3% and Imidazyl® (eye drops) sales grow by 5.9%. Sales of Localyn® (topical corticosteroid) and Lactò® (a dietary supplement), are up during the year as are those of Eumill® (single dose eye drops) which, together with Imidazyl®, enhances Recordati's leadership in the eye drops market.

PHARMACEUTICALS, FRANCE

The 2009 revenue realized by our subsidiaries in France is € 162.4 million, an increase of 3.6% over the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2009	2008	Change 2009/2008	%
Zanidip®	hypertension	52,657	51,202	1,455	2.8
Methadone	drug addiction	17,646	15,138	2,508	16.6
Tenstaten®	hypertension	12,114	12,863	(749)	(5.8)
Hexa line	antibacterial	11,854	10,643	1,211	11.4
Neocodion®	cough	7,918	8,047	(129)	(1.6)

The growth of sales in France is mainly due to the increase of Zanidip® (lercanidipine) and methadone sales, as well as to the increase of revenues generated by drugs for rare diseases (+14.4%) and to the launch of Zanextra® (lercanidipine+enalapril) and of Isimig® (frovatriptan). The Hexa line of products (biclotimol) and the cough medicines Exomuc® and Exotux® (acetylcysteine and carbocysteine) also performed well.

PHARMACEUTICALS, GERMANY

Sales generated by our subsidiaries in Germany are € 65.8 million, up by 13.0% over the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2009	2008	Change 2009/2008	%
Claversal®	ulcerative colitis	15,902	16,644	(742)	(4.5)
Suplasyn®	Muscolo-skeletal	7,030	7,069	(39)	(0.6)
Zanipress®	hypertension	5,648	3,213	2,435	75.8
Corifeo®	hypertension	5,542	5,256	286	5.4

Sales in Germany are up significantly mostly thanks to the development of Zanipress® (lercanidipine+enalapril) sales, to the

acquisition of Ortoton® (metocarbamol), a muscle relaxant which generated sales of € 4.2 million, and to the growth of Kentera®. Sales of the products for rare diseases are also growing strongly in this country (+14.9%).

PHARMACEUTICALS, PORTUGAL

Revenue generated by our subsidiaries in Portugal is € 36.8 million, down by 14.8% mainly due to the discontinuance of third party production following the sale of the pharmaceutical manufacturing business in Sintra during 2008 and to the implementation of a plan to reduce stocks in some distribution channels.

€ (thousands)	2009	2008	Change 2009/2008	%
Prescription pharmaceuticals	33,542	37,167	(3,625)	(9.8)
Self-medication pharmaceuticals	2,848	3,437	(589)	(17.1)
Other revenue	423	2,500	(2,077)	(83.1)

The main products are performing well. Tareg® and Co-Tareg® (valsartan and valsartan+HCTZ), antihypertensive drugs, record sales of € 5.5 million, an increase of 12.0%. Sales of Zanidip® (lercanidipine) increase by 51.4% and Zanipress® (lercanidipine+enalapril) was launched.

PHARMACEUTICALS, SPAIN

Revenues in Spain are € 30.9 million, up by 8.7% over the preceding year thanks to the performance of its main products.

€ (thousands)	Indication	2009	2008	Change 2009/2008	%
Cidine®	gastroprokinetic	10,222	9,295	927	10.0
Zanidip®	hypertension	9,734	8,889	845	9.5
Dermatrans®	angina	2,851	2,779	72	2.6
Yoduk®	iodine deficiency	2,454	2,381	73	3.1

During 2009 Zanipress® (lercanidipine+enalapril) was also launched in Spain. Sales of products for rare diseases are up 17.9%.

PHARMACEUTICALS, UNITED KINGDOM

Sales in the United Kingdom are € 15.1 million, up 4.5% despite the negative currency exchange effect (-11.6%), and are mainly related to Zanidip® (lercanidipine) and to the drugs for the treatment of rare diseases. Sales volumes of both lercanidipine and Kentera® increased significantly. Sales of products for rare diseases increase by 6.4%.

OTHER WESTERN EUROPEAN COUNTRIES

Sales in other countries in Western Europe comprise sales of products for the treatment of rare diseases in a number of countries for a total of € 8.7 million, sales in Ireland generated by Recordati Ireland of € 2.8 million and sales in Greece generated by Recordati Hellas Pharmaceuticals of € 4.1 million. In both latter cases sales are almost entirely related to lercanidipine, Zanidip® in Ireland and Lercadip® in Greece. In both countries the lercanidipine/enalapril fixed association was launched under the brands Lercaril® and Lercaprel® respectively. Sales of Kentera® grew significantly in both markets.

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

Revenue generated in Russia and in the other countries within the Commonwealth of Independent States (C.I.S.) is € 22.5 million, up 0.3% over the preceding year despite the impact in these countries of the financial crisis and its negative effect on exchange rates. The best selling product in this area is Tergynan®, a medicine indicated for the treatment of gynecological infections, which recorded sales of € 13.0 million. Revenues include pharmaceutical promotion services rendered to third parties for a total income of € 5.1 million.

Sales in Turkey recorded by Yeni Recordati, consolidated as from 1 January 2009 following the acquisition of Yeni Ilaç at the end of 2008, are € 18.0 million and include € 2.4 million sales of Lercadip® (lercanidipine) and Urispas® (flavoxate), previously marketed by licensees and sold directly by our subsidiary as from July 2009.

Sales generated by Herbacos Recordati in the Czech and Slovak Republics, also consolidated as from 2009 following the acquisition in January of Herbacos-Bofarma, are € 12.2 million.

Sales in these countries of the specialty products indicated for the treatment of rare and orphan diseases amount to € 2.1 million and grow by 18.2%.

OTHER INTERNATIONAL SALES

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

€ (thousands)	2009	2008	Change 2009/2008	%
Total sales to licensees	99,719	88,579	11,140	12.6
Bouchara Recordati (export sales)	23,125	21,384	1,741	8.1
Other income	5,740	8,331	(2,591)	(31.1)
Total	**128,584**	**118,294**	**10,290**	**8.77**

Sales to international licensees grow by 12.6% due to the increase in sales of lercanidipine and to the launch of the lercanidipine/enalapril fixed combination in new markets. Sales of flavoxate are down partly due to the termination of the license agreement in Turkey where the product is now sold directly by our subsidiary, while sales of fenticonazole grow by 4.9%.

Sales outside France by our French subsidiary Bouchara Recordati are up by 8.1% mainly due to the significant growth of Zanidip® (lercanidipine) sales.

Other income refers to royalties and up-front payments connected to out-licensing agreements.

PHARMACEUTICAL CHEMICALS

€ (thousands)	2009	%	2008	%	Change 2009/2008	%
Italy	2,054	7.6	4,075	13.1	(2,021)	(49.6)
Europe (Italy excluded)	10,229	38.1	10,502	33.7	(273)	(2.6)
America	8,937	33.2	10,063	32.2	(1,126)	(11.2)
Australasia	4,830	18.0	5,844	18.7	(1,014)	(17.4)
Africa	838	3.1	714	2.3	124	17.4
Total	**26,888**	**100.0**	**31,198**	**100.0**	**(4,310)**	**(13.8)**

Sales of pharmaceutical chemicals which comprise active substances produced in the Campoverde d'Aprilia (Latina, Italy) plant are down by 13.8% as compared to the preceding year, mainly due to reduced volumes and to a negative price effect of 3.3%. The volume reduction is the result of the decision to increase use of the plant's capacity for the production of the active ingredients required by our pharmaceutical business and to stop the production of some less profitable products.

HEALTH, SAFETY AND ENVIRONMENT

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

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

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

Recordati placed specific attention in 2009 on defining responsibilities and assigning duties and roles concerning health and safety at the workplace. Formal delegations and specific appointments were made to achieve this purpose.

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

Risk assessment is the principal tool used in the safety management system. It is used to define risk control factors along with the relative measures for prevention and protection to be adopted or monitored in order to reduce the risk to the health and safety of workers to a minimum. The updating of the risk assessment document is a continuous activity, it records the sequence of the actions undertaken to improve the working environment and the activities in progress, and it also includes assessments of new activities or changes made to the work process.

Particular attention is placed on training and informing workers on matters related to health, safety and the environment, as it is considered a useful tool to prevent specific risks as well as creating worker awareness of the various aspects of prevention. The goal is to increase the attention placed by personnel on risks and the prevention measures put in place in order to reduce accident rates caused by human error, which is the main cause of accidents at the company. Training and the dissemination of information on the organization of safety in the company is provided for all employees, and thanks to the use of remote training the operational forces in the field are also systematically involved.

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

Attention is also placed on safety when work is performed by third party contractors. The qualifying documentation of external firms is verified before work starts and a "Single Interference Risk Assessment Document" is compiled jointly with them in order to co-ordinate activities and to reduce, and if possible eliminate, potential interferences between the work activities of external firms and the normal operations of the company.

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

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

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

A series of activities were performed with regard to that system in 2009 involving management, procedures and structural change designed to improve the standards of performance in environmental management such as waste management, emission controls and the use of resources.

In July 2009 the Campoverde (Latina, Italy) plant passed an on-site inspection performed by the certifying body DNV (Det Norske Veritas), which renewed its certification of the environmental management system recognizing it as compliant with the UNI EN ISO 14001/04 standard.

FINANCIAL REVIEW

INCOME STATEMENT

The 2009 statement of income includes the consolidation, as from 1 January, of the newly acquired companies Yeni Recordati and Herbacos Recordati. The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2008:

€ (thousands)	2009	% of revenue	2008	% of revenue	Change 2009/2008	%
Revenue	**747,524**	**100.0**	**689,634**	**100,0**	**57,890**	**8.4**
Cost of sales	(235,623)	(31.5)	(222,196)	(32.2)	(13,427)	6.0
Gross profit	**511,901**	**68.5**	**467,438**	**67.8**	**44,463**	**9.5**
Selling expenses	(223,724)	(29.9)	(214,245)	(31.1)	(9,479)	4.4
R&D expenses	(69,445)	(9.3)	(58,860)	(8.5)	(10,585)	18.0
G&A expenses	(43,718)	(5.8)	(39,372)	(5.7)	(4,346)	11.0
Other income (expense), net	(12,810)	(1.7)	(10,231)	(1.5)	(2,579)	25.2
Operating income	**162,204**	**21.7**	**144,730**	**21.0**	**17,474**	**12.1**
Financial income (expense), net	(5,800)	(0.8)	(6,584)	(1.0)	784	(11.9)
Other investments gain (loss), net	(3,752)	(0.5)	0	0.0	(3,752)	n.s.
Pretax income	**152,652**	**20.4**	**138,146**	**20.0**	**14,506**	**10.5**
Provision for income taxes	(42,086)	(5.6)	(37,717)	(5.5)	(4,369)	11.6
Net income	**110,566**	**14.8**	**100,429**	**14.6**	**10,137**	**10.1**
Attributable to:						
Equity holders of the parent	110,560	14.8	100,424	14.6	10,136	10.1
Minority interests	6	0.0	5	0.0	1	20.0

Revenues include those generated by Yeni Recordati and Herbacos Recordati in the amounts of € 18.0 million and € 12.2 million respectively.

In 2009 international revenues went from € 483.8 million to € 534.8 million, an increase of 10.6%, and represent 71.5% of total revenue. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2009	%	2008	%
Europe (Italy excluded)	465,408	87.0	416,453	86.1
Australasia	34,112	6.4	31,959	6.6
America	16,012	3.0	17,145	3.5
Africa	19,304	3.6	18,229	3.8
Total	**534,836**	**100.0**	**483,786**	**100.0**

Gross profit is € 511.9 million with a margin of 68.5% on sales, a further improvement over that of last year thanks to a favorable product mix.

Selling expenses increase by 4.4% but decrease as a percent of sales from 31.1% to 29.9%.

R&D expenses, at € 69.4 million, increase by 18.0% over those of the preceding year partly due to new clinical trials.

G&A expenses are up by 11.0% due mainly to the consolidation of the new business acquired.

Labor cost in 2009 is € 185.8 million, an increase of 4.6% compared to 2008. The increase in the number of employees is due to the consolidation of Herbacos Recordati, our new subsidiary in the Czech Republic, and to the development of our marketing activities in Turkey, in Russia and in the other C.I.S. countries. Personnel and other human resources data at 31 December 2009 and 2008 are shown in the following table:

€ (thousands)	2009	2008
Employees at year-end	**2.830**	**2.685**
Average age	42	43
Average service (years)	7.0	7.7
Labor cost increase (decrease)	**4.6%**	**8.6%**
Labor productivity:		
Labor cost on net sales	24.8%	25.7%
Sales per employee (€ thousands) [a]	273.2	301.5
Value added per employee (€ thousands) [a]	139.9	153.7

Labor cost includes wages, related charges and additional costs.
(a) Data per employee for both years are computed on the average number of personnel, 2,737 in 2009 and 2,287 in 2008.

The strengthening of our corporate organization continued in order to ensure the integration, monitoring and coordination of the foreign subsidiaries in accordance with our internationalization strategy. Personnel training and development represented a substantial portion

of the Group's efforts also in 2009. In particular, investments were made for the training of medical representatives and researchers.

Other expenses net of other income at € 12.8 million include the € 4.7 million pay-back due to AIFA (the Italian medicines agency) in substitution for the 5% price reduction on selected products, and restructuring costs and provisions for further restructuring and other risks for a total of € 7.9 million.

Net financial charges are € 5.8 million, down as compared to 2008 despite the outlay to fund the acquisition concluded in January.

Losses on other investments of € 3.8 million are related to the write-down of the equity investment in the U.S. company PureTech Ventures LLC to account for the relative loss of value, estimated prudentially on the basis of the most recent available financial information and taking into consideration the particularly uncertain context within which the company operates.

The effective tax rate during the year is 27.6%, in line with the preceding year.

Net income is € 110.6 million, an increase of 10.1% over the preceding year.

FINANCIAL POSITION

During 2009 further investments were made with the aim of expanding our European presence and strengthening our product portfolio. Furthermore, in April dividends for a total of € 49.3 million were paid out.

The acquisition of Herbacos-Bofarma (now Herbacos Recordati), a Czech pharmaceutical company with headquarters in Pardubice, hails the group's entry into the markets of Central Europe. The operation was concluded in January for a total value of € 20 million which includes the company's cash, and results are consolidated from 1 January 2009.

Further outlay of funds relate to the settlement of the remaining installments due for the marketing rights to Kentera® and for the acquisition of Ortoton® (metocarbamol) for a total of € 7.2 million, the payment of milestones due to Kissei and Kowa for the products silodosin and pitavastatin for a total of € 5.7 million, and of a first installment of € 9.5 million for the acquisition of marketing rights to TransAct® LAT.

An amount of € 8.8 million was invested in property, plant and equipment, mainly involving the Milan headquarters and the production plants in Campoverde di Aprilia (Italy) and in Saint Victor (Montluçon, France).

Net working capital for operations at 31 December 2009 is € 79.6 million and is thus comprised:

€ (thousands)	31.12.2009	% of revenue	31.12.2008	% of revenue	Change 2009/2008	%
Trade receivables, net	132,621	17.7	137,015	19.9	(4,394)	(3.2)
Inventories	86,627	11.6	83,087	12.0	3,540	4.3
Other current assets	25,597	3.4	25,087	3.6	510	2.0
Current assets	**244,845**	**32,8**	**245,189**	**35.5**	**(344)**	**(0.1)**
Trade payables	81,751	10.9	88,598	12.8	(6,847)	(7.7)
Tax payable	12,555	1.7	10,278	1.5	2,277	22.2
Other current liabilities	70,901	9.5	62,626	9.1	8,275	13.2
Current liabilities	**165,207**	**22.1**	**161,502**	**23.4**	**3,705**	**2.3**
Net working capital for operations	**79,638**	**10.7**	**83,687**	**12.1**	**(4,049)**	**(4.8)**
Days of sales outstanding	61		66			
Inventories as % of cost of sales	36.8%		36.6%			

The net financial position at 31 December 2009 shows a net debt of € 19.7 million, an improvement over 2008 despite the investments made.

€ (thousands)	31.12.2009	31.12.2008	Change 2009/2008	%
Cash and short-term financial investments	93,775	94,951	(1,176)	(1.2)
Bank overdrafts and short-term loans	(28,852)	(90,844)	61,992	(68.2)
Loans – due within one year	(2,419)	(2,201)	(218)	9.9
Net liquid assets	**62,504**	**1,906**	**60,598**	**n.s.**
Loans – due after one year [1]	(82,247)	(82,914)	667	(0.8)
Net financial position	**(19,743)**	**(81,008)**	**61,265**	**(75.6)**

[1] *Includes change in fair value (fair value hedge).*

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

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

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

€ (thousands)	Shareholders' equity		Net income for the year	
	31.12.2009	31.12.2008	2009	2008
Recordati S.p.A.	300,830	273,161	70,068	52,945
Consolidation adjustments:				
Margin in inventories	(20,455)	(19,962)	(493)	(222)
Related deferred tax	6,425	6,271	154	59
Other adjustments	(48)	(48)	(282)	(131)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already booked by Recordati S.p.A.	144,404	115,511		
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	83,982	77,892	83,982	77,892
Dividends received from consolidated subsidiaries			(48,869)	(30,119)
Translation adjustments	(6,178)	(7,096)	0	0
Consolidated financial statements	**508,960**	**445,729**	**110,560**	**100,424**

RELATED PARTY TRANSACTIONS

The balance sheet accounts as at 31 December 2009 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 assets include an estimated net tax amount of € 0.6 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.

FOURTH QUARTER 2009

€ (thousands)	IV quarter 2009	%	IV quarter 2008	%	Change 2009/2008	%
Revenue	**191,337**	**100.0**	**181,392**	**100.0**	**9,945**	**5.5**
Cost of sales	(58,597)	(30.6)	(60,567)	(33.4)	1,970	(3.3)
Gross profit	**132,740**	**69.4**	**120,825**	**66.6**	**11,915**	**9.9**
Selling expenses	(55,104)	(28.8)	(53,374)	(29.4)	(1,730)	3.2
R&D expenses	(19,923)	(10.4)	(16,588)	(9.1)	(3,335)	20.1
G&A expenses	(11,496)	(6.0)	(9,888)	(5.5)	(1,608)	16.3
Other income (expense), net	(5,860)	(3.1)	(7,515)	(4.1)	1,655	(22.0)
Operating income	**40.357**	**21.1**	**33,460**	**18.5**	**6,897**	**20.6**
Financial income (expense), net	(1,341)	(0.7)	(742)	(0.4)	(599)	80.7
Other investments gain (loss), net	(3,752)	(2.8)	0	0.0	(3,752)	n.s.
Pretax income	**35,264**	**18.4**	**32,718**	**18.0**	**2,546**	**7.8**
Provision for income taxes	(9,975)	(5.2)	(8,874)	(4,9)	(1,101)	12.4
Net income	**25,289**	**13.2**	**23,844**	**13.1**	**1,445**	**6.1**
Attributable to:						
Equity holders of the parent	25,288	13.2	23,842	13.1	1,446	6.1
Minority interests	1	0.0	2	0.0	(1)	(50.0)

Revenues during the fourth quarter 2009 are € 191.3 million, an increase of 5.5% over the same period of the preceding year. Pharmaceutical sales are € 185.1 million, up 6.7% over the fourth quarter 2008 and include the consolidation of Yeni Ilaç in Turkey and of Herbacos-Bofarma in the Czech Republic and Slovakia as from 1 January 2009. On a like-for-like basis pharmaceutical sales are up by 2.1%. Pharmaceutical chemicals revenue, at € 6.3 million, is down by 21.3%.

Operating income is € 40.4 million, up 20.6% over the same period of the preceding year. At 21.1% percentage on sales is slightly lower that the preceding quarters due to accruals for risks and non-recurring expenses booked to other expense for an amount of € 5.5 million.

Net income is up by 6.1%, lower than the increase in operating income due to the € 3.8 million write-down of the equity investment in the U.S. company PureTech Ventures LLC to account for the relative loss of value, estimated prudentially on the basis of the most recent available financial information and taking into consideration the particularly uncertain context within which the company operates.

MAIN RISKS AND UNCERTAINTIES

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

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

RISKS ASSOCIATED WITH THE EXTERNAL CONTEXT

RISKS ASSOCIATED WITH CHANGES IN LEGISLATION AND REGULATIONS GOVERNING THE PHARMACEUTICAL SECTOR

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

RISKS ASSOCIATED WITH BUSINESS EXPANSION INTO EMERGING MARKETS

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

RISKS ASSOCIATED WITH MARKET COMPETITION

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

RISKS ASSOCIATED WITH STRATEGY AND OPERATIONS

RISKS ASSOCIATED WITH THE INTERNATIONALIZATION OF THE GROUP

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

RISKS ASSOCIATED WITH THE EXPIRY OF PATENTS

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

RISKS ASSOCIATED WITH INVESTMENTS IN RESEARCH AND DEVELOPMENT

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

RISKS ASSOCIATED WITH THE LAUNCH OF NEW PRODUCTS

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

RISKS ASSOCIATED WITH PHARMACOVIGILANCE

The Group, as a holder of drug marketing authorizations, must comply with regulations on pharmacovigilance. These regulations require that holders of marketing authorizations submit to the regulatory bodies information regarding drug safety, within the time limits and in the manner established by these, with particular regard to adverse reactions. The ascertainment of serious adverse drug reactions can expose the Group to the risk of restrictions being placed on the prescription of a drug, and in the most serious cases, authorization to market the product can be revoked. In order to avoid this risk and to comply with national regulations in the countries where the Group operates, Recordati has assigned specific pharmacovigilance responsibilities within its organizations and has put integrated systems in place to collect, assess, manage and submit the information required to the competent authorities. On the basis of currently available information there are no indications with regard to pharmacovigilance to suggest that critical situations exist for Group products.

RISKS ASSOCIATED WITH THE PRODUCTION PROCESS

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

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

FINANCIAL RISKS

CREDIT RISK

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

INTEREST RATE RISK

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

FOREIGN CURRENCY RISK

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

LIQUIDITY RISK

The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. The Group has at its disposal an ample supply of liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's loans and its financial assets are set out in notes 18, 21 and 30 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts at their natural due dates.

LEGAL AND COMPLIANCE RISKS

RISKS ASSOCIATED WITH PRODUCT LIABILITY

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

RISKS ASSOCIATED WITH COMPLIANCE

All operating and marketing activities performed by the Group, both in Italy and abroad, are performed in compliance with the legislation and regulations that apply in the geographical areas in which it operates, including national and international technical standards that apply to the pharmaceuticals sector which regulate pharmaceutical research and development, production, distribution and promotion.

As concerns the regulation of drug promotion activities, the Group has formulated a set of ethical rules of conduct. All company personnel are continuously informed of those rules and monitoring is performed constantly to ensure that they are properly observed. In compliance with Legislative Decree 231/2001 on the administrative liability of legal entities, the Italian companies in the Group have an "Organisation, Management and Control Model" that is continuously updated to comply with the latest amendments to the relevant legislation.

RISKS ASSOCIATED WITH LEGAL ACTION

It is always possible that the Group may be required to meet costs resulting from litigation of various types. In these cases the Group may be called upon to pay extraordinary costs with consequences for operating and financial results. A detailed description of litigation in progress and the relative provisions made to meet future liabilities is given in notes 28 and 36 to the financial statements.

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

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.

On 3 February 2010 the European Commission issued its marketing authorization for Urorec® and Silodyx™ 4 mg and 8 mg, hard capsules, intended for the treatment of the signs and symptoms of benign prostatic hyperplasia (BPH). Following national post-authorization procedures, as relevant, product launch could start by end 2010 in Europe.

Group consolidated sales during the first two months of 2010 are in line with the company's expectations for the whole year which target sales of around € 700 million, operating income of around € 140 million and net income of around € 95 million.

CONSOLIDATED FINANCIAL STATEMENTS

Recordati S.p.A and Subsidiaries
Consolidated Financial Statements at and for the year ended 31 December 2009

The consolidated financial statements are presented in accordance with the International Accounting Standards (IAS) and the International Financial reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Interpretation Reporting Committee (IFRIC) previously named Standing Interpretations Committee (SIC). The financial statements comply with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting standards were used in the preparation of the financial statements at 31 December 2008.

RECORDATI S.p.A. AND SUBSIDIARIES CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

INCOME STATEMENT

€ (thousands)	Note	2009	2008
Revenue	3	747,524	689,634
Cost of sales	4	(235,623)	(222,196)
Gross profit		511,901	467,438
Selling expenses	4	(223,724)	(214,245)
R&D expenses	4	(69,445)	(58,860)
G&A expenses	4	(43,718)	(39,372)
Other income (expense), net	4	(12,810)	(10,231)
Operating income		162,204	144,730
Financial income (expense), net	5	(5,800)	(6,584)
Other investments gain (loss), net	6	(3,752)	0
Pretax income		152,652	138,146
Provision for income taxes	7	(42,086)	(37,717)
Net income		110,566	100,429
Attributable to:			
Equity holders of the parent		110,560	100,424
Minority interests		6	5
Earnings per share			
Basic		€ 0.561	€ 0.511
Diluted		€ 0.541	€ 0.501

Earnings per share (EPS) are based on average shares outstanding during each year, 197,222,274 in 2009 and 196,667,301 in 2008, net of average treasury stock which amounted to 11,472,355 shares in both 2009 and 2008.
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 DECEMBER 2009

ASSETS

€ (thousands)	Note	31 December 2009	31 December 2008
Non-current assets			
Property, plant and equipment	8	55,381	57,969
Intangible assets	9	96,512	92,635
Goodwill	10	303,653	289,822
Other investments	11	3,716	7,532
Other non-current assets	12	3,804	5,199
Deferred tax assets	13	21,793	22,650
Total non-current assets		484,859	475,807
Current assets			
Inventories	14	86,627	83,087
Trade receivables	15	132,621	137,015
Other receivables	16	22,990	22,741
Other current assets	17	2,607	2,346
Short-term financial investments, cash and cash equivalents	18	93,775	94,951
Total current assets		338,620	340,140
Total assets		823,479	815,947

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2009

EQUITY AND LIABILITIES

€ (thousands)	Note	31 December 2009	31 December 2008
Shareholders' equity			
Share capital		26,141	26,063
Additional paid-in capital		83,719	81,320
Treasury stock		(59,103)	(59,103)
Hedging reserve *(cash flow hedge)*		(4,040)	(2,532)
Translation reserve		(6,178)	(7,096)
Other reserves		25,025	25,733
Retained earnings		332,836	280,920
Net income for the year		110,560	100,424
Group shareholders' equity	19	**508,960**	**445,729**
Minority interest	20	19	13
Shareholders' equity		**508,979**	**445,742**
Non-current liabilities			
Loans – due after one year	21	79,990	81,409
Staff leaving indemnities	22	19,895	19,624
Deferred tax liabilities	23	5,661	7,399
Other non-current liabilities	24	6,179	3,189
Total non-current liabilities		**111,725**	**111,621**
Current liabilities			
Trade payables	25	81,751	88,598
Other payables	26	48,406	47,147
Tax liabilities	26	12,555	10,278
Other current liabilities		517	385
Provisions	28	21,978	15,094
Fair value of hedging derivatives *(cash flow hedge)*	29	4,040	2,532
Fair value of hedging derivatives *(fair value hedge)*	21	2,257	1,505
Loans – due within one year	21	2,419	2,201
Bank overdrafts and short-term loans	30	28,852	90,844
Total current liabilities		**202,775**	**258,584**
Total equity and liabilities		**823,479**	**815,947**

RECORDATI S.p.A. AND SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

€ (thousands)	2009	2008
Net income for the year	**110,566**	**100,429**
Gains/(losses) on cash flow hedges	(1,508)	(2,419)
Gains/(losses) on translation of foreign financial statements	918	(3,712)
Other gains/(losses)	0	(27)
Income and expense for the year recognized directly in equity	**(590)**	**(6,158)**
Comprehensive income for the year	**109,976**	**94,271**
Attributable to:		
Equity holders of the parent	109,970	94,266
Minority interests	6	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 year	Minority Interest	Total
Balance at 31 December 2007	**25,981**	**78,952**	**(59,103)**	**(113)**	**(3,384)**	**25,529**	**237,876**	**84,865**	**8**	**390,611**
Allocation of 2007 net income:										
- Dividends								(42,220)		(42,220)
- Retained earnings							42,645	(42,645)		
Issue of share capital	82	2,368								2,450
Increase in the reserve for share based payments						204	426			630
Comprehensive income for the year				(2,419)	(3,712)		(27)	100,424	5	94,271
Balance at 31 December 2008	**26,063**	**81,320**	**(59,103)**	**(2,532)**	**(7,096)**	**25,733**	**280,920**	**100,424**	**13**	**445,742**
Allocation of 2008 net income:										
- Dividends								(49,259)		(49,259)
- Retained earnings							51,165	(51,165)		
Issue of share capital	78	2,399								2,477
Increase in the reserve for share based payments						(708)	750			42
Other changes							1			1
Comprehensive income for the year				(1,508)	918			110,560	6	109,976
Balance at 31 December 2009	**26,141**	**83,719**	**(59,103)**	**(4,040)**	**(6,178)**	**25,025**	**332,836**	**110,560**	**19**	**508,979**

RECORDATI S.p.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

€ (thousands)	2009	2008
Operating activities		
Cash flow		
Net Income	110,566	100,429
Depreciation of property, plant and equipment	11,103	11,147
Amortization of intangible assets	23,711	18,296
Write-down of assets	3,797	10,398
Total cash flow	**149,177**	**140,270**
(Increase)/decrease in deferred tax assets	857	(1,326)
Increase/(decrease) in staff leaving indemnities	271	(1,063)
Increase/(decrease) in other non-current liabilities	539	(3,115)
	150,844	**134,766**
Changes in working capital		
Trade receivables	5,248	424
Inventories	(2,261)	(7,967)
Other receivables and other current assets	(208)	8,500
Trade payables	(8,931)	8,139
Tax liabilities	2,260	(6,402)
Other payables and other current liabilities	1,185	5,138
Provisions	6,882	5,018
Changes in working capital	**4,175**	**12,850**
Net cash from operating activities	**155,019**	**147,616**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(7,962)	(13,307)
Net (investments)/disposals in intangible assets	(20,435)	(30,397)
Net (increase)/decrease in equity investments	(20,034) (1)	(66,162) (2)
Net (increase)/decrease in other equity investments	64	(4,414)
Net (increase)/decrease in other non-current receivables	1,395	1,626
Net cash used in investing activities	**(46,972)**	**(112,654)**
Financing activities		
Net financial position of acquired companies	1,680	6,434
Issue of share capital	78	82
Additional paid-in capital	2,399	2,368
Effect of application of IAS/IFRS	42	630
Other changes in equity	1	(27)
Re-payment of loans	(2,926)	(2,914)
Dividends paid	(49,259)	(42,220)
Book value of assets sold	0	17,918 (3)
Change in translation reserve	754	(3,712)
Net cash from/(used in) financing activities	**(47,231)**	**(21,441)**
Changes in short-term financial position	**60,816**	**13,521**
Short-term financial position at beginning of year *	4,107	(9,414)
Short-term financial position at end of period *	64,923	4,107

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

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

*(2) Acquisition of **FIC and FIC Médical** (15,558): Working capital 710, Cash and cash equivalents (4,071), Property, plant, equipment and intangible assets (498), Goodwill (11,964), Deferred tax liabilities 41, Other non-current assets (126), Staff leaving indemnities 66, Medium and long-term loans 284. Acquisition of **Yeni Ilaç** (50,604): Working capital (4,826), Cash and cash equivalents (3,903), Property, plant, equipment and intangible assets (2,139), Goodwill (39,931), Deferred tax liabilities 5, Staff leaving indemnities 190.*

(3) Sale of Jaba Recordati's production business: Cash and cash equivalents 1,540, Working capital 2,009, Property, plant , equipment and intangible assets 14,256, Goodwill 1,976, Deferred tax liabilities (1,863).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. GENERAL

The consolidated financial statements at 31 December 2009 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in attachment 1.

The consolidation perimeter changed during the year and at 31 December 2009 includes the Czech company Herbacos-Bofarma s.r.o. (now Herbacos Recordati) and its Slovak subsidiary HB Pharm s.r.o., acquired in January and consolidated as from 1 January. The main effect of the recognition of the newly acquired companies is disclosed in the comments to each balance sheet account. The profit and loss accounts of the Turkish company Yeni Ilaç A. . (now Yeni Recordati Ilaç) acquired at the end of 2008 are consolidated as of 1 January 2009 while their balance sheet accounts were consolidated as of 31 December 2008. The recognition of these companies in the accounts which was initially determined on a provisional basis as allowed by IFRS 3 is now final. Furthermore, during 2009 two new companies were established, the Russian company Rusfic LLC and the Turkish company Recofarma Ilaç L. ..

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and in compliance with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting policies applied in the preparation of the consolidated financial statements at 31 December 2009 were used in the preparation of the financial statements at 31 December 2008.

The following changes in accounting policies were applied in the preparation of the consolidated condensed financial statements.

IAS 1 "Presentation of financial statements" – The 2007 revision of the standard introduces the requirement for presentation of comprehensive income for the period which includes profit or loss for the period plus income and expense for the period recognized directly in equity, i.e. non-owner changes in equity. Owner changes in equity and the comprehensive income for the period are presented in the statement of changes in equity. The Group opted for the presentation of two statements, a separate income statement and a statement of comprehensive income for the period.

IFRS 8 "Operating Segments" - This reporting standard requires that the Group disclose information on its operating segments and replaces the need to identify primary (business) and secondary (geographical) reporting segments. The adoption of this standard has no impact on the financial position nor on the performance of the Group. The Group's operating segments are unchanged with respect to the business segments reported under IAS 14 "Segment Reporting".

The financial statements of the consolidated companies, prepared by the Board of Directors or the Sole Directors for submission to the respective Shareholders' meetings, have been reclassified and adjusted as required in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS). The criteria applied is consistent with that of the consolidated financial statements at 31 December 2008.

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

The preparation of the interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

The principal accounting policies adopted are set out below.

BASIS OF CONSOLIDATION

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

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

All intercompany transactions and balances between group enterprises, including unrealized gains, are eliminated on

consolidation. Intragroup losses are also eliminated unless they indicate an impairment that requires recognition in the consolidated financial statements.

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

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

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

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

Translation differences arising from this process are booked to consolidated equity.

BALANCE SHEET

Property, plant and equipment - Property, plant and equipment is stated at purchase cost less accumulated depreciation and any recognized impairment loss. Reviews are performed when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on *Impairment*). Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

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

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

Intangible assets - An intangible asset is recognized only if it can be identified, if it is probable that it will generate future economic benefits and its cost can be measured reliably. Intangible assets are valued at purchase cost, net of amortization calculated on a straight line basis and on the basis of their estimated useful life which, however, cannot exceed 20 years. Patents, licenses and know-how are amortized as from the year of the first sale of relevant products. Amortization of distribution and license rights is generally calculated over the duration of the contract.

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

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

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

Impairment - At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized as income immediately.

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

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

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

Inventories - Inventories are stated at the lower of cost or market, where the market value of raw materials and subsidiaries is their substitution cost while that related to finished goods and work-in-process is their net realizable value. Inventories of raw materials, supplies and promotional material are valued at their average acquisition cost including costs incurred in bringing the inventories to their location and condition at year end. Inventories of work-in-process and finished goods are valued at their average manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production.

Inventories are written-down if market value is lower than cost as described above or in the case of obsolescence resulting from slow moving stocks.

Trade receivables - Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents - Cash in banks on demand and highly liquid investments.

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

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

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

Equity - Equity instruments issued by the Company are recorded at the proceeds received. Proposed dividend is recognized as a liability at the time of adoption of the dividend resolution at the annual shareholders' meeting. The cost and selling prices of treasury shares are recognized directly in equity and therefore gains and losses on sales are not recognized in the income statement.

Loans - Interest-bearing loans are recorded at the proceeds received, net of direct issue costs. Subsequently, loans are measured using the amortised cost method as prescribed by IAS 39. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period.

If the loans are covered using derivative instruments qualifying as fair value hedges, in accordance with IAS 39 these loans are measured at fair value as are their related derivative instruments.

Staff leaving indemnities - Employee benefits presented on the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liability recognised in the balance sheet for post-employment benefit plans is the present value of the defined benefit obligation, as adjusted for unrecognised actuarial gains and losses and unrecognized past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method.

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

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

Bank overdrafts and loans - Bank overdrafts and loans are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments - The Group uses derivative financial instruments to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivatives are measured at fair value at the end of each reporting period.

Hedging relationships are of two types, "fair value hedge" or "cash flow hedge". A "fair value hedge" is a hedge of the exposure to changes in the fair value of an asset or liability that is already recognized in the balance sheet. A "cash flow hedge" is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability or to a forecasted transaction.

The gain or loss from the change in fair value of a hedging instrument qualifying as a "fair value hedge" is recognized immediately in net profit or loss. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which also is recognized immediately in net profit or loss.

The gain or loss from the change in fair value of a hedging instrument qualifying as a "cash flow hedge" is recognized directly in equity.

The gain or loss from the change in fair value of a derivative financial instrument which does not qualify as a hedging instrument is recognized immediately in net profit or loss.

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

Foreign currencies - Transactions in currencies other than the Euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such

currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period. Non-monetary assets and liabilities recorded at the rates of exchange prevailing on the dates of the transactions are not retranslated on the balance sheet date.

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

INCOME STATEMENT

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

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

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

Research and development expenses - All research costs are expensed in the income statement in the year in which they are incurred in accordance with IAS 38. IAS 38 prescribes that development costs must be capitalized when technical and commercial feasibility is achieved. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines under IAS 38 are not met so that development costs are expensed as incurred. Research and development costs include amounts due under collaboration agreements with third parties.

Non-reimbursable government grants - Government grants towards investment in plant are recognized as income over the periods necessary to match them with the related costs and are stated in the balance sheet as deferred income. Non-reimbursable government grants are booked to the income statement, against depreciation, on an accruals basis and carried forward, as pre-paid income, in relation to the estimated useful life of the assets to which they refer. Research grants are booked on an accrual basis and are recognized in the income statement as other revenue.

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

Taxation - Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year and tax rates in force at the date of the balance sheet are applied.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

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

3. REVENUE

Net revenue for the years 2009 and 2008 is € 747.5 million and € 689.6 million respectively and can be broken down as follows:

€ (thousands)	2009	2008	Change 2009/2008
Net sales	729,935	669,790	60,145
Royalties	6,227	5,546	681
Up-front payments	4,266	6,749	(2,483)
Other revenue	7,096	7,549	(453)
Total revenue	**747,524**	**689,634**	**57,890**

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

4. OPERATING EXPENSES

Total operating expenses for the years 2009 and 2008 are € 585.3 million and € 544.9 million respectively and are analyzed by function as follows:

€ (thousands)	2009	2008	Change 2009/2008
Cost of sales	235,623	222,196	13,427
Selling expenses	223,724	214,245	9,479
Research and development expenses	69,445	58,860	10,585
General and administrative expenses	43,718	39,372	4,346
Other income (expense), net	12,810	10,231	2,579
Total operating expenses	**585,320**	**544,904**	**40,416**

Labor cost in 2009 is € 185.8 million, an increase of 4.6% compared to 2008 due to the consolidation of the companies Yeni Recordati Ilaç and Herbacos Recordati. Labor cost includes charges of € 0.9 million related to stock option plans determined in accordance with IFRS 2.

Depreciation and amortization charges are € 34.8 million. Depreciation of property, plant and equipment is € 11.1 million, in line with that in 2008. Amortization of intangibles went from € 18.3 million in 2008 to € 23.7 million in 2009, an increase of € 5.4 million.

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

€ (thousands)	2009	2008	Change 2009/2008
Pay back AIFA (Italian Medicines Agency)	(4,728)	(4,568)	(160)
Personnel restructuring charges	(7,114)	(2,575)	(4,539)
Write-downs	(45)	(749)	704
Other risk provisions	(1,305)	(2,500)	1,195
Capital gain on sale of Jaba Recordati's production business	0	8,320	(8,320)
Termination of license agreements	0	(8,231)	8,231
Others	382	72	310
Total other income (expense), net	**(12,810)**	**(10,231)**	**(2,579)**

The pay back of € 4.7 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 two years, was extended to 2009.

The personnel restructuring charges refer to the downsizing of the sales forces in Italy, France and the United Kingdom and include a best estimate of the related liabilities as prescribed by IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. The other risk provisions include an increase of the provision for future charges resulting from sales returns.

5. FINANCIAL INCOME AND EXPENSE

In 2009 and 2008 financial items recorded a net expense of € 5.8 million and € 6.6 million respectively which are comprised as follows:

€ (thousands)	2009	2008	Change 2009/2008
Exchange gains (losses)	(286)	342	(628)
Interest expense on loans	(4,011)	(4,767)	756
Net interest income (expense) on short-term financial position	(775)	(1,446)	671
Interest cost in respect of defined benefit plans	(728)	(713)	(15)
Change in fair value of hedging derivatives	(752)	6,051	(6,803)
Change in fair value of hedged item	752	(6,051)	6,803
Total financial income (expense), net	**(5,800)**	**(6,584)**	**784**

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. GAIN OR LOSS ON OTHER INVESTMENTS

Losses on other investments recorded in 2009 are entirely related to the write-down of the equity investment in the U.S. company PureTech Ventures LLC to account for the relative loss of value, in the amount of € 3.8 million, estimated prudentially on the basis of the most recent available financial information and taking into consideration the particularly uncertain context within which the company operates.

7. PROVISION FOR INCOME TAXES

The provision for income taxes amounts to € 42.1 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies.

The current standard corporate income tax rate in Italy can be

reconciled with the tax rate effectively incurred on pretax income, as follows:

€ (thousands)	2009 %	2008 %
Standard income tax rate on pretax income of the parent company	27.5	27.5
Tax credit on costs incurred for research and development	(1.2)	0
Adjustment of deferred tax assets and liabilities	0	(1.0)
Dividends from foreign subsidiaries	0.4	0.3
Consolidation effect of subsidiaries	(3.1)	(4.2)
Other differences, net	1.1	1.6
Effective tax rate on income	24.7	24.2
IRAP	2.9	3.1
Effective tax rate, including IRAP	**27.6**	**27.3**

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

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, amounts to € 55.4 million and € 58.0 million at 31 December 2009 and 2008 respectively. The composition and variation of property, plant and equipment are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
Cost					
Balance at 31.12.08*	41,661	150,770	38,742	7,669	238,842
Additions	102	1,589	1,588	5,471	8,750
Disposals	(3,080)	(371)	(490)	0	(3,941)
Changes in reporting entities	238	863	24	147	1,272
Other changes	524	5,873	1,576	(8,053)	(80)
Balance at 31.12.09	**39,445**	**158,724**	**41,440**	**5,234**	**244,843**
Accumulated depreciation					
Balance at 31.12.08*	24,456	123,538	32,879	0	180,873
Additions	1,529	7,614	1,960	0	11,103
Disposals	(2,482)	(262)	(435)	0	(3,179)
Changes in reporting entities	73	575	71	0	719
Other changes	2	209	(265)	0	(54)
Balance at 31.12.09	**23,578**	**131,674**	**34,210**	**0**	**189,462**
Carrying amount at					
31 December 2009	15,867	27,050	7,230	5,234	55,381
31 December 2008	17,205	27,232	5,863	7,669	57,969

** Opening balances restated to include adjustments to the provisional values used in the initial accounting for the Yeni Ilaç acquisition with no impact on the net book value of each asset class.*

The land and buildings located in Milan, Italy have been pledged to secure loans granted by Istituto Bancario Intesa Sanpaolo which have a residual value of € 1.0 million.

Disposals refer mainly to the sale of a plant held under financial lease following its redemption and write-down in 2008 to adjust its value to the selling price. The sale did not generate any gain or loss in 2009.

The carrying amount of the group's land and buildings held under financial leases is of € 0.2 million (€ 0.8 million at 31 December 2008).

Additions during 2009 of € 8.8 million refer mainly to investments involving the Milan headquarters and the production plants in Campoverde di Aprilia (Italy) and in Saint Victor (Montluçon, France).

Changes in reporting entities arise from the consolidation of Herbacos-Bofarma. The net book value of its tangible fixed assets is € 0.6 million.

9. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 31 December 2009 and 2008 amounted to € 96.5 million and € 92.6 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31.12.08	83,888	79,049	14,615	8,639	186,191
Additions	89	18,897	129	2,051	21,166
Write-downs	0	(37)	0	(8)	(45)
Disposals	(783)	(1,729)	(1)	(349)	(2,862)
Changes in reporting entities	7,896	15	180	323	8,414
Other changes	868	486	18	(1,160)	212
Balance at 31.12.09	**91,958**	**96,681**	**14,941**	**9,496**	**213,076**
Accumulated amortization					
Balance at 31.12.08	43,601	35,642	14,313	0	93,556
Additions	11,852	11,591	268	0	23,711
Disposals	(638)	(1,504)	0	0	(2,142)
Changes in reporting entities	1,041	15	160	0	1,216
Other changes	740	(455)	(62)	0	223
Balance at 31.12.09	**56,596**	**45,289**	**14,679**	**0**	**116,564**
Carrying amount at					
31 December 2009	35,362	51,392	262	9,496	96,512
31 December 2008	40,287	43,407	302	8,639	92,635

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

Additions during the year included € 18.5 million for the acquisition

of marketing rights in Italy and Portugal for TransAct® LAT (a flurbiprofen based transdermal system).

The intangible assets of Herbacos-Bofarma, the new company acquired with total net assets of € 7.2 million, are classified within the line item "Changes in reporting entities". The amount for these assets also includes a part (€ 3.6 million, before tax) of the difference between the acquistion cost and the book value of those assets up to the relative fair value with particular reference to three speciality pharmaceuticals held in the portfolio of the company acquired. It is estimated, on the basis of a knowledge of the market in which the company acquired operates and on the basis of historical data for sales of these specialties, that the useful life of the intangible assets is 20 years.

10. GOODWILL

Goodwill, net of accumulated amortization, at 31 December 2009 and 2008 amounted to € 303.6 million and € 289.8 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31.12.08	327,486
Acquisition of Herbacos-Bofarma	13,667
Exchange rate adjustment on goodwill arising from acquisition of Herbacos-Bofarma	273
Exchange rate adjustment on goodwill arising from acquisition of Yeni Ilaç	(109)
Balance at 31.12.09	**341,317**
Accumulated amortization	
Balance at 31.12.08	37,664
Changes during the year	0
Balance at 31.12.09	**37,664**
Carrying amount at	
31 December 2009	303,653
31 December 2008	289,822

In accordance with IFRS 3, the final allocation was performed of the acquisition price paid for the acquisition of Yeni Ilaç, a Turkish company purchased at the end of 2008 and Herbacos-Bofarma, a Czech company acquired in January 2009.

For Yeni Ilaç the entire difference between the amount paid and the book value of the assets and liabilities acquired was finally allocated to the item goodwill since the process of measuring the fair value of the assets and liabilities identified at the acquisition date did not produce any items to be allocated to the cost of the acquisition. Moreover the recognition of the goodwill relating to the acquisition of Yeni Ilaç stated in local currency did not differ from that recognised when the acquisition was performed. Its value was therefore only adjusted on the basis of its value following the change in the exchange rate between the euro and the Turkish lira.

Intangible assets were identified in relation to the acquisition of Herbacos-Bofarma, the fair value of which was greater than the corresponding book value. Consequently the difference between the purchase price and the book value of the assets and liabilities acquired was allocated as follows: € 3.6 million to intangible assets (up to the fair value of the assets themselves, as reported in the previous note 9) and € 13.7 million to the item goodwill. It was considered with regard to that allocation that the value of the acquisition lay in its strategic character which gives the group a direct presence on Eastern European markets. Details of the adjustments are given in note 31. For this acquisition also the value of the goodwill was calculated in foreign currency and the change in value due to changes in the euro and Czech crown exchange rate were therefore recognised.

Net goodwill at 31 December 2009, amounting to € 303.6 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: € 39.8 million;
- Herbacos-Bofarma: € 13.9 million.

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

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

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

The average weighted cost of capital reflects current market valuations of the cost of money and the specific risk attaching to the cash generating units. It was estimated at 7.30% before tax, with the exception of the cash generating units relating to the Yeni Ilaç (Turkey) and Herbacos-Bofarma (Czech Republic and Slovakia) acquisitions, estimated at 12.50% and 8.20% respectively in order to take into account the characteristics of these countries.

Operating cash flow forecasts for the explicit period of five years were taken from the 2010 budget, approved by the Board of Directors of the Parent Company, and, for the four-year period 2011-2014, from a projection of that forecast based on reasonable assumptions in line with the contents of the budget and consistent with the 2009-2011 business plan approved by the Board of Directors. More specifically, revenues and direct costs were forecast on the basis of historical data and assumptions concerning the sales of existing products with the life of existing contracts and, where considered sufficiently probable, new

products currently being developed and registered, taken into account.

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

The value in use, calculated according to the procedures described for each cash generating unit, was examined and approved by the Board of Directors: in all cases it was greater than the book value recognised in the financial statements at 31 December 2009 and therefore no loss in the value of goodwill was recognised.

11. OTHER INVESTMENTS

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

€ (thousands)	Balance sheet value		Percentage of equity owned	
	31.12.09	31.12.08	31.12.09	31.12.08
PureTech Ventures LLC	1,472	5,224	14.1%	14.1%
Atlantic Pharma S.A.	1,792	1,792	10.0%	10.0%
Technogen Associates L.P., U.S.A.	104	104	n.s.	n.s.
Maxygen Inc., U.S.A.	118	179	n.s.	n.s.
Tecnofarmaci S.p.A., Pomezia (Rome)	87	87	4.2%	4.2%
Consorzio C4T, Pomezia (Rome)	78	78	2.3%	2.3%
Alavita Inc., U.S.A.	63	63	n.s.	n.s.
DAFNE, Reggello (Florence)	2	2	1.6%	1.7%
Other	0	3	-	n.s.
Total equity investments	3,716	7,532		

The change in this item was due mainly to the partial write-down of the investment in the United States company PureTech Ventures LLC. which specialises in investments in start-up companies in the field of new therapies, medical devices and new research technologies. Its book value was written down to account for a loss in value of € 3.8 million, estimated on the basis of the most recent financial statements available and with the uncertainty of the context in which the company operates taken into account.

The amount for the residual 10% investment in the company Atlantic Pharma S.A. (€ 1.8 million) not transferred to the Portuguese pharmaceuticals group was recognised within this item. The company was formed in 2008 for the disposal of the industrial operations of Jaba Recordati in Portugal.

12. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 31 December 2009 are € 3.8 million and include the present value of the residual receivable (€ 2.7 million) related to the settlement from Swedish Orphan which is due in two equal annual installments as from 2011. The booking to current assets of the installment due in 2010 (€ 1.5 million) is the main reason for the decrease of other non-current assets as compared to those as at 31 December 2008.

13. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2009 and 2008 amount to € 21.8 million and € 22.6 million respectively, a reduction of € 0.8 million. The main deferred tax assets and their change in 2009 are analyzed below.

€ (thousands)	2009	2008
Balance at 1 January	22,650	21,324
Additions	4,002	3,862
Utilizations	(4,859)	(2,536)
Balance at 31 December	21,793	22,650

€ (thousands)	Revaluation of intangible assets	Profit and loss temporary differences	Other	Total
Balance at 31.12.2008	9,154	6,480	7,016	22,650
Additions	0	3,514	488	4,002
Utilization	(2,075)	(2,681)	(103)	(4,859)
Balance at 31.12.2009	7,079	7,313	7,401	21,793

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

14. INVENTORIES

Inventories at 31 December 2009 and 2008 amount to € 86.6 million and € 83.1 million respectively, net of their respective obsolescence provisions of € 4.1 million and € 1.8 million. Composition of inventories is as follows:

€ (thousands)	31.12.2009	31.12.2008	Change 2009/2008
Raw materials and supplies	21,336	22,472	(1,136)
Intermediates and work-in-process	14,908	13,225	1,683
Finished goods	50,383	47,390	2,993
Total inventories	86,627	83,087	3,540

The increase in inventories is correlated to the growth of sales volumes. The consolidation effect related to the acquisition of Herbacos-Bofarma is € 1.3 million.

15. TRADE RECEIVABLES

Trade accounts receivable at 31 December 2009 and 2008 amount to € 132.6 million and € 137.0 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2009 is € 7.5 million (€ 6.5 million at 31 December 2008) and is considered to be sufficient to cover potential losses of certain receivables which, due to the nature of the customers in question or the destination markets, may be difficult to collect. Average days of sales outstanding are 61 (66 at 31 December 2008). The consolidation of Herbacos-Bofarma accounts for an increase in trade receivables of € 0.9 million.

16. OTHER RECEIVABLES

Other receivables amount to € 23.0 million (€ 22.7 million at 31 December 2008) and their breakdown is as follows:

€ (thousands)	31.12.2009	31.12.2008	Change 2009/2008
Tax receivable	11,773	10,965	808
Balances due from employees and agents	2,945	1,861	1,084
Other	8,272	9,915	(1,643)
Total other receivables	**22,990**	**22,741**	**249**

Tax receivable comprises value added tax (VAT) receivable (€ 5.3 million) and advance payments of income tax exceeding those required. Receivables from employees and agents comprise advances on expense accounts and other credits. The "other" line includes the current installment due related to the Swedish Orphan settlement (€ 1.5 million), as well as advances paid to suppliers and other parties and to computed credits under licensing-in agreements. The consolidation of Herbacos-Bofarma accounts for an increase of € 0.2 million.

17. OTHER CURRENT ASSETS

At 31 December 2009 other current assets amount to € 2.6 million (€ 2.3 million at 31 December 2008) and relate mainly to prepaid expenses. The consolidation of Herbacos-Bofarma accounts for € 0.1 million.

18. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

A break down is shown in the following table.

€ (thousands)	31.12.2009	31.12.2008	Change 2009/2008
Short term financial investments	4,641	3,505	1,136
Short term time deposits	51,304	57,404	(6,100)
Deposits in bank current accounts	37,760	34,008	3,752
Cash on hand	70	34	36
Total short term financial investments, cash and cash equivalents	**93,775**	**94,951**	**(1,176)**

Short term financial investments as at 31 December 2009 are in euro denominated, low risk financial instruments which can be easily unwound. Short term time deposits have maturities of three months or less and are denominated in euro, in U.S. dollars and in pounds sterling.

At 31 December 2009 cash and cash equivalents are denominated mainly in euro (€ 50.0 million). Cash deposits in U.S. dollars amount to 24.8 million and are held mostly by Recordati Corporation, while those in pounds sterling are 14.5 million and are held by Recordati Pharmaceuticals Ltd..

These financial resources are maintained, even if there is financial debt on the balance sheet, in order to have the necessary funds readily available to support the group's acquisition strategy.

The short term financial investments and cash and cash equivalents held by Herbacos-Bofarma are € 1.7 million.

19. SHAREHOLDERS' EQUITY

Share capital - At 31 December 2009 the issued and fully paid share capital consists of 209,125,156 ordinary shares with a par value of € 0.125 each for a total of € 26,140,644.50.

During 2009 share capital increased by € 77,187.50 following the issue of 617,500 new ordinary shares, of which 59,500 at a price of € 3.575 each and 558,000 at a price of € 4.055 each, to company managers who exercised stock options under the 2003-2007 stock option plan.

As at 31 December 2009 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 December 2009 are analyzed in the following table.

€ (thousands)	Strike price (€)	Options outstanding at 1.1.2009	Options granted during 2009	Options exercised during 2009	Options cancelled or expired	Options outstanding at 31.12.2009
Date of grant						
7 April 2004	3.5750	59,500	-	(59,500)	0	0
27 October 2004	4.0550	561,500	-	(558,000)	(3,500)	0
6 April 2006	6.4975	2,045,000	-	0	(180,000)	1,865,000
29 October 2008	4.0730	3,875,000	-	0	(85,000)	3,790,000
11 February 2009	3.8940	-	220,000	0	0	220,000
27 October 2009	4.8700	-	4,065,000	0	0	4,065,000
Total		6,541,000	4,285,000	(617,500)	(268,500)	9,940,000

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

Riserva sovrapprezzo azioni - During 2009 additional paid-in capital increased from € 81.3 million to € 83.7 million following the issue of 617.500 new shares for a total price in excess of par value of € 2.4 million.

Treasury stock - At 31 December 2009, 11,472,355 shares were held as treasury stock for a total cost of € 59.1 million, unchanged as compared to 31 December 2008. The average purchase price per share is € 5.15.

Hedging reserve - In accordance with IAS 39 the € 4.0 million liability arising from the measurement at fair value at 31 December 2009 of interest rate swaps qualifying as a cash flow hedge is recognized directly in equity as a hedging reserve.

Other reserves - These amount to € 25.0 million at 31 December 2009 and include the statutory reserve of the parent company in the amount of € 5.2 million, reserves for grants received for a total of € 15.4 million, and reserves arising from the application of IFRS 2 and IAS 19 of € 2.7 million and € 1.7 million respectively.

Retained earnings and net income for the year - These amount to € 332.8 million at 31 December 2009 and increased by € 51.9 million as compared to 31 December 2008. Net income for the year is € 110.6 million, an increase of 10.1% over the € 100.4 million 2008 net income.
The shareholders' equity of the Italian companies includes untaxed reserves of € 101.1 million, net of € 16.6 million withholding tax already paid, and their distribution is subject to taxation under fiscal law. In accordance with IAS 12 deferred taxes are not recognized on these reserves until their distribution is resolved.

20. MINORITY INTEREST

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

21. LOANS

At 31 December 2009 and 2008, medium and long-term loans include:

€ (thousands)	31.12.2009	31.12.2008
Loans granted to Recordati S.p.A.:		
Istituto Bancario Intesa Sanpaolo loans, guaranteed by mortgages on the Milan and Campoverde plants, at an average annual interest rate of 0.99% repayable in semi-annual installments through 2010	1,050	2,034
Research loans granted by Istituto Bancario Intesa Sanpaolo, at an average annual interest rate of 2.49%, repayable in semi-annual installments through 2009	0	452
Loans granted by the Ministry of Industry and Commerce repayable in annual installments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0.825% before that	530	652
Loans granted to other Group companies:		
Various loans granted to Recordati España S.L. at an average annual interest rate of 2.33%	600	1,054
Loans granted to Bouchara-Recordati S.a.s. at an average annual interest rate of 4.60%	247	386
Various loans granted to FIC S.A.S. at an average annual interest rate of 5.00%	201	249
Loan granted by Komercni Banka to Herbacos-Bofarma at an annual interest rate of 2.89%, repayable in quarterly installments through 2012	1,689	-
Guaranteed senior notes issued by Recordati S.A. (Luxembourg) privately placed with international institutional investors:		
€ 15 million at a fixed interest rate of 4.52% due 2011		
$ 40 million at a fixed interest rate of 5.50% due 2014		
€ 26 million at a fixed interest rate of 5.02% due 2014		
£ 5 million at a fixed interest rate of 6.09% due 2014	* 80,349	* 80,288
Total amortized cost of loans	**84,666**	**85,115**
Portion due within one year	(2,419)	(2,201)
Portion due after one year	**82,247**	**82,914**
Change in the fair value of loans	(2,257)	(1,505)
Total	**79,990**	**81,409**

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

The average effective interest rate at 31 December 2009, applying the rates resulting from the interest rate swaps, is 4.50%.

At 31 December 2009, the repayment schedule of long-term debt due after 2010 is as follows:

€ (thousands)	
2011	16,228
2012	339
2013	307
2014	65,373
Total	82,247

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;
- 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 December 2009 generated a liability of € 2.3 million, an amount equivalent to the decrease in the fair value of the underlying debt. This amount is recognized in the balance sheet as an decrease of debt and under current liabilities as 'Fair value of hedging derivatives *(fair value hedge)*'.

The total amount of the notes was simultaneously covered with a further interest rate swap, qualifying as a cash flow hedge, to fix a range (which at 31 December 2009 is between 3.53% and 4.85%) within which the interest rate can fluctuate in order to optimize the cost of financing for the duration of the notes. The € 4.0 million fair value of the cash flow hedge is recognized directly in equity and stated as a current liability (see Note 29).

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

The consolidation of Herbacos-Bofarma accounts for € 2.7 million.

22. STAFF LEAVING INDEMNITIES

This provision at 31 December 2009 and 2008 is € 19.9 million and € 19.6 million respectively and reflects the Group's obligation towards its employees determined in accordance with IAS 19. The roll forward of this fund is as follows:

€ (thousands)	2009	2008
Balance at 1 January	19,624	20,431
Additions	1,493	1,425
Utilization	(2,392)	(2,111)
Change in fair value of the TFR funds in Italian companies	1,170	(377)
Consolidation of FIC and FIC Médical	-	66
Consolidation of Yeni Ilaç	-	190
Balance at 31 December	19,895	19,624

The main part of this liability is to be attributed to the staff leaving indemnity fund (TFR, *trattamento fine rapporto*) in the Italian companies. The value of this fund at 31 December 2009 as measured in accordance with IAS 19 amounts to € 14.3 million. The fair value calculation made using actuarial parameters updated at 31 December 2009 determined an adjustment of € 1.2 million compared to the value of the fund at 31 December 2008 which is recognized directly in equity as prescribed by IAS 19. The remaining part of this provision comprises employee benefit plans in the French subsidiary Laboratoires Bouchara Recordati (€ 3.7 million), in the German subsidiary Merckle Recordati (€ 0.8 million) and in Orphan Europe (€ 0.7 million).

23. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2009 and 2008 are € 5.7 million and € 7.4 million respectively, and changed as follows:

€ (thousands)	2009	2008
Balance at 1 January	7.399	9.681
Additions	850	1.012
Utilization	(3.301)	(3.340)
Changes in reporting entities	713	46
Balance at 31 December	5.661	7.399

At 31 December 2009 no deferred tax liabilities exist in relation to subsidiaries' undistributed earnings because no significant additional tax must be paid by the group in the event of these dividend distributions as they are essentially exempt from dual income taxation.

24. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2009 amount to € 6.2 million, valued at net present value as required by the accounting

principles, and include:

- the balance due in 2011 for the acquisition of the marketing rights to TransAct® LAT for an amount of € 4.5 million;
- the installment due in 2011 of the price still to be paid for the acquisition of FIC and FIC Médical for an amount of € 0.5 million;
- the equal due in 2011 and 2012 of the residual liability due for the acquisition of Orphan Europe following the settlement with Swedish Orphan for a total amount of € 1,2 million.

25. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include allocations for invoices to be received, at 31 December 2009 and 2008 amount to € 81.8 million and € 88.6 million respectively. The consolidation of Herbacos-Bofarma determined an increase of € 2.1 million.

26. OTHER PAYABLES

Other accounts payable at 31 December 2009 and 2008 amount to € 48.4 million and € 47.1 million respectively. Their composition is as follows:

€ (thousands)	31.12.2009	31.12.2008	Change 2009/2008
Personnel	19,399	16,699	2,700
Social security	11,363	10,682	681
Agents	617	464	153
Balance due for the acquisition of equity	1,625	3,562	(1,937)
Balance due for the acquisition of product marketing rights	4,500	7,224	(2,724)
Other	10,902	8,516	2,386
Total other payables	**48,406**	**47,147**	**1,259**

The balance due for the acquisition of equity comprises the amounts still due for the acquisition of Orphan Europe (€ 0.6 million) and FIC and FIC Médical (€ 1.0 million). The reduction is due to the payment of the installments due in 2009 related to these acquisitions.

The balance due for the acquisition of product marketing rights refers to the amount due in 2010 for the acquisition of the marketing rights to TransAct® LAT. At 31 December 2008 they referred to the amount still due for the acquisition by Recordati Ireland of the rights to Kentera® (€ 4.0 million), and to that due for the acquisition by Merckle Recordati of Ortoton® (€ 3.2 million). These amounts were settled in 2009.

The consolidation of Herbacos-Bofarma accounts for € 0.2 million.

27. TAX LIABILITIES

Tax liabilities at 31 December 2009 and 2008 amount to € 12.6 million and € 10.3 million respectively and include tax provisions computed by the companies on the basis of estimated taxable income, net of tax advances already paid, and withholding taxes payable.

28. PROVISIONS

Tax and other provisions are included as follows:

€ (thousands)	31.12.2009	31.12.2008	Change 2009/2008
Tax	5,626	3,660	1,966
Other	16,352	11,434	4,918
Total provisions	**21,978**	**15,094**	**6,884**

Changes in provisions are as follows:

€ (thousands)	2009	2008
Balance at 1 January	15,094	10,076
Additions	11,646	9,685
Utilization	(4,762)	(4,667)
Balance at 31 December	**21,978**	**15,094**

The provision for taxes includes an amount to cover the following tax assessment. 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 No. 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. In view of the abovementioned second instance decision, accruals were made for the total tax liabilities, interest and penalties.

Other provisions include amounts set aside for future contingencies which are uncertain as to timing and value. The substantial net increase is mainly due to amounts set aside to cover restructuring charges relative in particular to the downsizing of the sales forces in Italy, France and the United Kingdom which include a best estimate of the related liabilities as prescribed by IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* (€ 3.0 million), as well as for other risks.

29. FAIR VALUE OF HEDGING DERIVATIVES

The interest rate swaps covering the cash flows related to medium and long-term loans measured at fair value at 31 December 2009 give rise to a € 4.0 million liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans. The entire liability refers to an interest rate swap defining a collar which limits the fluctuation of the interest rates payable on the guaranteed senior notes issued by Recordati S.A. Chemical & Pharmaceutical Company.

30. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts at 31 December 2009 and 2008 amount to € 28.9 million and € 90.8 million respectively. In April Recordati S.p.A. 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 December 2009 the lines of credit were only partly drawn down (€ 20.0 million). These short term financing instruments allow for flexible cash management by combining their non revocable nature with variable draw downs to match specific funding requirements.

31. ACQUISITION OF SUBSIDIARY

In January 2009 the group acquired 100% of the share capital of the Czech company Herbacos-Bofarma s.r.o. and its Slovak subsidiary HB Pharm s.r.o.. Both companies are well-known on the Czech and Slovak markets where they sell medicines belonging to a number of therapeutic areas, in particular analgesics, anti-inflammatory drugs and dermatologicals. For the whole of 2009 the acquired companies contributed a net income of € 1.7 million.

The effect of the acquisitions, already included in each single note, is analyzed hereunder.

€ (thousands)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
Non-current assets			
Property, plant and equipment	553	0	553
Non-current receivables	3,612	3,585	7,197
Current assets			
Trade receivables	1,279	0	1,279
Other receivables	927	(73)	854
Other current assets	241	0	241
Short-term financial investments, cash and cash equivalents	61	0	61
Non-current assets	**1,680**	**0**	**1,680**
Non-current liabilities			
Loans	(2,477)	0	(2,477)
Staff leaving indemnities	(19)	(694)	(713)
Deferred tax liabilities			
Other liabilities	(2,043)	(40)	(2,083)
Current liabilities	(193)	0	(193)
Trade payables	(17)	0	(17)
Other payables	(13)	0	(13)
Taxes payable	(2)	0	(2)
	3,589	**2,778**	**6,367**
Goodwill			13,667
Cost of acquisition			**20,034**

In accordance with IFRS 3 the difference between the purchase price and the book value of the assets and liabilities acquired was recognized on a definite basis by allocating € 3.6 million worth to a number of proprietary products in the portfolio, the useful life of which was estimated to be 20 years, and the residual amount of € 13.7 million to goodwill. It was considered with regard to that allocation that the value of the acquisition lay in its strategic character which gives the group a direct presence on Eastern European markets.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IAS 32 hereunder are stated the balance sheet values and fair values at 31 December 2009 of financial assets and liabilities:

€ (thousands)	Book value	Fair value
Financial assets		
Short-term financial investments, Cash and cash equivalents	93,775	93,775
Trade receivables	132,621	132,621
Equity investments	3,716	3,716
Other receivables	22,990	22,990
Financial liabilities		
Borrowings		
- loans at fixed interest rates covered with interest rate swaps	78,092	78,092
- loans at fixed interest rates	2,381	1,694
- loans at variable interest rates	1,936	1,936
Trade payables	81,751	81,751
Other payables	60,961	60,961
Hedging derivatives *(cash flow hedge)*	4,040	4,040
Hedging derivatives *(fair value hedge)*	2,257	2,257
Bank overdrafts and short-term loans	28,852	28,852

33. DISCLOSURE OF FINANACIAL RISKS

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

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

Credit Risk - The Group closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. At 31 December 2009 the credit exposure is not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. In particular, at 31 December 2009, total trade receivables of € 140.1 million include € 13.7 million of receivables overdue by more than 90 days. Of these, € 2.7 million are due by Italian public hospitals which, despite their very long payment times, do not represent a significant risk situation. An allowance for doubtful accounts of € 7.5 million, which is considered to be sufficient to cover potential losses on collection, is in place.

Interest Rate Risk - The Group raises funds using debt and invests excess cash in money market and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Group's net financial charges. The Group's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or by using derivative financial instruments, which are used to hedge risk and are never of a speculative nature, to minimize such fluctuations, as described in note 21. As a result of this policy and considering the current amount of net debt, it is believed that the change in current interest rates would not have a significant impact on net financial expenses.

Foreign Currency Risk - The Group is exposed to foreign currency exchange rate fluctuations which can affect its operating results and the value of its equity. In particular, the group is exposed to exchange rate fluctuations on its trade balances denominated in currencies other than the euro, such as U.S. dollars, Japanese yen, GB pounds, Swiss francs. The net exposure to these currencies is, however, marginal when compared to the group's business volumes. As at 31 December 2009 group positions in these currencies are the following:
net receivables in GB pounds of 7.3 million;
net receivables in U.S. dollars of 1.5 million;
net receivables in Japanese yen of 75.6 million.

Some of the group companies are located outside the European Monetary Union and their income statements and balance sheets are converted from their local currencies into euro. At 31 December 2009 the net equity values of these companies are denominated mainly in U.S. dollars (21.7 million), in GB pounds (12.6 million), in Swiss francs (6.2 million), in Turkish lira (24.9 million) and, following the acquisition of Herbacos-Bofarma, in Czech crowns (215.5 million). The effect of exchange rate variations on the conversion of these values is recognized in shareholders' equity and at 31 December 2009 is negative by € 6.2 million.

Liquidity Risk - The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for the its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. At 31 December 2009 the group has at its disposal an ample supply of liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's financial assets and its loans are set out in notes 18, 21 and 30 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts at their natural due dates.

34. OPERATING SEGMENTS

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

Following the acquisition of Orphan Europe two main business segments can be identified, the pharmaceutical segment and the orphan drugs segment. The following table shows financial information for these two business segments as at 31 December 2009 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
2009				
Revenues	698,645	48,879	-	747,524
Expenses	(545,502)	(39,818)	-	(585,320)
Operating income	**153,143**	**9,061**	**-**	**162,204**
2008				
Revenues	645,763	43,871	-	689,634
Expenses	(509,993)	(34,911)	-	(544,904)
Operating income	**135,770**	**8,960**	**-**	**144,730**

** Includes the pharmaceutical chemicals operations*

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated**	Consolidated accounts
31 December 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**		
31 December 2008				
Non-current assets	346,600	121,675	7,532	475,807
Inventories	78,895	4,192	-	83,087
Trade payables	127,552	9,463	-	137,015
Other current assets	19,719	5,368	-	25,087
Short-term investments, cash and cash equivalents	-	-	94,951	94,951
Total assets	**572,766**	**140,698**	**102,483**	**815,947**
Non-current liabilities	27,818	2,394	81,409	111,621
Current liabilities	147,622	13,880	97,082	258,584
Total liabilities	**175,440**	**16,274**	**178,491**	**370,205**
Net capital employed	**397,326**	**124,424**		

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

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

The following table presents net revenues by geographic area:

€ (thousands)	2009	2008	Change 2009/2008
Europe	678,096	622,301	55,795
of which Italy	*212,688*	*205,848*	*6,840*
Australasia	34,112	31,959	2,153
America	16,012	17,145	(1,133)
Africa	19,304	18,229	1,075
Total revenue	**747,524**	**689,634**	**57,890**

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

35. NET FINANCIAL POSITION

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

€ (thousands)	31.12.2009	31.12.2008	Change 2009/2008
Deposits in bank current accounts and cash on hand	37,830	34,042	3,788
Short-term time deposits	51,304	57,404	(6,100)
Short-term investments	4,641	3,505	1,136
Liquid assets	**93,775**	**94,951**	**(1,176)**
Bank overdrafts and short-term loans	(28,852)	(90,844)	61,992
Loans - due within one year	(2,419)	(2,201)	(218)
Short term borrowings	**(31,271)**	**(93,045)**	**61,774**
Net current financial position	**62,504**	**1,906**	**60,598**
Loans - due after one year	(1,898)	(2,626)	728
Loan notes issued (1)	(80,349)	(80,288)	(61)
Non-current loans	**(82,247)**	**(82,914)**	**667**
Net financial position	**(19,743)**	**(81,008)**	**61,265**

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

36. 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. The Company filed its entry of appearance. On 18 May 2004 and on 10 January 2005 the hearings for the final pleas of the parties took place. 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. 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. A further hearing is planned to take place on 17 March 2010.

RECORDATI S.p.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2009

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	8,500,000.00	Euro	Line-by-line
JABA RECORDATI S.A. *Development, production, marketing and sales of pharmaceuticals*	Portugal	2,000,000.00	Euro	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. *Development, production, marketing and sales of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. *Development, production, marketing and sales of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S. *Holding company*	France	57,000,000.00	Euro	Line-by-line
ORPHAN EUROPE HOLDING S.A. *Holding company*	France	1,701,260.00	Euro	Line-by-line
ORPHAN EUROPE OPERATIONS S.A.S. *Marketing and sales of pharmaceuticals*	France	5,112,000.00	Euro	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
ORPHAN EUROPE SWITZERLAND GmbH *Marketing and sales of pharmaceuticals*	Switzerland	20,000.00	CHF	Line-by-line
ORPHAN EUROPE MIDDLE EAST FZ LLC *Marketing and sales of pharmaceuticals*	United Arab Emirates	100,000.00	AED	Line-by-line
ORPHAN EUROPE NORDIC A.B. *Marketing and sales of pharmaceuticals*	Sweden	100,000.00	SEK	Line-by-line
ORPHAN EUROPE PORTUGAL LDA *Marketing and sales of pharmaceuticals*	Portugal	5,000.00	Euro	Line-by-line
ORPHAN EUROPE S.A.R.L. *Development, production, marketing and sales of pharmaceuticals*	France	320,000.00	Euro	Line-by-line
ORPHAN EUROPE UNITED KINGDOM LTD *Marketing and sales of pharmaceuticals*	United Kingdom	50,000.00	GBP	Line-by-line
ORPHAN EUROPE GERMANY GmbH *Marketing and sales of pharmaceuticals*	Germany	25,564.69	Euro	Line-by-line
ORPHAN EUROPE SPAIN S.L. *Marketing and sales of pharmaceuticals*	Spain	37,563.27	Euro	Line-by-line
ORPHAN EUROPE ITALY S.R.L. *Marketing and sales of pharmaceuticals*	Italy	40,000.00	Euro	Line-by-line
ORPHAN EUROPE BENELUX BVBA *Marketing and sales of pharmaceuticals*	Belgium	18,600.00	Euro	Line-by-line
FIC S.A.S. * *Marketing and sales of pharmaceuticals*	France	100,000.00	Euro	Line-by-line
FIC MEDICAL S.A.R.L. * *Marketing and sales of pharmaceuticals*	France	9,999.89	Euro	Line-by-line
YENI RECORDATI ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret A.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 ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. **** *Marketing and sales of pharmaceuticals*	Turkey	5,000.00	TRY	Line-by-line

* Acquired during 2008 - P&L consolidated as from 1 April 2008
** Acquired during 2008 - Balance Sheet consolidated in 2008
*** Acquired in January 2009
**** 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
RECOFARMA S.R.L.	100.00%											100.00%
INNOVA PHARMA S.P.A.	100.00%											100.00%
RECORDATI ESPAÑA S.L.	90.00%	10.00%										100.00%
RECORDATI S.A. Chemical and Pharmaceutical Company	100.00%											100.00%
BOUCHARA RECORDATI S.A.S.	99.94%	0.06%										100.00%
RECORDATI PORTUGUESA LDA	98.00%	2.00%										100.00%
FARMARECORD LTDA		100.00%										100.00%
RECORDATI CORPORATION		100.00%										100.00%
RECORDATI IRELAND LTD		100.00%										100.00%
RECORDATI S.A.		100.00%										100.00%
LABORATOIRES BOUCHARA RECORDATI S.A.S.			100.00%									100.00%
MERCKLE RECORDATI GmbH				100.00%								100.00%
RECORDATI PHARMACEUTICALS LTD	3.33%	96.67%										100.00%
RECORDATI HELLAS PHARMACEUTICALS S.A.	1.12%	98.88%										100.00%
JABA RECORDATI S.A.				100.00%								100.00%
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.				100.00%								100.00%
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.				100.00%								100.00%
RECORDATI ORPHAN DRUGS S.A.S		100.00%										100.00%
ORPHAN EUROPE HOLDING S.A.	0.035%	0.035%			99.93%							100.00%
ORPHAN EUROPE OPERATIONS S.A.S.						100.00%						100.00%
ORPHAN EUROPE SWITZERLAND GmbH							100.00%					100,00%
ORPHAN EUROPE MIDDLE EAST FZ LLC							100.00%					100.00%
ORPHAN EUROPE NORDIC A.B.							100.00%					100.00%
ORPHAN EUROPE PORTUGAL LDA							100.00%					100.00%
ORPHAN EUROPE S.A.R.L.							100.00%					100.00%
ORPHAN EUROPE UNITED KINGDOM LTD								100.00%				100.00%
ORPHAN EUROPE GERMANY GmbH								100.00%				100.00%
ORPHAN EUROPE SPAIN S.L.								100.00%				100.00%
ORPHAN EUROPE ITALY S.R.L.								99.00%				99.00%
ORPHAN EUROPE BENELUX BVBA							99.46%	0.54%				100.00%
FIC S.A.S. *			100.00%									100.00%
FIC MEDICAL S.A.R.L. *									100.00%			100.00%
YENI RECORDATI ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret A. S. **				100.00%								100.00%
HERBACOS RECORDATI s.r.o. ***		100.00%										100.00%
HB PHARM s.r.o. ***										100.00%		100.00%
RUSFIC LLP ****			100.00%									100.00%
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S. ****											100.00%	100.00%

* *Acquired during 2008 - P&L consolidated as from 1 April 2008*
** *Acquired during 2008 - Balance Sheet consolidated in 2008*
*** *Acquired in January 2009*
**** *Established in 2009*

ATTESTATION IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS UNDER ARTICLE 154-BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Giovanni Recordati, in his capacity as the Chief Executive Officer of the Company, and Fritz Squindo, as the Manager responsible for the preparation of the Company's financial statements, pursuant to the provisions or Article 154-bis, clauses 3 and 4, of Legislative Decree no. 58 of 1998, hereby attest:

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

of the administrative and accounting procedures applied in the preparation of the Company's consolidated financial statements at 31 December 2009.

2. The undersigned moreover attest that:

2.1. the consolidated financial statements at 31 December 2009:

- have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002;
- correspond to the amounts shown in the Company's accounts, books and records; and
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries as at 31 December 2009 and for the year then ended.

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

Milan, 5 March 2010

Signed by
Giovanni Recordati
Chief Executive Officer

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

AUDITORS' REPORT

Deloitte.

[illegible]

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

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

1. We have audited the consolidated financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. and subsidiaries (the "Recordati Group"), which comprise the balance sheet as of December 31, 2009, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

   For the opinion on the prior year consolidated financial statements, the balances of which, presented for comparative purposes, have been reclassified to consider the changes to the financial statements required by the amendment of IAS 1, reference should be made to our auditors' report issued on March 20, 2009.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Recordati Group as of December 31, 2009, and of the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

[illegible]

4. The Directors of Recordati Industria Chimica e Farmaceutica S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure, published in the section *"Corporate Governance Reports"* of the internet website of Recordati Industria Chimica e Farmaceutica S.p.A., in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of the Recordati Group as of December 31, 2009.

DELOITTE & TOUCHE S.p.A.

Signed by
Riccardo Raffo
Partner

Milan, Italy
March 26, 2010

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

CORPORATE GOVERNANCE REPORT AND OWNERSHIP STRUCTURE

FINANCIAL YEAR 2009

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

Approved 5 March 2010 by the Board of Directors

Website: www.recordati.it

GLOSSARY

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

CC: the Italian Civil Code.

Board: the Board of Directors of the Issuer.

Issuer: Recordati S.p.A.

Year: the financial year to which this Report relates.

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

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

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

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

1. THE ISSUER

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

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

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

Unless otherwise indicated, the information contained in this report relates to the date of its approval by the Board of Directors (5 March 2010).

2. OWNERSHIP STRUCTURE (PURSUANT TO ART. 123-BIS, PARAGRAPH 1 OF THE TUF) (AT 5 MARCH 2010)

A) STRUCTURE OF SHARE CAPITAL (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, LETTER A) OF THE TUF)

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

The document entitled "Information on Recordati S.p.A.'s stock option plans" distributed to the market on 17 September 2007 and available on the Company website at address http://www.recordati.it/rec_it/investors/releases/2007/2007-09-17/ may be consulted for information on existing stock option plans and increases in the share capital at the service of those plans, as may page 134 and 135 of the draft separate company annual report.

STRUCTURE OF THE SHARE CAPITAL

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

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

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

B) RESTRICTIONS ON TRANSFER OF SECURITIES (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, LETTER B) OF THE TUF)

The shares of the Company are freely transferable.

C) SIGNIFICANT HOLDINGS IN SHARE CAPITAL (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, LETTER C) OF THE TUF)

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

SIGNIFICANT SHAREHOLDINGS

Declarant	Shareholder	Percentage (%) of ordinary share capital	Percentage (%) of voting share capital
FIMEI S.p.A.	FIMEI S.p.A.	51.166%	51.166%
	RECORDATI S.p.A.*	5.486%	5.486%
TORRE S.S.	TORRE S.S.	3.198%	3.198%
FIL LIMITED (The manager of the Fast European Fund which holds the shares)		2.002%	2.002%

** Treasury stock, without voting rights in accordance with the law*

D) SECURITIES WITH SPECIAL RIGHTS (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, LETTER D) OF THE TUF)

No securities with special rights of control have been issued.

E) SHARE HOLDING BY EMPLOYEES: EXERCISE OF VOTING RIGHTS (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, LETTER E) OF THE TUF)

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

F) RESTRICTIONS ON VOTING RIGHTS (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, LETTER F) OF THE TUF)

With particular regard to the terms for the exercise of voting rights, in compliance with the law and the By-Laws, for participation in shareholders meetings. Communications from intermediaries who keep the related accounts must be received at the registered offices of the Company at least two days, excluding festivities, prior to the date set for the meeting. Section 16 of this report may be consulted for further details.

G) SHAREHOLDERS' AGREEMENTS (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, LETTER G) OF THE TUF)

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

H) CHANGE OF CONTROL CLAUSES (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, LETTER H) OF THE TUF)

The Company and some of its subsidiaries are, in relation to their business operations, parties to some licensing agreements that include a clause, which is a normal provision in international agreements, authorising the Licensor to dissolve the contracts in the event of change of direct or indirect control of the Licensee.

In addition, a bond issue by the Luxembourg subsidiary, Recordati S.A. Chemical and Pharmaceutical Company, privately placed with international institutional investors and guaranteed by the Company, includes a clause, as is normal in financial operations of this type, which authorises the creditors to obtain an immediate refund if the control of the Company changes.

I) AUTHORISATION FOR INCREASE OF SHARE CAPITAL AND ACQUISITION OF TREASURY SHARES (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, LETTER M) OF THE TUF)

The Board of Directors was authorized to increase share capital, pursuant to CC art. 2443, by a Shareholders' Meeting of 11 April 2007.

The increase in the share capital may be performer in one or more tranches, gratuitously or by payment, for a total maximum amount of € 50,000,000 within a period of no more than five years from the date of the resolution, by issuing ordinary shares and/or warrants for the subscription to such shares, to assign or to offer as an option to shareholders, with the right pursuant to the joint provisions of CC art. 2441, last paragraph and TUF art. 134, second paragraph, to offer subscription to the shares to Recordati S.p.A. employees or to subsidiaries of the Company in relation to the stock option plans decided by the Shareholders' Meeting (and therefore with the possibility to exclude the option rights to one fourth of the new issue). To this date, the Board has not yet acted on this mandate, not even partially.

That same Shareholders' Meeting authorised Directors to decide the issue in one or more tranches, for a total maximum nominal amount of € 80,000,000, of bonds convertible to ordinary shares, or valid warrants to subscribe to such shares, to offer in option to shareholders within a period of no more than five years from the date of resolution, in observance of applicable law and regulations concerning the issuing of bonds, and at the same time, deciding an increase of share capital for the amount that corresponds to the nominal value of the shares to be attributed in conversion.

To this date, the Board has not yet acted on this mandate not even partially.

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

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

In ordinary session on 7 April 2009 a Shareholders' Meeting authorised the purchase of treasury shares, pursuant to CC articles 2357, until approval of the financial statements at 31 December 2009, scheduled for 13 April 2010. In particular, the maximum number of shares that may be acquired, after accounting for the number of treasury shares already held in the Company's portfolio, is 20,000,000, which corresponds to a total potential payment of not more than € 120,000,000, at a minimum price not less than the nominal value of Recordati shares (€ 0,125) and a maximum price not greater than the average of official Borsa prices during the five sessions prior to the acquisition, plus 5%. Acquisitions were made on regulated markets, in observance of art. 144bis, paragraph one, letter b), of the Consob Issuers' Regulations.
From 7 April 2009 to date, the Company has not acquired any treasury shares.
At the closing date of the Year, the Company held 11,472,355 treasury shares in portfolio, which represent 5,486% of the share capital.

L) MANAGEMENT AND CO-ORDINATION
(PURSUANT TO ART. 2497 ET SEQ OF THE CC)
Although controlled by Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A., the Company is not subject to management and co-ordination by the same, pursuant to CC articles 2497 et seq.
Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A. is a mere financial holding company with no operations of any kind; no procedures exist to furnish authorizations or instructions to the Company in its relations with the Parent Company.
The fully controlled Italian subsidiaries have acknowledged management and co-ordination by the Company and have fulfilled legal disclosure requirements in this respect.

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

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

3. COMPLIANCE (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 2, LETTER A) OF THE TUF)

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

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

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND SUBSTITUTION
(PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, LETTER L) OF THE TUF)

The appointment and replacement of directors is regulated by articles 15, 16 and 18 of the By-Laws which are reproduced in full below:

"Art. 15) - The Company is governed by a Board of Directors composed of six to sixteen members; the Shareholders' Meeting shall establish the number, pursuant to CC art. 2380 bis.
The directors may be appointed for a term of no more than three years, and they may be re-elected. They step down, are re-elected or substituted in accordance with the law and the By-laws.
The directors must have the qualifications established by provisions in force at the time; among them, a minimum number of Directors, corresponding to the minimum number established by the same provisions, must be qualified as independent, pursuant to TUF art. 148, third paragraph.
A director who loses the mandatory qualifications must step down. A Director who loses the characteristics of independence as defined above may remain in office if the same qualifications are still possessed by the minimum number of directors established by applicable laws and regulations.

Art. 16) The Board of Directors shall be appointed from lists of candidates presented by shareholders, according to the procedures as indicated below, in which the candidates are identified by progressive numbers.
The lists, signed by the shareholders who present them, must be deposited at the registered office of the Company at least fifteen days prior to the date of the first convention of the Shareholders' Meeting, available to anyone who requests to see them and they will also be subject to other forms of publicity in accordance with laws and regulations in force at the time.
Every shareholder, shareholders who participate in a significant shareholders' agreement pursuant to TUF art. 122, the parent company, subsidiaries and companies subject to joint control pursuant to TUF art. 93, may not present or contribute to the presentation of more than one list, not even by means of another person or trustee, nor may they vote for different lists, and each candidate may be listed in only one list or will be disqualified. The subscriptions and votes expressed in violation of this prohibition will not be attributed to any list.
Only shareholders individually or jointly possessing a total number of shares with voting rights representing at least 2.5% of capital stock with voting rights at ordinary meetings, or representing a lesser percentage as established by binding legislative or regulatory provisions which shall be specified in the notice of meeting, shall have the right to submit lists.
The following items must be filed for each list within the respective

deadlines set out above and as provided by applicable regulations: (i) certification issued ad hoc by a legally authorised intermediary attesting to the ownership of the number of shares required to submit a list; (ii) statements by each candidate to the effect that each accepts candidacy and declares, assuming full responsibility, that there are no reasons preventing the candidate from being elected or rendering him unsuitable for the office, and that the candidate meets any specific requirements for the relevant office; (iii) a curriculum vitae detailing each candidate's personal and professional characteristics and indicating that the candidate may be considered independent.
Lists that are presented but are not in accordance with the provisions as above will be considered as not presented.
The Board of Directors will be elected as follows:

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

Art. 18) If, during the course of the year one or more directors is no longer available, and the majority of the Directors was designated by the Shareholders' Meeting, the following procedure will be followed pursuant to CC art. 2386:

a) the Board of Directors will proceed to select a director among the candidates of the same list as the Director to be substituted, without being conditioned by the progressive numbering of the list, and the Shareholders' Meeting will decide the designation by legal majority, following the same criteria;
b) if there are no non-elected candidates on the aforementioned list or no candidates with the necessary qualifications, or it is not possible to follow the provisions as at letter a) for any reason, the Board of Directors will proceed with the substitution, and successively the Shareholders' Meeting shall do likewise, by legal majority without voting lists.
In any case, the Board and the Shareholders' Meeting will proceed with the appointment in such a way as to ensure the presence of at least the minimum number of independent directors, as required by the law and regulations in force at the time".

More specifically, in accordance with the By-Laws, the slates presented by shareholders, signed by those presenting them, are filed at the registered offices of the Company at least fifteen days prior to the date of the first call of the Shareholders' Meeting and made available to anyone requesting to see them.

Each shareholder, including shareholders who have signed a shareholders' agreement identified by article 122 of Legislative Decree No. 58/1998, controlling entities, subsidiaries, and jointly-controlled entities as defined in article 93 of Legislative Decree No. 58/1998, is prohibited from submitting more than one slate, whether individually or jointly, or voting for more than one list, even through a third party or trust company. Candidates may only run on one list on pain of ineligibility.

It is also underlined that, on the basis of the By-Laws in force, the right to submit slates is only held by shareholders who, individually or together with other shareholders submitting slates, hold voting shares representing at least 2.5% of the voting capital in an Ordinary Meeting, or representing a lower percentage established by mandatory laws or regulations. In this respect in accordance with articles 144-*quater* and 144-*septies* of the Issuers' Regulations and CONSOB resolution No. 17148 of 27.01.2010, the percentage of the share capital required to present lists is currently 2%.

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

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

As concerns the mechanism adopted to ensure that a minimum number of independent directors are elected in compliance with article 147-ter, paragraph four of the TUF, the By-Laws state that if the number of independent directors is not reached, the non independent candidate elected in last place on the majority list shall be replaced by the first independent candidate in progressive order not elected on that slate, or, if there is none, by the first independent

candidate in progressive order not elected on the other slates, according to the number of votes obtained by each.
Finally if this procedure does not lead to the aforementioned result, the directors shall be replaced by a resolution passed by relative majority of the shareholders' meeting upon presentation of candidates satisfying the above requirements of independence.

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

The By-Laws do not lay down any additional requirements for the independence of directors with respect to those contained in paragraph three of Legislative Decree No. 58/1998.

The table at the end of this section may be consulted for details of those directors currently in office who meet the requirements for independence in accordance with the TUF and those that are independent in accordance with the CC.

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

4.2 COMPOSITION
(PURSUANT TO ART. 123-*BIS*, PARAGRAPH 2, LETTER D) OF THE TUF)

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

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

All the candidates listed above were elected with 118.254.933 shares in favour out of 118.289 233 shares voting (99,971%). The voting share capital represented 56,912% of the share capital of the Issuer. The personal and professional characteristics of each Director are documented in Attachment 1 to this Report along with the offices held by directors in other listed companies.

The table at the end of this section may be consulted for an assessment of the independence of the directors in office.

		Board of Directors								Internal control committee			Remuneration Committee	
Office	Members	In office since	In Office until	Slate (M/m) *	Exec..	Non Exec..	Indep. . according to CG Code	Indep. according to TUF	% **	Number of other offices ***	****	% **	****	% **
Chairman and CEO	GIOVANNI RECORDATI	11.4.2008	Approval of 2010 AR	M	X				100	0				
Director	ALBERTO RECORDATI	11.4.2008	Approval of 2010 AR	M	X				75	0				
Director	MARIO GARRAFFO	11.4.2008	Approval of 2010 AR	M		X	X (*)	X	87.5	3	X	87.5		
Director	FEDERICO NAZZARI	11.4.2008	Approval of 2010 AR	M	X			X	100	0			X	100
Director	CARLO PEDERSOLI	11.4.2008	Approval of 2010 AR	M		X	X (*)	X	100	0	X	100		
Director	ANDREA RECORDATI	11.4.2008	Approval of 2010 AR	M	X				75	0				
Lead indep. director	MARCO VITALE	11.4.2008	Approval of 2010 AR	M		X	X (*)	X (*)	87.5	0	X	100		
Director	WILLIAM GUNNARSSON	11.4.2008	Approval of 2010 AR	M		X	X	X	87.5	0			X	100
Director	WALTER WENNINGER	11.4.2008	Approval of 2010 AR	M		X	X	X	100	4			x	100

(*) (*) The Board has qualified Prof. Marco Vitale and Dr. Mario Garraffo as independent, even though they have been directors of the Company for more than nine years during the past twelve, and in the case of Prof. Vitale even though he has been appointed as a professional consultant to the Company with an annual fee of € 100,000.00, considering that by their specific expertise and professional commitment to constant control and stimulation of the Board, they have demonstrated that they have maintained their characteristics of independence and freedom of judgement in evaluating the operations carried out by management. The same assessment of independence was made for the Director, Avv. Carlo Pedersoli, who failed to satisfy the requirement of being a member of the Board for not more than nine years during the last twelve years on 1 March 2010.

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

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

Number of meetings held during the year in question:	Board meetings:	Audit committee:	Remuneration committee
	8	4	7

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

4.3 ROLE OF THE BOARD OF DIRECTORS (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 2, LETTER D) OF THE TUF)

During the Year the Board of Directors met eight times, with sessions that lasted an average of approximately two hours, on the following dates: 11 February 2009; 3 March 2009; 7 April 2009; 17 April 2009, 6 May 2009; 28 July 2009; 27 October 2009 and 15 December 2009. For the current year nine meetings are planned, and the Board has already met on 11 February 2010.
The promptness and completeness with which information is provided before board meetings is ensured by the Chairman with the distribution of documents relating to the items on the agenda to members a few days immediately preceding the date set for the meetings.
On rare occasions it has not been possible to provide information concerning some items on the agenda until the time of the board meeting itself for reasons of confidentiality and urgency.

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

In accordance with article 23 of the By-laws, the Board is the corporate body endowed with the broadest powers to handle ordinary and extraordinary management of the Company and it has the right to conclude all acts that it deems appropriate in order to conduct business and to achieve the corporate purposes, excluding only those reserved by the law exclusively for the Shareholders' Meeting. In accordance with CC. Art. 2365, paragraph 2, the Board of Directors is also authorized to decided on the following matters:
- mergers in the cases established by CC articles 2505 and 2505 bis;
- establishment or suppression of secondary offices;
- specification of the Directors who are entitled to represent the Company;
- reduction of share capital in the event of withdrawal of a shareholder;
- alignment of the By-Laws to provisions of the law and regulations;
- transfer of the registered office from one municipality to another in national territory.

The Board is also entitled to appoint and dismiss, following an obligatory opinion from the Board of Statutory Auditors, the Manager responsible for keeping the company books, pursuant to TUF art. 154-*bis*.

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

The Board took the following actions in relation to the above:

- it studied and approved the 2010 budget of the Group;
- it approved the most significant corporate provisions including update of the Organisational, management and control structures pursuant to Legislative Decree 231/01;
- it identified the subsidiaries with strategic characteristics, based principally on dimensional criteria (revenues) or evaluation of the special characteristics of the market on which the subsidiary operates (such as the orphan drugs market). The following companies are qualified as strategic subsidiaries: Laboratoires Bouchara Recordati S.a.s, Recordati Ireland Ltd., Jaba-Recordati S.A., Merckle Recordati GmbH, Innova Pharma S.p.A. and Orphan Europe SARL;
- it issued a positive evaluation of the adequacy of organisational, administrative and accounting structures, with particular reference to the internal control system and management of conflicts of interest, on the basis of the information provided to the Board in specific reports and other documentation (such as organisational diagrams) presented by the manager responsible for internal

control, the Internal Audit Committee, the Supervisory Authority pursuant to Legislative Decree no. 231/2001 and by the Chairman and CEO himself;
- in the board meetings of 11.4.2008 and 7.4.2009, after first considering the proposals of the relative Committee and the opinion of the Board of Statutory Auditors, it set the remuneration of the CEO and the other directors who occupy particular positions and decided how the total remuneration due to the members of the board was to be distributed;
- when the Board was renewed it attributed mandates to the Chairman and CEO Ing. Giovanni Recordati, establishing the extent and means of exercising their poker, and also to the Director Dr. Federico Nazzari;
- as proposed by the Remuneration Committee and following consultation with the Board of Statutory Auditors, it decided the distribution of the total allotment for the compensation due to the members of the Board decided by the shareholders. It also decided the compensation for directors assigned specific duties in accordance with the last paragraph of CC Art. 2389 and article 22 of the By-laws;
- it evaluated management trends, with particular attention to the information provided by the Chairman and CEO, at the same time it compared the results with the budget previsions;
- it studied and approved strategic operations of the Company and its subsidiaries in advance, when such operations were strategically significant in relation to the economic and financial welfare of the Company (with particular reference to participation in other undertakings and special drugs). In fact, the Board adopted a "Procedure for significant operations with related parties or when a Director has an interest in the operation", to substitute the "Guidelines for operations with related parties" adopted in 2003 in accordance with the previous code of conduct. Under this procedure, the following types of operations are considered to be strategic economic or financial operations of the Company, and therefore subject to the exclusive competence of the Board, excepting operations with or between other companies of the Recordati Group (unless atypical or unusual and/or to be concluded at other than standard conditions):
  a) assumption of financial liability of more than Euro 50 million for any single operation;
  b) transfer of real estate for amounts of more than Euro 25 million, where the industrial operations of the Company or its subsidiaries are conducted at the time of the transfer;
  c) acquisition or transfer of industrial property rights of the Company or its subsidiaries for amounts of more than Euro 25 million for any single operation;
  d) acquisition, transfer or any other provision in relation to holdings in other companies, likewise the acquisition or transfer of companies or company branches, for amounts of more than Euro 25 million for any single operation;
  e) acquisition or transfer of special drugs or products in general, for amounts of more than Euro 25 million for any single operation;
  f) granting of real or personal guarantees for amounts of more than Euro 25 million for any single operation;
  g) investments and disinvestment, other than those specified at the letters above, for amounts of more than Euro 15 million for any single operation.
  On the basis of the procedures as above, the Board is also responsible for studying and approving both transactions in which one or more Directors have an interest, whether personal or on behalf of third parties, and also particularly significant transactions with related parties.
  Section 12 of this report may be consulted for a description of the general criteria adopted by the Issuer to identify transactions with related parties.

The Board of Directors conducted an evaluation of the size, composition and functioning of the Board and its committees. This preliminary evaluation was conducted by asking each Director to compile a questionnaire prepared by the Legal Office of the Company. The results of that questionnaire were discussed initially in the board meeting of 27 October 2009 and then in greater detail in the meeting of 11 February 2010. The outcome of this evaluation was substantially positive.

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

4.4 EXECUTIVE OFFICERS AND BODIES

Chairman and Chief Executive Officer

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

On 11 April 2008 the Board of Directors appointed Ing. Giovanni Recordati not only to the position of Chairman of the Board of Directors but also to that of Chief Executive Officer with the purpose of improving the efficiency of the management of the Company.
In his role as Chief Executive Officer, Ing. Giovanni Recordati has been authorised, within the limits permitted by Law, to exercise the broadest powers for the ordinary and extraordinary management of the Company, expressly including the power to appoint directors and his agents, persons with specific duties, experts and agents of the Company in general for specific actions or types of action, with the sole, exclusive and mandatory exclusion of the following operations reserved to the Board of Directors, except for operations performed with or between other companies of the Recordati Group:
a) assumption of financial liability of more than € 50 million for any single operation;
b) transfer of real estate for amounts of more than € 25 million, where the industrial operations of the Company or its subsidiaries are conducted at the time of the transfer;
c) the purchase or sale of intellectual property of the Company or its subsidiaries for amounts exceeding € 5 million for each transaction;
d) acquisition, transfer or any other provision in relation to holdings in other companies, likewise the acquisition or transfer of companies or company branches, for amounts of more than € 25 million for any single operation;
e) the purchase and sale of proprietary medicinal products and generic

products, for amounts exceeding € 25 million each;
f) the grant of real or personal guarantees for amounts of more than € 25 million for any single operation;
g) investments and disinvestment, other than those specified at the letters above, for amounts of more than € 15 million for any single operation.

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

Executive Committee

No executive committee has been formed.

Reporting to the Board

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

4.5 OTHER EXECUTIVE DIRECTORS

In addition to the Chairman and CEO, the other Directors that qualify as executives are *Dr.* Alberto Recordati, Sig. Andrea Recordati and *Dr.* Federico Nazzari. *Dr.* Alberto Recordati, Vice-Chairman of the Board of Directors, co-ordinates the activities of the Drug Discovery and Drug Development departments of the Company and he is the director of some subsidiaries in the Group (including one of strategic importance). *Sig.* Andrea Recordati holds the position of chief executive officer in some of the strategic subsidiaries.
On 7 April 2009, the Board of Directors conferred powers on the director Dr. Federico Nazzari, until the date of the approval of the annual report for the year ended 31.12.2009, necessary for performing the following activities both in the interest of the Parent Company and in the interest of subsidiaries:
a) supervision, development, co-ordination and management of activities and relations with institutions, such as, for example, external relations and public relations in general, participation in congresses and cultural and scientific activities and publications of a general and institutional nature;
b) management of relations with Farmindustria and the co-ordination, in general, of all activities with sector associations in which the Group is present;
c) management of relations with persons and institutions in the business, scientific, academic and political spheres;
d) management of relations with public administrations and central, peripheral and local government institutions with particular reference to those with responsibilities for health, the environment and economics;
e) assisting the Chairman and Chief Executive Office with other projects and special assignments as required.
These are activities of an institutional nature, which, as such, are not strictly management functions.

No particular initiatives have been undertaken to increase the directors' knowledge of the company and its dynamics, considering that they all already have a deep knowledge of Company and the Group, either because of many years spent in the Company or great experience acquired working in the sector. Nevertheless in the course of meetings of the Board of Directors, the Chairman and Chief Executive Officer gives necessary information on the affairs of the Company and the Group, which includes information on the frequent changes in legislation and regulations in the sector and their impact on the Company.

4.6 INDEPENDENT DIRECTORS

Five Directors, *Dr.* Mario Garraffo, *Avv.* Carlo Pedersoli, *Prof.* Marco Vitale, *Dr.* William R. Gunnarsson and *Dr.* Walter Wenninger qualfy as independent according to the CG Code, with the exception of the specifications made below.

On 7 April 2009 and 11 February 2010, the Board of Directors assessed the existence of the conditions governing independence in accordance with the CG Code and with Art. 148, paragraph 3 of the TUF, for each of the non executive directors. That assessment is repeated annually.

The Board made two exceptions to the criteria of independence contained in the CG Code in evaluating the independence of Prof. Vitale and Dr. Garraffo, qualifying them as independent directors even though they have been directors of the Company for more than nine years during the past twelve and, in the case of Prof. Vitale, even though he provides professional services worth € 100,000.00 annually, considering that by their specific expertise and professional commitment to constant control and stimulation of the Board, they have both demonstrated that they have maintained their characteristics of independence and freedom of judgement in evaluating the operations carried out by management. The same assessment of independence was made for the Director, *Avv.* Carlo Pedersoli, who failed to satisfy the requirement of being a member of the Board for not more than nine years during the last twelve years on 1 March 2010.

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

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

4.7 LEAD INDEPENDENT DIRECTOR

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

5. CONFIDENTIALITY OF CORPORATE INFORMATION

Following amendments to TUF introduced by Law no. 62/2005 (EC Law 2004) on matters of market abuse, in 2006 the Board of Directors approved the proposal of the Chairman and CEO for "Internal

regulations for handling confidential information" (to substitute an internal procedure for the management and external communication of information and confidential documents, adopted in 2001 in accordance with the Corporate Governance Code in force at the time). These regulations govern the internal management and external communication of information about Recordati S.p.A. and its subsidiaries, with particular reference to confidential and significant information (meaning information that could become confidential, but does not yet have the characteristics of specificity as defined at TUF art. 181), and the institution of a specific register of the persons who have access to the information as above, a "Register of persons who have access to confidential information", in accordance with Art. 115 *bis* of the TUF. In particular these regulations establish the obligations of confidentiality of all persons who have access to significant and confidential information; identify the persons responsible for evaluating the significance of the same information; establishes the rules for access to the same information by persons outside of the Company; establishes some principles and rules for the management of documents and correspondence containing significant or confidential information; establishes the methods of communicating confidential information, and other information about the Company.
In implementing these regulations, a procedure for "Management of the register persons who have access to confidential information" has been adopted, which establishes the method of keeping and updating the same.

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

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

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

6. INTERNAL COMMITTEES OF THE BOARD

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

7. APPOINTMENTS COMMITTEE

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

8. REMUNERATION COMMITTEE

The Board has formed an internal Remuneration Committee. During the year the Remuneration Committee met 7 times on the following dates: 10 February 2009, 7 April 2009, 6 May 2009, 28 July 2009, 26 October 2009 and 15 December 2009. The percentage of participation of the Committee members at the meetings is indicated in the table in section 4.2 of this Report from which it can be seen that there was 100% attendance of directors in committee meetings. The committee met for the first time during the current year on 11 February 2010.

The Committee is composed of three Directors, two of which are non-executive and independent: Dr. Walter Wenninger, the Chairmant, and Dr. William Gunnerson, together with Dr. Nazzari, an executive director. The Board appointed Dr. Nazzari to the office of Committee Member, despite his status, because the institutional activities he conducts as delegated by the Board, in relation to their nature, are not considered strictly executive functions.

Directors must abstain from participating at Committee meetings, which formulate proposals for the Board that relate to their own remuneration.

At the invitation of the Committee Chairman, with reference to specific points on the agenda, some persons who are not Committee members have participated at times at Committee meetings, specifically the Chairman of the Board and CEO, Chief Officer of Human Resources of the Group, the Chief Financial Officer and General Manager of the Group. The Legal and Corporate Affaris Service has been present to draw up the minutes of the meetings.

Role of the Remuneration Committee

The Remuneration Committee has the following functions:
- to present proposals for the remuneration of Directors and Directors endowed with special mandates to the Board and to monitor application of the resolutions adopted by the Board;
- to periodically evaluate the criteria adopted in relation to the remuneration of Managers with strategic responsibilities, to monitor application of the same on the basis of information provided by the CEO and to provide the Board with general guidelines about these matters;
- to perform the functions assigned by the Board of Directors in relation to the administration of stock option plans to be offered to employees and/or Directors of the Company and of subsidiaries, for shares of the Company or options on the same, without prejudice to the general responsibility of the Board itself for the supervision of this matter.

The activities of the committee in the meetings just mentioned were designed to: formulate proposals for the grant of options for the Company stock option plans; examine questions concerning the exercise of option rights granted under the existing stock option plans; assess the criteria adopted for the remuneration of executives with strategic responsibilities and the Group MBO (Management By

Objectives) scheme in particular; formulate proposals concerning the remuneration for board members on whom particular powers have been conferred; assess the 2009 objectives for the Chairman and Chief Executive Officer.

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

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

9. DIRECTORS' REMUNERATION

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

A stock option plan is in force for executive Directors (with the exception of *Dr.* Nazzari as an executive director in the sense already mentioned) and to managers with strategic responsibilities. In addition, stock option plans are also available to *Ing.* Giovanni Recordati (who also holds the office of General Manager), *Dr.* Alberto Recordati and *Sig.* Andrea Recordati, not in relation to being Directors but rather in their roles as managers with strategic responsibilities.
Remuneration of non-executive directors is not linked to the profits of the Company, but rather is determined by considering the presence or not in the Committees as above. Non-executive Directors do not have access to the stock option plans.

Indemnities for directors in the case of resignation, dismissal or termination of contract following a public tender offer (pursuant to Art. 123-*bis*, paragraph 1, letter i) of the TUF)
No agreements have been stipulated between the Issuer and the Directors that provide for payment of indemnities in the event of resignation, dismissal without just cause or termination of contract following a public tender offer.

10. INTERNAL AUDIT COMMITTEE

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

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

During the Year, the Committee met 4 times on: 11 February 2009, 3 March 2009, 28 July 2009 and 15 December 2009. In the current year, the Committee met on 11 February 2010. The percentage attendance of Committee members at meetings is shown in the table contained in section 4.2 of this Report.

Two of the three members of the Committee have experience in accounting and financial matters.

The Chairman of the Board of Statutory Auditors has constantly participated in the Committee's work.

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

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

The Internal Audit Committee also:
- assesses, together with the manager appointed to prepare the corporate accounting documents and with the auditors, the correct use of accounting principles and their consistency in the preparation of the consolidated financial statements;
- at the request of the specially appointed Executive Director, expresses opinions on specific aspects concerning the identification of the principal business risks and concerning the design, construction and management of the internal control system;
- examines the work plan prepared by the Internal Control Officer and his periodic reports;
- evaluates the proposals submitted by the audit firm with a view to being awarded the contract, as well as the work plan prepared for the audit and the results set out in the report and in any management letter;
- reports to the Board on the activities undertaken and on the adequacy of the internal control system, at least once every six months, at the time of approval of the annual accounts and half-yearly report;
- makes proposals to the Board of Directors regarding changes to be made to the Organisational Model established pursuant to Legislative Decree 231/01 adopted by the Company;
- makes proposals to the Board of Directors regarding the appointment of members of the Supervisory Board set up pursuant to Legislative Decree 231/01 and regarding the allocation of the annual budget to that body;
- expresses an opinion on the appointment and dismissal of the internal control officer(s);
- expresses an opinion on the appointment of the manager appointed to prepare the corporate accounting documents;
- expresses an opinion on the procedures for the approval and

performance of related party transactions conducted by the Company or by its subsidiaries, and expresses an opinion on individual related party transactions, where required by the procedure from time to time in force;
– performs any additional tasks that are assigned to it by the Board of Directors.

The monitoring of the effectiveness of the auditing process has been referred by the Board of Directors to the Board of Statutory Auditors, in so far as the latter is considered, by virtue of the powers granted to it by current legislation, is the most suitable body to carry out such supervisory activity.

The Committee's activities in the aforementioned meetings mainly concerned: an evaluation of the adequacy of the accounting principles; an examination of the reports of the Supervisory Committee set up pursuant to Legislative Decree 231/01 and of the Internal Control Officer; an examination of the work plan prepared by the Internal Control Officer; an examination of the reports furnished by the managers of the Group prevention and protection service on safety at the workplace; the submission of proposals to the Board regarding updates to the Model established pursuant to Legislative Decree 231/01; the submission of a proposal to the Board concerning the spending budget of the Supervisory Committee for the operating expenses of the committee itself concerning the application of the organisation, management and control model pursuant to Legislative Decree 231/01. The committee also reported to the Board on the activities undertaken and on the adequacy of the internal control system, at the time of approval of the annual accounts and half-yearly report.

Meetings of the Internal Audit Committee were properly minuted.

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

11. INTERNAL CONTROL SYSTEM

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

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

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

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

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

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

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

The financial reporting process of the Issuer was subjected to a series of procedural and organisational initiatives with action taken to create an internal controls system for administrative and accounting activities designed to guarantee the reliability, accuracy, completeness and promptness of financial reporting and to regularly produce management, operating and financial reports to the board and to the statutory and external auditors.
The roles involved with specific reference to financial reporting processes are: the Board of Directors, CEO, Internal Control Officer (who fills the role of the officer responsible for the Internal Audit Function), Internal Audit Function, Internal Audit Committee and the Manager appointed to prepare corporate accounting documents.
The Manager appointed to prepare corporate accounting documents in conjunction with the CEO is responsible for putting adequate administrative and accounting procedures in place for the preparation of the separate Parent Company and consolidated financial statements.

With regard to a description of the main characteristics of the internal control system with regard to financial reporting, the Issuer has implemented a model for the administrative and accounting control of the Issuer (hereinafter also the "262 Control Model) for some time now in order to ensure the effectiveness of that system. It has also assigned responsibility for verifying proper application of that model

and for monitoring the functioning and adequacy of the Internal Control System in relation to the model to the Manager appointed to prepare corporate accounting documents.
The 262 Control Model control model consists of a set of corporate rules and procedures designed to enable objectives of reliability, accuracy, completeness and promptness in financial reporting to be achieved by identification and management of the main risks attaching to the preparation and disclosure of financial information.

The 262 Control Model consists of

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

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

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

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

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

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

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

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

Independent testing is performed continuously throughout the year on the basis of the annual audit plan drawn up by the Internal Audit Function, approved by the Internal Audit Committee of the Company. The results of testing activities, assessments of possible areas for

improvement and the relative corrective action are officially published in an annual report addressed to the Internal Control Officer, the Manager appointed to prepare corporate accounting documents and the CEO.

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

11.1 EXECUTIVE DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL SYSTEM

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

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

11.2 INTERNAL CONTROL OFFICER

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

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

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

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

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

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

11.3 ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001.

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

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

The organization, management and control model is constantly updated and monitored with particular attention paid to preventing crimes and to risk assessment, following the new regulatory changes. The Model consists of a general part and a specific part, arranged into different sections. The general part includes, *inter alia*, the Code of Ethics, the Disciplinary System and the By-Laws of the Supervisory Board. The specific part includes, *inter alia*, a "map" of the areas where the risk of crime is more marked and a significant number of "protocols" through which measures are put in place to prevent the commission of offences in the areas identified in the map. A similar model has been adopted for the subsidiary Innova Pharma S.p.A.

A presentation of the Model adopted by the Company is available on the Company's website at http://www.recordati.it/rec_it/cg/compliance_programs/

For subsidiary companies having strategic importance and based abroad, it is currently being assessed whether to adopt measures having a similar purpose to that of the Organisational Model established pursuant to Legislative Decree 231/01 adopted by the Company.

11.4 AUDIT FIRM

Deloitte & Touche S.p.A. is the Audit Firm appointed to audit the Company. The appointment was formally made by the Shareholders' Meeting on 6 April 2005 and extended for the years 2008-2009-2010 by the Shareholders' Meeting on 11 April 2007.

11.5 MANAGER APPOINTED TO PREPARE CORPORATE ACCOUNTING DOCUMENTS

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

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

12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

The Board has established a procedure for the approval and execution of related party transactions performed by the Issuer, or by its subsidiaries, and has defined the criteria for identifying the transactions that require the approval of the Board after consulting with the Internal Audit Committee and/or after seeking the assistance of independent experts.

In particular, based on the aforementioned procedure, the following related party transactions carried out by the Company, including through its subsidiaries, are referred to the Company's Board for prior examination having sought the opinion of the Internal Audit Committee:

A) related party transactions which, by virtue of their object, consideration, conditions or timeframe, may have an effect on the protection of the Company's assets or on the completeness and correctness of information, including accounting data, relating to the Company and/or to the subsidiaries, for which there exists an obligation of public disclosure in accordance with the terms and conditions identified by Consob regulations;

B)
- the purchase or sale of intellectual property of the Company or its subsidiaries for amounts exceeding EUR 5 million for each transaction;
- the purchase, sale or other act of disposal of shareholdings in other companies, and the purchase and sale of businesses and branches, for amounts exceeding EUR 5 million each;
- the purchase and sale of proprietary medicinal products and generic products, for amounts exceeding EUR 5 million each;
- the granting of loans or guarantees for amounts exceeding EUR 5 million for each transaction;
- transactions involving the provision of works or services, partnership agreements to carry out or develop company activities for amounts exceeding EUR 5 million each;
- transactions of any kind for an amount exceeding EUR 1 million if the related party falls into certain categories, including principally the entity which controls the Company, those to whom powers and responsibilities are granted with regard to the performance of duties involving the administration, management and control of the Company, and the Company's managers with strategic responsibilities as well as the "close family members" of the individuals indicated above;
- with the exception of intragroup transactions which are not atypical or unusual or to be carried out under non-standard conditions.

C) transactions of any kind, including intragroup transactions, which are atypical or unusual and/or to be carried out under non-standard conditions.

The following transactions simply need to be reported to the Board by the Chairman and Chief Executive Officer:
- related party transactions that fall within the types described above, for amounts lower than those indicated above, but which remain significant;
- intragroup transactions which are particularly significant in terms of their amount or type.

In the case of related party transactions falling within the exclusive remit of the Board, the Chairman and Chief Executive Officer will ensure that supporting documents are made available in a timely manner to members of the Board and of the Internal Audit Committee for their assessment.
Where the nature, value or other characteristics of a related party transaction falling within the exclusive remit of the Board so require, in order to prevent the transaction from being carried out under different conditions from those which would probably have been negotiated between unrelated parties, the Board is assisted by independent experts, who express an opinion on the financial conditions and/or legitimacy and/or technical aspects of the transaction, as applicable. The experts chosen must have proven and recognised professionalism and expertise and must be independent from the Company, its subsidiaries and Directors and must have no conflict of interests in relation to the transaction.

That procedure also regulates transactions in which a director holds an interest either on his own behalf or on behalf of third parties, even potential or indirect, and it expressly reserves them to the approval of the Board of Directors. In these cases that Director must promptly inform the Board and the Board of Statutory Auditors respectively of his interest in a timely and thorough manner - specifying the nature, terms, origin and extent of that interest - and must stay away from the

meeting during the respective negotiations unless the Board considers his participation in the discussion and resolution to be necessary, depending on the specific circumstances, including, *inter alia*, the need to maintain the required quorums. A similar disclosure obligation exists for any Auditor who holds an interest, including a potential or indirect interest, in relation to the aforesaid matters or transactions.

The procedure just described will be subjected to further amendments following the issue by the CONSOB of instructions for the implementation of Art. 2391 *bis* of the CC concerning related party transactions.

13. APPOINTMENT OF AUDITORS

The appointment of Auditors is governed by art. 27 of the By-Laws, transcribed below:

"Art. 27) The Shareholders' Meeting shall appoint the Board of Statutory Auditors, comprising three statutory auditors and two alternate auditors, who may be re-elected, and shall determine their remuneration. Their powers, duties and term of office shall be as established by law.
Auditors shall satisfy the requirements laid down in current laws and regulations. As regards requirements of professionalism, the matters and sectors of activity strictly connected with that of the company are the research, production and sale of chemical and pharmaceutical products.
The minority shareholders shall elect one Statutory Auditor and one Alternate Auditor.
Unless otherwise provided for in laws or regulations, the Board of Statutory Auditors shall be appointed according to the procedures set out in the following paragraphs on the basis of lists submitted by Shareholders in which candidate are listed by means of a progressive number.
The list must specify whether each candidate is nominated for the position of Statutory Auditor or for the position of Alternate Auditor.
Only Shareholders individually or jointly possessing a total number of shares with voting rights representing at least 2.5% of capital stock with voting rights or representing a lesser percentage as established or provided by binding legal or regulatory provisions which shall be specified in the notice of meeting shall have the right to present lists.
Each shareholder, including shareholders who have signed a shareholders' agreement pursuant to art. 122 of Legislative Decree no. 58/1998, the holding entity, subsidiaries, and jointly controlled entities are not permitted to submit or help to submit more than one list or vote for different lists, including through an intermediary or trust company. Each candidate may only be present on one list failing which he will be ineligible. Votes cast in violation of the above prohibition shall not be attributed to any list.
Submitted lists shall be deposited at the Company's registered office at least fifteen days before the date scheduled for the Shareholders' Meeting at first call without prejudice to any further forms of disclosure required by any rules or regulations from time to time in force.
The following documents shall be submitted together with each list by the deadline specified above:
a) information on the identity of the shareholders who have submitted the lists, indicating the total percentage of capital stock held and certification attesting to the ownership of the said capital stock;
b) a declaration by shareholders other than those who hold, including jointly, a controlling interest or relative majority, attesting to the absence of any forms of association with such shareholders, as provided by applicable regulations;
c) a thorough report of the personal characteristics of candidates and a declaration from the said candidates attesting that they possess the requirements established by law, together with their acceptance of the candidature.
Lists not satisfying the requirements specified above shall be considered as not having been submitted.
Auditors shall be elected as follows:
1. from the list which obtained the highest number of votes at the Shareholders' Meeting, two statutory auditors and one alternate auditor shall be elected, based on the progressive order with which they are listed in the sections of the list;
2. from the second list which obtained the highest number of votes at the Shareholders' Meeting and which, in accordance with regulations in force, has no connection, not even indirectly, with the shareholders who submitted and voted for the list which obtained the highest number of votes, one statutory auditor, who shall chair the Board of Statutory Auditors, and one alternate auditor shall be elected, based on the progressive order with which they are listed in the list.
In the event of a tie between lists for the appointment of the Auditors indicated in point 2 of the foregoing paragraph, the list submitted by shareholders owning the largest shareholding or, alternatively, the list submitted by the largest number of shareholders shall prevail.
Should a single list or no list be submitted, all candidates for the posts of Statutory and Alternate Auditors named on the list or respectively those voted for by the shareholders' meeting shall be elected provided that they obtain the respective majority of the votes cast in the Shareholders' Meeting.
Should they no longer satisfy the requirements laid down by law and in the by-laws, the auditor shall leave office.
Should it become necessary to replace a statutory auditor, the alternate auditor belonging to the same list as the outgoing auditor shall take the latter's place or, failing this, should the minority auditor leave office, he shall be replaced by the next candidate on the list from which the outgoing auditor was elector, or, alternatively, by the first candidate on the minority list that obtained the second highest number of votes.
It is understood that the board of statutory auditors shall continue to be chaired by the minority auditor.
The procedure outlined below shall be followed when the shareholders' meeting is required to appoint statutory and/or alternate auditors to complete the board: if it is necessary to replace auditors elected on the basis of the majority list, the replacements shall be appointed by relative majority vote without list voting; if, however, it is necessary to replace auditors elected on the basis of the minority list, the shareholders' meeting shall replace them by a relative majority vote by choosing them from the candidates on the list from which the outgoing auditor was elected or on the list that obtained the second highest number of votes.
Should the application of the above procedures not result in the replacement of the auditors designated by minority shareholders for whatever reason, the shareholders' meeting shall hold a relative majority vote, following the presentation of candidatures by shareholders that, individually or together with others, possess shareholdings with voting rights that represent at least the percentage indicated above in relation to the procedure for the presentation of lists. However, votes registered by shareholders who hold the relative majority of voting rights that may be exercised in the meeting as identified in disclosures made in accordance with applicable regulations, whether directly, indirectly, or jointly with other shareholders who have signed a shareholders' agreement as indicated

in article 122 of Italian Legislative Decree No. 58/1998, shall not be considered in establishing the outcome of said vote.
Members of the Board of Statutory Auditors may participate in meetings remotely by means of audio-visual connection, video conferencing or telephone link-up systems.
In the above case:
- the following must always be established:
  a) the identity of all members attending at each connection point shall be verified;
  b) each member attending shall be permitted to express a personal opinion verbally, to view, receive or send any documentation and to participate simultaneously in the discussion of the points at issue and pass resolutions;
- meetings of the Board of Statutory Auditors shall be considered to be held at the place where both the Chairman and Secretary are located.

The Company's financial records shall be audited by the Audit Firm on the basis of applicable regulations".

Note, in particular, that, in accordance with the recommendations of the CG Code, Art. 27 of the By-Laws, as transcribed above, stipulates that lists of candidates for the position of auditor must be deposited at the Company's registered office, available for consultation by any person so requesting, at least fifteen days before the scheduled date of the Shareholders' Meeting at first call. It is also underlined that the right to submit lists is only held by shareholders who, individually or together with other shareholders submitting lists, hold voting shares representing at least 2.5% of the voting capital in the Ordinary Meeting, or representing any lower percentage established by mandatory laws or regulations. In accordance with articles 144-*quater* and 144-*septies* of the regulations adopted by CONSOB Resolution No. 11971 of 14.4.1999 and CONSOB Resolution No. 17148 of 27.01.2010, the percentage of the share capital required to present lists of candidates to supervisory bodies is currently 2%. The minority lists shall elect one Statutory Auditor and one Alternate Auditor. As regards the appointment mechanism adopted for choosing the candidates on the various lists submitted, note that, again according to the above transcribed art. 27 of the By-Laws, two statutory auditors and one alternate auditor are elected from the list which obtained the highest number of votes in the Shareholders' Meeting, based on the progressive order with which they are listed in the sections of the list; from the second list which obtained the highest number of votes after the first list and which has no connection, not even indirectly, with the shareholders who submitted or voted for the list which obtained the highest number of votes, one statutory auditor, who will chair the Board of Statutory Auditors, and one alternate auditor are elected, based on the progressive order with which they are listed in the list.

14. AUDITORS

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

BOARD OF STATUTORY AUDITORS

Office	Members	In office since	In office until	Slate (M/m)*	Indep. accor. to CG Code	Indep. ** accor. (%) to TUF		Number of other offices ***
Chairman	MARCO NAVA	11.4.2008	Approval of 2010 AR	M	X	X	100	24
Statutory auditor	MARCO RIGOTTI	11.4.2008	Approval of 2010 AR	M	X	X	100	6
Statutory auditor	ACHILLE SEVERGNINI	11.4.2008	Approval of 2010 AR	M		X	80	14
Alternate auditor	MARCO ANTONIO VIGANO	11.4.2008	Approval of 2010 AR	M	X	X	100	26
Alternate auditor	VALERIO PIACENTINI	11.4.2008	Approval of 2010 AR	M	X	X	100	6

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

During the Year, the Board of Statutory Auditors met eight times. In particular, the meetings took place on the following dates: 11 February 2009, 3 March 2009, 12 May 2009; 10 June 2009, 9 July 2009, 28 July 2009, 15 September 2009 and 18 November 2009. As regards the current year, the Board of Statutory Auditors met on 11 February 2010. The percentage attendance of Auditors in these meetings is shown in the table above.

The Board of Statutory Auditors conducted an internal verification of its independence after its appointment. It was found from the outcome of that verification that all the Statutory Auditors in office possessed the requirements for independence according to Art. 148 of the TUF and also with regard to the criteria contained in the CG Code. That assessment was repeated in 2009.

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

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

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

15. RELATIONS WITH SHAREHOLDERS

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

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

16. SHAREHOLDERS' MEETINGS

In accordance with article 9 of the By-laws in force, Shareholders' Meetings are convened with notice published within 30 days prior to the date of the meeting in the Official Gazette and in the daily newspaper "Il Sole 24 Ore" or closer to the meeting where allowed by provisions of the Law for determined matters or situations. The notice states the procedures for participation in the Shareholders' Meeting. Moreover, in accordance with article 65 *bis* of the Issuers' Regulations the Company makes documentation available to the public concerning matters placed on the agenda by publication, amongst other things, on its website.

An ordinary Shareholders' Meeting is validly constituted in first call with the attendance of shareholders accounting for at least half of the share capital with voting rights at the meeting itself and resolutions are passed by an absolute majority of those participating, including abstentions.
An ordinary Shareholders' Meeting is validly constituted in second call no matter what proportion of the share capital is represented and resolutions are passed by an absolute majority of those participating, including abstentions.
An extraordinary Shareholders' Meeting is validly constituted in first call with the attendance of shareholders accounting for at least half of the share capital and resolutions are passed with the vote in favour of shareholders representing at least two thirds of the share capital.
An extraordinary Shareholders' Meeting is validly constituted in second call with the attendance of shareholders accounting for at least a third of the share capital and resolutions are passed with the vote in favour of shareholders accounting for at least two thirds of the share capital present at the meeting.

On the basis of art. 10 of the By-Laws, shareholders wishing to attend a shareholders' meeting must ensure that notifications from the intermediaries who hold their accounts are received at the registered office at least two working days before the scheduled date of the meeting.

The text of that article is given below for greater clarity:

"Article 10) - In order to participate in the meeting, notification from brokers who hold shareholders' accounts must be received at least two non-holidays before the date of the meeting."

The Board believes that there are no conditions that require the adoption of particular initiatives regarding attendance of Meetings and the exercise of voting rights by shareholders such as, for example, postal voting.

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

The Board of Directors, through the Chairman and Chief Executive Officer, reported, in the Shareholders' Meeting held on 7 April 2009, on activities undertaken and those planned, and responded to questions posed by a number of shareholders. The bundle containing a copy of the draft financial statements and consolidated financial statements, with the accompanying reports and the Directors' reports on the proposals concerning items placed on the agenda was handed out at the entrance and also sent to shareholders who had taken part in recent meetings in order to ensure adequate disclosure of the necessary information so that they could take the decisions for which they are responsible with full knowledge of the facts.

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

17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 2, LETTER A) OF THE TUF)

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

18. CHANGES OCCURRING SINCE THE END OF THE YEAR

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

Milan, 5 March 2010

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

ATTACHMENT 1

PROFESSIONAL OVERVIEW OF THE DIRECTORS

GIOVANNI RECORDATI

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

ALBERTO RECORDATI

Alberto Recordati graduated from University of London King's College in 1977 and, in 1984, successfully completed a research PhD within the biochemistry department of Charing Cross Hospital Medical School.
He joined Recordati in 1984 as a researcher in the biochemistry laboratories. In 1987, he was appointed head of the planning and product development office. From 1990 to 1992, he worked for the US subsidiary Pharmetrix Corp as research project coordinator. In 1992 he was appointed industrial manager for biochemicals with responsibility for biochemical/microbiological research and for the Cascina dè Pecchi biochemical/fermentation production site. In 1995, he became head of the chemical research and technologies division. In 1999, he was appointed director in charge of the fine chemicals sector and in 2004 Deputy Chairman of Recordati S.p.A. He has held responsibility for co-ordinating the "Drug Discovery" and "Drug Development" activities of the Company since 2008.

ANDREA RECORDATI

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

CARLO PEDERSOLI

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

MARCO VITALE

Marco Vitale, business economist, has carried out intense professional and educational work at the Universities of Pavia, Bocconi and Libera Università Carlo Cattaneo (of which he was one of the founders and vice-president) and at the Istao and Istud (foundation for business and management culture) management schools of which he was the chairman. Formerly a partner in Arthur Andersen, he is the founding member and chairman of Vitale Novello & Co. S.r.l. (senior management consultancy firm) in which he is a consultant and director of major companies. He was chairman from 1984 to 2003 of A.I.F.I., national association of merchant banks. He was deputy chairman of Banca Popolare di Milano and chairman of Bipiemme Gestioni SGR. He is chairman of Rino Snaidero Scientific Foundation, chairman of the scientific committee of AIdAF (Italian Association of Family Businesses) and member of the management committee of the Olivetti Foundation. He is a board member of FAI and a member of the ethics committee of AGIRE.
He has held significant public offices. He has written numerous books including: *La lunga marcia verso il capitalismo democratico* (published by Il Sole-24 Ore); *Liberare l'economia: le privatizzazioni come terapia alla crisi italiana* (published by Marsilio); *Le Encicliche sociali, il rapporto fra la Chiesa e l'economia* (published by Il Sole-24 ore); *Sviluppo e Spirito d'Impresa* (published by Il Veltro); *America. Punto e a capo* (Scheiwiller); Il Mito Alfa (Egea editore, Bocconi); *Gli angeli nella città* (publised by ESD Bologna). He is a contributor for major newspapers and magazines. He is an energetic polemic and renowned speaker.

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

FEDERICO NAZZARI

Federico Nazzari has been involved in various roles in the pharmaceutical sector for 39 years. For almost twenty years, he worked for multinationals and for the remainder has worked in various roles in Italian companies.
In 1969, he started his professional career at Upjohn S.p.A. where he remained until 1979. After a spell of three years (1979-1982) at Farmindustria as head of the Technical/Scientific Area, he returned to the same company (1982-1988) to supplement his professional experience in various positions until taking on the role of Deputy General Manager. In 1988, he moved to Maggioni Winthrop as Chief Executive Officer. In 1991, he was recruited by the Istituto Luso Farmaco d'Italia S.p.A. where he was appointed Chairman and Chief

Executive Officer until 2000. In the same period he also became Chairman of Lusochimica (company associated with Istituto Luso Farmaco d'Italia S.p.A. and manufacturer of active substances for the pharmaceutical industry). Between 2000 and 2007, he worked for Bracco as Group Vice President General Affairs. In February 2007, he joined the Board of Directors of Recordati S.p.A. with delegated authority for institutional relations.
Over these years, he has taken an interest in the problems of the entire pharmaceutical sector, becoming a member of the Board of Farmindustria, the Italian pharmaceutical industry association of which he was elected Chairman in June 1995 and re-elected for a further two years in 1997 and subsequently in April 2003 for a third term. He is a member of the Technical/ Health Committee of Confindustria, of the Board of Governors and Board of Federchimica (national federation of chemical industries) and of the Management Committees of Assobiotec and Aschimfarma. He is also member of the Technological and Scientific Committee of SEMEION, Science and Communiction Research Centre.

MARIO GARRAFFO

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

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

WILLIAM GUNNARSSON

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

The Director Gunnarsson holds positions in the following companies:
– Director Axentua Pharmaceutical in Stockholm, Sweden.

WALTER WENNINGER

After being awarded a research doctorate in veterinary medicine and a Master in Business Administration at the University of Munich, Walter Wenninger joined the Pharmaceuticals Division of Bayer Pharma AG, Germany, occupying various management positions in Germany, Europe and the United States of America.
He was Chairman of the Board of Directors of Bayer Corp. in the United States of America and a member of the Board of Management of Bayer Ag from 1994 to 2000 with responsibility for health care and life science.
He has been a member of the Board of Trustees of the German Cancer Research Centre of Heidelberg and of the German Cardiac Research Foundation of Frankfurt.
He currently occupies various positions on the boards of directors of European biopharmaceutical firms and he is a member of the executive committee of the Robert-Koch-Foundation in Germany.

The Director Wenninger holds positions in the following companies:
– Chairman of the Board of Directors of Paion AG, Aachen, Germany.
– Chairman of the Board of Directors of Noxxon Pharma AG, Berlin, Germany.
– Deputy Chairman of Santaris Pharma, Horsholm, Denmark.
– from 4 June 2009 member of the Board of Directors of Evotec AG, Hamburg, Germany.

CURRICULA VITAE OF THE MEMBERS OF THE BOARD OF STATUTORY AUDITORS

STATUTORY AUDITORS

MARCO NAVA

Marco Nava graduated in Economics and Commerce and in Jurisprudence at the Università Cattolica del Sacro Cuore of Milan. He started his career as an accountant in 1988. He has been registered as an auditor since the first publication of the register (1995).
He performs his principal activity as an accountant with his own offices in a partnership of accountants and lawyers.
He is a statutory auditor and external auditor for companies operating in various sectors.
This auditor holds positions in the following companies:
– Chairman of the Board of Statutory Auditors C.D.S. San Nicolò Srl
– Statutory Auditor Giuseppe & Fratelli Bonaiti SpA
– Statutory Auditor Emiflex SpA
– Chairman of the Board of Statutory Auditors Vibro-mac Srl
– Chairman of the Board of Statutory Auditors Dott. G. Cavenaghi SpA
– Statutory Auditor Junionfin SpA
– Statutory Auditor Pompetravaini SpA
– Statutory Auditor Fimei SpA
– Statutory Auditor J Colors SpA
– Chairman of the Board of Statutory Auditors Promunidi Srl
– Chairman of the Board of Statutory Auditors Cavenaghi SpA
– Statutory Auditor Recofarma Srl
– Chief Executive Officer Nava Viganò Revisori Associati Srl
– Statutory Auditor Twister Communications SpA
– Statutory Auditor C.A.D. Battaglino Srl
– Sole director Tazat Srl
– Chairman of the Board of Statutory Auditors Prodotti naturali SpA
– Statutory Auditor Innova Pharma SpA
– Chairman of the Board of Directors QE Qualità Europe Srl

– Statutory Auditor Marionnaud Parfumeries Italia SpA
– Chairman of the Board of Statutory Auditors Generale de Santé Italia SpA
– Chairman of the Board of Statutory Auditors Generale de Santé Toscana Srl
– Statutory Auditor Digital Revenew Srl
– Statutory Auditor S.I.S.A. Società Italiana Spalmature ed Affini SpA

ACHILLE SEVERGNINI

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

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

MARCO RIGOTTI

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

This auditor holds positions in the following companies:
– Chairman of the Board of Directors (non executive) Meridiana fly S.p.A.
– Chairman of the Board of Directors (non executive)
– EUNICE SIM S.p.A. Chairman of the Board of Statutory Auditors TAS S.p.A.
– Chairman of the Board of Statutory Auditors ARKIMEDICA S.p.A..
– Non Executive Director BANCA SINTESI S.p.A.
– Chairman of the Board of Statutory Auditors ZAGLIANI 1943 S.p.A.

ALTERNATE AUDITORS

MARCO ANTONIO VIGANO'

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

This auditor holds positions in the following companies:
– Statutory Auditor Emiflex SpA
– Chairman of the Board of Statutory Auditors Fratelli Re SpA
– Statutory Auditor Junionfin SpA
– Statutory Auditor Pompetravaini SpA
– Statutory Auditor Giannazza Angelo SpA
– Chairman of the Board of Statutory Auditors Max Moda SpA
– Alternate Auditor Codital Srl
– Alternate Auditor Xilografia Nuova Srl
– Director R.B.R. Valvole SpA
– Alternate Auditor Recofarma Srl
– Alternate Auditor Coeclerici coal and fuels SpA
– Chairman of the Board of Directors Nava Viganò Revisori Associati Srl
– Chief Executive Officer QE Qualità Europa Srl
– Chairman of the Board of Statutory Auditors Marionnaud Parfumeries Italia SpA
– Amministratore unico Chem Investment Consulting Srl
– Statutory Auditor Generale de Santé Italia SpA
– Chairman of the Board of Directors of Masseria Giancamisa soc. agr. Srl
– Chairman of the Board of Statutory Auditors SF Foundry Service SpA
– Chairman of the Board of Statutory Auditors PM Engineering Srl
– Alternate Auditor J Colors SpA
– Alternate Auditor Promunidi srl
– Alternate Auditor C.A.D. Battaglino Srl
– Alternate Auditor Digital Revenew Srl
– Alternate Auditor Innova Pharma SpA
– Alternate Auditor D'adda,Lorenzini,Vigorelli,Bbdo S.P.A. (In Breve Dlvbbdo S.P.A.)
– Alternate Auditor Foundry Ecocer srl

VALERIO PIACENTINI

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

This auditor holds positions in the following companies:
– Chairman of the Board of Statutory Auditors Airwell Srl
– Statutory Auditor Faital SpA
– Statutory Auditor Lift Technologies Holding SpA
– Statutory Auditor Dole Italia Spa
– Official receiver Advisory Srl in liquidation
– Official receiver Piarigo Srl in liquidation

This booklet is a summary of the 2009 Report of Board of Directors of Recordati SpA, which has been publicly filed in accordance with Italian law.

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

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Chairman and Chief Executive Officer

Alberto Recordati
Vice Chairman

Mario Garraffo
Former Senior Advisor
GE Europe

William R. Gunnarsson
Former Chairman
and Chief Executive Officer
Orphan Europe

Federico Nazzari
Former President of Farmindustria
(Italian pharmaceutical industry
association)

Carlo Pedersoli
Partner
Pedersoli e Associati Law Firm

Andrea Recordati
Vice President
Western European Subsidiaries

Marco Vitale
Economist and Business Consultant

Walter Wenninger
Former Member of the
Board of Management Bayer AG

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President

Mario Garraffo
Carlo Pedersoli

REMUNERATION COMMITTEE

Walter Wenninger
President

William R. Gunnarsson
Federico Nazzari

STATUTORY AUDITORS

Marco Nava
President

Marco Rigotti
Achille G. Severgnini
Auditors

Marco Antonio Viganò
Valerio Piacentini
Alternate auditors

AUDITORS

Deloitte & Touche S.p.A.

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Chairman
and Chief Executive Officer

Alberto Recordati
Vice Chairman

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Coordination of Group Operations

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Investor Relations
& Communications

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