RECORDATI

ANNUAL REPORT 2011

REVENUE

€ (thousands)	2011	%	2010	%	Change 2011/2010	%
TOTAL REVENUE	**762,036**	**100.0**	**728,134**	**100.0**	**33,902**	**4.7**
Italy	221,603	29.1	199,531	27.4	22,072	11.1
International	540,433	70.9	528,603	72.6	11,830	2.2

KEY CONSOLIDATED DATA

€ (thousands)	2011	% of revenue	2010	% of revenue	Change 2011/2010	%
Revenue	762,036	100.0	728,134	100.0	33,902	4.7
EBITDA[(1)]	187,742	24.6	181,734	25.0	6,008	3.3
Operating income	163,477	21.5	154,784	21.3	8,693	5.6
Net income	116,446	15.3	108,580	14.9	7,866	7.2

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

KEY BALANCE SHEET DATA

€ (thousands)	31 December 2011	31 December 2010	Change 2011/2010	%
Net financial position[(2)]	(55,734)	45,967	(101,701)	n.s.
Shareholders' equity	594,480	576,006	18,474	3.2

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

PER SHARE DATA

€	2011	2010	Change 2011/2010	%
Net income[(3)]	0.584	0.548	0.036	6.6
Shareholders' equity[(3)]	2.982	2.896	0.086	3.0
Dividend	0.30 [(4)]	0.275	0.025	9.1
SHARES OUTSTANDING:				
- average during the year	199,369,542	198,170,113		
- at December 31	199,339,366	198,919,051		

[(3)] Net income per share is based on average shares outstanding during the year net of average treasury stock. Average treasury stock amounted to 9,755,614 shares in 2011 and 10,955,043 shares in 2010. Shareholders' equity per share is based on total shares outstanding at year end net of treasury stock. Treasury stock amounted to 9,785,790 shares at 31 December 2011 and 10,206,105 shares at 31 December 2010.

[(4)] Proposed by the Board of Directors.

LETTER FROM THE CHAIRMAN

To Our Shareholders,

The development of our group in emerging markets, the launch of new drugs and the growth of our drugs for the treatment of rare diseases are the drivers of the important results obtained in 2011. Group consolidated revenue is € 762.0 million, up 4.7% over the preceding year and pharmaceutical revenue is € 733.6 million, up 4.5% despite the 16.1% reduction in lercanidipine sales due to the competition from generics. Operating income, at 21.5% of sales, is € 163.5 million, a growth of 5.6% compared with the preceding year. Net income at 15.3% of sales is € 116.4 million (+7.2%), growing at a faster rate than operating income due to the lower incidence of financial costs and taxes. The Group's net financial position records net debt of € 55.7 million as opposed to net cash of € 46.0 million at 31 December 2010 after having acquired the Turkish company Dr. F. Frik İlaç and the new product Procto-Glyvenol® in addition to the payment of dividends. Shareholders' equity further increased to € 594.5 million.

The achievements recorded and initiatives pursued in 2011 represent important steps for the international development of the Group.

To begin with, 100% of the share capital of Dr. F. Frik İlaç A.Ş., a Turkish pharmaceutical company with headquarters in Istanbul, was acquired. The value of the transaction (enterprise value) is of around $ 130 million of which $ 74,5 million were paid at the closing in September. Of the remaining balance a portion will be paid in *tranches* on future due dates and a portion comprises the company's debt. This is the second acquisition Recordati has made in Turkey, where it acquired Yeni İlaç in December 2008. The company has a core portfolio of original prescription products both in primary care and specialist areas and employs 350 personnel, of which around 260 are medical representatives. The acquisition of Dr. F. Frik İlaç is an important step forward in our strategy to increase our business in the emerging markets of Central and Eastern Europe, where the pharmaceutical market is growing at rates significantly greater than those of the Western European market. With this acquisition Turkey becomes our third most important market after Italy and France.

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

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

Orphan Europe, the group's wholly-owned subsidiary dedicated to treatments for rare diseases, received an approval to extend the use of Carbaglu® (carglumic acid) to treat hyperammonaemia due to any of the three main organic acidaemias (isovaleric acidaemia, methylmalonic acidaemia or propionic acidaemia). Carbaglu® has orphan drug designation and since 2003 is indicated in the treatment of NAGS deficiency. Organic acidaemias (OA) are usually diagnosed in infancy, can be fatal, and affect especially the central nervous system. They are a

group of inherited rare metabolic disorders which disrupt physiologic amino acid degradation causing a build-up of organic acids, which in turn may inhibit the urea cycle function, leading to hyperammonaemia. Acute hyperammonaemia due to OA represents a true medical emergency and Carbaglu®, by restoring the urea cycle and thus reducing blood ammonia levels, prevents brain damage.

Also in 2011 the pharmaceutical market was characterized by modest growth in the more mature markets of Western Europe and by a reduction in Italy. 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. In this context group strategy will continue to be focused on the growth of its international operations, with particular interest being placed on the markets with potential to grow in the future. Together with its geographical expansion, the business will be driven by the development and launch of the new pipeline products and by the acquisition of new specialties.

We believe that the strict implementation of our strategy will enable us to be optimistic regarding the future, and 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 2011.

DIVIDENDS

Based on the results obtained, the Board of Directors of the parent company will propose to the shareholders a dividend of € 0.10 per share, in full balance of the interim 2011 dividend of € 0.20, to be paid to all shares outstanding at ex-dividend date, excluding those in treasury stock, as from 26 April 2012, with ex-dividend on 23 April 2012. The full 2011 dividend is therefore of € 0.30 per share (€ 0.275 per share last year).

RESEARCH AND DEVELOPMENT

During 2011 research and development activities were dedicated to the consolidation of numerous programs in urology, hypertension, pain therapy and rare diseases. Furthermore, strong impulse was given to the regulatory and post-approval activities regarding the products silodosin, pitavastatin, Carbaglu® and a new formulation of lercanidipine. In view of these consolidation and expansion activities Recordati continued to strengthen its research and development organization, adding new and highly specialized personnel to afford the flexibility and performance required by the increasingly demanding and complex pharmaceutical environment. The following table shows the main projects and products in development.

PRODUCT DEVELOPMENT PIPELINE

NAME	ORIGINATOR	INDICATION	DEVELOPMENT STATUS
CARBAGLU®	Recordati	Organic acidemias (OA)	Approved in EU Phase III in U.S.A.
NORMOSANG®	Recordati	Hepatic porphyria	Pre-registration in U.S.
REC 0482	Nymox (NX-1207)	Benign prostatic hyperplasia (BPH)	Phase III
lercanidipine/enalapril fixed combination *	Recordati	Essential hypertension	Pre-registration
CYSTADROPS®	Recordati	Ocular cystinosis	Phase II
REC 0422	Recordati	Overactive bladder and Incontinence	Phase II
REC 1819	Recordati	Overactive bladder and Incontinence	Phase I
REC 0438	Recordati/UFPeptides	Overactive bladder in patients with spinal lesions	Phase I

* New dosage

The introduction of new products both through our internal research activities and the further development of our products, as well as through development alliances with other pharmaceutical companies, is of fundamental importance for the group's growth in the future. During 2011 a number of products in development belonging to various therapeutic areas (metabolism, diabetes, urological diseases, oncology and rare diseases) and with a variety of structural characteristics, from small molecules through to biotechnology compounds and gene therapy, were identified and examined. Some of these projects are currently in an advanced stage of evaluation to assess their potential and the next development phases needed, with the objective of reinforcing both our primary care product portfolio as well as to introduce new specialized therapies and new remedies for the treatment of rare diseases.

Research and development activities during 2011 are summarized in the following paragraphs.

LERCANIDIPINE

Recordati has always been committed to therapies for the treatment of hypertension and is particularly interested in the development of antihypertensive treatments which associate lercanidipine with other active compounds indicated for this condition. Fixed combinations of more than one antihypertensive agent will play a significant and increasing role in hypertension therapy. In fact, most hypertensive patients, especially those with associated risk

factors, require multiple therapies using more than one drug to rapidly achieve and effectively maintain desired blood pressure levels. Further clinical trials involving the fixed association of lercanidipine with enalapril, currently available in a number of markets, were conducted with the objective of extending its indication. In 2011 Recordati successfully completed a vast international multi-factorial phase II study which evaluated the efficacy and safety of full doses of both active molecules combined in patients suffering from essential hypertension. The results of this study allowed profitable discussions with the relevant regulatory authorities to take place, leading to their agreement for the submission of an approval request for a new dosage form of the lercanidipine+enalapril fixed combination (lercanidipine 20 mg + enalapril 20 mg).

REC 0482 (NX-1207)

The inclusion of REC 0482 (NX-1207) in our development pipeline is perfectly in line with our commitment to increase the availability of innovative, simple, effective and long-lasting treatments for significant urological disorders and in particular for benign prostatic hyperplasia (IPB).

Benign prostatic hyperplasia (BPH) or enlarged prostate is a common affliction of older men that causes difficulties with urination that can have a detrimental impact on health and quality of life and can lead to acute urinary retention and incontinence. This disorder, which is associated with growth in prostate size as men age, affects approximately half of men over age 50 and close to 90% of men by age 80. The market for BPH treatments is expected to grow as the population ages.

REC 0482 is a novel patented new chemical entity developed by Nymox as NX-1207. The molecule involves a new targeted approach to the treatment of BPH. The drug is administered by a urologist in an office setting directly into the zone of the prostate where the enlargement occurs. The procedure takes only a few minutes, causes little or no pain or discomfort, and does not require preliminary anaesthesia nor subsequent catheterization. The drug has successfully completed a series of blinded controlled multi-center U.S. clinical trials where a single dose of NX-1207 has been found to produce very promising symptomatic improvements without causing the urinary, sexual or cardiovascular side effects associated with currently approved drugs. Long term follow-up studies have shown evidence of long lasting benefit with a significant proportion of men who received a single dose reporting maintained improvement in BPH symptoms without other treatments for several years.

During 2011 Recordati designed a clinical development program for REC 0482 which includes an important international clinical trial to be conducted in fifty renowned clinical centers in a number of European and non-European countries. The program was discussed with the European Medicines Agency (EMA) through the Scientific Advice procedure. We wish to underline that EMA substantially accepted the regulatory approach, the design of the trial and the proposed development plan. Enrolment of the first patients is therefore expected to take place as from the third quarter 2012.

IN-HOUSE RESEARCH PROJECTS

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

The first, REC 0422 is a combination of two existing drugs, indicated for other conditions, which has displayed a significant synergistic effect in pharmacological animal models of unstable bladder. A phase I trial was completed

successfully and the safety, tolerability and pharmacokinetic profile of this treatment was established in female patients with unstable bladder. A modified release formulation of this product to simplify its use is under study.

The second, REC 1819 has a completely new mechanism of action at the central nervous system level. Preclinical regulatory activities were successfully completed in 2011 with no particular toxicology problems arising. The necessary activities in preparation for the phase I trial in healthy volunteers have started.

The preclinical evaluation of REC 0438, which represents a structurally different class of compounds to be potentially used, upon intravesical administration, in patients with spinal lesions with the object of improving their lower urinary tract stability, has been completed. This molecule proved to have an optimal tolerability profile and, following the positive opinion issued by the Istituto Superiore di Sanità (the Italian health institute), clinical trials in patients are expected to start at the beginning of 2012.

RARE DISEASES

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. Currently, through its subsidiary Orphan Europe, Recordati has seven "orphan" drugs in various development phases, from formulation studies to post-approval and phase III studies.

Carbaglu® (carglumic acid) is an orphan drug approved by the European Medicines Agency (EMA) and by the Food and Drug Administration (FDA) for the treatment of hyperammonaemia due to N-Acetyl Glutamate Synthase (NAGS) deficiency. The NAGS deficiency is an extremely rare inherited metabolic disorder affecting the urea cycle which leads to accumulation of ammonia in the blood. If not adequately and quickly treated, hyperammonaemia causes irreversible brain damage, coma, and eventually death. Carbaglu® is the only existing specific treatment of NAGS deficiency and this genetic disorder requires life-long treatment. In May 2011 Orphan Europe received an approval to extend the use of Carbaglu® (carglumic acid) to treat hyperammonaemia due to any of the three main organic acidaemias (isovaleric acidaemia, methylmalonic acidaemia or propionic acidaemia). Organic acidaemias comprise 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 OA's is ten times higher than all urea cycle disorders taken together. Currently Carbaglu® is in phase III in the U.S.A. for the treatment of organic acidaemias indication.

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

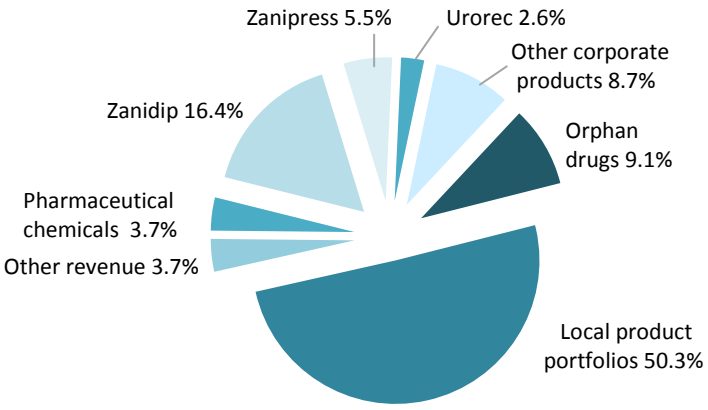
Normosang® (human haemin) is indicated for the treatment of acute attacks of hepatic porphyria. Porphyrias are rare, genetic disorders which require immediate medical care during their acute and very painful manifestations. Normosang® is an emergency medicine that is recognized as the gold standard therapy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

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

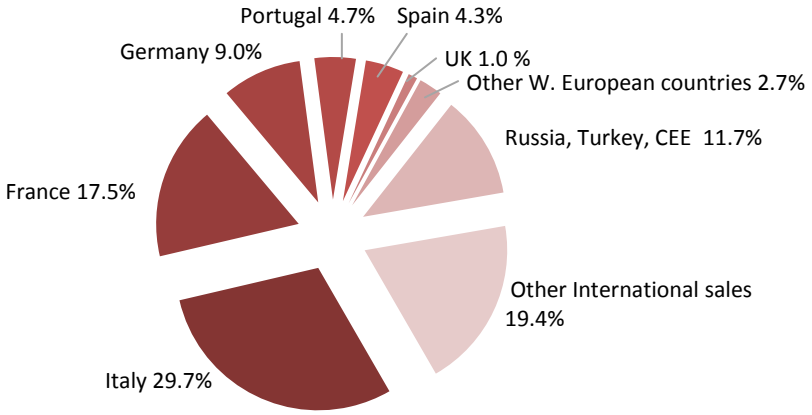
REVIEW OF OPERATIONS

In 2011 revenues are € 762 million, up by 4.7% over those of the preceding year, with an increase of 2.2% in international sales (€ 540.4 million) which represent 70.9% of total revenue. Pharmaceutical revenue is € 733.6 million, growing by 4.5% mainly due to the contribution of new products, the sales increase in Turkey, Russia and the other Central and Eastern European markets and the growth of the orphan drug business. Sales of pharmaceutical chemicals are € 28.4 million, up by 9.9% and represent 3.7% of total revenue.

Sales by business



Pharmaceutical sales



PHARMACEUTICALS

The group's pharmaceutical business, which represents 96.3% 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 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.

The performance of products sold directly in more than one market (corporate products) during 2011 is shown in the table below and described in the following paragraphs.

€ (thousands)	2011	2010	Change 2011/2010	%
Zanidip® (lercanidipine)	124,718	148,720	(24,002)	(16.1)
Zanipress® (lercanidipine+enalapril)	41,592	31,658	9,934	31.4
Urorec® (silodosin)	19,750	2,056	17,694	n.s.
Livazo® (pitavastatin)	6,797	-	6,797	n.s.
Other corporate products	59,183	52,770	6,413	12.2
Orphan drugs	69,257	58,725	10,532	17.9

Zanidip® (lercanidipine) is Recordati's original calcium channel blocker for the treatment of hypertension available in 95 countries and is one of the most prescribed calcium channel blockers in the countries where it is present. The reduction in sales di due to competition from generic versions manufactured by other producers following the expiry, at the beginning of 2010, of the composition of matter patent covering lercanidipine in the main European countries. Our lercanidipine based products are sold directly to the market by our own marketing

organizations in the five main European markets as well as in Ireland, Greece, Portugal and Turkey. In the other markets they are sold by licensees, and in some of the aforementioned ones co-marketing agreements are in place.

€ (thousands)	2011	2010	Change 2011/2010	%
Direct sales	70,917	85,491	(14,574)	(17.0)
Sales to licensees	53,801	63,229	(9,428)	(14.9)
Total lercanidipine sales	**124,718**	**148,720**	**(24,002)**	**(16.1)**

The reduction of direct sales is due mainly to the lower sales in Italy (-17.9%) and in France (-31.4%) principally due to lower sales volumes as a result of generic competition. Direct sales in the other European countries have suffered an overall reduction of 4.2% while sales to licensees, which represent 43.1% of total lercanidipine sales, are down by 14.9%.

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

€ (thousands)	2011	2010	Change 2011/2010	%
Direct sales	26,485	19,946	6,539	32.8
Sales to licensees	15,107	11,712	3,395	29.0
Total lercanidipine+enalapril sales	**41,592**	**31,658**	**9,934**	**31.4**

In France the lercanidipine/enalapril fixed combination is marketed by Bouchara Recordati and by Pierre Fabre under their respective brands Zanextra® and Lercapress®. Sales of Zanextra® are € 8.6 million, up by 21.4%. Overall the product has achieved a market share of over 31% in a market segment which is growing by more than 50%.

In Germany, Recordati Pharma (previously denominated Merckle Recordati) sells Zanipress® (lercanidipine+enalapril), which recorded sales of € 7.5 million with an increase of 9.6%. The lercanidipine/enalapril fixed combination is also sold by Berlin Chemie (Menarini group) as Carmen ACE® and by Meda as Zaneril®. Overall this product is the leader in its class with a market share of over 57%.

The lercanidipine/enalapril fixed combination is also sold directly by our marketing companies in Portugal, generating sales of € 4.5 million (+34.5%), in Spain with sales of € 2.9 million (+48.3%), in Greece and in Ireland. In Portugal the product is also sold by Delta (Rottapharm/Madaus group) and in Spain it is co-marketed by Meda and by Rottapharm/Madaus.

Urorec® (silodosin) is a new drug indicated for the treatment of the symptoms of benign prostatic hyperplasia (BPH, enlargement of the prostate). BPH manifests with problems linked to urination and the prevalence of the disorder is increasing with the ageing of the population, it is frequent in men over the age of fifty and its

symptoms significantly reduce quality of life. Clinical evidence shows that patients receiving silodosin benefited from a significant reduction of symptoms associated with BPH and an improvement in quality of life within the first week of treatment. Silodosin was originated by Kissei (Japan) and was obtained under license by Recordati for the development and marketing in the whole of Europe (45 countries) and a further 18 countries in the Middle East and Africa. Currently the product is successfully marketed in 14 countries, directly by our subsidiaries under the brand Urorec® and by licensees under the brand Silodyx™. Overall sales of silodosin based products in 2011 are € 19.8 million, and in December in-market sales reached an average market share of 5.2%.

The roll-out Livazo® (pitavastatin), a novel statin indicated for the reduction of elevated total and LDL cholesterol, started during the second quarter. Controlled clinical trials show that pitavastatin induces a reduction in LDL-cholesterol (the "bad" cholesterol that contributes to formation of atherosclerotic plaques) and an increase in HDL-cholesterol (the "good" cholesterol that is removed from the arterial walls), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications. Furthermore, presents an excellent safety profile due to the lower likelihood of drug-drug interactions than that of most other statins. Thanks to these properties pitavastatin can be regarded as an effective and safe treatment of dyslipidemia. Pitavastatin was licensed by Recordati from the Japanese pharmaceutical company Kowa for the European market, Russia and the other C.I.S. countries and Turkey. The first launches of the drug took place in Spain and in Portugal where sales generated in 2011 are € 6.8 million.

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 2011 are € 12.3 million, up 15.2% over the preceding year.

Flavoxate is an antispasmodic for the treatment of urinary incontinence, also originated by Recordati, which is marketed internationally under the brands Genurin® and Urispas®. Sales of this product in 2011 are € 10.3 million, up by 5.2%.

Procto-Glyvenol®, indicated for the treatment of internal and external hemorrhoids, was acquired from Novartis Consumer Health at the beginning of 2011 in the following countries: Poland, Russia, Turkey, Romania, Czech Republic, Slovakia, Ukraine, Portugal, the Baltic states and Cyprus. Sales in the market of this product in 2011 are € 9.0 million.

TransAct® LAT, a transdermal patch containing 40 mg of flurbiprofen indicated for the symptomatic relief of localized pain involving the musculoskeletal system, obtained under license from Amdipharm, is sold on the Italian and Portuguese markets. Sales of this product are € 12.3 million in 2011.

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 2011 total € 9.5 million, an increase of 17.7%.

Kentera® is an oxybutynin transdermal patch indicated for the symptomatic treatment of disorders of the lower urinary tract such as incontinence, increased urinary frequency and urgency, obtained under license from Watson Pharmaceuticals and marketed in 16 countries. Sales of Kentera® are € 5.7 million in 2011.

Lopresor® (metoprolol) is a well known selective beta blocker for the treatment of different cardiovascular disorders, in particular hypertension and angina pectoris, acquired from Novartis for the Greek and other European markets. Sales of this product in 2011, booked starting from July, are € 5.0 million and are generated mostly in Greece.

Our specialties indicated for the treatment of rare and orphan diseases are handled by Orphan Europe that

markets them directly all over Europe, in Turkey and in the Middle East, and from end 2010 in the U.S.A., and through partners in other parts of the world. Sales of these products in 2011 total € 69.3 million, an increase of 17.9%. The main products in this portfolio are Adagen® (pegademase bovine), indicated for the treatment of severe combined immunodeficiency disease associated with adenosine deaminase deficiency (SCID-ADA deficiency), Carbaglu® (carglumic acid), indicated for the treatment of hyperammonaemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and due to any of the three main organic acidaemias (isovaleric acidaemia, methylmalonic acidaemia or propionic acidaemia), Pedea® (i.v. ibuprofen) used in the treatment of a serious congenital cardiac malformation, the persistence of *patent ductus arteriosus* (PDA) and Normosang® (human haemin) indicated for the treatment of acute attacks of hepatic porphyria. During 2011 sales of Carbaglu® in the U.S.A. grew progressively reaching $ 7.8 million, thanks to the identification of new patients with NAGS deficiency.

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

€ (thousands)	2011	2010	Change 2011/2010	%
Italy	217,660	196,979	20,681	10.5
France	128,693	139,927	(11,234)	(8.0)
Germany	66,208	63,314	2,894	4.6
Portugal	34,360	36,264	(1,904)	(5.3)
Spain	31,824	29,644	2,180	7.4
United Kingdom	7,636	9,857	(2,221)	(22.5)
Other Western European countries	19,426	16,861	2,565	15.2
Russia, Turkey, Czech Rep., other C.E.E. countries	85,496	70,270	15,226	21.7
Other international sales	142,312	139,154	3,158	2.3
Total pharmaceutical sales	**733,615**	**702,270**	**31,345**	**4.5**

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

PHARMACEUTICALS, ITALY

€ (thousands)	2011	2010	Change 2011/2010	%
Prescription pharmaceuticals [(a)]	191,819	172,512	19,307	11.2
Self-medication pharmaceuticals [(b)]	25,841	24,467	1,374	5.6
Pharmaceuticals, Italy	**217,660**	**196,979**	**20,681**	**10.5**

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

The performance of the main products in Italy is the following:

€ (thousands)	Indication	2011	2010	Change 2011/2010	%
Entact®	depression	37,735	34,861	2,874	8.2
Zanedip®/Lercadip®	hypertension	22,250	27,106	(4,856)	(17.9)
Peptazol®	gastric ulcers	22,085	21,048	1,037	4.9
Tora-Dol®	pain	14,915	15,392	(477)	(3.1)
Cardicor®	heart failure	10,830	-	10,830	n.s.
Rextat®/Lovinacor®	hypercholesterolemia	10,456	10,347	109	1.0

Pharmaceutical sales in Italy grow by 10.5% compared to the preceding year mainly due to sales of the new entry Cardicor® (bisoprolol) following the license agreement signed in 2010 with Merck KGaA. Cardicor® belongs to the beta-blocker class of drugs and is indicated for the treatment of chronic, stable, moderate to severe heart failure. Sales of Entact® (escitalopram), indicated for the treatment of depression, of Peptazol® (pantoprazole), a treatment for gastric ulcers, and the self-medication products are growing. In the second quarter Urorec® (silodosin), with sales during the year of € 3.0 million, and Zanipril®/Lercaprel® (lercanidipine+enalapril), with sales during the year of € 2.1 million, were launched and milestones of € 5.3 million were received under the co-marketing agreements for the latter product. The reduction in sales of Zanedip®/Lercadip® is due to the competition from generic versions of lercanidipine which appeared on the market in February 2010.

Sales of self-medication products in 2011 are € 25.8 million, up by 5.6%. Sales of Alovex™, our best-selling self medication product indicated for the treatment of oral cavity aphthas, are up by 7.6% to € 5.8 million, consolidating its position as a reference product for this condition. Sales of Proctolyn® (treatment of haemorrhoids) increase by 11.5% to € 5.6 million and those of Imidazyl® (eye drops) remain substantially unchanged. Significant sales growth was also recorded for Eumill® (single dose eye drops) which, together with Imidazyl®, enhances Recordati's leadership in the eye drops market.

PHARMACEUTICALS, FRANCE

The 2011 revenue realized by our subsidiaries in France is € 128.7 million, down by 8.0% compared to the preceding year. The decrease is to be attributed mainly to the sales volume reduction of Zanidip® (lercanidipine) following the market entry in France of generic versions of lercanidipine. The following table shows sales of the main products.

€ (thousands)	Indication	2011	2010	Change 2011/2010	%
Methadone	drug addiction	22,497	20,262	2,235	11.0
Zanidip®/lercanidipine	hypertension	18,381	26,777	(8,396)	(31.4)
Tenstaten®	hypertension	8,692	11,270	(2,578)	(22.9)
Zanextra®	hypertension	8,571	7,062	1,509	21.4
Hexa line	antibacterial	7,947	9,967	(2,020)	(20.3)
Neocodion®	cough	6,826	7,018	(192)	(2.7)

Sales of methadone and of Zanextra® (lercanidipine+enalapril) grow significantly. The medicines to treat winter maladies such as the Hexa line of products and the cough medicines Neocodion® and Exomuc® did not perform so well due to the relatively low incidence of seasonal ailments during the winter of 2011. In November 2010 Urorec® (silodosin) was launched and sales generated during 2011 are € 3.5 million.

PHARMACEUTICALS, GERMANY

Sales generated by our subsidiaries in Germany are € 66.2 million, an increase of 4.6% compared to the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2011	2010	Change 2011/2010	%
Claversal®	ulcerative colitis	15,177	15,166	11	0.1
Zanipress®	hypertension	7,491	6,834	657	9.6
Recosyn®/Suplasyn®	muscolo-skeletal	6,360	7,201	(841)	(11.7)
Ortoton®	muscle relaxant	5,819	5,061	758	15.0
Mirfulan®	healing ointment	5,326	5,366	(40)	(0.7)
Lipotalon®	anti-inflammatory	5,244	5,082	162	3.2
Corifeo®	hypertension	3,661	3,715	(54)	(1.5)

Sales growth in Germany is to be attributed mainly to the good sales performance of Urorec® (silodosin), launched in June 2010, and to the positive sales development of Zanipress® (lercanidipine+enalapril), Ortoton® (metocarbamol) and Lopresor® (metoprolol). Sales of the treatments for rare diseases are also growing significantly in this market (+16.0%).

PHARMACEUTICALS, PORTUGAL

Revenue generated by our subsidiaries in Portugal is € 34.4 million, down by 5.3% due to the termination of the Duagen® (dutasteride) license and decreasing Zanidip® (lercanidipine) sales (-37.1%).

€ (thousands)	2011	2010	Change 2011/2010	%
Prescription pharmaceuticals	31,923	33,474	(1,551)	(4.6)
Self-medication pharmaceuticals	2,437	2,790	(353)	(12.7)

Zanipress® (lercanidipine+enalapril) is performing well, with sales growing by 34.5%, as are Urorec® (silodosin) and Livazo® (pitavastatin) launched during 2011.

PHARMACEUTICALS, SPAIN

Revenues in Spain are € 31.8 million, up by 7.4% compared to the preceding year mainly due to the good sales performance of Zanipress® (lercanidipine+enalapril), Urorec® (silodosin), launched during 2010, and of Cidine® (cinitapride).

€ (thousands)	Indication	2011	2010	Change 2011/2010	%
Cidine®	gastroprokinetic	10,250	9,519	731	7.7
Zanidip®	hypertension	3,070	7,677	(4,607)	(60.0)
Zanipress®	hypertension	2,943	1,985	958	48.3
Urorec®	benign prostatic hyperplasia	2,741	422	2,319	n.s.
Dermatrans®	angina	2,468	2,208	260	11.8

During 2011 Livazo® (pitavastatin) was launched generating initial sales of € 1.8 million. Sales of products for the treatment of rare diseases in this country grow by 9.6%.

PHARMACEUTICALS, UNITED KINGDOM

Sales in the United Kingdom are € 7.6 million, down by 22.5% and consist mainly of sales of lercanidipine and of products for the treatment of rare diseases. The latter increase by 3.7% and now represent 60.2% of the British business.

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 € 9.8 million (+19.3%), sales in Ireland recorded by Recordati Ireland of € 2.4 million, mainly generated by Zanidip® (lercanidipine), and sales in Greece reported by Recordati Hellas Pharmaceuticals of € 7.2 million. During 2010 Lopresor® (metoprolol) entered the Greek portfolio and in 2011 this drug became the subsidiary's main product. Sales of Lercadip® (lercanidipine) continued to grow and those of Lercaprel® (lercanidipine+enalapril) also developed positively. Also in Greece, during 2011, Urorec® (silodosin) was launched.

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 € 36.9 million, up 34.8% over the preceding year. The best selling product in this area is Tergynan®, a medicine indicated for the treatment of gynecological infections, which recorded sales of € 18.3 million. Revenues include pharmaceutical promotion services rendered to third parties for a total of € 3.6 million.

Sales in Turkey recorded by Yeni Recordati and, for the fourth quarter 2011, by the recently acquired Turkish pharmaceutical company Dr. F. Frik İlaç, total € 29.0 million, a growth of 6.1% over the preceding year. During the fourth quarter Dr. F. Frik İlaç recorded sales, in Turkish lira, of 9.3 million. Sales recorded by Yeni Recordati during 2011 in Turkish lira are 57.8 million, growing by 18.5% compared to the preceding year on a like-for-like basis. The like-for-like comparison is necessary to account for a change, during 2011, in the recognition of the contribution due to the national healthcare system which was previously considered a variable selling expense. Sales in Turkey include those of Lercadip® (lercanidipine), Urispas® (flavoxate) and Gyno-Lomexin® (fenticonazole), for a total of € 9.7 million. Procto-Glyvenol®, the medicine for the treatment of haemorrhoids acquired in 2011 from Novartis Consumer Health, became part of our product portfolio in Turkey.

Sales generated by Herbacos Recordati in the Czech and Slovak Republics are € 14.2 million, a growth of 16.2% compared to the preceding year thanks to the good performance of the local product portfolio and to the launch of the new products Procto-Glyvenol®, Kentera®, Lercaprel® (lercanidipine+enalapril) and Urorec® (silodosin).

In Romania our subsidiary Recordati România has started selling the corporate products Urorec® (silodosin), Lomexin® (fenticonazole) and Procto-Glyvenol®.

Sales in these markets of the specialty products indicated for the treatment of rare and orphan diseases amount to € 3.6 million and grow by 13.4%.

OTHER INTERNATIONAL SALES

Other international sales comprise revenues generated by the Group's international business through licensing agreements and exports. Included are the sales to and other revenues from our licensees for our corporate products, Bouchara Recordati's export sales, except those generated in the C.I.S. which are stated separately, and export sales realized by Orphan Europe worldwide including the U.S.A..

€ (thousands)	2011	2010	Change 2011/2010	%
Sales to international licensees	89,496	85,607	3,889	4.5
Bouchara Recordati (export sales)	27,005	24,268	2,737	11.3
Orphan Europe (sales to licensees and exports)	15,044	7,858	7,186	91.4
Other income	10,767	21,421	(10,654)	(49.7)
Total	**142,312**	**139,154**	**3,158**	**2.3**

Sales to international licensees grow by 4.5% thanks to the sales performance of the new products silodosin and pitavastatin to co-marketers and to licensees in countries where Recordati is not present directly. Furthermore, sales of the fixed combination of lercanidipine and enalapril increase by 17.9%. We also wish to underline the good sales performance of our proprietary active ingredients fenticonazole (+11.9%) and flavoxate (+13.7%). Sales of lercanidipine are down due to the competition on the market from generic versions of the molecule (-15.1%).

Sales outside France by our French subsidiary Bouchara Recordati are up by 11.3% mainly thanks to the significant growth of Zanidip® (lercanidipine) sales (+41.8%).

Sales of our treatments for rare diseases in countries where Orphan Europe does not have a direct presence are growing by 91.4%, mainly due to sales of Carbaglu® in the U.S.A. which in 2011 reached $ 7.8 million.

Other income refers to royalties and up-front payments related to license agreements. The decrease is due to fewer license and co-marketing agreements having been concluded in 2011 compared to the preceding year, a year during which the licensing-out activity related to the new products silodosin and pitavastatin was particularly intense.

PHARMACEUTICAL CHEMICALS

€ (thousands)	2011	%	2010	%	Change 2011/2010	%
Italy	3,166	11.1	2,552	9.9	614	24.1
Europe (Italy excluded)	9,985	35.1	8,722	33.7	1,263	14.5
America	9,168	32.3	8,087	31.3	1,081	13.4
Australasia	5,131	18.1	5,757	22.2	(626)	(10.9)
Africa	971	3.4	746	2.9	225	30.2
Total	**28,421**	**100.0**	**25,864**	**100.0**	**2,557**	**9.9**

Sales of pharmaceutical chemicals, which comprise active substances produced in the Campoverde d'Aprilia (Latina, Italy) plant, increase by 9.9% as compared to 2010, mainly due to a significant increase in sales volumes, mainly for the products verapamil, mebeverine, acyclovir and ketorolac.

HEALTH, SAFETY AND ENVIRONMENT

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

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

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

The following common characteristics and measures for risk prevention are present within the system for the management of health, safety and the environment that the Recordati group employs in both its pharmaceutical chemicals and its pharmaceutical plants: risk assessment, training and information for workers, proper maintenance standards, environmental protection systems designed to minimize environmental impacts, appropriate emergency measures and compliance with local legislation on the subject. The group monitors and analyzes injuries and accidents that occur at the various production sites. The results of these analyses of industrial accidents are periodically submitted to the Internal Audit Committee. Recordati employs a systematic approach to the management of health, safety and the environment, and sets itself 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. 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.

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

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

Out-sourcing to third party contractors is managed by special internal procedures which include the verification that the contractor is suitable and the sharing of the “Single Interference Risk Assessment Document” in order to reduce, and if possible eliminate, potential interferences between the work activities of external firms and the normal operations of the company.

Regarding the health and safety management system implemented by Recordati at its Milan site, a project is underway in order to qualify for the BS OHSAS 18001:07 certification.

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

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

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

In July 2011 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 2011 statement of income includes the consolidation, as from 1 October, of the newly acquired Turkish company Dr. F. Frik İlaç. The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2010:

€ (thousands)	2011	% of revenue	2010	% of revenue	Change 2011/2010	%
Revenue	**762,036**	**100.0**	**728,134**	**100.0**	**33,902**	**4.7**
Cost of sales	(259,977)	(34.1)	(240,065)	(33.0)	(19,912)	8.3
Gross profit	**502,059**	**65.9**	**488,069**	**67.0**	**13,990**	**2.9**
Selling expenses	(232,160)	(30.5)	(216,478)	(29.7)	(15,682)	7.2
R&D expenses	(55,956)	(7.3)	(68,841)	(9.5)	12,885	(18.7)
G&A expenses	(45,386)	(6.0)	(44,026)	(6.0)	(1,360)	3.1
Other income (expense), net	(5,080)	(0.7)	(3,940)	(0.5)	(1,140)	28.9
Operating income	**163,477**	**21.5**	**154,784**	**21.3**	**8,693**	**5.6**
Financial income (expense), net	(3,465)	(0.5)	(3,787)	(0.5)	322	(8.5)
Pretax income	**160,012**	**21.0**	**150,997**	**20.7**	**9,015**	**6.0**
Provision for income taxes	(43,566)	(5.7)	(42,417)	(5.8)	(1,149)	2.7
Net income	**116,446**	**15.3**	**108,580**	**14.9**	**7,866**	**7.2**
Attributable to:						
Equity holders of the parent	116,434	15.3	108,571	14.9	7,863	7.2
Minority interests	12	0,0	9	0.0	3	33.3

In 2011 international revenues went from € 528.6 million to € 540.4 million, an increase of 2.2%, and represent 70.9% of total revenue. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2011	%	2010	%
Europe (Italy excluded)	451,787	83.6	447,820	84.7
Australasia	37,776	7.0	41,794	7.9
Africa	24,048	4.4	20,534	3.9
America	26,822	5.0	18,455	3.5
Total	**540,433**	**100.0**	**528,603**	**100.0**

Gross profit is € 502.1 million with a margin of 65.9% on sales, a reduction compared to the preceding year due to the lower proportion of lercanidipine sales to total sales.

Selling expenses increase by 7.2% compared to the preceding year mainly due to marketing expenses incurred to support the launch of new products.

R&D expenses, at € 56.0 million, decrease as compared to 2010 due to lower amortization charges and to the up-front payment in the preceding year of € 10.0 million to Nymox for the acquisition of development and marketing rights to NX-1207, a new innovative drug.

Overall, labor cost in 2011 is € 194.2 million, an increase of 6.6% over 2010, while the cost per employee decreases by 7.2%.

Personnel and other human resources data at 31 December 2011 and 2010 are shown in the following table:

	2011	2010
Employees at year-end	**3,207**	**2,792**
Average age	41	42
Average service (years)	6.8	7.3
Labor productivity:		
Labor cost on net sales	25.5%	25.0%
Sales per employee (€ thousands) [(a)]	246.6	270.7
Value added per employee (€ thousands) [(a)]	123.6	135.3

Labor cost includes wages, related charges and additional costs.
(a) Data per employee for both years are computed on the average number of personnel, 3,091 in 2011 and 2,689 in 2010.

The reduction of sales per employee is due to the increase in the number of employees at year-end 2011 following the acquisition of the Turkish company Dr. F. Frik İlaç concluded in September.

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 2011. In particular, investments were made for the training of medical representatives and researchers.

Other expenses net of other income at € 5.1 million include the € 2.2 million pay-back due to AIFA (the Italian medicines agency) in substitution for the 5% price reduction on selected products, expenses of € 1.8 million for costs related to the acquisition of the Turkish company Dr. F. Frik İlaç and a provision of € 0.9 million for restructuring costs.

Net financial charges are € 3.5 million, down as compared to 2010 mainly due to currency exchange gains realized.

The effective tax rate during the year is 27.2%, a reduction compared to the preceding year.

Net income is € 116.4 million and increases by 7.2% compared to the preceding year.

FINANCIAL POSITION

The net financial position at 31 December 2011 records net debt of € 55.7 million compared to a net cash position of € 46.0 million at 31 December 2010.

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010	%
Cash and short-term financial investments	105,164	161,680	(56,516)	(35.0)
Bank overdrafts and short-term loans	(13,555)	(3,506)	(10,049)	n.s.
Loans – due within one year[(1)]	(11,616)	(16,265)	4,649	(28.6)
Net liquid assets	79,993	141,909	(61,916)	(43.6)
Loans – due after one year[(1)]	(135,727)	(95,942)	(39,785)	41.5
Net financial position	**(55,734)**	**45,967**	**(101,701)**	**n.s.**

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

During the year dividends were paid for an overall amount of € 93.1 million, of which € 54.6 million for the financial year 2010 dividend and € 38.5 for the interim financial year 2011 dividend.

Furthermore, significant investments were made for the international development of the Group. For the acquisition of the Turkish pharmaceutical company Dr. F. Frik İlaç a payment of € 52.9 million was made and debt was taken on for a total of € 29.8 million. € 32.0 million were paid to Novartis Consumer Health for the acquisition of the product Procto-Glyvenol®.

An amount of € 9.9 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 2011 is € 82.7 million and is thus comprised:

€ (thousands)	31.12.2011	% of revenue	31.12.2010	% of revenue	Change 2011/2010	%
Trade receivables, net	141,231	18,5	126,575	17.4	14,656	11.6
Inventories	108,251	14,2	85,190	11.7	23,061	27.1
Other current assets	24,509	3,2	29,559	4.1	(5,050)	(17.1)
Current assets	**273,991**	**36,0**	**241,324**	**33.1**	**32,667**	**13.5**
Trade payables	98,678	12,9	93,068	12.8	5,610	6.0
Tax payable	12,091	1,6	9,691	1.3	2,400	24.8
Other current liabilities	80,496	10,6	75,569	10.4	4,927	6.5
Current liabilities	**191,265**	**25,1**	**178,328**	**24.5**	**12,937**	**7.3**
Net working capital for operations	**82,726**	**10,9**	**62,996**	**8.7**	**19,730**	**31.3**
Days of sales outstanding	72		68			
Inventories as % of cost of sales	39.6%		35.5%			

RELATED PARTY TRANSACTIONS

Tax liabilities include an amount of € 1.6 million, computed by Recordati S.p.A. 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.

SUBSIDIARIES OUTSIDE THE EUROPEAN UNION

Pursuant to articles 36 and 39 of the Financial Markets Regulation concerning the listing conditions of companies with subsidiaries of significant relevance in their consolidated accounts, established and regulated under the laws of countries outside the European Union, we point out that at 31 December 2011 the provisions of art. 36 of the Financial Markets Regulation apply to the subsidiaries Yeni Recordati İlaç and Dr. F. Frik İlaç and that the conditions indicated in the abovementioned art. 36 are fulfilled.

FOURTH QUARTER 2011

€ (thousands)	IV quarter 2011	%	IV quarter 2010	%	Change 2011/2010	%
Revenue	**181,403**	**100.0**	**179,505**	**100.0**	**1,898**	**1.1**
Cost of sales	(63,132)	(34.8)	(60,575)	(33.7)	(2,557)	4.2
Gross profit	**118,271**	**65.2**	**118,930**	**66.3**	**(659)**	**(0.6)**
Selling expenses	(55,536)	(30.6)	(52,565)	(29.3)	(2,971)	5.7
R&D expenses	(11,995)	(6.6)	(22,820)	(12.7)	10,825	(47.4)
G&A expenses	(13,796)	(7.6)	(12,844)	(7.2)	(952)	7.4
Other income (expense), net	(2,371)	(1.3)	229	0.1	(2,600)	n.s.
Operating income	**34,573**	**19.1**	**30,930**	**17.2**	**3,643**	**11.8**
Financial income (expense), net	(640)	(0.4)	(514)	(0.3)	(126)	24.5
Pretax income	**33,933**	**18.7**	**30,416**	**16.9**	**3,517**	**11.6**
Provision for income taxes	(9,529)	(5.3)	(8,862)	(4.9)	(667)	7.5
Net income	**24,404**	**13.5**	**21,554**	**12.0**	**2,850**	**13.2**
Attributable to:						
Equity holders of the parent	24,400	13.5	21,550	12.0	2,850	13.2
Minority interests	4	0,0	4	0.0	0	0,0

Revenues during the fourth quarter 2011 are € 181.4 million, an increase of 1.1% compared to the same period of the preceding year. Pharmaceutical sales are € 175.0 million, up by 1.4% compared to the fourth quarter 2010. Pharmaceutical chemicals revenue, at € 6.4 million, is down by 7.2% compared to the same period of the preceding year.

Operating income is € 34.6 million, an increase of 11.8%, and at 19.1% of sales is lower than that of the preceding quarters due to non-recurring costs incurred referred mainly to the integration of the recently acquired Turkish

company Dr. F. Frik İlaç.

The significant decrease in R&D expenses is due to the booking in the previous year of the up-front payment of € 10.0 million to Nymox Pharmaceutical Corporation for the acquisition of the development and marketing rights to a new innovative product.

Net income increases by 13.2%, more than the increase in operating income due to a more favourable tax rate.

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 competition from generic pharmaceuticals, the Group is pursuing a diversification strategy based on the launch of new products and the expansion of its operations onto new markets with high growth rates.

Risks associated with investments in research and development

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

Risks associated with the launch of new products

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

Risks associated with pharmacovigilance

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

Risks associated with the production process

The Group has production plants which produce both intermediate products and active ingredients and also finished pharmaceutical products. Production activities are carried out in strict compliance with internationally established Good Manufacturing Practices (GMP) implemented through Standard Operating Procedures applicable to the pharmaceutical sector, and are submitted to monitoring and inspection by national and international relevant authorities. The Group's production sites are provided with adequate structures and qualified personnel to ensure that the production of medicinal specialties and active ingredients is carried out in compliance with good manufacturing practices (GMP) and with specific internal procedures and rules in force. In particular, the Group's main production site in Campoverde di Aprilia (Italy) regularly passes successfully inspections carried out by the Food and Drug Administration (FDA) and other national and international authorities.

Risks associated with interruption of the production process

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, malfunctioning of plant and equipment, 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 has an effective asset protection policy in place (through precise plant maintenance plans and adequate systems to automatically notice and put out fires) and has production plants with adequate capacity and flexibility to handle changed planning requirements. Furthermore, 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 worldwide "out-of-stock" situations and to take the necessary action (supply and/or production backups) to guarantee production autonomy. Furthermore, in order to reduce losses resulting from potential interruptions or damage to production cycles, the Group has taken out "All risk property" insurance policies which cover direct damages (such as damages to buildings, machines and goods) as well as indirect damages (such as loss of profit as a consequence of accidents).

Risks associated with health, safety and the environment

Chemical and pharmaceutical production is subject to obligations to comply with environmental, health and safety rules and regulations. To ensure the correct application of these rules and regulations, the Group has in place organizational units specifically dedicated to prevention, verification and continuous monitoring as regards compliance with the structural technical standards (related to equipment, plant, the workplace, chemical, physical and biological agents) in addition to activities regarding health surveillance, security vigilance, workers training and information and the procurement of documents and certificates required by law. In particular, 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.

Risks associated with the management of information technology resources and data security

Today's pervasiveness of information technology for the management of business and the necessary connection between company information systems and external information infrastructures (web and networks) exposes said systems to potential risks, both related to the availability, integrity and confidentiality of the data as well as to the availability and efficiency of the information systems. In order to guarantee effective operational continuity, the Group has implemented a disaster recovery and business continuity system which ensures the immediate replication of the principal legacy systems' workstations. Furthermore, the active safety of the company's data and software is guaranteed by multiple protection levels of a physical and logic nature, of both

servers and clients. Finally, the company is periodically submitted to VAPT (Vulnerability Assessment and Penetration Test) analysis. The outcome of this analysis has always shown the company's information systems to be adequately protected.

FINANCIAL RISKS

Credit Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Liquidity Risk

The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. The Group has at its disposal an ample supply of liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's loans and its financial assets are set out in notes 17, 20 and 29 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts at their natural due dates.

LEGAL AND COMPLIANCE RISKS

Risks associated with product liability

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

Risks associated with compliance

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

Risks associated with legal action

It is always possible that the Group may be required to meet costs resulting from litigation of various types. In these cases the Group may be called upon to pay extraordinary costs with consequences for operating and financial results. A detailed description of litigation in progress and the relative provisions made to meet future liabilities is given in notes 27 and 36 to the financial statements.

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

Group consolidated sales during the first two months of 2012 are in line with the company's expectations for the whole year which target sales between € 810 and € 830 million, operating income between € 160 and € 170 million and net income between € 115 and € 120 million.

Milan, 7 March 2012

Giovanni Recordati
Chairman and Chief Executive Officer

CONSOLIDATED FINANCIAL STATEMENTS

Recordati S.p.A and Subsidiaries
Consolidated Financial Statements at and for the year ended 31 December 2011

The consolidated financial statements are presented in accordance with the International Accounting Standards (IAS) and the International Financial reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and 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 2010.

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

INCOME STATEMENT

€ (thousands)	Note	2011	2010
Revenue	3	**762,036**	**728,134**
Cost of sales	4	(259,977)	(240,065)
Gross profit		**502,059**	**488,069**
Selling expenses	4	(232,160)	(216,478)
R&D expenses	4	(55,956)	(68,841)
G&A expenses	4	(45,386)	(44,026)
Other income (expense), net	4	(5,080)	(3,940)
Operating income		**163,477**	**154,784**
Financial income (expense), net	5	(3,465)	(3,787)
Pretax income		**160,012**	**150,997**
Provision for income taxes	6	(43,566)	(42,417)
Net income		**116,446**	**108,580**
Attributable to:			
Equity holders of the parent		116,434	108,571
Minority interests		12	9
Earnings per share			
Basic		€ 0.584	€ 0.548
Diluted		€ 0.556	€ 0.524

Earnings per share (EPS) are based on average shares outstanding during each year, 199,369,542 in 2011 and 198,170,113 in 2010, net of average treasury stock which amounted to 9,755,614 shares in 2011 and 10,955,043 shares in 2010. Diluted earnings per share is calculated taking into account stock options granted to company personnel.

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2011

ASSETS

€ (thousands)	Note	31 December 2011	31 December 2010
Non-current assets			
Property, plant and equipment	7	55,397	53,017
Intangible assets	8	149,649	113,512
Goodwill	9	365,719	305,741
Other investments	10	1,977	1,930
Other non-current assets	11	1,282	2,485
Deferred tax assets	12	22,494	20,221
Total non-current assets		**596,518**	**496,906**
Current assets			
Inventories	13	108,251	85,190
Trade receivables	14	141,231	126,575
Other receivables	15	21,311	26,734
Other current assets	16	3,198	2,825
Fair value of hedging derivatives *(fair value hedge)*	20	1,791	1,164
Short-term financial investments, cash and cash equivalents	17	105,164	161,680
Total current assets		**380,946**	**404,168**
Total assets		**977,464**	**901,074**

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RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2011

EQUITY AND LIABILITIES

€ (thousands)	Note	31 December 2011	31 December 2010
Shareholders' equity			
Share capital		26,141	26,141
Additional paid-in capital		83,719	83,719
Treasury stock		(53,215)	(52,579)
Hedging reserve *(cash flow hedge)*		(4,227)	(4,299)
Translation reserve		(8,232)	(592)
Other reserves		26,600	25,733
Retained earnings		445,745	389,284
Net income for the year		116,434	108,571
Interim dividend		(38,525)	0
Group shareholders' equity	18	**594,440**	**575,978**
Minority interest	19	40	28
Shareholders' equity		**594,480**	**576,006**
Non-current liabilities			
Loans – due after one year	20	137,518	96,767
Staff leaving indemnities	21	16,692	19,259
Deferred tax liabilities	22	6,049	5,699
Other non-current liabilities	23	2,062	606
Total non-current liabilities		**162,321**	**122,331**
Current liabilities			
Trade payables	24	98,678	93,068
Other payables	25	58,335	53,536
Tax liabilities	26	12,091	9,691
Other current liabilities		348	620
Provisions	27	21,813	21,413
Fair value of hedging derivatives *(cash flow hedge)*	28	4,227	4,299
Loans – due within one year	20	11,616	16,604
Bank overdrafts and short-term loans	29	13,555	3,506
Total current liabilities		**220,663**	**202,737**
Total equity and liabilities		**977,464**	**901,074**

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RECORDATI S.p.A. AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

€ (thousands)	2011	2010
Net income for the year	**116,446**	**108,580**
Gains/(losses) on cash flow hedges	72	(259)
Gains/(losses) on translation of foreign financial statements	(7,640)	5,586
Other gains/(losses)	1,415	(190)
Income and expense for the year recognized directly in equity	**(6,153)**	**5,137**
Comprehensive income for the year	**110,293**	**113,717**
Attributable to:		
Equity holders of the parent	110,281	113,708
Minority interests	12	9

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN GROUP SHAREHOLDERS' EQUITY

€ (thousands)	Share capital	Add. paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Interim dividend	Mino-rity in-terest	Total
Balance at 31.12.2009	**26,141**	**83,719**	**(59,103)**	**(4,040)**	**(6,178)**	**25,025**	**332,836**	**110,560**	**0**	**19**	**508,979**
Allocation of 2009 net income:											
- Dividends								(54,355)			(54,355)
- Retained earnings						8	56,197	(56,205)			
Change in the reserve for share based payments						890	543				1,433
Sale of own shares			6,524				(294)				6,230
Other changes							2				2
Comprehensive income for the year				(259)	5,586	(190)		108,571		9	113,717
Balance at 31.12.2010	**26,141**	**83,719**	**(52,579)**	**(4,299)**	**(592)**	**25,733**	**389,284**	**108,571**	**0**	**28**	**576,006**
Allocation of 2010 net income:											
- Dividends								(54,613)			(54,613)
- Retained earnings							53,958	(53,958)			
Change in the reserve for share based payments						(548)	2,289				1,741
Purchase of own shares			(15,872)								(15,872)
Sale of own shares			15,236				227				15,463
Interim dividend									(38,525)		(38,525)
Other changes							(13)				(13)
Comprehensive income for the year				72	(7,640)	1,415		116,434		12	110,293
Balance at 31.12.2011	**26,141**	**83,719**	**(53,215)**	**(4,227)**	**(8,232)**	**26,600**	**445,745**	**116,434**	**(38,525)**	**40**	**594,480**

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RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

€ (thousands)	2011	2010
Operating activities		
Cash flow		
Net Income	116,446	108,580
Depreciation of property, plant and equipment	10,529	10,645
Amortization of intangible assets	13,736	16,305
Write-down of assets	0	305
Total cash flow	**140,711**	**135,835**
(Increase)/decrease in deferred tax assets	(2,273)	1,572
Increase/(decrease) in staff leaving indemnities	(2,602)	(636)
Increase/(decrease) in other non-current liabilities	1,806	(5,535)
	137,642	**131,236**
Changes in working capital		
Trade receivables	(6,866)	6,046
Inventories	(18,220)	1,437
Other receivables and other current assets	9,279	(3,942)
Trade payables	(3,902)	11,307
Tax liabilities	1,363	(2,876)
Other payables and other current liabilities	2,368	5,182
Provisions	(204)	(7,815)
Changes in working capital	**(16,182)**	**9,339**
Net cash from operating activities	**121,460**	**140,575**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(9,647)	(8,237)
Net (investments)/disposals in intangible assets	(34,572)	(26,340)
Net (increase)/decrease in equity investments	(63,875) [(1)]	290 [(2)]
Net (increase)/decrease in other equity investments	(5)	1,786
Net (increase)/decrease in other non-current receivables	1,221	1,319
Net cash used in investing activities	**(106,878)**	**(31,182)**
Financing activities		
Medium/long term loans	44,743	30,000
Net financial position of acquired companies	(10,905)	55
Re-payment of loans	(21,912)	(2,484)
Change in Treasury stock	(409)	6,230
Effect of application of IAS/IFRS	3,156	1,243
Other changes in equity	(13)	2
Dividends paid	(93,138)	(54,355)
Change in translation reserve	(2,669)	3,167
Net cash from/(used in) financing activities	**(81,147)**	**(16,142)**
Changes in short-term financial position	**(66,565)**	**93,251**
Short-term financial position at beginning of year *	158,174	64,923
Short-term financial position at end of period *	91,609	158,174

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

[(1)] Acquisition of **Dr F. Frik İlaç (63,860)**: working capital (3,549), cash and cash equivalents 10,905, fixed assets (18,623), goodwill (64,933), medium and long-term loans 12,305, termination indemnity and other benefits 35.
Acquisition of **FIC** and **FIC Médical (15)**: change in purchase price (15).

[(2)] Acquisition of **Artmed International (300)**: working capital 52, cash and cash equivalents (55), fixed assets (64), goodwill (258), medium and long-term loans 25. Change in **Herbacos-Bofarma** goodwill 590.

1. GENERAL

The consolidated financial statements at 31 December 2011 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in attachment 1.

During 2011 the consolidation perimeter changed following the acquisition of the Turkish pharmaceutical company Dr. F. Frik İlaç A.Ş. in September. The profit and loss accounts of the newly acquired company are consolidated as from 1 October 2011. The consolidated cash flow statement and the comments to each balance sheet line include the balance sheet effect of the first consolidation at 30 September 2011. The recognition of this company in the accounts is not yet definite, and could be subject to change as allowed by IFRS 3, due to the effects which could derive from the application of some contractual clauses. Furthermore, the consolidation perimeter changed following the reorganization of the company structure in France through the merger by incorporation of the companies Orphan Europe Holding S.A. and Orphan Europe Operations S.a.s. into Recordati Orphan Drugs S.a.s. and the establishment of Recordati Polska sp. z o.o. in Poland.

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 2011 were used in the preparation of the financial statements at 31 December 2010.

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

The financial statements of the consolidated companies, prepared by the Board of Directors or the Sole Directors for submission to the respective Shareholders' meetings, have been reclassified and adjusted as required in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS). The criteria applied is consistent with that of the consolidated financial statements at 31 December 2010.

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

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

The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

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

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

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

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

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

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

Balance sheet

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

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

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

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

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

Goodwill - Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Transaction costs associated with the aggregation of companies are not considered acquisition costs and are recognized as expenses in the year they are incurred. 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. However, the increased carrying amount cannot 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. Losses resulting from the impairment of goodwill cannot be reversed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The gain or loss from the change in fair value of a hedging instrument qualifying as a "cash flow hedge" is recognized in the consolidated statement of comprehensive income.

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

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

Foreign currencies - Transactions in currencies other than the Euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period. Non-monetary assets and liabilities recorded at the rates of exchange prevailing on the dates of the transactions are not retranslated on the balance sheet date.

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

Income statement

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

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

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

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

Non-reimbursable government grants - Government grants towards investment in plant are recognized as income over the periods necessary to match them with the related costs and are stated in the balance sheet as deferred income. Research grants are booked on an accrual basis and are recognized in the income statement as other revenue.

Transactions involving share based payments – As prescribed by IFRS 2 stock option plans for the benefit of group employees are considered part of their remuneration, the cost of which is the fair value of the stock options at the date they are granted. This cost is recognized in the profit and loss linearly distributed over the

vesting period and booked directly to equity.

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 2011 and 2010 is € 762.0 million and € 728.1 million respectively and can be broken down as follows:

€ (thousands)	2011	2010	Change 2011/2010
Net sales	734,070	694,621	39,449
Royalties	5,714	7,029	(1,315)
Up-front payments	11,958	18,871	(6,913)
Other revenue	10,294	7,613	2,681
Total revenue	**762,036**	**728,134**	**33,902**

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

Revenue from up-front payments refers to the licensing out of corporate products, mainly relative to agreements for the licensing of the lercanidipine+enalapril fixed combination in Italy (€ 5.3 million), of pitavastatin (€ 3.5 million) and of silodosin (€ 1.7 million).

Other revenue includes commissions of € 3.6 million 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.) as well as profits received from Novartis Consumer Health resulting from sales of Procto-Glyvenol® realized during 2011 before the transfer to Recordati of the marketing authorizations for the product in the various countries had been completed.

4. OPERATING EXPENSES

Total operating expenses for the years 2011 and 2010 are € 598.6 million and € 573.4 million respectively and are analyzed by function as follows:

€ (thousands)	2011	2010	Change 2011/2010
Cost of sales	259,977	240,065	19,912
Selling expenses	232,160	216,478	15,682
Research and development expenses	55,956	68,841	(12,885)
General and administrative expenses	45,386	44,026	1,360
Other income (expense), net	5,080	3,940	1,140
Total operating expenses	**598,559**	**573,350**	**25,209**

Labor cost in 2011 is € 194.2 million, an increase of 6.6% compared to 2010, and includes charges of € 1.7 million related to stock option plans determined in accordance with IFRS 2.

Depreciation and amortization charges are € 24.3 million. Depreciation of property, plant and equipment is € 10.5 million, in line with that in 2010, and amortization of intangibles is € 13.8 million, a decrease of € 2.6 million compared to the preceding year.

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

€ (thousands)	2011	2010	Change 2011/2010
Amounts due to the Italian healthcare system	(2,223)	(3,830)	1,607
Costs associated with the acquisition of Dr. F. Frik İlaç	(1,753)	-	(1,753)
Personnel restructuring charges	(920)	(482)	(438)
Write-downs	0	(305)	305
Sale of holding in Atlantic Pharma	0	487	(487)
Others	(184)	190	(374)
Total other income (expense), net	**(5,080)**	**(3,940)**	**(1,140)**

The amounts due to the public healthcare system in Italy refer to the pay back due to the Italian medicines agency (AIFA) in substitution for the 5% price reduction on selected products. This mechanism which was already applied during the last four years, was extended to 2011.

Costs associated with the acquisition of Dr. F. Frik İlaç refer to intermediation expenses, legal consultancy fees and taxes on the transaction.

Personnel restructuring charges are mainly related to the operational integration of the Turkish companies

Yeni Recordati and Dr. F. Frik İlaç.

5. FINANCIAL INCOME AND EXPENSE

In 2011 and 2010 financial items recorded a net expense of € 3.5 million and € 3.8 million respectively which are comprised as follows:

€ (thousands)	2011	2010	Change 2011/2010
Exchange gains (losses)	2,126	916	1,210
Interest expense on loans	(6,757)	(4,140)	(2,617)
Net interest income (expense) on s/t financial position	1,686	35	1,651
Interest cost in respect of defined benefit plans	(520)	(598)	78
Total financial income (expense), net	**(3,465)**	**(3,787)**	**322**

The increase of interest expense on loans is to be attributed mainly to the loan received from Centrobanca to fund a three year research and development program (see note 20.).

The change in the short-term net financial position is mainly due to the increase in the average amount of resources invested and to a more effective use of the liquidity available within the Group, which led to an improvement in the remuneration condition of deposits.

The change in fair value of hedging derivatives is positive by € 0.6 million and refers to the measurement of the cross-currency interest rate swap covering the series of long term senior unsecured notes privately placed in 2004 with the objective of eliminating the exchange risk linked to the *tranches* denominated in U.S. dollars and in pounds sterling. This amount is equivalent to the increase in the fair value of the underlying debt as compared to its nominal value with a combined zero effect on the income statement as the transaction is perfectly hedged.

6. PROVISION FOR INCOME TAXES

The provision for income taxes amounts to € 43.6 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies.

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

	2011 %	2010 %
Standard income tax rate on pretax income of the parent company	27.5	27.5
Dividends from foreign subsidiaries	0.5	0.5
Consolidation effect	(4.3)	(3.7)
Other differences, net	0.8	1.2
Effective tax rate on income	**24.5**	**25.5**
IRAP	2.7	2.6
Effective tax rate, including IRAP	**27.2**	**28.1**

IRAP is levied only on the Italian companies and is computed applying a 4.14% rate to a broader taxable base which includes labour cost, interest and certain extraordinary items.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, amounts to € 55.4 million and € 53.0 million at 31 December 2011 and 2010 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 31.12.10	42,056	163,950	42,975	3,867	252,848
Additions	289	2,567	1,785	5,286	9,927
Disposals	0	(71)	(1,028)	0	(1,099)
Changes in reporting entities	2,642	0	1,433	0	4,075
Other changes	729	1,012	2,721	(5,406)	(944)
Balance at 31.12.11	**45,716**	**167,458**	**47,886**	**3,747**	**264,807**
Accumulated depreciation					
Balance at 31.12.10	24,974	138,955	35,902	0	199,831
Additions	1,435	7,231	1,863	0	10,529
Disposals	0	(66)	(902)	0	(968)
Changes in reporting entities	85	0	728	0	813
Other changes	(1)	(748)	(46)	0	(795)
Balance at 31.12.11	**26,493**	**145,372**	**37,545**	**0**	**209,410**
Carrying amount at					
31 December 2011	**19,223**	**22,086**	**10,341**	**3,747**	**55,397**
31 December 2010	17,082	24,995	7,073	3,867	53,017

Additions during 2011 of € 9.9 million refer mainly to investments made at the Milan headquarters for an amount of € 3.9 million, in the production plants in Campoverde di Aprilia (Italy) for an amount of € 2.5 and in the production plant in Saint Victor (Montluçon, France) for an amount of € 2.4 million.

At 31 December 2011 no land or buildings are held under financial leases. At 31 December 2010 the carrying amount of the group's land and buildings held under financial leases is of € 0.1 million.

Changes in reporting entities arise from the consolidation of Dr. F. Frik İlaç.

8. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 31 December 2011 and 2010 amounted to € 149.6 million and € 113.5 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31.12.10	106,812	111,986	14,792	12,376	245,966
Additions	32,121	1,687	223	598	34,629
Disposals	(40)	(114)	(1)	(40)	(195)
Changes in reporting entities	13,476	1,404	756	0	15,636
Other changes	(200)	12,452	2	(12,159)	95
Balance at 31.12.11	**152,169**	**127,415**	**15,772**	**775**	**296,131**
Accumulated amortization					
Balance at 31.12.10	60,029	57,820	14,605	0	132,454
Additions	5,044	8,627	65	0	13,736
Disposals	(40)	(105)	(1)	0	(146)
Changes in reporting entities	0	165	170	0	335
Other changes	(72)	179	(4)	0	103
Balance at 31.12.11	**64,961**	**66,686**	**14,835**	**0**	**146,482**
Carrying amount at					
31 December 2011	**87,208**	**60,729**	**937**	**775**	**149,649**
31 December 2010	46,783	54,166	187	12,376	113,512

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

In January the marketing authorizations, the brands and all rights associated with the product Procto-Glyvenol® were acquired from Novartis Consumer Health for an amount of € 32.0 million. Under the heading licenses an amount of € 1.0 million was recognized following the renewal of the agreement with sigma tau covering marketing rights to Adagen®.

Intangible assets of the newly acquired company Dr. F. Frik İlaç, for an overall amount of € 15.3 million, are recognized under “Changes in reporting entities”. Included is an amount of € 13.5 million, which represents the partial allocation of the difference between the amount paid and the book value of the assets and liabilities to intangible assets, covering the fair value of five proprietary products present in the company’s portfolio. Based on knowledge of the market in which the acquired company operates and considering the historical trend of these specialties’ sales, their useful life of was estimated to be of 20 years.

9. GOODWILL

Goodwill at 31 December 2011 and 2010 amounted to € 365.7 million and € 305.7 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31.12.10	343,405
Acquisition of Dr. F. Frik İlaç	64,933
Price adjustment on the acquisition of FIC and FIC Médical	15
Exchange rate adjustment on goodwill arising from acquisition of Herbacos-Bofarma	(398)
Exchange rate adjustment on goodwill arising from acquisition of Yeni Ilaç	(6,344)
Exchange rate adjustment on goodwill arising from acquisition of ArtMed International	(3)
Exchange rate adjustment on goodwill arising from acquisition of Dr. F. Frik İlaç	1,775
Balance at 31.12.11	**403,383**
Accumulated amortization	
Balance at 31.12.10	37,664
Changes during the year	0
Balance at 31.12.11	**37,664**
Carrying amount at	
31 December 2011	**365,719**
31 December 2010	305,741

As prescribed by IFRS 3 the allocation of the price paid for the acquisition in September 2011 of Dr. F. Frik İlaç, a Turkish company, was effected. The measurement of the fair value of the company's assets and liabilities at the date of acquisition resulted in the identification of some intangible assets the carrying book value of which was below their fair value. Therefore, an amount of € 13.5 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to the aforesaid intangible assets to bring their value in line with their fair value (see Note 8), and an amount of € 64.9 million was allocated to goodwill. The allocation made is not yet definite, as allowed by IFRS 3, due to the effect which could arise from the application of some contractual clauses. This second acquisition in Turkey allows the Group to strengthen its position in a market which is growing significantly, by taking advantage of the experience acquired during the last three years of managing Yeni İlaç and of the synergies which could arise through the integration of the two companies. Goodwill recognized upon the acquisition of Dr. F. Frik İlaç is stated in local currency and its value was therefore adjusted to reflect the change in the exchange rate between the euro and the Turkish lira between the date of acquisition and year-end 2011.

Net goodwill at 31 December 2011, amounting to € 365.7 million, relates to the following acquisitions, which represent the same number of cash generating units:

- Doms Adrian/companies belonging to the Bouchara group/ FIC and FIC Médical: € 57.8 million;
- Merckle Recordati: € 48.8 million;
- Companies belonging to the Jaba group: € 32.8 million;
- the Orphan Europe group: € 110.6 million;
- Yeni İlaç/Dr. F. Frik İlaç : € 101.8 million;
- Herbacos-Bofarma: € 13.7 million;
- ArtMed International: € 0.2 million.

Dr. F. Frik İlaç is deemed to belong to the same cash generating unit as Yeni İlaç because it operates in the same market and operating synergies are expected.

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 subject to impairment tests to determine its 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 goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognize an impairment loss.

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

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

The average weighted cost of capital reflects current market valuations of the cost of money and the specific risk attaching to the cash generating units. It was estimated at 9.62% before tax, with the exception of the cash generating units resulting from the acquisitions in Portugal and in Turkey, estimated at 12.46% and 13.54% respectively, in order to take into account the characteristics of these countries.

Operating cash flow forecasts for the explicit period assumed for the calculation were taken from the 2012 budget, approved by the Board of Directors of the Parent Company, and from a projection based on reasonable assumptions in line with the contents of the budget and consistent with the 2011-2013 business plan approved by the Board of Directors. As mentioned above the cash generating unit in Turkey comprises both subsidiaries Yeni Recordati İlaç and the recently acquired Dr. F. Frik İlaç.

The growth rates used for the period subsequent to the explicit forecast period were estimated on a prudent basis: zero for western European countries and 7.5% for Turkey.

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 2011 and therefore no loss in the value of goodwill was recognised. In particular, the value in use of the cash generating units resulting from the acquisition of Doms Adrian/companies belonging to the Bouchara group/FIC and FIC Médical, of Merckle Recordati, of the Orphan Europe group, of Herbacos-Bofarma and of ArtMed International resulted significantly greater than their book value. The value in use of the Jaba group, which operates in Portugal, and of the companies Yeni İlaç and Dr. F. Frik İlaç which operate in Turkey, resulted slightly greater than their book value.

10. OTHER INVESTMENTS

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

€ (thousands)	Balance sheet value		Percentage of equity owned	
	31.12.11	31.12.10	31.12.11	31.12.10
PureTech Ventures LLC	1,472	1,472	11.4%	14.1%
Maxygen Inc., U.S.A.	121	82	n.s.	n.s.
Technogen Liquidating Trust, U.S.A.	94	104	n.s.	n.s.
Tecnofarmaci S.p.A., Pomezia (Rome)	87	87	4.2%	4.2%
Consorzio C4T, Pomezia (Rome)	78	78	n.s.	n.s.
Alavita Inc., U.S.A.	63	63	n.s.	n.s.
Codexis Inc., U.S.A.	21	42	n.s.	n.s.
Fluidigm Corp., U.S.A.	10	-	n.s.	-
Others	31	2	n.s.	n.s.
Total equity investments	**1,977**	**1,930**		

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

During 2011 Technogen Liquidating Trust, distributed 1,019 shares in Fluidigm Corp., a U.S. company dedicated to the production of instrumentation for biological research.

11. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 31 December 2011 are € 1.3 million, a reduction of € 1.2 million compared to those at 31 December 2010. The variation is to be attributed mainly to the booking to current assets of the € 1.5 million installment due in 2012 related to the settlement from Swedish Orphan.

12. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2011 and 2010 amount to € 22.5 million and € 20.2 million respectively, an increase of € 2.3 million. The main deferred tax assets and their change in 2011 are analyzed below.

€ (thousands)	2011	2010
Balance at 1 January	20,221	21,793
Additions	7,992	3,048
Utilizations	(5,719)	(4,620)
Balance at 31 December	**22,494**	**20,221**

€ (thousands)	Revaluation of intangible assets	Profit and loss temporary differences	Other	Total
Balance at 31.12.2010	5,359	7,934	6,928	20,221
Additions	0	6,004	1,988	7,992
Utilization	(1,719)	(3,963)	(37)	(5,719)
Balance at 31.12.2011	**3,640**	**9,975**	**8,879**	**22,494**

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

13. INVENTORIES

Inventories at 31 December 2011 and 2010 amount to € 108.3 million and € 85.2 million respectively, net of their respective obsolescence provisions of € 3.2 million and € 4.3 million. Composition of inventories is as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Raw materials and supplies	27,612	20,682	6,930
Intermediates and work-in-process	17,568	17,416	152
Finished goods	63,071	47,092	15,979
Total inventories	**108,251**	**85,190**	**23,061**

The increase in inventories is mainly due the higher volumes of corporate products currently being launched (silodosin and pitavastatin) as well as the consolidation of Dr. Frik İlaç which accounts for € 4.8 million.

14. TRADE RECEIVABLES

Trade accounts receivable at 31 December 2011 and 2010 amount to € 141.2 million and € 126.6 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2011 is € 11.8 million (€10.1 million at 31 December 2010) 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 72, slightly higher than those at 31 December 2010. Trade receivables on the acquisition balance sheet of Dr. F. Frik İlaç are € 7.8 million.

15. OTHER RECEIVABLES

Other receivables amount to € 21.3 million (€ 26.7million at 31 December 2010) and their breakdown is as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Tax receivable	13,814	16,177	(2,363)
Balances due from employees and agents	1,581	2,322	(741)
Other	5,916	8,235	(2,319)
Total other receivables	**21,311**	**26,734**	**(5,423)**

Tax receivable comprises value added tax (VAT) receivable (€ 10.8 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 Dr. F. Frik İlaç accounts for € 4.0 million.

16. OTHER CURRENT ASSETS

At 31 December 2011 other current assets amount to € 3.2 million (€ 2.8 million at 31 December 2010) and relate mainly to prepaid expenses. The consolidation of Dr. F. Frik İlaç accounts for € 0.2 million.

17. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

A break down is shown in the following table.

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Short term financial investments	0	11,922	(11,922)
Short term time deposits	58,574	75,585	(17,011)
Deposits in bank current accounts	46,555	74,089	(27,534)
Cash on hand	35	84	(49)
Total short term financial investments, cash and cash equivalents	**105,164**	**161,680**	**(56,516)**

Short term time deposits have maturities of six months or less and are denominated in euro, in U.S. dollars and in pounds sterling.

At 31 December 2011 cash and cash equivalents are denominated in euro (52.2 million), in U.S. dollars (25.9 million, mainly in the U.S. subsidiary Recordati Corporation) and in pounds sterling (15.5 million, mainly in the UK subsidiary Recordati Pharmaceuticals Ltd.). Cash and cash equivalents in subsidiaries Yeni Recordati İlaç and Dr. F. Frik İlaç are 14.0 million Turkish lira.

The reduction of cash and cash equivalents is to be attributed mainly to the payment of dividends (€ 93.1 million), to the acquisition in Turkey (€ 52.9 million) and to the acquisition of intangible assets (€ 34.6 million). During the year the second tranche of the loan from Centrobanca was received (€ 45.0 million) and the first tranche of the notes privately placed by Recordati S.A. (Luxembourg) was paid (€ 15.0 million) (see note 20.).

The consolidation at acquisition of Dr. F. Frik İlaç accounts for an increase of € 6.6 million.

18. SHAREHOLDERS' EQUITY

Share capital – At 31 December 2011 the issued and fully paid share capital consists of 209,125,156 ordinary shares with a par value of € 0.125 each for a total of € 26,140,644.50 and remains unchanged compared to the preceding year.

As at 31 December 2011 the Company has two stock option plans in favor of certain group employees in place, the 2006-2009 plan, under which options granted on three occasions are still outstanding, and the 2010-2013 plan, under which options were granted on 9 February 2011. The strike price of the options is the average of the parent company's listed share price during the 30 days prior to the grant date. The stock options granted under the 2006-2009 plan are vested over a period of four years and those not exercised within the fifth year of the date of grant expire. The stock options granted under the 2010-2013 plan are vested over a period of five years and those not exercised within the eighth year of the date of grant expire. Options may not be exercised if the employee leaves the company before they are vested.

Stock options outstanding at 31 December 2011 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2011	Options granted during 2011	Options exercised during 2011	Options cancelled or expired	Options outstanding at 31.12.2011
Date of grant						
6 April 2006	6.4975	1,365,000	-	(1,350,000)	(15,000)	0
29 October 2008	4.0730	2,783,750	-	(742,500)	(67,500)	1,973,750
11 February 2009	3.8940	155,000	-	(30,000)	(15,000)	110,000
27 October 2009	4.8700	3,915,000	-	(728,750)	(142,500)	3,043,750
9 February 2011	6.7505	-	4,330,000	-	(50,000)	4,280,000
Total		**8,218,750**	**4,330,000**	**(2,851,250)**	**(290,000)**	**9,407,500**

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

Treasury stock – At 31 December 2011, 9,785,790 shares are held as treasury stock and decrease by 420,315 shares compared to those held at 31 December 2010. The change is due to the purchase of 2,430,935 shares on the market, for an overall amount of € 15.9 million, and the sale of 2,851,250 shares, for an amount realized of € 15,5 million, to service the exercise of options granted to company employees under the 2006-2009 stock option plan. The total cost incurred for the purchase of current treasury stock is € 53.2 million and the average purchase price per share is € 5.44.

Hedging reserve – In accordance with IAS 39 the € 4.2 million liability arising from the measurement at fair value at 31 December 2011 of interest rate swaps qualifying as a cash flow hedge is recognized directly in equity as a hedging reserve.

Other reserves – These amount to € 26.6 million at 31 December 2011 and include the statutory reserve of the parent company in the amount of € 5.2 million, reserves for grants received for a total of € 15.4 million and reserves for amounts booked directly to equity in application of IFRS 2 of € 3.1 million and in application of IAS 19, recognized in the statement of comprehensive income, of € 2.9 million.

Retained earnings and net income for the year – These amount to € 445.7 million at 31 December 2011 and increase by € 56.4 million as compared to 31 December 2010. Net income for the year is € 116.4 million, an increase of 7.2% compared to the € 108.6 million 2010 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.

Interim dividend – During the year the Board of Directors of Recordati S.p.A. resolved to distribute an interim dividend for 2011 of € 0.20 per share, for a total amount of € 38.5 million.

19. MINORITY INTEREST

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

20. LOANS

At 31 December 2011 and 2010, medium and long-term loans include:

€ (thousands)	31.12.2011	31.12.2010
Loans granted to Recordati S.p.A.:		
Loan granted by Centrobanca, at variable interest rate, repayable in semi-annual installments starting 2012 through 2022	*74.759	30,000
Loans granted by the Ministry of Economic Development 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	274	404
Loans granted to other Group companies:		
Loan granted to Dr. F. Frik İlaç by Citibank, at variable interest rate, repayable in 2012	2,722	-
Loan granted to Dr. F. Frik İlaç by Vakifbank, at variable interest rate, repayable by 2014	3,806	-
Various loans granted to Dr. F. Frik İlaç repayable in 2012	19	-
Various loans granted to Recordati España S.L. repayable by 2013	253	383
Loans granted to Bouchara-Recordati S.a.s., at variable interest rate, entirely repaid in 2011	0	94
Loan granted by Komercni Banka to Herbacos Recordati, at variable interest rate, repayable in quarterly installments through 2012	36	911
Loans granted to Recordati România S.r.l., at variable interest rate, entirely repaid in 2011	0	3
Guaranteed senior notes issued by Recordati S.A. (Luxembourg) privately placed with international institutional investors: € 15 million at a fixed interest rate of 4.52% repaid in 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	**65,474	80,412
Total amortized cost of loans	**147,343**	**112,207**
Portion due within one year	11,616	16,265
Change in the fair value of the portion due within one year	0	339
Total loans in current liabilities	**11,616**	**16,604**
Portion due after one year	135,727	95,942
Change in the fair value of the portion due after one year	1,791	825
Total loans in non-current liabilities	**137,518**	**96,767**

* Net of direct issue costs of € 0.2 million amortized using the effective interest method.
** Net of direct issue costs of € 0.1 million amortized using the effective interest method.

The average effective interest rate at 31 December 2011, applying the rates resulting from the interest rate swaps, is 4.35%.

At 31 December 2011, the repayment schedule of long-term debt due after 31 December 2012 is as follows:

€ (thousands)	
2013	8.107
2014	73.315
2015	6.818
2016	6.818
2017 and subsequent years	40.669
Total	**135.747**

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

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

For the year ended 31 December 2011 the above conditions were amply fulfilled.

The series of guaranteed senior notes issued at the end of 2004 by Recordati S.A. (Luxembourg) comprises *tranches* in various currencies at fixed interest rates. The *tranches* denominated in currencies other than the Euro have been covered with a cross-currency interest rate swap effectively converting the whole debt into Euro at a variable interest rate equivalent to the Euribor 6 months rate plus a spread. The *tranches* denominated in Euro have been covered with an interest rate swap effectively converting the interest charges on the debt from fixed to variable at the same abovementioned conditions. The measurement at fair value of the swaps at 31 December 2011 generated an asset of € 1.8 million, an amount equivalent to the increase in the fair value of the underlying debt. This amount is recognized in the balance sheet as an increase of debt and under current assets as 'Fair value of hedging derivatives *(fair value hedge)*'.

The total amount of the notes was simultaneously covered with a further interest rate swap, qualifying as a cash flow hedge, to fix a range within which the interest rate can fluctuate in order to optimize the cost of financing for the duration of the notes. At 31 December 2011 the upper and lower limits of the range are 3.96% and 4.85% respectively. The € 4.2 million fair value of the cash flow hedge is recognized directly in equity and stated as a current liability (see Note 28).

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

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

- consolidated net worth at any time must not be less than the sum of € 170,0 million plus 25% of consolidated net earnings for each fiscal year;
- the ratio of consolidated net debt as of the last day of any fiscal quarter to EBITDA for the period of four fiscal quarters then ended must be less than 3.00 to 1.00;

- the ratio of EBIT to consolidated net interest expense for any period of four fiscal quarters must exceed 3.00 to 1.00.

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

Debts totaling € 12.3 million were taken on as a result of the consolidation of Dr. F. Frik İlaç.

21. STAFF LEAVING INDEMNITIES

This provision at 31 December 2011 and 2010 is € 16.7 million and € 19.3 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)	2011	2010
Balance at 1 January	19,259	19,895
Additions	1,019	1,443
Utilization	(1,465)	(2,329)
Changes in reporting entities	35	-
Change in fair value	(2,156)	250
Balance at 31 December	**16,692**	**19,259**

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 2011 as measured in accordance with IAS 19 amounts to € 12.2 million. The remaining part of this provision comprises employee benefit plans in the French subsidiary Laboratoires Bouchara Recordati (€ 3.0 million), in the German subsidiary Recordati Pharma (previously denominated Merckle Recordati) (€ 0.7 million) and in Orphan Europe (€ 0.4 million). The fair value calculation made using actuarial parameters updated at 31 December 2011 determined an adjustment of € 2.2 million compared to the value of the funds at 31 December 2010 which is recognized in the statement of comprehensive income.

22. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2011 and 2010 are € 6.0 million and € 5.7 million respectively, and changed as follows:

€ (thousands)	2011	2010
Balance at 1 January	5,699	5,661
Additions	556	290
Utilization	(206)	(252)
Balance at 31 December	**6,049**	**5,699**

At 31 December 2011 no deferred tax liabilities were calculated on subsidiaries' undistributed earnings because no significant additional tax would have to be paid by the group in the event of these dividend distributions as they are essentially exempt from dual income taxation.

23. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2011 are € 2.1 million and refer entirely to the outstanding portion of the price paid for the acquisition of the new Turkish company, calculated according to the agreements and not yet definite due to changes which could arise from the application of contractual clauses. The € 0.6 million residual liability due in 2012 for the acquisition of Orphan Europe following the settlement with Swedish Orphan, is included under current liabilities.

24. TRADE PAYABLES

Trade accounts payable, which are entirely of a commercial nature and include allocations for invoices to be received, at 31 December 2011 and 2010 amount to € 98.7 million and € 93.1 million respectively. The consolidation of Dr. F. Frik İlaç accounts for € 9.5 million.

25. OTHER PAYABLES

Other accounts payable at 31 December 2011 and 2010 amount to € 58.3 million and € 53.5 million respectively. Their composition is as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Personnel	18,559	18,467	92
Social security	12,261	11,436	825
Agents	602	851	(249)
Balance due for the acquisition of equity	9,788	1,290	8,498
Balance due for the acquisition of marketing rights	118	4,810	(4,692)
Other	17,007	16,682	325
Total other payables	**58,335**	**53,536**	**4,799**

The balance due for the acquisition of equity comprises € 9.2 million due for the acquisition of Dr. F. Frik İlaç, as per the agreements and not yet definite due to changes which could arise from the application of contractual clauses, and the amount still due for the acquisition of Orphan Europe, following the settlement with Swedish Orphan (€ 0.6 million).

The balance due for the acquisition of product marketing rights refers entirely to the amount due in 2012 for the acquisition of marketing rights to products for the Romanian market. The reduction compared to the balance at 31 December 2011 can be almost entirely attributed to the residual amount paid in 2011 for the acquisition of the marketing rights to TransAct® LAT (€ 4.5 million).

The line “Other” includes € 4.2 million to be paid to the “Krankenkassen” (German healthcare schemes), and € 2.1 million which results from a mandatory discount of 1.83% on the retail selling price of reimbursed medicines to be paid to the Italian regional healthcare systems.

The consolidation of Dr. F. Frik İlaç accounts for € 2.2 million.

26. TAX LIABILITIES

Tax liabilities at 31 December 2011 and 2010 amount to € 12.1 million and € 9.7 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. The consolidation of Dr. F. Frik İlaç accounts for € 1.0 million.

27. PROVISIONS

Provisions in place at 31 December 2011 amount to € 21.8 million overall and include tax provisions and other provisions for future contingencies which are uncertain as to timing and value. The following tables contain their composition and changes.

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Tax	3,248	2,343	905
Other	18,565	19,070	(505)
Total provisions	**21,813**	**21,413**	**400**

Changes in provisions are as follows:

€ (thousands)	2011	2010
Balance at 1 January	21,413	21,978
Additions	3,949	11,240
Changes in reporting entities	604	-
Utilization	(4,153)	(11,805)
Balance at 31 December	**21,813**	**21,413**

28. FAIR VALUE OF HEDGING DERIVATIVES

The interest rate swaps covering the cash flows related to medium and long-term loans measured at fair value at 31 December 2011 give rise to a € 4.2 million liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans. The entire liability refers to an interest rate swap defining a collar which limits the fluctuation of the interest rates payable on the guaranteed senior notes issued by Recordati S.A. Chemical & Pharmaceutical Company.

29. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans at 31 December 2011 are € 13.6 million and comprise mainly overdrafts and temporary use of lines of credit. The increase of € 10.1 million compared to 31 December 2010 is mostly due to the consolidation of Dr. F. Frik İlaç. The amount of this company's bank overdrafts and short-term loans initially consolidated at 30 September 2011 was € 17.5 million which was progressively reduced to € 9.8 million at 31 December 2011.

30. ACQUISITION OF A SUBSIDIARY

During September 2011 the Group acquired 100% of the shares of the Turkish company Dr. F. Frik İlaç A.Ş.. The following table summarizes the effects of the consolidation of the newly acquired company, already commented in the preceding notes.

€ (thousands)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
Non-current assets			
Property, plant and equipment	3,262	0	3,262
Intangible assets	1,825	13,476	15,301
Other investments	42	0	42
Other non-current assets	18	0	18
Current assets			
Inventories	4,841	0	4,841
Trade receivables	7,790	0	7,790
Other receivables	4,039	0	4,039
Other current assets	190	0	190
Short-term financial investments, cash and cash equivalents	6,619	0	6,619
Non-current liabilities			
Loans – due after one year	(4,569)	0	(4,569)
Staff leaving indemnities	(35)	0	(35)
Current liabilities			
Trade payables	(9,511)	0	(9,511)
Other payables	(2,159)	0	(2,159)
Tax liabilities	(1,037)	0	(1,037)
Provisions	(604)	0	(604)
Loans – due within one year	(7,736)	0	(7,736)
Bank overdrafts and short-term loans	(17,524)	0	(17,524)
	(14,549)	**13,476**	**(1,073)**
Goodwill			64,933
Cost of the acquisition			**63,860**

As prescribed by IFRS 3 the difference between the cost of acquisition and the carrying value of the assets and liabilities acquired was allocated as follows: € 13.5 million to some proprietary products in the company's portfolio with an estimated useful life of 20 years, and the remaining amount of € 64.9 million to goodwill, in view of the strategic nature that the assets acquired represent for the Recordati group's policy of expansion into foreign high growth markets. The allocation of the cost of acquisition is not yet definite, as allowed under IFRS 3, due to changes which may arise from the application of some contractual clauses.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IAS 32 hereunder are stated the balance sheet values and fair values at 31 December 2011 of financial assets and liabilities:

€ (thousands)	Book value	Fair value
Financial assets		
Short-term financial investments, cash and cash equivalents	105,164	105,164
Trade receivables	141,231	141,231
Equity investments	1,977	1,977
Other receivables	21,311	21,311
Hedging derivatives *(fair value hedge)*	1,791	1,791
Financial liabilities		
Borrowings		
- loans at fixed interest rates covered with interest rate swaps	67,265	67,265
- loans at fixed interest rates	274	208
- loans at variable interest rates	81,595	81,595
Trade payables	98,678	98,678
Other payables	70,426	70,426
Hedging derivatives *(cash flow hedge)*	4,227	4,227
Bank overdrafts and short-term loans	13,555	13,555

The hedging instruments and the fixed interest loans covered by interest rate swaps are booked at fair value. The book value of the remaining assets and liabilities is equivalent to their fair value inasmuch as they are short-term assets and liabilities or are variable rate loans.

32. 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 2011 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 2011, total trade receivables of € 153.0 million include € 21.3 million of receivables overdue by more than 90 days. Of these, € 8.6 million are receivables from Italian public hospitals which, despite their very long payment times, do not represent a significant risk situation. An allowance for doubtful accounts of € 11.8 million, which is considered to be sufficient to cover potential losses on collection, is in place.

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

financial expenses.

Foreign Currency Risk – The Group is exposed to foreign currency exchange rate fluctuations which can affect its operating results and the value of its equity. In particular, the group is exposed to exchange rate fluctuations on its trade balances denominated in currencies other than the euro. As at 31 December 2011 group positions in these currencies are the following:
net receivables in Turkish lira of 60.5 million;
net receivables in U.S. dollars of 7.0 million;
net receivables in Romanian ron of 6.9 million;
net receivables in Swiss francs of 2.0 million;
net payables in Japanese yen of 138.2 million;
net payables in Polish zloty of 5.2 million.

Some of the group companies are located outside the European Monetary Union and their income statements and balance sheets are converted from their local currencies into euro. At 31 December 2011 the net equity values of these companies are denominated mainly in U.S. dollars (21.8 million), in pounds sterling (14.7 million), in Swiss francs (2.1 million), in Turkish lira (170.9 million), in Czech crowns (255.8 million) and in Russian rubles (23.4 million). The effect of exchange rate variations on the conversion of these values is recognized in the consolidated statement of comprehensive income and booked to the translation reserve in shareholders' equity which, at 31 December 2011, is negative by € 8.2 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 2011 the group has at its disposal an ample supply of liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's financial assets and its loans are set out in notes 17, 20 and 29 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts at their natural due dates.

33. 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 2011 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
2011				
Revenues	692,717	69,319	-	762,036
Expenses	(550,018)	(48,541)	-	(598,559)
Operating income	**142,699**	**20,778**	**-**	**163,477**
2010				
Revenues	669,362	58,772	-	728,134
Expenses	(529,254)	(44,096)	-	(573,350)
Operating income	**140,108**	**14,676**	**-**	**154,784**

* Includes the pharmaceutical chemicals operations

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated **	Consolidated accounts
31 December 2011				
Non-current assets	477,179	117,362	1,977	596,518
Inventories	101,917	6,334	-	108,251
Trade receivables	123,675	17,556	-	141,231
Other current assets	19,141	5,368	1,791	26,300
Short-term investments, cash and cash equivalents	-	-	105,164	105,164
Total assets	**721,912**	**146,620**	**108,932**	**977,464**
Non-current liabilities	24,336	467	137,518	162,321
Current liabilities	175,831	15,434	29,398	220,663
Total liabilities	**200,167**	**15,901**	**166,916**	**382,984**
Net capital employed	**521,745**	**130,719**		
31 December 2010				
Non-current assets	377,218	117,758	1,930	496,906
Inventories	79,815	5,375	-	85,190
Trade receivables	113,937	12,638	-	126,575
Other current assets	23,064	6,495	1,164	30,723
Short-term investments, cash and cash equivalents	-	-	161,680	161,680
Total assets	**594,034**	**142,266**	**164,774**	**901,074**
Non-current liabilities	24,082	1,482	96,767	122,331
Current liabilities	159,641	18,687	24,409	202,737
Total liabilities	**183,723**	**20,169**	**121,176**	**325,068**
Net capital employed	**410,311**	**122,097**		

* Includes the pharmaceutical chemicals operations.

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

The pharmaceutical chemicals operations are considered part of the pharmaceutical segment as they are

prevalently dedicated to the production of active ingredients for this business, both from a strategic and organizational point of view.

The following table presents net revenues by geographic area:

€ (thousands)	2011	2010	Change 2011/2010
Europe	673,390	647,351	26,039
of which Italy	*221,603*	*199,531*	*22,072*
Australasia	37,776	41,794	(4,018)
America	26,822	18,455	8,367
Africa	24,048	20,534	3,514
Total revenue	**762,036**	**728,134**	**33,902**

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.

34. NET FINANCIAL POSITION

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

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Deposits in bank current accounts and cash on hand	46,590	74,173	(27,583)
Short-term time deposits	58,574	75,585	(17,011)
Short-term investments	0	11,922	(11,922)
Liquid assets	**105,164**	**161,680**	**(56,516)**
Bank overdrafts and short-term loans	(13,555)	(3,506)	(10,049)
Loans - due within one year	(11,616)	(1,265)	(10,351)
Loan notes issued [(1)]	0	(15,000)	15,000
Short term borrowings	**(25,171)**	**(19,771)**	**(5,400)**
Net current financial position	**79,993**	**141,909**	**(61,916)**
Loans - due after one year	(70,253)	(30,530)	(39,723)
Loan notes issued [(1)]	(65,474)	(65,412)	(62)
Non-current loans	**(135,727)**	**(95,942)**	**(39,785)**
Net financial position	**(55,734)**	**45,967**	**(101,701)**

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

35. 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	
	31.12.2011	31.12.2010	2011	2010
Recordati S.p.A.	307,644	321,151	78,462	67,892
Consolidation adjustments:				
Margin in inventories	(26,095)	(20,536)	(5,559)	(81)
Related deferred tax	8,204	6,454	1,750	29
Other adjustments	(45)	(47)	(561)	(455)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already booked by Recordati S.p.A.	214,733	176,376		
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	98,231	93,172	98,231	93,172
Dividends received from consolidated subsidiaries			(55,889)	(51,986)
Translation adjustments	(8,232)	(592)		
Consolidated financial statements	**594,440**	**575,978**	**116,434**	**108,571**

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.

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

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

considered Bayer's unilateral termination of its agreement with Innova Pharma regarding Octegra® valid. Bayer then convened Innova Pharma before the Frankfurt Court requesting the payment of penalties as additional remedy to the resolution.

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	238,966,000.00	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	2,000,000.00	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
RECORDATI PHARMA GmbH* *Marketing and sales of pharmaceuticals*	Germany	600,000.00	Euro	Line-by-line
RECORDATI PHARMACEUTICALS LTD *Marketing and sales of pharmaceuticals*	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. *Marketing and sales of pharmaceuticals*	Greece	13,900,000.00	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 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

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
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	1,775,065.49	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	132,760,664.00	TRY	Line-by-line
HERBACOS RECORDATI s.r.o. *Marketing and sales of pharmaceuticals*	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK 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
RECORDATI ROMÂNIA S.R.L. *** *Promotion of pharmaceuticals*	Romania	95,200.00	RON	Line-by-line
DR. F. FRIK İLAÇ Sanayi Ve Ticaret A.Ş.**** *Marketing and sales of pharmaceuticals*	Turkey	40,000,057.00	TRY	Line-by-line
RECORDATI POLSKA sp. z o.o.***** *Non operational*	Poland	20,000.00	PLN	Line-by-line

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

Consolidated companies	PERCENTAGE OF OWNERSHIP										
	Recordati S.p.A. *(Parent)*	Recordati S.A. *(Lux)*	Recordati Pharma GmbH*	Bouchara Recordati S.A.S.	Recordati España S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	FIC S.A.S.	Herbacos Recordati s.r.o.	Yeni Recordati Ilaç A.Ş.	Total
RECOFARMA S.R.L.	100.00%										100.00%
INNOVA PHARMA S.P.A.	100.00%										100.00%
RECORDATI ESPAÑA S.L.	68.447%	31.553%									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%
RECORDATI PHARMA GmbH*		55.00%			45.00%						100.00%
RECORDATI PHARMACEUTICALS LTD	3.33%	96.67%									100.00%
RECORDATI HELLAS PHARMACEUTICALS S.A.	0.68%	99.32%									100.00%
JABA RECORDATI S.A.					100.00%						100.00%
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.					100.00%						100.00%
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.					100.00%						100.00%
RECORDATI ORPHAN DRUGS S.A.S.**		90.00%	10.00%								100.00%
ORPHAN EUROPE 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%

Consolidated companies	PERCENTAGE OF OWNERSHIP										
	Recordati S.p.A. *(Parent)*	Recordati S.A. *(Lux)*	Recordati Pharma GmbH*	Bouchara Recordati S.A.S.	Recordati España S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	FIC S.A.S.	Herbacos Recordati s.r.o.	Yeni Recordati Ilaç A.Ş.	Total
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.Ş.					100.00%						100.00%
HERBACOS RECORDATI s.r.o.		100.00%									100.00%
RECORDATI SK s.r.o.									100.00%		100.00%
RUSFIC LLC				100.00%							100.00%
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş.										100.00%	100.00%
RECORDATI ROMÂNIA S.R.L.***		100.00%									100.00%
DR. F. FRIK İLAÇ Sanayi Ve Ticaret A.Ş.****										100.00%	100.00%
RECORDATI POLSKA sp. z o.o.*****	100.00%										100.00%

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

ATTACHMENT 2.

Type of service	Provider of the service	Recipient	Fees Amounts in €
Accounting audit	Auditor of Parent Company	Parent Company	65,500
Accounting audit	Auditor of Parent Company	Subsidiaries	7,500
Accounting audit	Network of auditor of Parent Company	Subsidiaries	265,827
Due diligence	Network of auditor of Parent Company	Parent Company	145,000
Due diligence	Network of auditor of Parent Company	Subsidiaries	90,000
Tax compliance	Network of auditor of Parent Company	Subsidiaries	27,898
Signature on returns and attestations	Auditor of Parent Company	Parent Company	40,000

RECORDATI S.p.A. AND SUBSIDIARIES

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

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

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

of the administrative and accounting procedures applied in the preparation of the Company's consolidated financial statements at and for the year ended 31 December 2011.

2. The undersigned moreover attest that:

2.1. the consolidated financial statements at 31 December 2011:

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

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

Milan, 7 March 2012

Signed by
Giovanni Recordati
Chief Executive Officer

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

PROPOSED

ANNUAL REPORT RECORDATI S.p.A.

Review of operations

To Our Shareholders,

The Annual Report of the Parent Company for the year ended 31st December 2011, which we submit to you for your approval, reports net income of € 78,461,982, an increase of € 10,569,755 compared to the previous year, the result above all of an improvement in the operating result, an increase in dividends from subsidiaries, and despite an increase in net financial charges.

Important results were achieved in 2011 with regard to the growth and internationalization of the Group, and more specifically the acquisition of Dr. F. Frik İlaç A.Ş. was concluded successfully, a Turkish pharmaceutical company located in Istanbul.
The expansion of centralized units continued in order to guarantee the integration, monitoring and co-ordination of foreign subsidiaries in line with the internationalization policy.

The review of operations in the consolidated annual report attached to this report may be consulted for further information on operations and growth strategies.

The income statement is given below with the classification of costs by function.

€ (thousands)	2011	% of revenue	2010	% of revenue	Change 2011/2010	%
Revenue	**268,018**	**100.0**	**240,979**	**100.0**	**27,039**	**11.2**
Cost of sales	(127,746)	(47.7)	(110,655)	(45.9)	(17,091)	15.4
Gross profit	**140,272**	**52.3**	**130,324**	**54.1**	**9,948**	**7.6**
Selling expenses	(49,114)	(18.3)	(44,466)	(18.5)	(4,648)	10.5
R&D expenses	(26,755)	(10.0)	(28,159)	(11.7)	1,404	(5.0)
G&A expenses	(19,898)	(7.4)	(17,974)	(7.5)	(1,924)	10.7
Other income (expense), net	(863)	(0.3)	(6,125)	(2.5)	5,262	n.s.
Operating income	**43,642**	**16.3**	**33,600**	**13.9**	**10,042**	**29.9**
Financial income (expense), net	(5,555)	(2.1)	(4,548)	(1.9)	(1,007)	22.1
Dividends	55,889	20.9	51,986	21.6	3,903	7.5
Pretax income	**93,976**	**35.1**	**81,038**	**33.6**	**12,938**	**16.0**
Provision for income taxes	(15,514)	(5.8)	(13,146)	(5.4)	(2,368)	18.0
Net income	**78,462**	**29.3**	**67,892**	**28.2**	**10,570**	**15.6**

Net revenues increased by 11% compared to the same period in the previous year.
Sales of prescription pharmaceuticals in Italy, amounting to € 191,819 million, increased by 11.2% compared to the year before, due above all the launch of new products.
In January in particular, after a license agreement was signed at the end of 2010 with Merck KGaA, Cardicor® (bisoprolol) was launched, a beta blocker class drug indicated for the treatment of stable, moderate to severe, chronic cardiac insufficiency.
Urorec® (silodosin) was launched in the second quarter, a new specialty indicated for the treatment of the symptoms of benign prostatic hyperplasia (BPH) and marketing also began in Italy of a specialty drug developed by Recordati and indicated for the treatment of hypertension, based on a fixed combination of

lercanidipine with enalapril, a very common ACE inhibitor.
Prescription pharmaceuticals also saw growth in sales of Peptazol® (pantoprazole), an anti-ulcer drug.

Sales of self-medication specialty pharmaceuticals, amounting to € 25.8 million, increased by 5.6% compared to the previous year. More specifically, AlovexTM, a product for the treatment of mouth ulcers and Proctolyn® (anti-hemorrhoids) performed positively.

Net revenues from pharmaceutical chemicals, consisting of the active ingredients produced at the Campoverde di Aprilia plant, increased by 9.9% compared to 2010, mainly due to a significant increase in volumes of sales for the following products: verapamil, mebeverina, aciclovir and ketorolac.

Selling expenses included the impact of new legislation that came into force in 2010 which involves a charge borne by producers equal to 1.83% of the price to the public net of VAT. The expenses increased by 10.5% primarily to support the launch of new products.

Total R&D costs amounted to € 26,755 thousand, a decrease of 5% compared to expenses incurred in the previous year, due to lower amortization.

Other net expenses of € 863 thousand incurred included € 2,082 thousand of the pay-back due to AIFA (Italian Medicines Agency) in place of the 5% price reduction on some selected products. Other income relates to the reversal of prior year provisions and better than expected results, due in particular to the final settlement of litigation and the reduction of the allowance for doubtful accounts to bring it into line with the actual risk of potential losses.

Operating income amounted to € 43,642 thousand, up by 29.9% on the previous year, accounting for 16.3%. of revenue.

Net financial charges were € 5,555 thousand, an increase or € 1,007 thousand compared to 2010, due to the impact of currency exchange differences and to the interest payable on a loan to finance a three year R&D program.

The effective tax rate was unchanged compared to the previous year.

A brief summary is given below of the net financial position, while further details are given in item 41 of the notes to the financial statements.

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Liquid assets	68,031	120,306	(52,275)
Short term borrowings	(123,587)	(110,328)	(13,259)
Net current financial position	**(55,556)**	**9,978**	**(65,534)**
Loans – due after one year	(160,481)	(96,708)	(63,773)
Net financial position	**(216,037)**	**(86,730)**	**(129,307)**

The change in the net financial position is due mainly to an increase in the share capital performed by Recordati España for the purpose of acquiring the Turkish company Dr. Frik Ilaç. Loans due after one year increased following the disbursement of the second and last tranche of the loan contract for R&D projects mentioned above.
Dividends were paid during the year totaling € 93.1 million, of which € 54.6 million for the dividend relating to 2010 and € 38.5 million as an interim dividend relating to 2011.

OTHER INFORMATION

Treasury stock consisting of 2,430,935 shares was purchased during the year for € 15,872 thousand, while treasury stock consisting of 2,851,250 shares was assigned, following the exercise of stock option rights by Group employees.
The Company held treasury stock in portfolio consisting of 9,785,790 shares at 31st December 2011 accounting for 4.68% of the share capital.

The section "Principal risks and uncertainties" in the review of operations in the consolidated annual report attached to this report may be consulted for an analysis and description of the principal risks and uncertainties to which the Company is exposed pursuant to paragraphs 1 and 2 of article 2428 of the Italian Civil Code.

The information required under paragraph three, point 6-*bis* of Art. 2428 of the Italian Civil Code concerning the Company's objectives and policies in respect of financial risk management is fully reported in the notes to the financial statements.

In compliance with the requirements contained in Art. 4, paragraph 7 of the Regulation on related-party transactions adopted with Consob Resolution 17221 of 12th March 2010 and subsequent amendments, the Company reports that it has adopted "Regulations for related-party transactions", the full text of which is available on the Company website at www.recordati.it (in the "Corporate Governance" section).

The Company has a secondary headquarters at 4, Via Mediana Cisterna, Campoverde di Aprilia (Latina).

Shares held by directors, statutory auditors, general managers and executive officers with strategic responsibilities are reported in the Remuneration Report published in accordance with Art. 123-*ter* of the Consolidated Finance Act.

In compliance with Art. 37, paragraph two of the Markets Regulations adopted with Consob deliberation No. 16191 of 29th October 2007 as subsequently amended, we report that, although Recordati S.p.A. is controlled by Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A., it is not subject to management and co-ordination by that company within the meaning of articles 2497 *et seq.* of the Italian Civil Code. This is because Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A. is a mere financial holding company with no operations of any kind and it does not exert any influence or conduct any activities which might affect the management decisions and organization of Recordati S.p.A..

The Corporate Governance Report pursuant to article 123 *bis* of Legislative Decree 58/98, which contains information pursuant to article 89 *bis* of the Issuers' Regulations, may be consulted on the Company website at www.recordati.it, in the section "Corporate Governance".

INTERCOMPANY TRANSACTIONS AND RELATED ISSUES

At 31st December 2011, intercompany accounts with Group companies and the parent company Fimei S.p.A. consisted of payables of € 211,067 thousand and receivables of € 79,985 thousand. The most significant items are as follows:

- loans of € 25,000 thousand granted by Recordati España S.L. to Recordati S.p.A.;
- loans of € 67,401 thousand granted by Recordati S.A. Chemical & Pharmaceutical Company to Recordati S.p.A.;

- loans of € 20,965 thousand received from Yeni Recordati Ilaç;
- loans of € 3,684 thousand received from Dr. F. Frik Ilaç;
- receivables due to Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 27,019 thousand;
- receivables from subsidiaries for the management of the centralized cash pooling treasury system amounting to € 27,287 thousand;
- payables to subsidiaries for the management of the centralized cash pooling treasury system and for accounts held for them amounting to €115,294 thousand.

Sales and services to Group companies in 2011 amounted to € 120,408 thousand.
Dividends were received during the year as follows: € 25,000 thousand from Recordati S.A. Chemical & Pharmaceutical Company, € 24,985 thousand from Bouchara Recordati S.a.s. and € 5,904 thousand from Innova Pharma S.p.A.

Tax liabilities include those payable to the parent company Fimei S.p.A. amounting to € 1,556 thousand, which relate to the tax liability for the year calculated on the basis of estimated taxable income. That liability was transferred by the Company to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.

The following summary is set out in the table below in compliance with Consob deliberation No. 15519 of 27th July 2006:

Percentage of transactions with related parties		Related-Parties	
	Total	Amount	%
Percentage of transactions or positions in the balance sheet with related parties			
Trade receivables and other	58,037	27,417	47.24
Long term financial assets	20,112	20,056	99.72
Short term financial assets	32,512	32,512	100.00
Trade payables and other	55,104	2,561	4.65
Long term financial liabilities	160,481	92,401	57.58
Short term financial liabilities	123,058	116,105	94.35
Percentage of transactions or positions in the income statement with related parties			
Revenue	272,243	120,408	44.23
Income from investments	55,889	55,889	100.00
Costs of purchases and service provision	157,345	2,015	1.28
Financial income/(expense), net	(5,555)	(4,665)	83.98

Transactions and positions with related parties as a percentage of cash flows is basically the same as that for the income statement items because the transactions are conducted under normal market conditions.

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

The implementation of company policies, operations at the beginning of the current year, the potential of our products, the financial strength of the company and the managerial capacities of our personnel lead us to

forecast a positive result again in 2012, despite the general slowdown in the economy in Europe and the difficulty in estimating the effects of the new measures to contain spending on pharmaceuticals in the period in question.

Milan, 7th March 2012

on behalf of the Board of Directors

The Chairman

Ing. Giovanni Recordati

RECORDATI S.p.A.
INCOME STATEMENTS FOR THE YEARS ENDED
31ST DECEMBER 2011 AND 31ST DECEMBER 2010

Income statement

Amounts in euro	Notes	2011	2010
Revenue	3	**267,457,514**	**240,898,078**
Other revenues and income	4	4,785,334	543,465
Total revenue		**272,242,848**	**241,441,543**
Raw materials costs	5	(94,419,202)	(73,259,138)
Personnel costs	6	(67,909,564)	(63,779,643)
Amortization	7	(7,894,522)	(9,729,464)
Other operating expenses	8	(62,925,789)	(59,390,954)
Changes in inventories	9	4,548,023	(1,665,089)
Operating income		**43,641,794**	**33,617,255**
Income from investments	10	55,889,000	51,986,200
Financial income (expense),	11	(5,554,674)	(4,565,228)
Pre-tax income		**93,976,120**	**81,038,227**
Provision for income taxes	12	(15,514,138)	(13,146,000)
Net income		**78,461,982**	**67,892,227**
Earnings per share			
Basic		0.394	0.343
Diluted		0.374	0.327

Earnings per share (EPS) are based on average shares outstanding during each year of 199,369,542 in 2011 and 198,170,113 in 2010. These numbers are calculated net of average treasury stock which amounted to 9,755,614 shares in 2011 and 10,955,043 shares in 2010.
Diluted earnings per share are calculated taking into account options granted to employees.

RECORDATI S.p.A.

BALANCE SHEET at 31ST DECEMBER 2011 and at 31ST DECEMBER 2010

Assets

Amounts in euro	Notes	31st December 2011	31st December 2010
Non-current assets			
Property plant and equipment	13	35,944,001	35,167,080
Intangible assets	14	17,531,101	19,260,639
Investments	15	417,054,241	327,097,398
Other non current assets	16	20,112,266	56,601
Deferred tax assets	17	4,869,889	7,003,028
Total non-current assets		**495,511,498**	**388,584,746**
Current assets			
Inventories	18	46,570,650	42,022,627
Trade receivables	19	54,335,809	51,593,215
Other receivables	20	3,700,843	9,294,996
Other current assets	21	318,736	797,394
Fair value of hedging derivatives (fair value hedges)	25	1,791,371	1,163,910
Other short term loans	22	32,511,872	15,616,057
Short-term financial investments, cash and cash equivalents	23	35,519,366	104,689,667
Total current assets		**174,748,647**	**225,177,866**
Total assets		**670,260,145**	**613,762,612**

RECORDATI S.p.A.
BALANCE SHEET at 31ST DECEMBER 2011 and at 31ST DECEMBER 2010

Equity and liabilities

Amounts in euro	Notes	31st December 2011	31st December 2010
Shareholders' equity			
Share capital	24	26,140,645	26,140,645
Additional paid-in capital	24	83,718,523	83,718,523
Treasury stock	24	(53,214,711)	(52,578,857)
Statutory reserve	24	5,228,129	5,228,129
Other reserves	24	203,232,183	188,147,894
Revaluation reserve	24	2,602,229	2,602,229
Interim dividend	24	(38,525,218)	0
Net income for the year	24	78,461,982	67,892,227
Total shareholders' equity		**307,643,762**	**321,150,790**
Non current liabilities			
Loans	25	160,481,008	96,707,708
Staff leaving indemnities	26	10,759,236	11,657,825
Deferred tax liabilities	27	2,058,636	1,935,030
Total non current liabilities		**173,298,880**	**110,300,563**
Current liabilities			
Trade payables	28	36,417,250	35,440,493
Other payables	29	14,961,134	22,839,292
Tax liabilities	30	3,661,973	1,917,669
Other current liabilities	31	63,853	81,500
Provisions	32	6,399,298	7,405,482
Fair value of hedging derivatives (cash flow hedges)	33	4,227,201	4,298,846
Loans – due within one year	34	6,952,738	15,469,459
Bank overdrafts and short term loans	35	528,494	438,350
Other short term borrowings	36	116,105,562	94,420,168
Total current liabilities		**189,317,503**	**182,311,259**
Total equity and liabilities		**670,260,145**	**613,762,612**

RECORDATI S.p.A.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31ST DECEMBER 2011 AND 31ST DECEMBER 2010

€ (thousands)	2011	2010
Net income for the year	**78,462**	**67,892**
Gains/(losses) on cash flow hedges	72	(259)
Valuation of the personnel leaving indemnity fund pursuant to IAS 19	326	(166)
Income (expense) for the year recognized directly in equity	**398**	**(425)**
Comprehensive income for the year	**78,860**	**67,467**

RECORDATI S.p.A.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ (thousands)	Share capital	Addition-al paid-in capital	Treasury stock	Statutory reserve	Other reserves	Fair value hedging instru-ments	IAS compl-iance reserve	Revalua-tion reserves	Interim dividend	Net (loss)/ income for the year	Total
Balance at 31st December 2009	**26,141**	**83,718**	**(59,103)**	**5,220**	**81,725**	**(4,040)**	**88,499**	**2,602**	**0**	**76,068**	**300,830**
Allocation of 2009 net income as per shareholders' resolution of 13.4.2010:											
to reserves				8	21,705					(21,713)	0
dividends to shareholders										(54,355)	(54,355)
Sale of treasury stock			6,524		(295)						6,229
Dividends expired					2						2
Comprehensive income for the year						(259)	(166)			67,892	67,467
IAS compliance:											
Stock options							977				977
Balance at 31st December 2010	**26,141**	**83,718**	**(52,579)**	**5,228**	**103,137**	**(4,299)**	**89,310**	**2,602**	**0**	**67,892**	**321,150**
Allocation of 2010 net income as per shareholders' resolution of 13.4.2011:											
to reserves					13,279					(13,279)	0
dividends to shareholders										(54,613)	(54,613)
Purchase of treasury stock			(15,872)								(15,872)
Sale of treasury stock			15,236		226						15,462
Dividends expired					2						2
Interim dividends									(38,525)		(38,525)
Comprehensive income for the year						72	326			78,462	78,860
IAS compliance at 31st December 2011 – Stock options							1,180				1,180
Balance at 31st December 2011	**26,141**	**83,718**	**(53,215)**	**5,228**	**116,644**	**(4,227)**	**90,816**	**2,602**	**(38,525)**	**78,462**	**307,644**

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RECORDATI S.p.A.

CASH FLOW STATEMENT FOR THE YEARS ENDED 31ST DECEMBER 2011 AND 31ST DECEMBER 2010

€ (thousands)	2011	2010
Operating activities		
Cash flow		
Net income	78,462	67,892
Depreciation of property, plant and equipment	5,642	5,539
Amortization of intangible assets	2,253	4,190
Total cash flow	**86,357**	**77,621**
(Increase)/decrease in deferred tax liabilities	2,257	1,498
Increase/(decrease) in staff leaving indemnities and similar	(899)	(1,089)
Other provisions	(1,006)	(1,948)
Increase/(decrease) in other non-current liabilities	0	(1,000)
	86,709	**75,082**
Changes in working capital		
Trade receivables	(2,743)	(4,633)
Other receivables and other current assets	6,073	(3,296)
Inventories	(4,548)	1,665
Trade payables	977	(1,430)
Other payables and other current liabilities	(7,896)	7,707
Tax liabilities	1,744	(471)
Changes in working capital	**(6,393)**	**(458)**
Net cash from operating activities	**80,316**	**74,624**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(6,419)	(6,515)
Net (investments)/disposals in intangible assets	(523)	(10,329)
Net (increase)/decrease in equity investments	(89,957)	0
Net (increase)/decrease in other non-current assets	(20,056)	0
Net cash used in investing activities	**(116,955)**	**(16,844)**
Financing activities		
Loans – due after one year	69,759	30,000
Issue of share capital	0	0
Additional paid-in capital	0	0
Dividends paid	(93,138)	(54,355)
(Purchase)/sale of treasury stock	(410)	6,229
Effect on equity of application of IAS/IFRS	1,508	813
Re-payment of loans	(15,130)	(1,176)
Net cash from/(used in) financing activities	**(37,411)**	**(18,489)**
Changes in short-term financial position	**(74,050)**	**39,291**
Short-term financial position at beginning of year *	25,447	(13,844)
Short-term financial position at end of year *	(48,603)	25,447

* Includes the total of other short term loans, short term financial investments and cash and cash equivalents, bank overdrafts and other short term borrowings excluding the current portion of medium and long-term loans.

RECORDATI S.p.A.
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st December 2011

1. GENERAL

The separate annual financial statements comprise the income statement, the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity the cash flow statement and these notes to the financial statements. In compliance with Legislative Decree No. 38 of 28th February 2005, – in exercising the options provided for by Art. 5 of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19th July 2002 concerning International Accounting Standards – the separate company financial statements have been prepared by applying the international accounting standards (IAS/IFRS) issued or revised by the International Accounting Standards Board and homologated by the European Union and also the regulations issued in implementation of Art. 9 of Legislative Decree No. 38/2005The "IAS/IFRS" are intended as including all the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"), previously named the Standing Interpretations Committee ("SIC").
The presentation adopted by the Company for the income statement in the separate annual financial statements classifies revenues and expenses by nature. The distinction between the principle of current and non-current was adopted for the presentation of assets and liabilities in the balance sheet.
These interim financial statements are presented in euro (€) and all amounts in the notes to the statements are rounded to the nearest thousand euro unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on a 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 performed as prescribed by IAS 19.

The principal accounting policies adopted are set out below.

The balance sheet

Property, plant and equipment - Property, plant and equipment is stated at purchase cost less accumulated depreciation and any recognized impairment loss. Subsequent costs are only capitalized when it is probable that the future economic benefits will flow to the Company. The costs for ordinary maintenance and repairs are recognized through profit and loss at the time at which they are incurred.

The carrying amount of property, plant and equipment is subject to impairment testing to measure any loss in value 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:

Industrial buildings 2.5% - 5.5%
Plant & machinery 10% - 17.5%
Other equipment 12% - 40%

The depreciation of an asset begins when it is installed and is ready for use or, in the case of self-constructed assets, when the assets has been completed and is ready for use.

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 it is recognized through profit of loss for the period.

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

Impairment - At each balance sheet date, the Company 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.
The 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 the 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 (or 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 (or 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 subsidiaries – Investments in subsidiaries are recognized at cost of acquisition adjusted for impairment.
Positive differences arising at the time of purchase between the acquisition cost and the quota of the equity at present values held in the subsidiary attributable to the Company are therefore included in the carrying amount of the investment.
Investments in subsidiaries are subject to impairment testing annually or more frequently if necessary in order to test for possible loss of value. Where evidence exists that the value of these investments has been impaired, this is recognized through profit or loss as an impairment loss. Where an impairment loss subsequently reverses or reduces, this is recognized in the income statement as a reversal of impairment within the limits of the cost of acquisition.

Receivables (included in non-current assets) - Receivables are stated at their nominal value and reduced for impairment losses.

Inventories - Inventories are stated at the lower of cost or market value, 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 and supplies are valued at their average weighted 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 measured at their average weighted manufacturing cost which includes the cost of raw materials, consumables, direct labor and indirect costs of production, exclusive of general expenses.
Inventories are written-down if the 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.

Equity - Equity instruments issued by the Company are recorded at the amount of the proceeds received.
The 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 amortized cost method as prescribed by IAS 39. The amortized cost is the amount of the liability on initial recognition net of capital repayments and transaction costs amortized using the effective interest rate method.
If the loans are hedged 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 in the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liabilities recognized in the balance sheet for post employment benefit plans represent the present value of the defined benefit obligation, as adjusted for unrecognized 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. Until 31st December 2006 the staff leaving indemnities of Italian companies were considered defined benefit plans. The regulations governing those indemnities were amended by Law 296 of 27 December 2006 (2007 Finance Act) and subsequent amendments made in early 2007. In view of those changes and for companies with at least 50 employees in particular, those indemnities are only to be treated as defined benefit plans for the amounts that matured prior to 1st January 2007 (and not yet paid at the balance sheet date), while subsequent to that date they are treated as a defined contribution plan.

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 Company 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 derivative instrument qualifying as a "fair value hedge" is recognized immediately through 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 through 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 through 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 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 translated on the balance sheet date.

Income statement

The expenses are presented in the income statement "by nature". The choice of this method of presentation is based on the nature of the Company as both a holding and an operating company. The objective is to both optimize and simplify general accounting practices and all the relative compliance activity required by Italian tax regulations

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

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 also prescribes that development costs must be capitalized if technical and commercial feasibility of the asset for development or sale have been established. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines for capitalization under IAS 38 are not met so that development costs are expensed as incurred during the year.
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, including those for research, are booked to the income statement on an accrual basis within the item "other revenue".

Transactions involving share based payments – As prescribed by IFRS 2 stock option plans for the benefit of group employees are considered part of their remuneration, the cost of which is the fair value of the stock options at the date they are granted. This cost is recognized in the profit and loss linearly distributed over the vesting period and booked directly to equity.

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 through profit or loss, 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 Company 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 average weighted number of outstanding shares for the effects of all the potential dilutive ordinary shares.

3. REVENUE

In 2011 this amounted to € 267,458 thousand (€ 240,898 thousand in 2010) and was composed as follows:

€ (thousands)	2011	2010	Change 2011/2010
Net sales	256,250	235,714	20,536
Royalties and up-front payments	5,692	497	5,195
Revenue from services	5,516	4,687	829
Total revenue	**267,458**	**240,898**	**26,560**

Net sales revenues are composed as follows:

€ (thousands)	2011		2010	
	Italy	Abroad	Italy	Abroad
Pharmaceuticals	163,621	64,159	149,834	60,025
Pharmaceutical chemicals	2,259	25,255	1,956	23,312
Other	956	0	587	0
Total revenue for net sales	**166,836**	**89,414**	**152,377**	**83,337**

The increase in revenue from pharmaceuticals in Italy was due mainly to the launch of the new products and in particular to sales of the following: Cardicor® (bisoprolol) a drug belonging to the beta blocker class indicated for the treatment of chronic cardiac insufficiency; Urorec® (silodosin) a new specialty indicated for the treatment of the symptoms of benign prostatic hypertrophy (BPH). Sales also began in Italy of a specialty drug developed by Recordati and indicated for the treatment of hypertension, based on a fixed combination of lercanidipine with enalapril, a very common ACE inhibitor. This drug was launched by Recordati under the brand name Zanipril®, in co-marketing with the subsidiary Innova Pharma and with two other licensees.

Sales abroad also showed growth on the year before in both the pharma sector, up by 7%, and in the chemicals sector which recorded growth of 8% on the various products sold.

Net sales revenues included € 114,435 thousand (€ 108,050 thousand in 2010) for sales of products to subsidiaries:

€ (thousands)	2011	2010	Change 2011/2010
Recordati Ireland Ltd.	60,666	57,410	3,256
Innova Pharma S.p.A.	50,650	48,360	2,290
Laboratoires Bouchara Recordati S.a.s.	232	674	(442)
Recordati España S.L.	305	147	158
Jaba Recordati S.A.	2,160	1,459	701
Merckle Recordati GmbH	117	0	117
Yeni Recordati Ilaç	305	0	305
Total	**114,435**	**108,050**	**6,385**

Sales in both years to the subsidiary Jaba Recordati S.A. related to a licensing and distribution contract for the specialty pharmaceutical TransAct LAT®.
All commercial transactions with subsidiaries took place under normal market conditions.

Revenues for royalties, up-front payments and services are composed as follows:

€ (thousands)	2011	2010	Change 2011/2010
Services and royalties to subsidiaries			
Orphan Europe Italy S.r.l.	40	40	0
Innova Pharma S.p.A.	1,050	996	54
Recordati Ireland Ltd.	2,185	1,875	310
Laboratoires Bouchara Recordati S.a.s.	1,350	1,346	4
Merckle Recordati GmbH	408	305	103
Recordati España S.L.	289	223	66
Jaba Recordati S.A.	323	203	120
Yeni Recordati Ilaç	191	96	95
Recordati Hellas Pharmaceuticals S.A.	95	69	26
Herbacos Recordati sro	10	0	10
Total services and royalties to subsidiaries	**5,941**	**5,153**	**788**
Services and royalties to third parties			
Royalties and up-front payments	5,267	31	5,236
Total services and royalties to third parties	**5,267**	**31**	**5,236**
Total revenue from services and Royalties	**11,208**	**5,184**	**6,024**

The revenues from services to subsidiaries related principally to the "Group Service Agreement" for services performed on behalf of subsidiaries during the year.
Proceeds from Laboratoires Bouchara Recordati S.a.s. included royalties amounting to € 425 thousand.
The increase in royalties and up-front payments was due to licensing contracts for the fixed combination of lercanidipine with enalapril mentioned above in the analysis of sales.

4. OTHER REVENUES AND INCOME

Other revenue amounted to € 4,785 thousand in 2011, compared to € 543 thousand in 2010. It includes charging employees for the use of hired cars, other indemnities. non recurring income, exceptional receivables and gains on the sale of non current assets. Income resulting from partial reductions in provisions and in the allowance for doubtful accounts to bring the amounts for them into line with the actual risk of potential losses were of particular importance.
The item included € 17 thousand of government grants for plant, € 357 thousand of research grants in respect of the project "high selectivity synthetic processes for pharmacologically active compounds" subsidized pursuant to Law 488/92, € 49 thousand of income from property investments and € 13 thousand of charges for services supplied to the parent company Fimei S.P.A..

Details of grants received for investments recognized in the income statement are given below for the last five years.

€ (thousands)	
2007	77
2008	76
2009	48
2010	20
2011	17
Total	**238**

Income from property investments includes the rent of properties to the subsidiary Fimei S.p.A. amounting to € 8 thousand euro and the rent of premises at the Milan site to Innova Pharma S.p.A. amounting to € 11 thousand.

5. RAW MATERIALS COSTS

These are composed as follows:

€ (thousands)	2011	2010	Change 2011/2010
Raw materials:			
from licensing-in agreements	60,898	46,218	14,680
from other	19,420	10,617	8,803
	80,318	56,835	23,483
Goods for resale	1,323	5,054	(3,731)
Packaging materials	7,472	6,115	1,357
Others and consumables	5,306	5,255	51
Total	**94,419**	**73,259**	**21,160**

The increase in purchases of raw materials, goods and other materials is due to growth in sales and volumes of production and also to an increase in inventories compared to the previous year (see note 18) in order to meet expected sales in the first half of 2012.
Purchases of raw materials from others includes € 1,549 thousand for purchases from Recordati Ireland Ltd.

6. LABOR COSTS

Labor costs were composed as follows:

€ (thousands)	2011	2010	Change 2011/2010
Wages and salaries	47,165	44,755	2,410
Social security expenses	15,380	14,310	1,070
Salary resulting from stock option plans	1,180	977	203
Other costs	4,185	3,738	447
Total labor costs	**67,910**	**63,780**	**4,130**

The expense for stock option schemes is a result of the application of IFRS 2, which requires the valuation of those options as a component of the wages of the beneficiaries and recognition of the cost determined in that manner in the income statement.

Other costs include the portions of the leaving indemnity charges for the year destined to pension funds in accordance with the legislation introduced by Law 296 of 27th December 2006.

Average labor force figures for the Company are as follows:

	2011	2010	Change 2011/2010
Executives	64	63	1
Office workers	567	557	10
Manual workers	286	277	9
Total	**917**	**897**	**20**

7. DEPRECIATION AND AMORTIZATION

These are composed as follows:

Amortization of intangible assets

€ (thousands)	2011	2010	Change 2011/2010
Patent rights and marketing authorizations	435	427	8
Distribution, license, trademark and similar rights	1,815	3,761	(1,946)
Other	2	2	0
Total	**2,252**	**4,190**	**(1,938)**

The decrease in the amortization of distribution, license, trademark and similar rights is attributable mainly to the full amortization during the previous year of the contractual milestone cost incurred for obtaining the marketing authorization for new formulations using technology with a lower dosage of lercanidipine, in relation to which no economic benefits are expected in future years.

Depreciation of property, plant and equipment

€ (thousands)	2011	2010	Change 2011/2010
Industrial buildings	1,122	1,050	72
Light constructions	16	29	(13)
General plant	522	547	(25)
Accelerated depreciation machinery	1,416	1,540	(124)
Normal depreciation machinery	1,759	1,668	91
Miscellaneous laboratory equipment	377	297	80
Office furnishings and machines	121	126	(5)
Electronic equipment	273	233	40
Motor vehicles	16	25	(9)
Vehicles for internal transport	21	24	(3)
Total	**5,643**	**5,539**	**104**

8. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

€ (thousands)	2011	2010	Change 2011/2010
Pay back and discount of 1.83% to be reimbursed to Regions	4.157	3.011	1.146
Meetings and scientific publications, market surveys and expenses for medical and scientific communications and advertising	11,462	9,679	1,783
Clinical and pharmacological trials and professional advice	9,838	9,522	316
Sales commissions to agents and depositories	4,313	4,352	(39)
Transport and storage	2,710	2,368	341
Utilities and similar (motor fuel, gas, water, etc.)	4,488	4,704	(216)
Destruction of industrial waste and cleaning	1,944	1,825	119
Maintenance	2,963	2,893	70
Insurance premiums	561	539	22
Directors' fees	678	712	(34)
Statutory auditors' fees	125	125	0
Sundry labor costs	4,852	4,874	(22)
Legal, judiciary and notary expenses	526	528	(2)
Sundry services	2,487	1,692	795
Postal and telecommunications expenses	497	493	4
External processing	4,497	3,670	827
Royalties payable	84	69	15
Rents payable	68	0	68
Car hire expenses	2,805	2,633	172
Provisions	372	2,528	(2,155)
Membership fees	483	545	(62)
Prior year expenses	323	149	174
Sundry taxation	1,104	1,058	46
Other operating expenses	1,589	1,422	167
Total	**62,926**	**59,391**	**3,535**

The pay back expense of € 4,157 million relates to the € 2,082 thousand due to the Italian national healthcare system in substitution for the 5% price reduction on some selected products. That measure, initially introduced for the period 1st March 2007 – 29th February 2008, was subsequently repeated and is currently in force. The amount is calculated on the sales of products performed in 2010. Furthermore, with regard to the entry into force of Law 122 of 30th July 2010, article 11 establishes a charge borne by producers amounting to 1.83% of the price to the public net of VAT. This total amounting to € 2,075 thousand is the sum of the amount paid in the first half of 2011 and the provision charge of € 1,108 thousand made for periods currently being determined.

The increase in medical and scientific communications and advertising expense was due principally to costs incurred for the launch of new products and for initiatives relating to over-the-counter products in Italy.
Commissions paid to agents included commissions to the Recordati Corporation for sales in the USA of pharmaceutical chemicals amounting to € 74 thousand.

Expenses for sundry services included the auditors' fees.
Details of that remuneration are provided in attachment 5 in compliance with Art. 149-*duodecies* of the Consob Issuers' Regulations.

Details are given in relative parts of the Remuneration Report published in accordance with Art. 123-*ter* of Consolidated Finance Act of the following: the remuneration of directors, statutory auditors, general managers and executive officers with strategic responsibilities; the shares held in the Company by those persons; the stock option rights granted to them.

No use was made of finance lease assets in 2011.

External processing included work performed by Laboratoires Bouchara Recordati amounting to € 392 thousand.

Provision charges amounted to € 372 thousand and related to an estimate of the risk attached to an obligation to contribute to the budget overspend by the AIFA (Italian Medicines Agency), as provided for by Law 222/2007.

The item "sundry taxation" amounting to € 1,104 thousand (€ 1,058 thousand in 2010) relates to the following:

€ (thousands)	2011	2010	Change 2011/2010
Contribution under Decree Law 269/2003	200	209	(9)
Government license tax	442	395	47
Municipal taxes	263	244	19
Stamp duties and similar	10	9	1
Non deductible taxes	39	16	23
Sundry taxes	150	185	(35)
Total	**1,104**	**1,058**	**46**

In compliance with Decree Law 269 of 30th September converted into Law 326 of 24th November 2003 a contribution was paid in April amounting to 5% of the expenses incurred in the previous year for advertising activities, self certified by the Company in accordance with the law.
Taxes for government licenses are attributable to the maintenance and changes to registrations for ethical and self-medication products and to the registrations of new products.

9. CHANGES IN INVENTORIES

Details of changes in inventories are as follows:

€ (thousands)	2011	2010	Change 2011/2010
Raw materials	778	(2,503)	3,281
Supplies	661	(63)	724
Intermediates and work-in-process	(553)	515	(1,068)
Finished goods	3,662	386	3,276
Total	**4,548**	**(1,665)**	**6,213**

10. INCOME FROM INVESTMENTS

Income from investments amounted to € 55,889 thousand (€ 51,986 thousand in 2010) and related to subsidiaries.
This income consisted of dividends declared and received from Bouchara Recordati S.a.s. (€ 24,985 thousand), from Innova Pharma S.p.A. (€ 5,904 thousand) and from Recordati S.A. Chemical & Pharmaceutical Company (€ 25,000 thousand).

11. FINANCIAL INCOME /(EXPENSE)

Net financial income/(expense) showed a net expense of € 5,555 thousand in 2011 (€ 4,565 thousand in 2010). The main items are summarized in the table below.

€ (thousands)	2011	2010	Change 2011/2010
Foreign exchange gains (losses)	(370)	172	(542)
Revaluations of personnel leaving indemnity advances	1	1	0
Interest income from subsidiaries	1,084	401	683
Interest expense payable to subsidiaries	(5,750)	(4,739)	(1,011)
Interest expense on loans	(1,804)	(49)	(1,755)
Net interest on short-term financial positions	2,021	595	1,426
Bank charges	(285)	(416)	131
Interest cost in respect of defined benefit plans (IAS 19)	(452)	(530)	78
Change in fair value of hedging derivatives	627	(3,421)	4,048
Change in fair value of hedged items	(627)	3,421	(4,048)
Total	**(5,555)**	**(4,565)**	**(990)**

The balance on foreign exchange differences represented a loss of € 370 thousand for 2011, compared to a gain of € 172 thousand in 2010. The loss for the year consisted of € 825 thousand for the cost of transactions concluded during the year and of a gain of € 455 thousand resulting from the valuation at 31 December 2011 of assets and liabilities in foreign currency. Art. 2426, point 8-*bis* is therefore applicable to that income, by which, if net income arises from the foreign exchange valuation performed at the end of the year, that amount is allocated to a special reserve that is not distributable until the gain is actually realized.

Interest income from subsidiaries is as follows:

€ (thousands)	2011	2010	Change 2011/2010
Innova Pharma S.p.A.	0	36	(36)
Jaba Recordati S.A.	63	1	62
Bouchara Recordati S.a.s.	296	165	131
Recordati S.A. - Luxembourg	71	147	(76)
Merckle Recordati GmbH	0	52	(52)
Yeni Recordati Ilaç	498	0	498
Dr. F. Frik Ilaç	134	0	134
Fic S.a.s.	4	0	4
Recordati Ireland Ltd.	18	0	18
Total	**1,084**	**401**	**683**

Interest income relates to loans granted to subsidiaries during the year (€ 632 thousand) and to the centralized cash pooling treasury system in operation at the Parent Company since 2007 on the basis of which monthly interest receivable and payable is recognized at market rates (€ 452 thousand).
Two outstanding short term loans existed at 31st December (€ 500,000 and TRY 10,000,000) together with one long term loan (TRY 40,000,000) with Yeni Recordati Ilaç and a long term loan with Dr. F. Frik Ilaç (TRY 9,000,000).

Interest expense paid to subsidiaries is as follows:

€ (thousands)	2011	2010	Change 2011/2010
FIC S.a.s.	1	1	0
Recordati España S.L.	906	8	898
Laboratoires Bouchara Recordati Sas	132	18	114
Innova Pharma S.p.A.	63	38	25
Recordati S.A. – Luxembourg	4,051	4,252	(201)
Recofarma S.r.l.	52	35	17
Jaba Recordati S.A.	8	6	2
Recordati Ireland Ltd.	89	29	60
Recordati Orphan Drugs Sas.	0	28	(28)
Orphan Europe Holding S.A.	0	17	(17)
Orphan Europe Sarl	158	34	124
Merckle Recordati GmbH	39	0	39
Recordati Pharmaceutical Ltd.	140	138	2
Recordati Corporation	105	113	(8)
Recordati S.A. - Switzerland	0	22	(22)
Bouchara Recordati s.a.s.	1	0	1
Orphan Europe Germany GmbH	5	0	5
Total	**5,750**	**4,739**	**1,011**

Interest expense relates to loans received from subsidiaries during the year (€ 1,040 thousand), to the centralized cash pooling treasury system amounting to € 676 thousand and to the interest of € 4,034 thousand paid to Recordati S.A., described below.

Interest payable to the Luxembourg subsidiary Recordati S.A. includes € 4,034 thousand in relation to an intercompany loan agreed at the end of 2004 on the basis of an issue of debt performed by our subsidiary with institutional international investors. The loan is structured in a number of tranches and is also in foreign currency at a fixed rate.

The following is reported with regard to other financial income/ (expense):

- interest expense in respect of defined benefit plans (leaving indemnities) relates to the interest cost component of the adjustment to the relative provision in compliance with IAS 19;

- the fair value changes in hedging derivatives relate to the valuation of a “cross-currency interest rate swap” for the intercompany loan concluded at the end of 2004 designed to eliminate currency risk for loans denominated in United States dollars and the UK pound sterling. This amount reflects the change in the fair value of the underlying debt with respect to its nominal value, with no effect in the income statement. It is recognized as a fair value hedge.

12. TAXES

Taxes recognized in the income statement are composed as follows:

€ (thousands)	2011	2010	Change 2011/2010
Current taxation:			
IRES (corporate income tax)	10,068	8,616	1,452
IRAP (regional tax on production)	3,313	2,969	344
Total current taxation	**13,381**	**11,585**	**1,796**
Deferred taxation:			
Provision for prepaid taxes	(507)	(913)	406
Use of prior year (prepaid)/deferred tax provisions	2,640	2,474	166
Total deferred taxes	**2,133**	**1,561**	**572**
Total	**15,514**	**13,146**	**2,368**

Provisions for taxes were made on the basis of estimated taxable income.

The provision for deferred tax (assets)/liabilities of € 507 thousand is composed as follows:

	2011		2010	
	Temporary differences	Tax Effect	Temporary differences	Tax Effect
PREPAID TAXES				
- Provisions	(648)	(178)	(2,577)	(708)
- Costs relating to future years	(673)	(185)	(607)	(167)
- Write-down of inventories	(522)	(144)	0	0
TOTAL	**(1,843)**	**(507)**	**(3,184)**	**(875)**
DEFERRED TAXES				
- IAS personnel leaving indemnity valuation	0	0	(137)	(38)
TOTAL		**0**	**(137)**	**(38)**
(DEFERRED) PREPAID TAXES, NET		**(507)**		**(913)**

Note 17 may be consulted for information on the use of deferred tax asset provisions amounting to € 2,640 thousand.

The reconciliation between the current tax rate for income tax levied on the Company and the actual tax rate incurred is as follows.

	2011 %	2010 %
The tax rate applicable for IRES (corporate income tax) purposes	27.5	27.5
Dividends from subsidiaries	(15.5)	(16.8)
Contributions to congresses	0.7	0.6
Other differences, net	0.1	1.0
The tax rate applicable for IRES (corporate income tax) purposes	**12.8**	**12.3**
IRAP (regional tax on production)	3.7	3.9
Tax rate on pre-tax income	**16.5**	**16.2**

IRAP as a percentage of pretax profit was 3.7% because the tax is calculated on a different tax basis which also includes the cost of labor, interest and some extraordinary items.

13. PROPERTY PLANT AND EQUIPMENT

At 31st December 2011 and 2010 property, plant and equipment net of accumulated depreciation amounted to € 35,944 thousand and € 35,167 thousand respectively. Changes in this item are given below.

€ (thousands)	Land & buildings	Plant & machinery	Other fixtures	Construction in progress	Total property, plant and equipment
Cost of acquisition					
Balance at 31.12.10	34,965	129,249	28,259	3,866	196,339
Additions	226	1,768	839	3,589	6,422
Write-downs	0	0	0	0	0
Disposals	0	0	(151)	0	(151)
Reclassifications	659	1,885	1,207	(3,751)	0
Balance at 31.12.11	**35,850**	**132,902**	**30,154**	**3,704**	**202,610**
Accumulated depreciation					
Balance at 31.12.10	22,100	113,937	25,135	0	161,172
Depreciation	1,138	3,698	807	0	5,643
Disposals	0	0	(149)	0	(149)
Reclassifications	0	0	0	0	0
Balance at 31.12.11	**23,238**	**117,635**	**25,793**	**0**	**166,666**
Carrying amount					
At 31 December 2011	**12,612**	**15,267**	**4,361**	**3,704**	**35,944**
At 31st December 2010	12,865	15,312	3,124	3,866	35,167

The additions of € 6,422 thousand in 2011 relate to investments in the Milan plant and headquarters of € 3,895 thousand and to various investments in the production facilities at the Campoverde di

Aprilia plant amounting to € 2,527 thousand.

Depreciation for the year amounted to € 5,643 thousand and was calculated on all depreciable assets using rates which are held to be representative of the estimated useful life of the assets.

14. INTANGIBLE ASSETS

Intangible assets net of accumulated amortization at 31st December 2011 and 2010 amounted to € 17,531 thousand and € 19,261 thousand respectively. Changes in this item are given below.

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Assets under construction and advances	Total intangible assets
Cost of acquisition					
Balance at 31.12.10	30,575	12,828	13,244	7,689	64,336
Additions	0	126	0	396	522
Write-downs	0	0	0	0	0
Disposals	0	0	0	0	0
Reclassifications	0	7,655	0	(7,655)	0
Balance at 31.12.11	**30,575**	**20,609**	**13,244**	**430**	**64,858**
Accumulated amortization					
Balance at 31.12.10	24,373	7,461	13,241	0	45,075
Amortization	435	1,815	2	0	2,252
Disposals	0	0	0	0	0
Reclassifications	0	0	0	0	0
Balance at 31.12.11	**24,808**	**9,276**	**13,243**	**0**	**47,327**
Carrying amount					
At 31 December 2011	**5,767**	**11,333**	**1**	**430**	**17,531**
At 31st December 2010	6,202	5,367	3	7,689	19,261

The increase in intangible assets of € 522 thousand relates mainly to licenses for the use of software.
All intangible assets have a defined useful life and are amortized over a period not exceeding 20 years.

15. INVESTMENTS

Investments amounted to € 417,054 thousand at 31st December 2011, up by € 89,957 thousand compared to 2010, as shown in the table in Attachment 1. The percentage of ownership and the number of shares or quotas possessed are reported in Attachment 2.
A comparison between the carrying amount of investments in subsidiaries and their valuation using the equity method, in accordance with Art. 2426 of the Italian Civil Code, is reported in attachment 3.

IAS 27 - Consolidated and separate financial statements - requires recognition of investments in subsidiaries according to the cost method or, as an alternative, using the fair value in accordance with IAS 39. Recordati S.p.A. has adopted the cost criterion and therefore, where there are indications that part or all of the cost cannot be recovered, the carrying amount must be reduced to the relative

recoverable amount, in compliance with IAS 36 – Impairment of assets. Where that impairment subsequently reverses or reduces, the carrying amount is increased to the amount of the new estimate of the recoverable amount which, however, cannot exceed the original cost. For the calculation of reversals for investments in companies that are not listed and that is where no reliable market value (fair value less costs to sell) can be determined, the recoverable amount has been defined as the value in use, intended as the present value of the estimated cash flows from it based on the expected results of the investments and the estimated amount of a hypothetical "ultimate disposal" in compliance with IAS 28 (section 33). The expected results forecast in the business plans of each investment were taken into consideration in the calculation of the value in use, increased by their "terminal value" appropriately adjusted to take account of risks and uncertainties intrinsic to the assumptions on which the plans were based. Those results and the "terminal value" were discounted to present values by applying the current cost of capital of the companies in compliance with the method recommended in IAS 36. Application of the methodology described did not give rise to any impairment, nor to any reversal of impairment recognized in prior years.

Details of changes in investments are given in the table contained in attachment 1.

As in the past, relations with subsidiaries continued satisfactorily with the following changes occurring during the year:

- Recordati S.A. Chemical and Pharmaceutical Company – Luxembourg – Share Capital € 68,000,000. Percentage ownership of 100%. The year 2011 ended with a profit of € 46,335 thousand (€ 44,880 thousand in 2010). The profit for the year was due mainly to the receipt of dividends of € 46,013 thousand. The shareholders' equity of the company at 31.12.2011 amounted to € 281,344 thousand.

- Recordati S.A. Chemical and Pharmaceutical Company holds investments in the following companies:

  - Farmarecord Ltda. – San Paolo, Brazil – Share capital denominated in Real amounting to 166.00. Percentage ownership of 100%. The company is dormant and holds pharmaceutical marketing rights in Brazil. Its shareholders' equity at 31.12.2011 amounted to Real 867,510.

  - Recordati España S.L. – Madrid, Spain – Percentage ownership of 31.55%.

  - Recordati Corporation – Cranford, (New Jersey), United States - Share Capital US$ 11,979,138. Percentage ownership of 100%. The company ended 2011 with a profit of US$ 79,511 and shareholders' equity of US$ 21,807,335.

  - Recordati Portuguesa Lda. - Porto Salvo, Portugal - Percentage ownership of 2%.

  - Bouchara Recordati S.a.s. – Levallois-Perret, France – Percentage ownership of 0.06%.

  - Recordati Ireland Ltd. – Ringaskiddy (Cork) Ireland – Share Capital € 200,000. Percentage ownership of 100%. The company performs development, production, marketing and sales of pharmaceuticals.
    Net sales in 2011 amounted to € 154,963 thousand (€ 140,231 thousand in 2010).
    In 2011 the company earned profits of € 55,509 thousand (€ 44,937 thousand in 2010). The shareholders' equity at 31.12.2011 amounted to € 113,135 thousand.
  - Recordati S.A. – Chiasso, Switzerland – Share Capital Sw.Fr. 2,000,000. Percentage ownership of 100%.

The company is dormant and holds pharmaceutical marketing rights. In 2011 the company earned profits of Sw.Fr. 506,869. Shareholders' equity at 31.12.2011 amounted to Sw.Fr. 2,093,836.

- Recordati Pharmaceuticals Ltd. – Henley-on-Thames - United Kingdom - Share capital GBP 15,000,000. Percentage ownership of 96.67%. The company performs sales of pharmaceuticals. In 2011 the company earned profits of GBP 999,477.
  Shareholders' equity at 31.12.2011 amounted to GBP 14,649,267.

- Recordati Hellas Pharmaceuticals S.A. – K. Chalandri, Athens Greece – Share Capital € 13,900,000. Percentage ownership of 99.32%. The company performs marketing and sales of pharmaceuticals. In 2011 the company earned a profit for the year of € 855,776 thousand. The shareholders' equity at 31.12.2011 amounted to € 2,328 thousand.

- Recordati Orphan Drugs S.a.s. - Paris La Defense, France - Share Capital € 57,000,000. Percentage ownership of 90%. The company earned a profit for the year of € 5,621 thousand. Shareholders' equity at 31.12.2011 amounted to € 66,940 thousand. The company merged its subsidiary Orphan Europe Holding S.A. into it during the year.

- Herbacos Recordati Sro - Pardubice, Czech Rep. - Share Capital CZK 25,600,000 - Percentage ownership of 100%. Herbacos is a pharmaceutical company with an established presence on the Czech and Slovakian markets where it markets pharmaceuticals belonging to various treatment areas. The year ended with a profit of CZK 64,601 thousand. The shareholders' equity of the company at 31.12.2011 amounted to CZK 134,719 thousand.

- Recordati România S.r.l. – Bucharest, Romania - Share capital Ron 95,200. Percentage ownership of 100%. The company, control of which was acquired during the course of 2010, recorded a profit of Ron 905,783. Shareholders' equity at 31.12.2011 amounted to Ron 1,335,215.

- Merckle Recordati GmbH – Ulm, Germany - Share Capital € 600,000. Percentage ownership of 55%. The company performs marketing and sales of pharmaceuticals. It generated sales in 2011 of € 60,489 thousand (€ 58,477 in 2010) and it earned a profit of € 11,014 thousand (€ 6,756 thousand in 2010). The shareholders' equity of the company at 31.12.2011 amounted to € 109,844 thousand.

- Recofarma S.r.l. – Milan, Italy - Share Capital € 1,258,400. Percentage ownership of 100%. The company ceased its marketing operations for pharmaceutical chemicals in 2006. In 2011 the company earned a net profit of € 34 thousand (€ 21 thousand in 2010). The shareholders' equity of the company at 31.12.2011 amounted to € 3,488 thousand.

- Innova Pharma S.p.A. – Milan, Italy – Share Capital € 1,920,000. Percentage ownership of 100%. In 2011 the company continued its marketing operations for pharmaceuticals in Italy. It generated sales during the year of € 89,480 thousand (€ 86,604 thousand in 2010) and recorded a profit of € 5,652 thousand (€ 5,963 thousand in 2010). The shareholders' equity of the company at 31.12.2011 amounted to € 13,531 thousand.

- Recordati España S.L. – Madrid, Spain - Share capital € 238,966,000. Percentage ownership of 68.45%. The company performs development, production and sales of pharmaceuticals. With net sales for the year of € 28,059 thousand (€ 29,909 thousand in 2010) the company recorded a profit of € 904 thousand (€ 3,517 thousand in 2010). The shareholders' equity of the company at 31.12.2011 amounted to € 272,191 thousand. During the year Recordati increased its

shareholding in Recordati España as a result of the subscription of a share issue which occurred on 27th July. Recordati paid € 90,000 thousand of which € 78,966 thousand for the increase in the share capital just mentioned and € 11,034 thousand as a share premium.

Recordati España S.L. holds investments in the following companies:

- Merckle Recordati GmbH – Ulm, Germany - Share Capital € 600,000. Percentage ownership of 45%.

- Jaba Recordati S.A. - Porto Salvo, Portugal - Share Capital € 2,000,000. Percentage ownership of 100%. The company performs wholesale marketing of pharmaceuticals. With net sales for the year of € 34,255 thousand, the company recorded a loss of € 570 thousand. The shareholders' equity of the company at 31.12.2011 amounted to € 4,860 thousand.

- Jabafarma S.A. - Porto Salvo, Portugal - Share Capital € 50,000. Percentage ownership of 100%. The company performs marketing of ethical specialty pharmaceutical products through its own distribution network. The year ended with a profit of € 160 thousand. The shareholders' equity of the company at 31.12.2011 amounted to € 53 thousand.

- Bonafarma S.A. - Porto Salvo, Portugal - Share Capital € 50,000. Percentage ownership of 100%. The company performs marketing of generic pharmaceutical products through its own distribution network. The year ended with a profit of € 90 thousand. The shareholders' equity of the company at 31.12.2011 amounted to € 387 thousand.

- Yeni Recordati Ilaç - Esenyurt, Istanbul, Turkey - Share Capital TRY 132,760,664. Percentage ownership of 100%. The company performs production and sales of pharmaceuticals and was acquired in December 2008. The company generated sales of TRY 57,827 thousand and earned a profit of TRY 6,688 thousand. Shareholders' equity at 31.12.2011 amounted to TRY 154,483 thousand.

- Bouchara Recordati S.a.s. - Levallois-Perret, France - Share Capital € 4,600,000. Percentage ownership of 99.94%.
  Bouchara Recordati performed development, production and sales of pharmaceuticals in 2011. The year 2011 ended with a profit of € 20,198 thousand (€ 20,497 thousand in 2010). The shareholders' equity of the company at 31.12.2011 amounted to € 25,991 thousand.

Bouchara Recordati S.a.s. holds investments in the following companies:

- Laboratoires Bouchara Recordati S.a.s. - Levallois-Perret, France - Share capital € 14,000,000. Percentage ownership of 100%. The company performs production, marketing and sales of pharmaceuticals. It generated sales in 2011 of € 172,226 thousand and it earned a profit of € 11,071 (€ 11,106 thousand in 2010). The shareholders' equity of the company at 31.12.2011 amounted to € 26,548 thousand.

- FIC S.a.s. – Levallois - Perret, France - Share Capital € 100,000. Percentage ownership of 100%. The company performs marketing and sales of pharmaceuticals. In 2011 it earned a profit of € 537 thousand. The shareholders' equity of the company at 31.12.2011 amounted to € 1,210 thousand.

- Rusfic LLC. - Moscow, Russian Federation - Share capital RUB 3,560,000. Percentage ownership 100%. The company recorded a loss for the year of RUB 1,686. Shareholders' equity at 31.12.2011 amounted to RUB 36,744 thousand.

- Recordati Portuguesa Lda. - Porto Salvo, Portugal - Share capital € 24,940. Percentage ownership of 98%. The company ceased marketing and sales operations for pharmaceuticals in 2003. The shareholders' equity of the company at 31.12.2011 amounted to € 51 thousand.

- Recordati Pharmaceuticals Ltd. – Henley-On-Thames, United Kingdom - Share capital GBP 15,000,000. Percentage ownership of 3.33%.

- Recordati Hellas Pharmaceuticals S.A. - K. Chalandri, Athens, Greece - Share Capital € 13,900,000. Percentage ownership 0.68%.

- Recordati Polska sp. Z.o.o – Warsaw, Poland – Share capital PNL 20,000. Percentage ownership of 100%.

All the investments reported are in share capital with voting rights.

16. OTHER NON CURRENT ASSETS

Non-current receivables amounted to € 20,112 thousand at 31st December 2011 (€ 56 thousand at 31st December 2010) and related mainly to long term loans (€ 20,056 thousand) granted to subsidiaries during the year. At 31st December these included an outstanding loan of Try 40,000,000 to Yeni Recordati Ilaç (€ 16,372 thousand) and a loan of Try 9,000,000 to Dr. F. Frik Ilaç (€ 3,684 thousand), both due in 2016.

17. DEFERRED TAX ASSETS

At 31st December 2011 these amounted to € 4,870 thousand (€ 7,003 thousand at 31st December 2010), an increase of € 2,133 thousand.

The main deferred tax assets and changes in them are analyzed in the two tables below

€ (thousands)	2011	2010
Balance at 1st January	7,003	8,602
Additions	507	875
Utilization	(2,640)	(2,474)
Balance at 31st December	**4,870**	**7,003**

€ (thousands)	Intangible asset reversals	Provisions	Inventory write-downs	Other	Total
Balance at 1st January	5,360	1,436	1	206	7,003
Addition	0	178	144	185	507
Utilization	(1,719)	(717)	0	(204)	(2,640)
Balance at 31st December	**3,641**	**897**	**145**	**187**	**4,870**

The utilization of € 1,719 thousand relates to amortization charges for intangible assets revalued in 2005 under Law 226 of 23.12.2005.

18. INVENTORIES

Inventories at 31st December 2011 and 2010 totaled € 46,571 thousand and € 42,023 thousand respectively, as shown in the following table:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Raw materials, ancillary materials, consumables and supplies	10,176	8,738	1,438
Intermediates and work-in-process	12,067	12,620	(553)
Finished goods	24,328	20,665	3,663
Total	**46,571**	**42,023**	**4,548**

The increase in inventories compared to 31st December 2010 is attributable changes in volumes of sales.

19. TRADE RECEIVABLES

Trade receivables at 31st December 2011 and 2010 amounted to € 54,336 thousand and € 51,593 thousand respectively as detailed below:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Trade receivables from subsidiaries	27,019	25,505	1,514
Trade receivables from others:			
Italy	23,863	22,633	1,230
Abroad	4,141	5,075	(934)
	55,023	**53,213**	**1,810**
Less:			
Allowance for doubtful accounts	(603)	(1,536)	933
Allowance for interest on arrears on doubtful accounts	(84)	(84)	0
Total trade receivables	**54,336**	**51,593**	**2,743**

The increase in receivables is proportionally less than the increase in volumes of sales.
Exposure calculated on receivables from others stood at 72 days outstanding at 31st December 2011.

The adjustment of receivables in non euro currencies resulted in the recognition of negative exchange rate differences of € 71 thousand. The receivables are recognized net of those adjustments.

Trade receivables from Group companies arose from the supply of goods and services and are composed as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Innova Pharma S.p.A.	15,258	13,124	2,134
Recordati Ireland Ltd.	9,846	10,191	(345)
Laboratoires Bouchara Recordati S.a.s.	584	946	(362)
Jaba Recordati S.A.	847	787	60
Merckle Recordati GmbH	192	215	(23)
Recordati España S.L.	131	142	(11)
Yeni Recordati Ilaç	119	72	47
Orphan Europe Italy Srl	12	12	0
Recordati Hellas Pharmaceuticals S.A	38	18	20
Herbacos Recordati S.A.	(8)	(3)	(5)
Recordati S.A.	0	1	(1)
Total	**27,019**	**25,505**	**1,514**

The changes compared to the previous year are considered transitory and are related to automated netting procedures for outstanding intercompany positions, by which intercompany items are automatically offset against each other each month and the relative balances settled.

Changes in the allowance for doubtful accounts are as follows:

€ (thousands)	2011	2010
Balance at 1st January	1,536	1,551
Utilization for losses on receivables	(18)	(15)
Utilization of excess provision	(915)	0
Balance at 31st December	**603**	**1,536**

The allowance is considered appropriate in relation to potential risks of insolvency.

Changes in the allowance for interest on arrears on doubtful accounts are as follows:

€ (thousands)	2011	2010
Balance at 1st January	84	186
Utilization for the year	0	(102)
Balance at 31st December	**84**	**84**

The balance at 31st December 2011, amounting to € 84 thousand, fully covers the amount for the relative receivables.

The composition of the principal receivables in foreign currency is as follows:

	31.12.2011		31.12.2010	
	Foreign currency	€(000)	Foreign currency	€(000)
Receivables in US$	3,220,054	2,385	4,071,373	3,036
Receivables in GBP	19,950	23	22,550	27

20. OTHER RECEIVABLES

Other receivables amounted to € 3,701 thousand (€ 9,295 thousand at 31st December 2010). The composition is given in the table below.

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Tax income	1,482	4,578	(3,096)
From parent companies	20	1	19
From subsidiaries	378	866	(488)
Balances due from employees and agents	291	993	(702)
Other	1,530	2,857	(1,327)
Total other receivables	**3,701**	**9,295**	**(5,594)**

Tax receivables at 31st December 2011 amounted to € 1,482 thousand (€ 4,578 thousand in 2010). They were composed as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Receivables from Fimei S.p.A. for IRES (corporate income tax)	0	3,508	(3,508)
Refund requested from tax authorities	52	52	0
Receivables from tax authorities for VAT	1,299	930	369
Receivables for foreign VAT tax authorities	120	87	33
Sundry items	11	1	10
Total tax receivables	**1,482**	**4,578**	**(3,096)**

The VAT credit consisted of the balance for December 2011 and the VAT refund applied for on 18th October 2007 in relation to VAT on motor vehicles.

Other receivables from parent companies amounted to € 20 thousand and relate to sundry charges.

Receivables from subsidiaries were composed as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Recofarma S.r.l.	1	1	0
Innova Pharma S.p.A.	246	707	(461)
Laboratoires Bouchara Recordati S.a.s.	131	158	(27)
Total	**378**	**866**	**(488)**

The receivables from Innova Pharma are due to the charge for services provided to that company.
The receivables from Laboratoires Bouchara Recordati relate to royalties income.

Balances due from employees and agents amounted to € 291 thousand and € 993 thousand respectively at 31st December 2011 and 2010. They consisted of advances to employees, expense accounts for medical representatives and loans granted to employees who exercised stock option rights amounting to € 75 thousand for the purchase of 17,500 shares resulting from the options granted on 29th October 2008 and 27th October 2009.

Receivables from others amounted to € 1,530 thousand (€ 2,857 thousand at 31st December 2010) and included receivables from suppliers advances and outstanding refunds.

21. OTHER CURRENT ASSETS

These amounted to € 319 thousand (€ 797 thousand at 31st December 2010) and related mainly to prepaid expenses. They consisted of prepayments on insurance policies, advance payments for periodic market research services and advance rent payments for the new offices in Via Marostica in Milano.

22. OTHER SHORT TERM RECEIVABLES

Other short term receivables all consist of amounts due from subsidiaries as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Bouchara Recordati S.a.s.	18,884	15,574	3,310
Jaba Recordati S.A.	8,346	0	8,346
Merckle Recordati GmbH	0	42	(42)
Recordati S.A. – Luxembourg	54	0	54
FIC S.a.s.	3	0	3
Yeni Recordati Ilaç	5,091	0	5,091
Dr. F. Frik Ilaç	134	0	134
Total	**32,512**	**15,616**	**16,896**

These receivables are attributable to a cash pooling treasury system in operation at the Company and to loans granted to Yeni Recordati Ilaç and Dr. F. Frik Ilaç. Interest is paid on these receivables at short term market rates.

23. SHORT-TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

These are composed as shown in the following table.

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Deposits in bank current accounts	35,514	104,687	(69,173)
Cash on hand	5	3	2
Total	**35,519**	**104,690**	**(69,171)**

Cash and cash equivalents amounted to € 25 million at 31st December 2011 and consisted of current accounts and short term bank deposits.
Adequate funding was maintained in order to support the growth strategies of the Group.

24. SHAREHOLDERS' EQUITY

A summary of the changes in the shareholders' equity accounts is reported in the relative statement. Following the entry into force of Legislative Decree 6/2003, which amended the Italian Civil Code, the table contained in attachment 4 was introduced which gives the composition of reserves on the basis of availability for use and distribution.

Share capital - The share capital at 31st December 2011, amounting to € 26,140,644.50 is fully paid up and consists of 209,125,156 ordinary shares with a par value of € 0.125 each.
It remained unchanged in 2011.

At 31st December 2011 the company had two stock option plans in place in favor of certain Group employees, the 2006-2009 plan under which valid options were granted on three occasions, and the 2010-2013 plan under which options were granted on 9th February 2011. The exercise price of the options is the average of the Company's listed share price during the 30 days prior to the grant date. Options granted under the 2006-2009 plan are vested over a period of four years and options not exercised within the fifth year of the date of grant expire. Stock options granted under the 2010-2013 plan are vested over a period of five years and options not exercised within the eighth year of the grant date expire. Options may not be exercised if the employee leaves the company before they are vested.

Details of stock options outstanding at 31st December 2011 are given in the table below.

	Strike price (€)	Options outstanding at 1.1.2011	Options granted during 2011	Options exercised during 2011	Options cancelled or expired	Options outstanding at 31.12.2011
Grant date						
6th April 2006	6.4975	1,365,000	-	(1,350,000)	(15,000)	-
29th October 2008	4.0730	2,783,750	-	(742,500)	(67,500)	1,973,750
11th February 2009	3.8940	155,000	-	(30,000)	(15,000)	110,000
27th October 2009	4.8700	3,915,000	-	(728,750)	(142,500)	3,043,750
9th February 2011	6.7505	-	4,330,000	-	(50,000)	4,280,000
Total		**8,218,750**	**4,330,000**	**(2,851,250)**	**(290,000)**	**9,407,500**

Additional paid in capital
Additional paid-in capital at 31st December 2011 amounted to € 83,718,523, unchanged compared to 31st December 2010.

The adoption of international accounting standards resulted in the elimination of revaluation reserves amounting to € 68,644 thousand. The tax obligation on these (untaxed – taxation suspended) was transferred to the additional paid-in capital reserve.

Treasury stock
At 31st December 2011, this amounted to € 53,215 thousand, consisting of 9,785,790 shares held in portfolio.
The change during the year was € 636 thousand the result of:
- the disposal of 2,851,250 shares with a value of € 15,236 thousand for use in the 2006-2009 stock option plan;
- the purchase of 2,430,935 treasury shares for a total price of € 15,872 thousand.

Statutory reserve
This amounted to € 5,228 thousand and was unchanged compared to 31st December 2010, because the limit set by Art. 2430 of the Italian Civil Code had been reached.

Other reserves
Other reserves totaled € 203,232 thousand. Details are as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Extraordinary reserve	95,205	81,698	13,507
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	99	0
Extraordinary VAT concession reserve	517	517	0
Research and investment grants	17,191	17,191	0
Non-distributable reserve for investments in southern Italy	3,632	3,632	0
International accounting standards reserve	90,816	89,310	1,506
Total	**207,460**	**192,447**	**15,013**
Fair value derivative instruments	(4,227)	(4,299)	72
Total other reserves	**203,233**	**188,148**	**15,085**

Extraordinary reserve

This amounted at 31st December 2011 and 2010 to 95,205 thousand and € 81,698 thousand respectively. The increase is the result of the allocation of part of 2011 profit amounting to € 13,279 thousand and of dividends not paid and expired amounting to € 2 thousand.
Following the assignment of treasury stock to Group employees who exercised options under stock option plans, a difference arose between the amount paid to employees and the carrying amount of that treasury stock. That difference of € 226 thousand was recognized as an increase in the extraordinary reserve in compliance with international accounting standards.

Reserve under Art. 13, paragraph 6 of Legislative Decree 124/93
This amounted to € 99 thousand at 31st December 2011 and remained unchanged compared to the previous year.

Extraordinary VAT concession reserve
This reserve (Laws 675/1977, 526/1982, 130/1983 and 64/1986), amounting to € 517 thousand, relates to special VAT allowances on investments and is unchanged compared to the previous year.

Research and investment grants
These amount to € 17,191 thousand and are unchanged compared to the previous year.
The grants are subject to taxation if they are used for purposes other than to cover losses, which is not planned by the Company. The assets corresponding to the grants received from the Ministry of Industry and Commerce (formerly Asmez) have been mainly fully depreciated.

Non-distributable reserve for investments in southern Italy
This amounted to € 3,632 thousand and remained unchanged compared to the previous year.

International accounting standards reserve
This amounted to € 90,816 thousand (€ 89,310 thousand at 31st December 2010) and is composed as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Reversal of fixed asset revaluations	40,477	40,477	0
Revaluation of investments	43,054	43,054	0
Inventories	463	463	0
Personnel leaving indemnities	1,462	1,136	326
Stock options	5,360	4,180	1,180
Total	**90,816**	**89,310**	**1,506**

Changes that occurred in the items in 2011 included the following:

- the valuation of the personnel leaving indemnities provision in accordance with IAS 19 generated a reserve at 31st December 2011 of € 1,462 thousand;
- the amount of € 5,359 thousand relates to the labor expense for stock options issued and granted after 7th November 2002 and not yet exercised, valued in accordance with IFRS 2.

Revaluation reserve
This amounted to € 2,602 thousand (unchanged compared 2010) and consisted of revaluation balances within the meaning of Law 413/1991.

Untaxed (suspended taxation) reserves at 31st December 2011 amounted to € 87,826 thousand and consisted of € 15,964 thousand of reserves for grants received net of the taxed portion, € 517 thousand of the VAT concession reserve and € 99 thousand of the reserve formed pursuant to the Law regulating pension funds and € 71,246 of the revaluation reserves net of the substitute taxes. Revaluation reserves amounting to € 68,644 thousand were eliminated in compliance with international accounting standards and the tax obligation on the tax "suspension" was transferred to the additional paid-in capital reserve. No deferred tax provisions were recognized in respect of those reserves, because, in accordance with IAS 12, these deferred tax provisions are recognized in the year in which the distribution is declared.

25. LOANS

The composition of medium and long term loans at 31st December 2011 and at 31st December 2010 is shown below.

(thousands)	31.12.2011	31.12.2010	Change 2011/2010
Loan 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.	274	404	(130)
Loan granted by Centrobanca at a floating interest rate repayable in six monthly installments by 2022.	75,000	30,000	45,000
Loan received from Recordati S.A. (Luxembourg) granted on the basis of a long term debt issue concluded by that subsidiary with institutional investors.	65,609	80,609	(15,000)
Loan received from Recordati España S.L. repayable on 19th April 2016	25,000	0	25,000
Total amortized cost of loans	**165,883**	**111,013**	**54,870**
Portion due within one year	(6,953)	(15,130)	8,177
Portion due after one year	**158,930**	**95,883**	**63,047**
Change in the fair value of loans	1,791	825	966
Expenses relating to Centrobanca loans	(240)	0	(240)
Total	**160,481**	**96,708**	**63,773**

The portions of the medium to long term debt due after 31st December 2012 will be repaid, on the basis of the repayment schedules, in the following years:

€ (thousands)	
2013	6,957
2014	72,427
2015	6,818
2016	31,818
2017	6,818
2018 and subsequent	34,092
Total	**158,930**

On 30th November 2010, the Company signed a loan contract with Centrobanca, for a three year program of investments in Research & Development. The loan, which Centrobanca funded through a loan from the European Investment Bank, amounted to € 75.0 million, net of expenses of € 0.3 million,

of which € 30 million was disbursed in 2010 and € 45 million in 2011. The main terms and conditions were, a variable interest rate and a duration of 12 years with repayment in semi-annual installments of the principal from June 2012 and through December 2022. The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants are as follows:

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

Those ratios were fully complied with by a broad margin for the year ended 2011.

The loan from Recordati S.A. (Luxembourg) is composed as follows:

Currency	Value in euro	Fixed rate	Year due
€ 26,000,000	26,000,000,00	5,705	2014
$ 40,000,000	32,310,177,75	5,225	2014
GBP 5,000,000	7,299,270,07	6,295	2014

This loan was granted on the basis of an issue of long-term debt concluded by Recordati S.A. Luxembourg with institutional investors and guaranteed at the same time by Recordati S.p.A..

That debt, 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 hedged with an interest rate swap effectively converting the interest charges on the debt from fixed to variable at the same above mentioned conditions. The measurement at fair value of the swaps at 31st December 2011 generated a liability of € 1,791 thousand, an amount equivalent to the decrease in the fair value of the underlying debt. This amount is recognized in the balance sheet as a decrease of debt within current liabilities as 'Fair value of hedging derivatives (fair value hedge).
A further interest rate swap contract was entered into at the same time, qualifying as a cash flow hedge, to fix a range within which the interest rate can fluctuate in order to optimize the cost of financing for the life of the debt. At 31st December 2011, the lower and upper limits of the range were 3.96% and 4.85% respectively. The € 4,227 thousand fair value of the cash flow hedge was recognized directly in equity and stated as a current liability (see Note 33). During the year the company repaid a € 15 million tranche which had become due.
The derivative instruments and the hedged items are linked and the Company does not intend to terminate or modify them independently from each other.

A loan of € 25,000 thousand was received during the year from Recordati España S.L. with a due date of 19th April 2016. Interest is paid on the loan at market rates.

26. STAFF LEAVING INDEMNITIES

These amounted to € 10,759 thousand at 31st December 2011 (€ 11,658 thousand at 31st December 2010). Changes in the item were as follows:

€ (thousands)	2011	2010
Balance at 1st January	11,658	12,747
Additions during the year	452	530
Utilization for the year	(861)	(1,830)
Change in fair value of the personnel leaving indemnity fund (IAS 19)	(490)	211
Balance at 31st December	**10,759**	**11,658**

The valuation of the personnel leaving indemnity fund in accordance with IAS 19 generated a liability at 31st December 2011 of € 10,759 thousand. The calculation made, which used actuarial parameters updated at 31st December 2011, generated a smaller liability and resulted in the recognition of an adjustment of € 490 thousand and the recognition of income of an equal amount (gross of deferred taxation) in the statement of comprehensive income in accordance with the relative accounting standard.

27. DEFERRED TAX LIABILITIES

Deferred tax liabilities amounted to € 2,059 thousand (€ 1,935 thousand at 31st December 2010).

Changes are reported in the table below.

€ (thousands)	2011	2010
Balance at 1st January	1,935	2,036
Additions	124	0
Utilization	0	(101)
Balance at 31st December	**2,059**	**1,935**

The balance at 31st December 2011 was composed of deferred tax liabilities in respect of the personnel leaving indemnity calculated on the basis of IAS 19 using actuarial parameters updated at year end and in respect of an adjustment in the value of investments in accordance with international accounting standards.

28. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include end of year provisions for invoices to be received, amounted at 31st December 2011 and 2010 to € 36,417 thousand and € 35,441 thousand respectively.
Balances at 31st December 2011 and 2010 were as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Suppliers, subsidiaries	1,005	815	190
Suppliers, Italy	18,540	17,064	1,476
Suppliers, Italy for invoices to be received	6,175	7,476	(1,301)
Suppliers, abroad	9,837	7,790	2,047
Suppliers, abroad for invoices to be received	860	2,296	(1,436)
Total trade payables	**36,417**	**35,441**	**976**

Details for subsidiaries are as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Recordati Corporation	13	66	(53)
Laboratoires Bouchara Recordati S.a.s.	245	42	203
Innova Pharma S.p.A.	684	673	11
Recofarma S.r.l.	69	34	35
Orphan Europe (Italy) S.r.l.	(6)	0	(6)
Total payables to subsidiaries	**1,005**	**815**	**190**

There were no concentrations of large debts to a single or a small number of suppliers.

The adjustment of trade payables in non euro currencies resulted in the recognition of net positive exchange rate differences of € 263 thousand.
The largest trade payables in foreign currency were as follows:

	31.12.2011		31.12.2010	
	Currency	€(000)	Currency	€(000)
Payables in US$	1,966,513	1,699	1,293,769	1,208
Payables in GBP	52,085	71	196,096	236
Payables in CHF	78,988	68	82,959	69

29. OTHER PAYABLES

Other accounts payable amounted to € 14,961 thousand at 31st December 2011 (€ 22,839 thousand at 31st December 2010). Their composition is given in the table below.

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Subsidiaries	0	7,250	(7,250)
Employees	6,625	6,525	100
Social security	5,506	5,182	324
Commissions to agents	603	851	(248)
Other	2,227	3,031	(804)
Total other payables	**14,961**	**22,839**	**(7,878)**

Amounts due to employees include amounts accruing and not paid, vacations not taken and bonuses for presence and for achieving objectives.

Social security payables not only include contribution expenses for those periods but also the amount due to pension institutes for December.

Amounts payable to agents include € 147 thousand in commissions for foreign agents.

Other payables include directors' remuneration accruing at 31st December (€ 479 thousand), credit notes to be issued (€ 25 thousand) and those for the debt to Regions pursuant to Law 122 of 30th July 2010 amounting to € 1,108 thousand.

30. TAX LIABILITIES

Tax liabilities at 31st December 2011 amounted to € 3,662 thousand (€ 1,918 thousand at 31st December 2010).

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Liabilities payable to FIMEI S.p.A.	1,556	0	1,556
Liabilities for current taxation	405	157	248
Liabilities for employee withholding taxes	1,632	1,711	(79)
Liabilities for self-employed withholding taxes	67	49	18
Other tax liabilities	2	1	1
Total tax liabilities	**3,662**	**1,918**	**1,744**

Tax liabilities payable to the parent company Fimei S.p.A relate to taxes for the year calculated on the basis of estimated taxable income. That liability was transferred by the Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.
Liabilities for current taxation consist of the IRAP (regional production tax) liability due, net of payments on account made during the year.

31. OTHER CURRENT LIABILITIES

Other current liabilities amounted to € 64 thousand (€ 81 in 2010) and consisted of liabilities for grants for investment received between 1998 and 2003 and carried over into subsequent years in relation to the residual useful life of the assets to which they relate.

32. PROVISIONS

These consist of tax and other provisions as reported in the table below.

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Tax	2,947	1,994	953
Other risks	3,452	5,411	(1,959)
Total provisions	**6,399**	**7,405**	**(1,006)**

The change in the provision for other risk is due to utilizations of € 2,607 thousand and additional provisions of € 648 thousand.
The utilizations are connected mainly with the conclusion of labor litigation, litigation with preference shareholders and litigation with the municipality of Anzio.
Additional provisions on the other hand were made to cover the pharmaceutical overspend and probable pay in lieu of notice due to employees.

33. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGES)

Interest rate swaps to hedge cash flows related to medium and long-term loans and, measured at fair value at 31st December 2011, they gave rise to a € 4,227 thousand liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans.

That liability just mentioned is recognized in shareholders' equity within the "Fair value derivatives reserve".

34. LOANS – DUE WITHIN ONE YEAR

The portions of medium and long-term loans due within one year at 31st December 2011 and 2010 were composed as follows.

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Loan 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.	135	130	5
Loan granted for research by Centrobanca at a floating interest rate repayable in six monthly installments by 2022.	6,818	0	6,818
Loan received from Recordati S.A. (Luxembourg) granted on the basis of a long term debt issue concluded by that subsidiary with institutional investors.	0	15,000	(15,000)
Portion due within one year	6,953	15,130	(8,177)
Change in the fair value of loans	0	339	(339)
Total	**6,953**	**15,469**	**(8,516)**

35. BANK OVERDRAFTS AND SHORT TERM LOANS

Bank overdrafts and short term borrowings at 31st December 2011 and 2010 amounted to € 528 thousand and € 438 thousand respectively.

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Current account overdrafts	391	408	(17)
Interest on long term loans	147	30	117
Total	**528**	**438**	**90**

36. OTHER SHORT TERM PAYABLES

The balance on other short term payables consisted entirely of amounts due to subsidiaries as follows:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Recordati S.A. – Luxembourg	13,114	5,082	8,032
Recofarma S.r.l.	3,534	3,520	14
Innova Pharma S.p.A.	7,007	6,882	125
Laboratoires Bouchara Recordati S.a.s.	20,228	18,091	2,137
Jaba Recordati S.A.	0	7,118	(7,118)
Recordati España S.L.	42,599	5,682	36,917
Orphan Europe Germany GmbH	2,168	0	2,168
Orphan Europe Sarl	17,642	23,761	(6,119)
Recordati S.A. – Switzerland	0	22	(22)
Recordati Corporation	105	113	(8)
Merckle Recordati GmbH	8,955	3,531	5,424
Recordati Ireland Ltd.	260	19,254	(18,994)
Recordati Pharmaceutical Ltd.	282	138	144
FIC S.a.s.	212	1,226	(1,014)
Total	**116,106**	**94,420**	**21,686**

The amount due to Recordati S.A. Luxembourg amounting to € 204 thousand relates to interest on a long term loan granted on the basis of a long term debt issue concluded by that subsidiary with institutional investors (see Note 25).
Payables to all other subsidiaries relate to the centralized cash pooling treasury system.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IAS 32, a comparison of the carrying amounts at 31st December 2011 and the fair values of financial assets and liabilities is given below.

€ (thousands)	Carrying amount	Fair value
Financial assets		
Other short term receivables	32,512	32,512
Short-term financial investments, cash and cash equivalents	35,519	35,519
Trade receivables	54,336	54,336
Other receivables	3,701	3,701
Fair value of hedging derivatives (fair value hedges)	1,791	1,791
Financial liabilities		
Loans		
- loans at fixed interest rates	274	208
- loans at variable interest rates	167,160	167,160
Trade payables	36,417	36,417
Other payables	18,623	18,623
Fair value of hedging derivatives (cash flow hedges)	4,227	4,227
Bank overdrafts and short term loans	528	528
Other short term borrowings	116,106	116,106

The hedging instruments and the fixed interest loans covered by interest rate swaps are booked at fair value. The book value of the remaining assets and liabilities is equivalent to their fair value inasmuch as they are short-term assets and liabilities or are variable rate loans.

38. DISCLOSURE OF FINANCIAL RISKS

The Company constantly monitors the financial risks to which it is exposed in order to take immediate mitigating action when necessary. Financial policies are designed to achieve a balanced and prudent structure as a basic condition for funding internal and external growth.

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

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 Company's liquidity are, on the one hand, the resources 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 terms and conditions of the Company's loans and its financial assets are set out in notes 23, 25 and 35 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts.

The Company 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 on their natural due dates.

Credit risk

The Company closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. At 31st December 2011 the credit exposure was not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. More specifically gross trade receivables at 31st December 2011 totaled € 55,023 thousand and the relative allowance for doubtful accounts of € 687 thousand recognized is considered to be sufficient in relation to the risk of insolvencies.

Interest rate risk

The Company raises funds using debt and invests excess cash in money market funds and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments, which therefore affect the Group's net financial charges.
The Company's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or by using derivative financial instruments to minimize such fluctuations, as described in note 25. As a result of this policy and considering the current amount of net debt, it is believed that changes in current interest rates would not have a significant impact on net financial expenses.

Foreign currency risk

The Company is exposed to foreign currency fluctuations which can affect its operating results.
In particular, the Company is exposed to foreign currency fluctuations on its international sales denominated in currencies other than the Euro, such as U.S. Dollars, Japanese Yen, GB Pounds and Swiss Francs. The net exposure to these currencies is, however, marginal when compared to the company's volumes of business

39. SEGMENT REPORTING

Reporting by business segment and geographical area, presented in compliance with IFRS 8 – Operating segments – has been performed according to the same accounting policies employed in the presentation of the consolidated financial statements of the Group where, following the acquisition of Orphan Europe, two main segments have been identified: the pharmaceuticals segment and the orphan pharmaceuticals segment, which relates to the whole of Orphan Europe. Consequently the only business segment that exists for Recordati S.p.A. is the pharmaceuticals segment. Furthermore, the pharmaceutical chemicals business is considered an integral part of the pharmaceuticals segment because from an organizational and strategic viewpoint it is involved principally in the production of the active ingredients required to produce pharmaceuticals.

The following table presents net revenues by geographic area:

€ (thousands)	2011	2010	Change 2011/2010
Europe	251,813	225,972	25,841
of which Italy	*173,152*	*153,433*	*19,719*
Australasia	5,506	6,092	(586)
The Americas	9,168	8,088	1,080
Africa	971	746	225
Total	**267,458**	**240,898**	**26,560**

40. LITIGATION AND CONTINGENT LIABILITIES

The Company is party to certain legal actions, the outcomes of which are not expected to result in any significant liability.

On 29th September 2006 a notice of tax assessment was served on the Company by the Milan office of the tax authorities relating to the fiscal year 2003. It was assessed for additional taxation as follows: corporate tax of € 2.3 million, IRAP (regional production tax) of € 0.2 million and VAT of € 0.1 million and the imposition of fines of € 2.6 million. The Company believed no amount was due and considered 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 instance judgment before the Provincial Tax Commission was concluded partially in the Company's favor with decision No. 539/33/07 dated 11th October 2007, filed on 16th October 2007. An appeal was subsequently filed against that judgment with the Regional Tax Commission of Milan, firstly by the Milan office 6 of the Tax Authorities with notice served on 8th November 2008 and secondly by the Company with notice served on 7th January 2009. With judgment No. 139/32/09 of 10th June 2009, filed on 27th November 2009, section 32 of the Regional Tax Commission of Milan rejected the interlocutory appeal filed by the company and accepted the principal appeal of the Milan office 6 of the Tax Authorities. As a result of that judgment the claims contained in the aforementioned tax assessment relating to the tax year 2003 were confirmed in their entirety and the Company paid the full amount due. On 26th May 2010, the Company appealed that decision before the Supreme Court of Cassation.

41. NET FINANCIAL POSITION

The following summary is set out in the table below in compliance with Consob deliberation No. 15519 of 27th July 2006:

€ (thousands)	31.12.2011	31.12.2010	Change 2011/2010
Deposits in bank current accounts and cash on hand	35,519	104,690	(69,171)
Short term loans to Group companies	32,512	15,616	16,896
Liquid assets	**68,031**	**120,306**	**(52,275)**
Bank overdrafts and short-term loans	(528)	(438)	(90)
Loans – due within one year	(6,953)	(15,470)	8,517
Short term loans to subsidiaries	(116,106)	(94,420)	(21,686)
Short term borrowings	**(123,587)**	**(110,328)**	**(13,259)**
Net current financial position	**(55,556)**	**9,978**	**(65,534)**
Loans – due after one year	(160,481)	(96,708)	(63,773)
Net financial position	**(216,037)**	**(86,730)**	**(129,307)**

42. NON RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

In compliance with Consob communication of 28th July 2006 a summary is given in the table below of the main events, transactions and actions which are non recurring and which do not repeat frequently in the usual course of business. The overall net effect of such occurrences on the profit and loss, balance sheet and cash flow of the Company is not significant.

€ (thousands)	2011	2010	Change 2011/2010
Provision for the AIFA (Italian Medicines Agency) budget overspend	(372)	0	(372)
Provisions for expenses related to the return of expired pharmaceuticals	(350)	(970)	620
Settlements and risks relating to litigation with former employees	(308)	(1,421)	1,113
Preference shareholder litigation	0	(600)	600
Provisions for other legal actions	0	(800)	800
Adjustment to provision for legal actions	531	0	531
Total non recurring operating expense	**(499)**	**(3,791)**	**3,292**

43. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In compliance with CONSOB communication of 28th July 2006 the Company performed no atypical and/or unusual transactions in 2011 as defined in that same communication, according to which atypical and/or unusual transactions are those which because of their significance or importance, the nature of the counterparties, the content of the transaction, the way in which the transfer price is decided and the timing of the event (close to the end of the financial year) might give rise to doubts concerning: the accuracy and completeness of the information in the financial statements, a conflict of interests, the security of the companies assets, the protection of the interests of minority shareholders.

RECORDATI S.p.A. Attachment 1

STATEMENT OF CHANGES IN INVESTMENTS

€ (thousands)	Balance at 31 Dec. 2010	Share capital sales and redemptions	Acquisitions subscriptions	Write-downs (-) Write-backs (+)	Balance at 31 Dec. 2011
Investments in subsidiaries					
Recordati S.A. – Luxembourg	177,586	-	-	-	177,586
Recordati España S.L. – Spain	90,537	-	90,000	-	180,537
Recofarma S.r.l. – Milan	1,852	-	-	-	1,852
Innova Pharma S.p.A. – Milan	1,733	-	-	-	1,733
Recordati Portuguesa LDA – Portugal	78	-	-	-	78
Bouchara Recordati S.a.s. – France	54,249	-	-	-	54,249
Recordati Pharmaceuticals Ltd. – United Kingdom	752	-	-	-	752
Recordati Hellas Pharmaceuticals S.A. – Greece	95	-	-	-	95
Orphan Europe Holding S.A. – France	48	(48)	-	-	0
Recordati Polska Sp.z.oo – Poland	0	-	5	-	5
	326,930	**(48)**	**90,005**	**0**	**416,887**
Investments in other companies:					
Tecnofarmaci S.p.A. – Pomezia (Rome)	87	-	-	-	87
SPA Ricerche ed Education S.r.l. – Milan	0	-	-	-	0
Sifir S.p.A. – Reggio Emilia	0	-	-	-	0
Concorzio Dafne – Reggello (FI)	2	-	-	-	2
Consorzio Nazionale Imballaggi – Rome	0	-	-	-	0
Consorzio C4T – Pomezia (Rome)	78	-	-	-	78
	167	-	-	-	**167**
TOTAL	**327,097**	**(48)**	**90,005**	**0**	**417,054**

RECORDATI

RECORDATI S.p.A. Attachment 2

SUMMARY STATEMENT OF INVESTMENTS

€ (thousands)	Balance at 31 Dec. 2011	Percentage ownership	Number of shares or quotas possessed
Investments in subsidiaries			
Recordati S.A. – Luxembourg	177,586	100.00	109,146
Recordati España S.L. – Spain	180,537	68.45	1,635,660
Recofarma S.r.l. – Milan	1,852	100.00	1
Innova Pharma S.p.A. – Milan	1,733	100.00	960,000
Bouchara – Recordati S.a.s. – France	54,249	99.94	9,994
Recordati Portuguesa LDA – Portugal	78	98.00	1
Recordati Pharmaceuticals Ltd. – United Kingdom	752	3.33	500,000
Recordati Hellas Pharmaceuticals S.A. – Greece	95	0.68	9,500
Recordati Polska Sp. Zo.o – Poland	5	100.00	5
	416,887		
Investments in other companies:			
Tecnofarmaci S.p.A. – Pomezia (Rome)	87	4.18	79,500
Sifir S.p.A. – Reggio Emilia	0	0.04	1,304
Consorzio Dafne – Reggello (FI)	2	1.34	1
Consorzio C4T – Pomezia (Rome)	78	0.23	1,300
Consorzio Nazionale Imballaggi – Rome	0	n.s.	1
	167		
TOTAL	**417,054**		

RECORDATI S.p.A. Attachment 3

COMPARISON BETWEEN THE CARRYING AMOUNT OF INVESTMENTS IN SUBSIDIARIES AND THEIR VALUATION USING THE EQUITY METHOD

€ (thousands)	Share capital	31.12.2011 Equity	Profit (loss)	% Ownership	Corresponding pro-rata equity (A)	Carrying amount (B)	Valuation Art. 2426 (C)
Investments							
Recordati S.A. – Luxembourg	68,000	281,344	46,335	100.00%	281,344	177,586	438,463
Recordati España S.L. - Spain	238,966	272,191	904	68.45%	186,307	180,537	181,742
Bouchara Recordati S.a.s. – France	4,600	25,991	20,198	99.94%	25,975	54,249	83,606
Recordati Portuguesa LDA – Portugal	25	51	0	98.00%	50	78	52
Recofarma S.r.l. – Milan	1,258	3,488	34	100.00%	3,488	1,852	3,487
Innova Pharma S.p.A. – Milan	1,920	13,531	5,652	100.00%	13,531	1,733	13,691
Recordati Pharmaceuticals Ltd. – United Kingdom	17,958	17,537	1,196	3.33%	584	752	580
Recordati Hellas S.A – Greece	13,900	2,328	856	0.68%	16	95	15
Recordati Polska	4	(13)	(18)	100.00%	(13)	5	(13)
	346,631	**616,448**	**75,157**		**511,282**	**416,887**	**721,623**

Difference A-B	**94,395**
Surplus C-B	**304,736**

RECORDATI S.p.A. Attachment 4

DETAILS OF ITEMS IN SHAREHOLDERS' EQUITY

€ (thousands)	Amount	Possible utilization	Amount available	Amount distributable without tax effects	Amount distributable with tax effects	Notes
Share capital	26,141					
Additional paid-in capital reserve	83,718	A B C	83,718	15,074	68,644	1
Revaluation reserve	2,602	A B C	2,602	0	2,602	
Statutory reserve	5,228	B				
By-law reserves	0					
Treasury stock reserve	(53,215)		(53,215)	(53,215)		
Other reserves						
Extraordinary reserve	95,205	A B C	94,750	94,750	0	2
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	A B C	99	0	99	
Research and investment grants	17,191	A B C	17,191	1,227	15,964	3
Extraordinary VAT concession reserve	517	A B C	517	0	517	
Southern Italy investment fund	3,632					
IAS reserve	86,589	A B C	86,589	86,589		
Interim dividend	(38,525)		(38,525)	(38,525)		
Profit (loss) for the year	78,462	A B C	78,462	78,462	0	
Total shareholders' equity	**307,644**		**272,188**	**184,362**	**87,826**	

Legend:
A for share capital increase
B to replenish losses
C to distribute to shareholders

Notes:
1 The additional paid-in capital reserve may be distributed when the statutory reserve has reached one fifth of the share capital
2 The extraordinary reserve may not be distributed below the amount of € 455 thousand pursuant to Art.2426 point 8-*bis* of the Civil Code (see item 12)
3 The research and investment grant reserve has already been subject to taxation of € 1,227 thousand.

RECORDATI S.p.A. Attachment 5

DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

Amounts in euro

Type of service	Provider of the service	Remuneration
Accounting audit	Auditor of Parent Company	65,500
Due diligence	Network of auditor of Parent Company	145,000
Attestation services	Auditor of Parent Company	40,000

ATTESTATION IN RESPECT OF THE 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 financial statements of Recordati S.p.A., 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 separate company financial statements for the financial year 2011.

2. They also attest that:

2.1 the separate financial statements at 31st December 2011:

- have been prepared in accordance with the international accounting standards, recognized by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19th July 2002;
- correspond to the amounts shown in the Company's accounts, books and records;
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company.

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

Milan, 7th March 2012

The Chief Executive Officer	Manager responsible for preparing the Company's financial reports
Giovanni Recordati	*Fritz Squindo*

KPMG

(Translation from the Italian original which remains the definitive version)

Recordati Group

Consolidated financial statements as at and for the year ended 31 December 2011

(with report of the auditors thereon)

KPMG S.p.A.
9 March 2012

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI

Telefono 02 6763.1
Telefax 02 67632445
e-mail it-fmauditaly@kpmg.it

(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Recordati Industria Chimica e Farmaceutica S.p.A.

1 We have audited the consolidated financial statements of the Recordati Group as at and for the year ended 31 December 2011, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these 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 and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report of other auditors dated 10 March 2011 for their opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of the Recordati Group as at and for the year ended 31 December 2011 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Recordati Group as at 31 December 2011, the results of its operations and its cash flows for the year then ended.

4 The directors of Recordati Industria Chimica e Farmaceutica S.p.A. are responsible for the preparation of a directors' report on the financial statements and a report on the corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate

governance and ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structure are consistent with the consolidated financial statements of the Recordati Group as at and for the year ended 31 December 2011.

Milan, 9 March 2012

KPMG S.p.A.

(signed on the original)

Marco Ferrarini
Director of Audit

(Translation from the Italian original which remains the definitive version)

Recordati Industria Chimica e Farmaceutica S.p.A.

Separate financial statements as at and for the year ended 31 December 2011

(with report of the auditors thereon)

KPMG S.p.A.
9 March 2012

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI

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Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Recordati Industria Chimica e Farmaceutica S.p.A.

1 We have audited the separate financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. as at and for the year ended 31 December 2011, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these 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 separate financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report of other auditors dated 10 March 2011 for their opinion on the prior year separate financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the separate financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. as at and for the year ended 31 December 2011 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of Recordati Industria Chimica e Farmaceutica S.p.A. as at 31 December 2011, the results of its operations and its cash flows for the year then ended.

4 The directors of Recordati Industria Chimica e Farmaceutica S.p.A. are responsible for the preparation of a directors' report on the financial statements and a report on the corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article

123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structure are consistent with the separate financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. as at and for the year ended 31 December 2011.

Milan, 9 March 2012

KPMG S.p.A.

(signed on the original)

Marco Ferrarini
Director of Audit

Relazione del Collegio Sindacale all'Assemblea degli Azionisti di Recordati S.p.A. ai sensi dell'art. 153 D. Lgs. 58/1998

Signori Azionisti,

con la presente relazione, redatta ai sensi dell'art. 153 del d. lgs. 58/1998 ("TUF") tenendo anche conto delle Raccomandazioni Consob applicabili, il Collegio sindacale di Recordati S.p.A. (la "Società") Vi riferisce sull'attività di vigilanza svolta e sui relativi esiti.

1. Vigilanza svolta e informazioni ricevute.

Nel corso dell'esercizio chiuso il 31 dicembre 2011 il Collegio Sindacale ha svolto le attività di vigilanza previste dalla legge, tenendo anche conto delle raccomandazioni Consob in materia di controlli societari e dei principi di comportamento raccomandati dai Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri.

A tal fine, nel corso dell'esercizio il Collegio ha:

- tenuto n. 9 riunioni collegiali, alle quali hanno sempre partecipato tutti i membri in carica;
- partecipato alle n. 11 riunioni tenute dal Consiglio di amministrazione;
- partecipato alle n. 4 riunioni tenute dal Comitato per il controllo interno;
- partecipato, nella persona del suo Presidente, alle riunioni del Comitato per la remunerazione;
- partecipato all'Assemblea dei soci;
- mantenuto un costante canale informativo e tenuto regolari riunioni con la società di revisione, al fine del tempestivo scambio dei dati e delle informazioni rilevanti per l'espletamento dei rispettivi compiti;
- incontrato con regolarità il responsabile della funzione di internal audit, svolgente anche la funzione di preposto al sistema di controllo interno;
- incontrato con regolarità l'Organismo di Vigilanza nominato ai sensi del Decreto 231/2001;
- raccolto i documenti e le informazioni ritenuti rilevanti dagli amministratori esecutivi e dalle altre funzioni aziendali
- scambiato informazioni con i collegi sindacali delle società controllate in merito ai sistemi di amministrazione e controllo e all'andamento generale dell'attività sociale.

Si precisa che lo scrivente Collegio di regola partecipa nella sua collegialità, in qualità di invitato, alle riunioni del Comitato per il controllo interno e, a partire dal 2011, il Presidente del Collegio partecipa in qualità di invitato alle riunioni del Comitato per la Retribuzione.

Nel corso delle riunioni di Consiglio, il Collegio è stato informato dagli amministratori sull'attività svolta e sulle operazioni di maggior rilievo economico, finanziario e patrimoniale, effettuate dalla società.

Nel corso degli incontri e dei contatti intercorsi con la società di revisione non sono emersi fatti censurabili.

Con particolare riferimento alle funzioni assunte ai sensi dell'art. 19 del Decreto Legislativo 39/2010, il Collegio, anche nell'ambito delle riunioni tenute con la società di revisione e della partecipazione alle riunioni del Comitato per il controllo interno, ha preso visione del piano di lavoro adottato, ha ricevuto informazione sui principi contabili utilizzati, sulla rappresentazione contabile delle operazioni più salienti accadute nell'esercizio in esame, sull'esito dell'attività di revisione, sulle questioni fondamentali emerse in sede di revisione legale. La società di revisione non ha segnalato la sussistenza di carenze significative rilevate nel sistema di controllo interno in relazione al processo di informativa finanziaria.

A tale proposito il Collegio ha anche ricevuto analitica informativa in merito all'impairment test eseguito dalla Società a conferma dei valori dell'avviamento e di alcune immobilizzazioni finanziarie di importo rilevante iscritti in bilancio. I relativi dettagli sono forniti dagli amministratori in bilancio coerentemente alle indicazioni dei principi contabili internazioni e della Consob.

In relazione alla vigilanza sul processo relativo all'informativa finanziaria e sugli aspetti relativi all'indipendenza della società di revisione, si rinvia a quanto illustrato nel successivo paragrafo 4.

Si precisa che nell'ambito dell'attività del Collegio:

- non sono state ricevute denuncie ex art. 2408 c.c.;
- non sono stati ricevuti esposti.

La Società è a capo di un Gruppo di società sulle quali esercita direzione e coordinamento e redige il bilancio consolidato. Le società controllate italiane hanno effettuato gli adempimenti pubblicitari in materia di direzione e coordinamento.

La Società è controllata di diritto da Fimei S.p.A. La controllante non esercita attività di direzione e coordinamento sulla Società in quanto, come illustrato dagli amministratori nella Relazione sul governo societario e gli assetti proprietari e nella relazione sulla gestione al bilancio di esercizio, la controllante "è una mera holding di partecipazioni, priva di qualsiasi struttura operativa, che non esercita alcuna influenza e attività che incida sulle scelte gestionali e sull'organizzazione di Recordati S.p.A.".

2. Operazioni ed eventi di maggior rilievo economico, finanziario e patrimoniale.

In relazione alle operazioni di maggior rilievo economico, finanziario e patrimoniale effettuate dalla Società e dal Gruppo nel corso dell'esercizio e, più in generale, agli eventi maggiormente significativi, il Collegio sindacale segnala quanto segue:

- Nella seconda metà del 2011 è stato acquisito il 100% del capitale di Dr. F. Frik İlaç A.Ş., società farmaceutica turca con sede a Istanbul. Il valore della transazione (enterprise value) è di circa $ 130 milioni. Il gruppo in Turchia, già possedeva Yeni İlaç, acquisita nel dicembre 2008. Con l'acquisizione di Dr. F. Frick la Turchia diviene, dopo Italia e Francia, il terzo mercato per importanza del Gruppo. Sono anche state avviate attività in Polonia con apertura di una nuova filiale.

- Nel corso del 2011 sono stati acquisiti diritti relativi a prodotti farmaceutici di cui è iniziata la produzione e distribuzione ed è altresì stata avviata la produzione e la commercializzazione di alcuni nuovi prodotti anche a seguito dell'approvazione all'immissione in commercio da parte delle competenti autorità.

Le azioni descritte hanno consentito al Gruppo di contrastare efficacemente gli effetti derivanti dalla scadenza nel 2010 del brevetto della lercanidipina e di proseguire nel processo di crescita consolidato da anni.

Per maggiori dettagli si rinvia alla Relazione sulla gestione che contiene analitica descrizione degli eventi più rilevanti.

Giudizio del Collegio sindacale

In generale, il Collegio ritiene che siano stati rispettati la legge, lo Statuto e i principi di corretta amministrazione.

Più in particolare, le operazioni e gli eventi di cui sopra sono adeguatamente descritti nella Relazione sulla gestione e nelle Note illustrative ai prospetti di bilancio, documenti ai quali si rinvia per maggiori dettagli in merito.

Il Collegio non ha riscontrato né ricevuto notizia dalla società di revisione o dal Preposto al sistema di controllo interno di operazioni atipiche e/o inusuali così come definite dalla comunicazione Consob del 6 aprile 2001, effettuate con terzi, parti correlate o infragruppo.

Gli Amministratori hanno dato conto, nella Relazione sulla gestione e nelle Note illustrative al bilancio consolidato e al bilancio di esercizio, delle operazioni di natura ordinaria svolte con parti correlate, dando indicazione della natura e entità delle stesse. Tali indicazioni sono adeguate tenuto anche conto della loro dimensione, della dimensione del Gruppo e della Società. Le operazioni in parola sono rappresentate quasi esclusivamente da operazioni infragruppo di natura commerciale o finanziaria, effettuate a condizioni di mercato.

Per parte sua, il Collegio ha constatato che sono state osservate le disposizioni di legge e di statuto e che le operazioni poste in essere dagli Amministratori non risultano essere manifestamente imprudenti o azzardate, in potenziale conflitto di interessi, in contrasto con le delibere assunte dall'Assemblea o comunque tali da compromettere l'integrità del patrimonio aziendale, e che le stesse si ispirano, per quanto a conoscenza del Collegio, a criteri di razionalità economica, senza peraltro che ciò costituisca un giudizio sul merito delle scelte di gestione degli Amministratori.

3. Andamento dell'esercizio e situazione economico-finanziaria.

L'esercizio 2011 si è chiuso con un utile consolidato pari a €/000 116.446 rispetto a €/000 108.580 al 31.12.2010.

La situazione finanziaria consolidata (Posizione finanziaria netta) al 31.12.2011 è di €/000 (55.734) rispetto a €/000 45.967 al 31.12.2010. Le ragioni della riduzione sono ampiamente commentate nella Relazione sulla gestione. La posizione finanziaria netta a breve termine risulta positiva pari a €/000 79.993 a fronte di €/000 141.909 al 31.12.2010.

Il patrimonio netto consolidato al 31.12.2011 è di €/000 594.480 rispetto ad €/000 576.006 al 31.12.2010, con una crescita di €/000 18.474.

Si ricorda che la Società, nel corso del 2011, ha deliberato una variazione della politica di remunerazione del capitale. Come conseguenza è stato previsto un dividendo in acconto sull'utile dell'esercizio 2011, stabilito in euro 0,20 per azione. Il consiglio di amministrazione propone all'assemblea convocata per il 16 aprile 2012 la distribuzione di un dividendo di 0,10 euro per azione, a saldo dell'esercizio 2011, che così totalizza un dividendo di euro 0,30 per azione, in incremento rispetto ad euro 0,275 relativi all'esercizio 2010.

In base agli elementi di cui sopra, considerata la più generale situazione della Società e del Gruppo e, in particolare, le previsioni degli amministratori per l'esercizio 2012 e il Piano industriale riguardante gli esercizi successivi, il Collegio non ravvisa la presenza di eventi o circostanze che possano far sorgere dubbi significativi riguardo al presupposto della continuità aziendale.

4. Struttura organizzativa, sistema amministrativo-contabile e sistema di controllo interno.

Il Collegio ha vigilato sull'esistenza di una struttura organizzativa adeguata in relazione alle dimensioni, alla struttura dell'impresa e agli obiettivi perseguiti, nonché idonea a consentire il rispetto della normativa, compresa quella specifica di settore, applicabile alla Società.

In particolare il Collegio, con l'ausilio della funzione volta a monitorare il sistema di controllo interno, ha verificato la presenza di sistemi, mansionari e procedure coerenti con il raggiungimento degli obiettivi summenzionati, nonché la presenza di un sistema di deleghe e procure coerenti con le responsabilità assegnate.

In particolare, il modello organizzativo adottato dalla Società risulta essere adeguato alle previsioni di cui al Decreto Legislativo 231/2001 ed è oggetto di periodico aggiornamento. Tale modello, che concerne la complessiva attività della Società sotto il profilo procedurale, organizzativo e di controllo, appare particolarmente incisivo e sul suo rispetto vigila un organismo appositamente nominato e regolarmente funzionante, composto da un membro interno (il responsabile internal audit) e due esperti esterni e indipendenti.

Anche su stimolo del Collegio sindacale, la Società sta continuando a presidiare la situazione interna delle società controllate aventi rilevanza strategica con riferimento a presidi e disposizioni organizzativi coerenti con quelli adottati dalla Società in relazione al Decreto Legislativo 231/2001.

La Società ha altresì adottato un Codice Etico e ne ha proseguito la diffusione anche nel corso del 2011 a tutte le consociate anche estere. La Società risulta impegnata sul fronte della salute, sicurezza e ambiente, tema al quale la Relazione sulla gestione dà adeguato risalto. Il Collegio ha potuto constatare la costante attenzione alla problematica, posta con regolarità all'attenzione degli organi preposti.

La funzione di internal audit è attivamente impegnata nell'individuare le criticità del sistema di controllo interno. Il responsabile di tale funzione, priva di legami con funzioni operative, risponde gerarchicamente al Presidente e amministratore delegato e riferisce frequentemente al Comitato per il controllo interno, al quale presenta il programma di lavoro annuale e riferisce periodicamente sull'attività svolta. Il Collegio, anche in qualità di Comitato per il controllo interno istituito ai sensi dell'art. 19 del Decreto Legislativo 39/2010, mantiene un dialogo costante con il responsabile della funzione, verificandone l'efficacia dell'operato.

La Relazione sul governo societario e gli assetti proprietari fornisce, in conformità all'art. 123-*bis* del TUF, analitica informativa riguardante le caratteristiche del sistema di gestione dei rischi e di controllo interno esistenti in relazione al processo di informativa finanziaria.

Nel corso dell'esercizio la Società ha ulteriormente implementato il proprio sistema di controllo dei rischi.

E' stato avviato un processo di monitoraggio che ha coinvolto tutte le funzioni aziendali, con lo scopo sia di migliorare l'informativa di bilancio che di presidiare in modo continuativo e strutturato le aree ed i principali fattori di rischio anche ai fini di quanto previsto dall'art.19 comma 1 lett. b) del Decreto Legislativo 39/2010.

Nella Relazione sulla gestione i principali fattori di rischio cui il Gruppo è esposto sono così classificati e descritti:

- Rischi connessi al contesto esterno: sono i rischi legati all'evoluzione del quadro normativo e regolatorio del settore farmaceutico, caratterizzato da un elevato livello di regolamentazione locale, nazionale e internazionale, che influenza le attività a tutti i livelli, quelli connessi all'espansione in Paesi emergenti e alla pressione competitiva;

- Rischi strategici e operativi: sono i rischi connessi all'internazionalizzazione del Gruppo, i rischi connessi a brevetti in scadenza, agli investimenti in ricerca e sviluppo, i rischi connessi al lancio di nuovi prodotti, i rischi in materia di farmacovigilanza e quelli relativi al processo produttivo;

- Rischi finanziari: sono il rischio di credito, di tasso di interesse, di tasso di cambio e di liquidità;

- Rischi legali e di compliance: sono i rischi connessi alla responsabilità da prodotto, di compliance e quelli relativi a procedimenti giudiziari.

Tutti i rischi e le misure adottate dalla Società per la loro limitazione sono ampiamente descritti nella Relazione sulla gestione.

Con riferimento all'area amministrativa, la Società risulta essere adeguata alle previsioni introdotte dalla legge 262/2005 e risulta nominato, su proposta del Comitato per il controllo interno e con il parere favorevole del Collegio sindacale, il Dirigente preposto alla redazione dei documenti contabili societari (il "Dirigente preposto"). Il Consiglio ha adottato le Linee guida operative del Dirigente preposto che prevedono, tra l'altro: i) che il potere di revoca spetti unicamente al Consiglio di amministrazione, e che possa essere esercitato per giusta causa da far risultare nella relativa delibera; ii) la collocazione del Dirigente preposto al vertice aziendale; iii) un diretto e specifico flusso informativo periodico (almeno semestrale) dal Dirigente preposto a favore del Consiglio di amministrazione inerente, tra il resto, eventuali criticità emerse nel periodo e l'eventuale non idoneità dei mezzi di cui lo stesso dispone; iv) che il Dirigente preposto, in caso di necessità ed urgenza, riferisca in ogni momento, al Consiglio di Amministrazione qualsiasi fatto ritenuto rilevante per il compimento della propria attività; v) incontri periodici tra il Dirigente preposto e il Comitato per il controllo interno; vi) la collaborazione della funzione di *internal audit*; vii) flussi informativi diretti dal Dirigente preposto all'Organismo di vigilanza di cui al Decreto Legislativo 231/2001.

Le Relazione sul governo societario riserva ampio spazio al sistema di controllo interno ed in particolare alle attività volte a presidiare il processo di informativa finanziaria, rilevanti anche ai sensi di quanto previsto dall'art.19 comma 1 lett. b) del Decreto Legislativo 39/2010.

In particolare si riscontra un sistema informativo completo, integrato e coerente a livello di Gruppo, sia a livello informativo che di procedure e direttive. Risulta tra l'altro previsto (ed attuato) l'invio dal Dirigente preposto alle società controllate incluse nel perimetro di consolidamento di linee guida inerenti la tenuta della contabilità, la preparazione dei bilanci di esercizio e delle eventuali informazioni contabili infrannuali, nonché il potere del Dirigente preposto di chiedere informazioni, copie di documenti e di procedere ad *audit* al fine di verificare il corretto adempimento da parte delle società controllate di quanto indicato nelle linee guida e nelle indicazioni operative ricevute.

Risulta inoltre adottato un Manuale contabile di gruppo nonché protocolli e procedure amministrativo-contabili concernenti la chiusure periodiche della contabilità, la redazione dei bilanci e la redazione dei reporting package da parte delle controllate.

Ne discende che la Società mantiene uno stretto controllo informativo nei confronti delle controllate ai fini di poter adempiere agli obblighi di comunicazione periodicamente previsti. In particolare, si prevede che l'invio dei dati contabili o finanziari di periodo da parte delle controllate sia accompagnato da una specifica attestazione da parte del relativo CFO.

Il Dirigente preposto effettua una valutazione del sistema di controllo interno amministrativo-contabile avvalendosi dell'attività di testing svolta in maniera indipendente dalla funzione di internal audit.

La Società, ai sensi della legge 262/2005, ha effettuato test di verifica delle procedure di chiusura contabile ed amministrative in genere, estesi già dal 2010 integralmente anche alle consociate estere, volti a confermare la correttezza dei dati contabili confluiti nei bilanci e nei documenti e prospetti informativi.

Tutte le società del Gruppo sono soggette a revisione contabile (di portata differenziata a seconda delle specificità della singola società) da parte di società di revisione appartenente alla rete KPMG, società nominata per il periodo di nove anni dall'assemblea dei soci che ha approvato il bilancio dell'esercizio 2010.

Inoltre, con riferimento agli obblighi di informativa continua di cui all'art. 114, comma 2, TUF, la Società ha impartito alle società controllate disposizioni adeguate per adempiere agli obblighi di comunicazione previsti dall'art. 114, comma 1, TUF nell'ambito del Regolamento interno in materia di Informazioni privilegiate.

Sotto il profilo del rispetto delle leggi e dei regolamenti, il Collegio ha verificato come alla Società, a partire dal bilancio relativo all'esercizio 2011 risultino applicabili le previsioni contenute negli articoli 36 ss. del Regolamento adottato da Consob in materia di mercati, e ciò con riferimento alle controllate stabilite in Turchia, che per dimensione rivestono significativa rilevanza, in quanto costituite e regolate dalla legge di uno Stato non appartenente all'Unione Europea. A tal fine il Collegio ha acquisito dalla Società e dalla società di revisione le informazioni che consentono di confermare che dette società controllate dispongono di sistema amministrativo–contabile idoneo a far pervenire regolarmente alla direzione della Società e al revisore della società controllante i dati economici, patrimoniali e finanziari necessari per la redazione del bilancio consolidato.

Come già richiamato, la Società non è soggetta alla direzione e coordinamento della controllante. Inoltre, le società controllate costituite e regolate dalla legge di Stati non appartenenti all'Unione Europa, ad eccezione di quelle costituite in Turchia, non rivestono significativa rilevanza ai sensi della normativa secondaria applicabile. Peraltro, in considerazione della numerosità delle partecipazioni detenute, la Società è impegnata a monitorare eventuali cambiamenti e il Collegio esercita al riguardo la propria vigilanza.

Società di revisione

Dalle informazioni ricevute, risulta che nel corso dell'esercizio la Società e le altre società del Gruppo hanno conferito alla società di revisione KPMG spa e ad altri soggetti legati alla sua rete alcuni incarichi diversi dalla revisione legale della Società, di cui al dettaglio seguente (importi in euro/000)

Tipologia del servizio	Soggetto che ha erogato il servizio	Destinatario	Compensi Valori in €
Revisione contabile	Revisore della Capogruppo	Società Capogruppo	65.500
Revisione contabile	Revisore della Capogruppo	Società controllate	7.500

Revisione contabile	Rete del revisore della Capogruppo	Società controllate	265.827
Servizi per due diligence	Rete del revisore della Capogruppo	Società Capogruppo	145.000
Servizi per due diligence	Rete del revisore della Capogruppo	Società controllate	90.000
Servizi per tax compliance	Rete del revisore della Capogruppo	Società controllate	27.898
Firma dichiarazioni e attestazioni	Revisore della Capogruppo	Società Capogruppo	40.000
Totale			641.725

dei quali vi diamo comunicazione agli effetti di legge e che sono stati riportati dalla società in allegato al bilancio di esercizio ai sensi dall'art. 149-duodecies del Regolamento Emittenti.

Il Collegio evidenzia come non sia emerso alcun aspetto critico in ordine all'indipendenza della società di revisione.

5. Corporate governance

Informazioni analitiche in ordine alle modalità con cui è stata data attuazione ai principi di *corporate governance* approvati da Borsa Italiana (contenuti nel relativo Codice di autodisciplina, d'ora in poi, per brevità, "il Codice") sono fornite dagli amministratori nella Relazione annuale sul governo societario e gli assetti proprietari allegata all'informativa di bilancio.

Il Consiglio di amministrazione valuterà nel corso del 2012 l'adozione delle modifiche al Codice di autodisciplina introdotte da Borsa Italiana nel dicembre 2011.

Tale relazione risulta adeguata alla previsioni di cui all'art. 123-*bis* TUF e sulle relative informazioni richiamate dal comma 4 di tale disposizione la società di revisione ha espresso il giudizio di coerenza di cui all'art. 156, comma 4-*bis*, lett. *d)*, TUF.

Nel fare rinvio all'informativa di cui sopra, il Collegio osserva quanto segue.

Per quanto concerne il ruolo del Consiglio di amministrazione, questo si caratterizza per l'ampiezza dei poteri assegnati al Presidente, che riveste anche la carica di Amministratore delegato. In relazione a ciò, il Consiglio ha riservato alla propria competenza esclusiva, oltre che le materie ad esso riservate dalla legge o dallo Statuto, alcune specifiche materie nonché le operazioni aventi un significativo rilievo strategico, economico, patrimoniale o finanziario, per la cui individuazione sono stati adottati specifici criteri.

In relazione a ciò il Collegio conferma il sostanziale rispetto, nel corso dell'esercizio, dei principi e dei criteri dettati dal Codice.

Per quanto concerne la composizione del Consiglio di amministrazione, si rileva la presenza di una maggioranza di consiglieri indipendenti (sette su dieci, i restanti tre essendo esecutivi). Nella Relazione annuale sul governo societario il Consiglio ha correttamente illustrato le ragioni che lo hanno indotto, nella valutazione dei

requisiti di indipendenza di tre consiglieri, a disapplicare alcuni criteri (non tassativi) dettati dal Codice.

Sono stati istituiti anche il Comitato per il Controllo interno ed il Comitato per la Remunerazione, che operano a supporto del Consiglio di amministrazione.

In relazione alla composizione del Collegio sindacale, si informa che lo stesso ha provveduto a verificare con esito positivo in capo ai propri membri il rispetto dei criteri di indipendenza dettati dal Codice.

La Società ha avviato la revisione interna finalizzata ad adeguare la propria struttura alle previsioni del Codice introdotte con la riforma di fine 2011. Il Consiglio di Amministrazione, su proposta del Comitato per la Remunerazione, ha deliberato di rinviare l'applicazione dell'articolo 7 (attuale art. 6 del testo del Codice approvato nel dicembre 2011) del Codice di Autodisciplina, in particolare per quanto riguarda l'adozione della politica per la remunerazione, ritenendo opportuno attendere le norme regolamentari di attuazione del nuovo art. 123-ter del TUF ed emanare quindi successivamente un unico documento sulla politica per le remunerazioni degli amministratori e dei dirigenti con responsabilità strategica che tenga conto sia delle norme di legge che di autoregolamentazione.

In data 7 marzo 2012 il Consiglio di amministrazione ha pertanto provveduto ad approvare la Relazione sulla remunerazione ai sensi dell'art. 123 *ter* TUF e dell'art. 84 del Regolamento Consob in materia di emittenti, anche ai sensi dell'attuale art. 6 del Codice.

6. Valutazioni conclusive in ordine all'attività di vigilanza svolta e al bilancio.

La società di revisione, nella propria relazione rilasciata ai sensi dell'art. 156 del TUF, ora art. 14 del Decreto Legislativo 27 gennaio 2010 n. 39, ha espresso un giudizio senza rilievi sul bilancio di esercizio e sul bilancio consolidato 2011. Al bilancio d'esercizio e al bilancio consolidato risultano allegate le attestazioni del Dirigente preposto e dell'Amministratore delegato di cui all'art. 154-bis TUF.

L'assemblea convocata per l'approvazione del bilancio è anche chiamata a deliberare in merito ad altre materie di competenza. La proposta degli amministratori sulla distribuzione dei dividendi (euro 0,10 a saldo del 2011), tenuto conto dell'acconto sull'utile 2011 deliberato nello scorso mese di novembre (€ 0,20 per azione), è in crescita, in rapporto all'utile netto, rispetto al 2010 e prevede la distribuzione di un dividendo complessivo di €. 0,30 per azione (€. 0,275 per azione nel 2010).

Il Collegio sindacale, sulla base dell'attività svolta nel corso dell'esercizio, non rileva motivi ostativi all'approvazione del bilancio al 31 dicembre 2011 ed alle relative proposte di delibera formulate dal Consiglio di Amministrazione.

Milano, 9 marzo 2012

Il Collegio Sindacale di Recordati S.p.A.

Marco Nava

Marco Rigotti

Achille Severgnini