


Annual Report 2011

changing marketplace
performances
since 1926
research
international
modern plant
innovative therapies
listed
rare diseases
discovery
urological disorders
lercanidipine
product pipeline
135 countries
orphan drugs
cardiovascular
trained specialist
local market
health care
innovative medicines
academy
pharmaceutical group
license agreements
value



The Recordati Group Today	2
The Future of the Group	4
Letter from the Chairman	5
The Group in Figures	8
Geographical Presence	10
Group Activities	12
Rare Diseases and Orphan Drugs	24
Research & Development	28
The Arrigo Recordati International prize for scientific research	34
Pharmaceutical Chemicals and Production Plants	36
The Recordati Share	38
Financial Highlights	41
2011 Operational and Financial Reviews	42
Consolidated Financial Statements	56
Attestation in Respect of the Consolidated Financial Statements	81
Auditors Report	82
Corporate Governance Report	84
Management and Supervisory Bodies	

The Recordati Group Today



Recordati is a modern and dynamic international specialty pharmaceuticals company.

It is confident in its ability to seize the opportunities and meet the challenges of a constantly changing marketplace.

In 2011 it generated revenues of € 762.0 million and has a staff of more than 3,200 employees.

R

Recordati is an internationally known pharmaceutical group listed on the Italian Stock Exchange (now part of the London Stock Exchange) since 1984 and is one of the oldest Italian pharmaceutical companies. Since it was founded in 1926 Recordati has grown constantly thanks to the success of its products. The company established its own model of growth and development by pursuing an internationalization and diversification strategy since the 1990's which is still ongoing. Today Recordati has many subsidiaries in Europe and in recent years it has extended its presence to Central and Eastern Europe where spending on pharmaceuticals is growing at a high pace. Recordati is now present directly in Russia and the other C.I.S. markets, in Turkey, in the Czech Republic and Slovakia, in Romania and in Poland. Recordati sells its original products in 135 markets both directly and through license agreements. Together with its geographical expansion the Group has enriched its pharmaceutical product portfolio by developing its own pipeline of products and by entering the market segment dedicated to rare diseases. The group's subsidiary Orphan Europe develops, produces and sells exclusively drugs for the treatment of rare diseases. It counts on a balanced portfolio of products and promising drugs under development, in addition to its own unique distribution system,

giving Recordati access to a highly specialised market with significant growth potential. Orphan Europe now has direct sales in the U.S.A. following the approval in this country of one of its most important and promising orphan treatments, Carbaglu®.

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

to market the product in most of Europe.

The Recordati Group has achieved broad geographical coverage with its own network of around 1,700 medical sales representatives. This, and its many years of experience in the regulatory field and its expertise in the management of highly specialised products, makes Recordati an ideal partner for the development and marketing of new products in Europe, especially for those companies which have no direct presence themselves.

Revenue (million euros)

762.0


Net Income (million euros)

116.4

Employees

3,200

The future of the Group

A young boy is seen from behind, looking up at a vast, blue sky filled with soft, white clouds. The scene is bathed in a cool, blue light, creating a sense of hope and looking towards the future.

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

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 Ilaç 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 Ilaç 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 Ilaç 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 Ilaç is an important step



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



The Group's 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.

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).

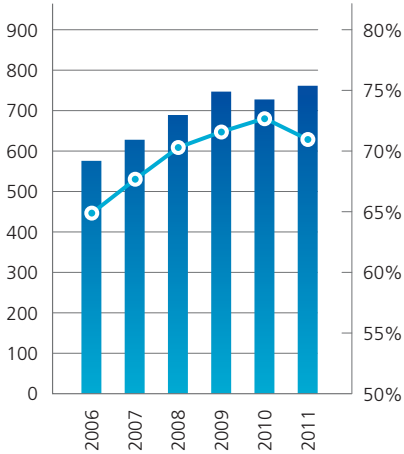
Giovanni Recordati
Chairman and Chief Executive Officer



The Group in Figures

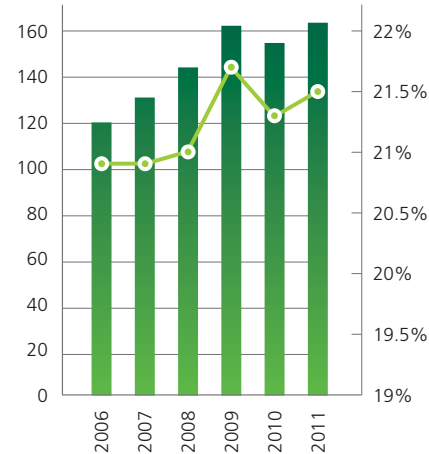
REVENUE

- Revenue in millions of Euro
- % International



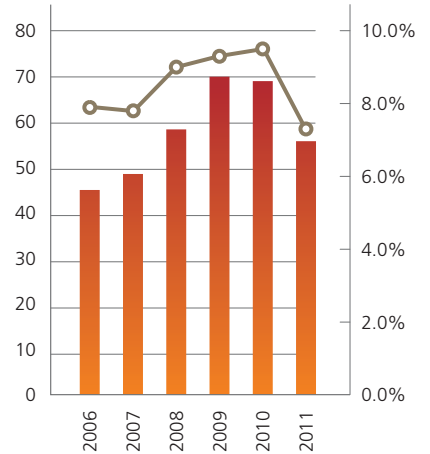
OPERATING INCOME

- Operating Income in millions of Euro
- % of Revenue



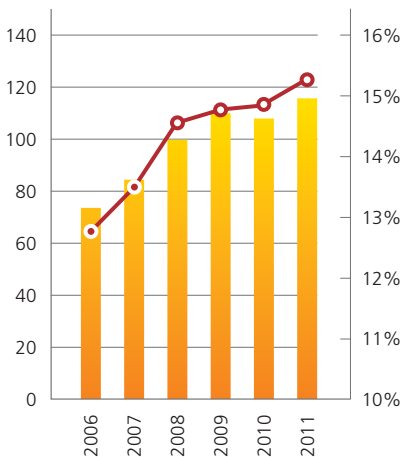
R&D EXPENSES

- R&D Expenses in millions of Euro
- % of Revenue



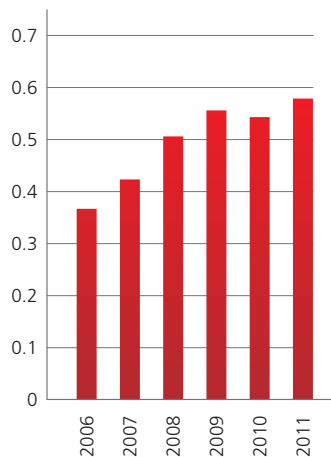
NET INCOME

- Net Income in millions of Euro
- % of Revenue



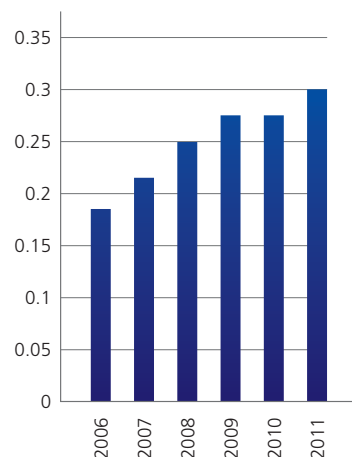
NET INCOME PER SHARE

- Net income per share in Euro

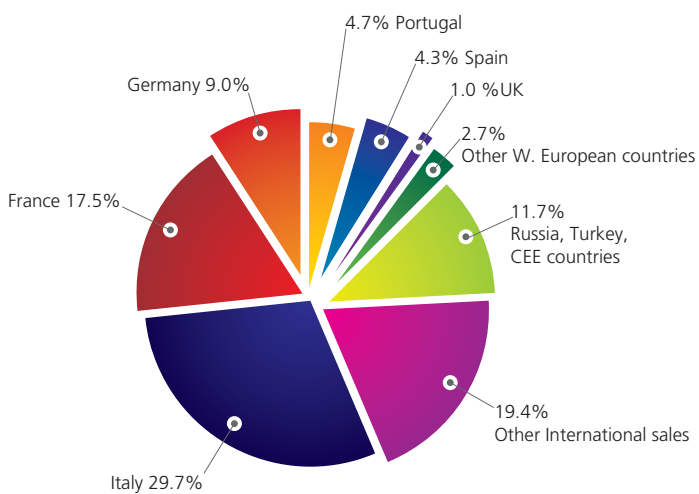


DIVIDEND PER SHARE

- Dividend per share in Euro

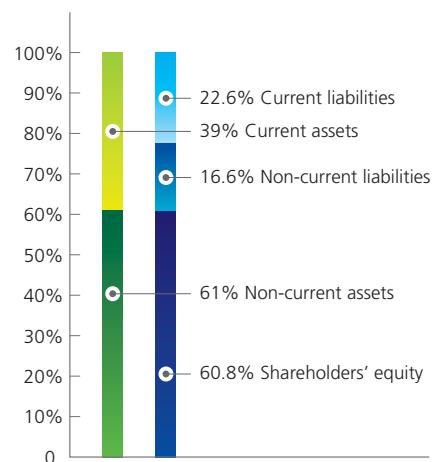


GEOGRAPHICAL COMPOSITION OF PHARMACEUTICAL SALES

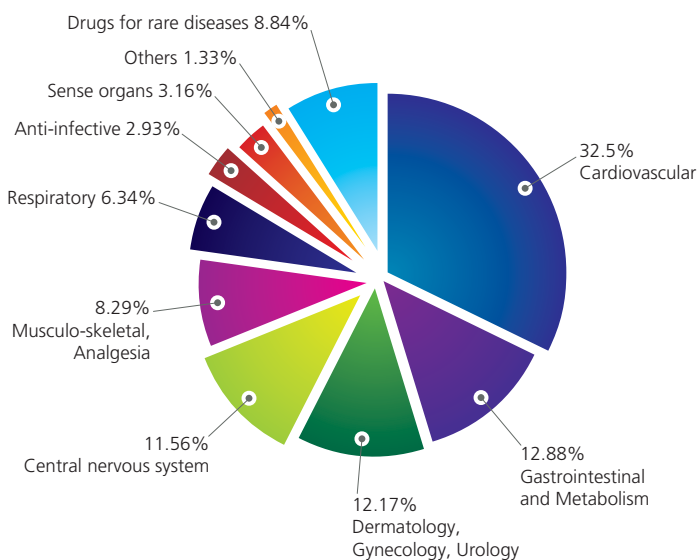


BALANCE SHEET

At 31 december 2011



PHARMACEUTICAL SALES BY THERAPEUTIC AREA



Net Financial Position

(55.7) million euros

Shareholders' Equity

594.5 million euros

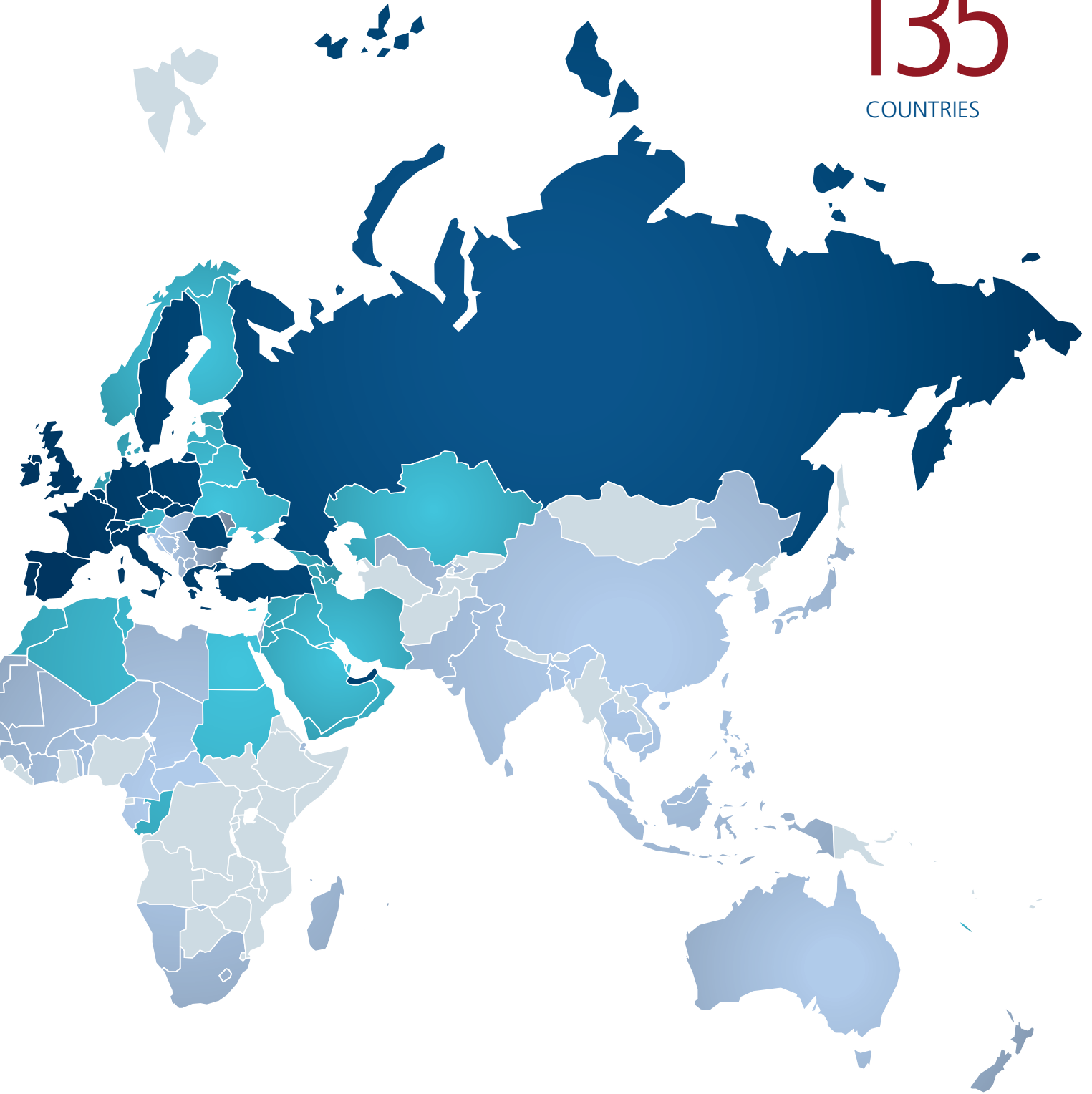
Geographical Presence



■ 19 SUBSIDIARIES

■ 40 BRANCHES AND OTHER FORMS OF TERRITORIAL PRESENCE


135
COUNTRIES



■ 76

COUNTRIES WHERE RECORDATI PRODUCTS ARE SOLD
(UNDER LICENSE OR EXPORTED)

Group **Activities**



In addition to its main area of activity, the **cardiovascular** field and in particular that of hypertension, Recordati also operates in the area of **urology** where important new treatments for benign prostatic hyperplasia (BPH) are being introduced, and in the area dedicated to treatments for **rare diseases**. The group researches, develops and markets a number of **orphan drugs**.

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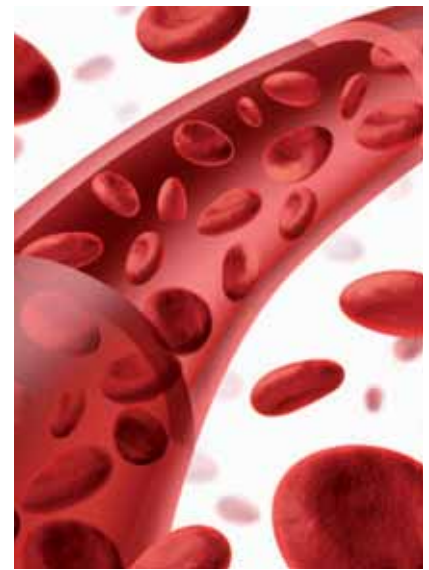
The Recordati Group markets a wide range of innovative products originated by its own research, developed in-house or obtained under license.

ZANIDIP®/CORIFEO®/LERCADIP®
(lercanidipine)



Zanidip® (lercanidipine), the Group's main product, is an antihypertensive drug discovered and developed entirely in the Recordati research laboratories. It enjoys considerable success among doctors and is one of the most frequently prescribed calcium channel blockers in the countries in which it is marketed. Lercanidipine is a latest generation calcium blocker that is very effective in controlling hypertension due to its particular mechanism of action and to its peculiar characteristics which are different from those of other pharmaceuticals in the same class.

Zanidip® is effective in lowering blood pressure values to optimal levels, thereby reducing the risk of cardiovascular events and their related mortality. Its lipophilicity and high selectivity are properties which render lercanidipine effective with a superior tolerability profile. It ensures protection of the kidneys and the endothelium of the blood vessels. Thanks to this organ protection characteristic and its metabolic



neutrality lercanidipine is well tolerated even in patients affected by other diseases such as diabetes and nephropathy.

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



The use of fixed combinations of antihypertensive agents is growing and is expected to play a significant and increasing role in the treatment

of hypertension. As stated by the European Society of Hypertension, combination therapy should be considered as first line treatment for hypertensive patients at high risk for cardiovascular events.

Furthermore, the administration of a single pill, for a patient who often takes a number of different medicines every day, increases compliance which is an important success factor in the treatment of hypertension.

Most hypertensive patients, and those with other associated risk factors in particular, require more than one antihypertensive drug to keep their blood pressure at desired levels.

Zanipress®, a fixed association of lercanidipine (calcium channel blocker) and enalapril (ACE inhibitor), allows the simultaneous administration of two effective active ingredients. In fact, the new specialty associates lercanidipine, a latest generation calcium channel blocker, with enalapril, an ACE inhibitor that is widely prescribed.

The benefits of the combination of these two active ingredients, and in particular its increased effectiveness and excellent tolerability, have been confirmed by the results of clinical trials, such as ACCOMPLISH, which have shown that a combination of a calcium channel blocker plus an ACE inhibitor is more effective than the combination of a calcium channel blocker with a diuretic in reducing cardiovascular risk.



UROREC® (silodosin)

UROREC®
Silodosin

Urorec® (silodosin) is a new drug indicated for the treatment of benign prostatic hyperplasia (BPH), a widespread disease, on the increase in aging populations. It manifests in males, generally after the age of fifty, with problems linked to urination, such as reduced urine stream, increased frequency and urgency and nocturia. Silodosin is a powerful antagonist of the α_1 adrenergic receptors with a high affinity for α_{1A} receptors. Blockade of the α_{1A} receptors leads to a rapid increase in urine flow and an improvement in both irritative

symptoms (frequency, urgency, nocturia) and obstructive symptoms (hesitancy, incomplete emptying of the bladder, intermittency, weak stream). As demonstrated by a study conducted in Europe by Recordati on more than 800 patients, the administration of silodosin leads to an improvement in urine flow after only 2-6 hours and rapid relief from both obstructive and irritative symptoms in the course of 3-4 days. Symptom improvement is maintained during long term treatment. The safety and tolerability of silodosin has been assessed with positive results on 1,600 patients. The low incidence of orthostatic and vasodilatory side effects make it a well tolerated treatment even in patients who take antihypertensive medication.

In all the clinical studies conducted until now, Urorec® has been found to be highly effective, so much so that it is considered a valid and innovative alternative to treatments currently in use. Silodosin is the result of original research by the Japanese pharmaceutical company Kissei Pharmaceutical Co. Ltd. and has been licensed to Recordati for the whole of Europe (45 countries) and a further 18 countries in the Middle East and Africa. The clinical development of the product was conducted by Recordati for its own markets. The drug is already being marketed successfully in Japan and other Asian countries and is also available in the United States of America. Urorec® in 4 mg and 8 mg rigid capsules has already been launched by Recordati in 14 European countries including France, Germany, Italy, Spain, Russia and other CIS markets. Further launches are planned in 2012.

LIVAZO®/ALIPZA® (pitavastatin)



Pitavastatin is an innovative statin for the treatment of dyslipidemia, a condition characterized by altered levels of blood cholesterol and other lipids and associated with an increased

risk for heart disease and stroke. Pitavastatin is indicated for the reduction of elevated total cholesterol (TC) and LDL-C, in adult patients with primary hypercholesterolaemia and combined (mixed) dyslipidaemia when response to diet and other non-pharmacological measures is inadequate.

In controlled clinical trials involving more than 1,600 patients it was shown that pitavastatin induces not only a reduction in LDL-cholesterol (the "bad" cholesterol that contributes to formation of atherosclerotic plaques) but also an increase in HDL-cholesterol (the "good" cholesterol that is removed from the arterial walls), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications. Furthermore, it has been shown that pitavastatin is minimally metabolized by the enzymes of the Cytochrome P-450 family, enzymes that play a key role in the metabolism of many drugs, thus minimizing the potential risk for unpredictable responses to treatment or for interaction with drugs metabolized by this pathway. Pitavastatin therefore presents an excellent safety profile due to the lower likelihood of drug-drug interactions than that of most other statins. As a consequence of these properties pitavastatin can be regarded as an effective and safe

treatment of dyslipidemia.

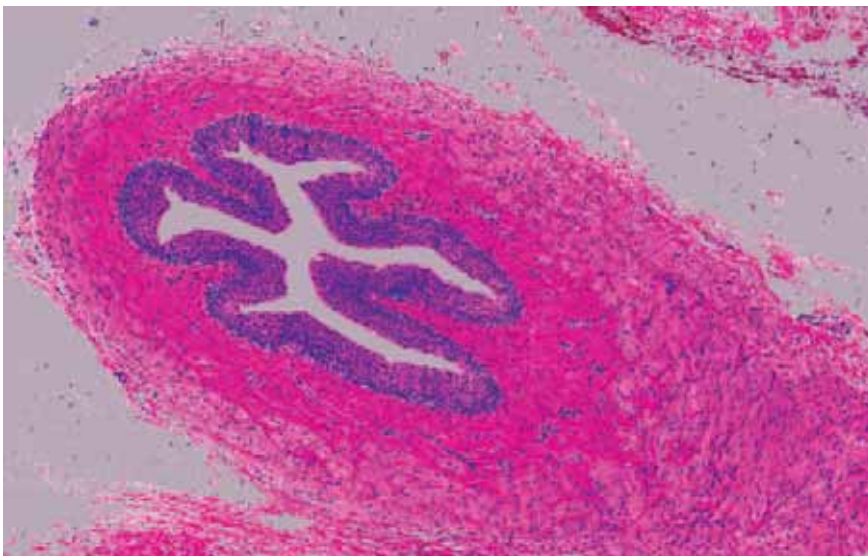
Pitavastatin was granted under license to Recordati from the Japanese pharmaceutical company Kowa for many European markets.

It is available in Japan and in the U.S.. In Europe the product (Livazo®, Alipza® and other brands) in 1mg, 2mg and 4mg tablet formulations was launched by Recordati in Spain and in Portugal.

LOMEXIN®/FALVIN® (fenticonazole)



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



GENURIN®/URISPAS® (flavoxate)



Flavoxate, a Recordati original research product, is a muscle relaxant of the urinary tract. It is indicated for the symptomatic treatment of dysuria, urgency, nocturia, frequency and incontinence and the treatment of bladder and urethral spasms. It is able to control symptoms associated with urgency and hyperactivity of the detrusor, thanks to its action on the transmission of the reflex impulse to empty the bladder. Flavoxate is the first Italian drug to be approved by the American Food and Drug Administration and to be

marketed in the United States of America, and is still widely used in many countries.

KENTERA® (oxybutynin transdermal patch)



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

(considered the 'gold standard' for this disorder) with its excellent tolerability, as a transdermal formulation bypasses the first-pass gastrointestinal and hepatic metabolism, and with the ease of use of a patch applied twice a week which constitutes a valid alternative to oral medications.

Under license from Watson Pharmaceuticals, Kentera® is currently marketed by Recordati in sixteen European countries by the group's subsidiaries and its partners.

TRANSACT® LAT (flurbiprofen transdermal patch)



TransAct® LAT is a transdermal patch containing flurbiprofen, a non steroidal antiinflammatory drug (NSAID), indicated for the symptomatic relief of localized pain involving the musculoskeletal system.

The underlying technology, the excipients and the active ingredient all contribute to the treatment's effectiveness, to its constant release over the twelve hour period and to its localized antiinflammatory and analgesic action, that is it acts only where the patient feels pain, thereby avoiding the problems connected with the use of NSAIDs delivered systemically.

All these characteristics and the efficacy of flurbiprofen, demonstrated by numerous clinical studies, make TransAct® LAT a highly appreciated specialty among doctors and the patients themselves. It is a successful product marketed in many countries in Europe. In Italy and in Portugal it holds leading positions in the market for patches belonging to the topical anti-rheumatic analgesic class. TransAct® LAT was obtained under license from Amdipharm.

**RUPAFIN®/ALERGOLIBER®/
WYSTAMM® (rupatadine)**



Rupatadine is a second generation antihistamine which effectively resolves

the problems that afflict patients suffering from allergies.

It is a histamine antagonist with selective peripheral H1 receptor antagonist activity.

It further blocks the receptors of the platelet-activating factor (PAF), a characteristic which distinguishes it from other specialities belonging to the same class of drugs. Rupatadine inhibits allergic effects which affect both the nasal mucosa and other organs targeted by the allergic reaction such as the skin controlling symptoms such as sneezing, itching, rhinorrhea, nasal congestion, wheals and rashes.

Its pharmacokinetic properties allow quick and effective control of allergies, rapid relief from symptoms and a long-lasting antihistamine action. Rupatadine improves the quality of life for allergic patients increasing their overall well-being: allergic

symptoms disappear within just 15 minutes of taking the medication. Under license from Uriach it is marketed in Italy, Germany, Spain and France.

LOPRESOR® (metoprolol)

Lopresor®

Lopresor® belongs to the beta-blocker class of drugs and is indicated for the treatment of hypertension either alone or in association with other antihypertensive agents.

This selective beta blocker is also indicated for long term treatment of angina pectoris. Lopresor® is available in a number of European countries and is particularly successful in Greece and in Germany.





S

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

ITALY

The Recordati Group offers a broad range of medications in this country through its organizations Recordati S.p.A. and Innova Pharma S.p.A. and provides doctors and specialists with up-to-date support of high scientific value. In addition to its historic and established presence in the cardio-metabolic field, the Italian product portfolio also boasts quality medicines in the central nervous system therapeutic area, in gastroenterology and in analgesia. Entact® (escitalopram) is a highly selective antidepressant, with an excellent tolerability profile, which makes it suitable for use also in severe clinical conditions and in polytherapy. The range of its therapeutic activity is different from that of other antidepressant agents, and it has therefore been considered an important contribution to the customization of antidepressant and anxiety treatments. It is well accepted by patients, an aspect of particular importance in the resolution of psychological disorders and in treatment compliance. Peptazol® (pantoprazole), a proton pump inhibitor frequently used for the treatment of gastroesophageal reflux disease and in the prevention of gastro duodenal ulcers caused by NSAIDs, belongs to a large and competitive market. Its use is growing continuously

thanks to its positive and proven pharmacological properties. Its lower potential for pharmacological interactions distinguishes it from other medications. This is an important factor and is widely recognised by doctors because the greatest users of this class of drugs are patients who simultaneously undergo a number of different treatments. Tora-Dol® (ketorolac tromethamine) is an effective fast-acting non steroidal anti-inflammatory drug which has always been a leader in its class. It is considered by a large number of both specialists and general practitioners as one of the most effective drugs for pain control. It is currently widely used also in hospitals and out-patient clinics for the treatment of post surgical pain and renal colic, that is, for acute and severe pain.

Recordati's offering in cardiology has been enhanced with the entry of Cardicor® (bisoprolol), a drug belonging to the beta-blocker class indicated for the treatment of chronic, stable, moderate to severe heart failure, associated with reduced systolic ventricular function. It is administered together with ACE inhibitors and diuretics and is much appreciated by physicians. Recordati has always been close to both family doctors and specialists



and each year sponsors a number of educational projects, training courses, symposiums and lectures at major national and international congresses involving themes in psychiatry, neurology, psychoneuropharmacology, internal medicine, cardiology, allergies, pain and prevention.

High level courses for specialists are organised by scientific boards of international standing in a number of therapeutic areas such as the cardiovascular and cardio metabolic fields, gastroenterology and psychiatry.

Since 2009 an important instrument is available for doctors, the Interdrugs Project, a multimedia service for real time verification of possible pharmacological interactions between drugs. The problem of interaction between medications has always played an extremely important role from a clinical viewpoint, above all in view of the possible negative effects that may result from these interactions. It is of particular importance in current times in a country with an aging population and where the elderly frequently take a number of different active ingredients together. The project initially targets interactions between drugs used in psychiatry and those prescribed by neurologists and internists due to the transverse nature intrinsic to these treatments.

It is attracting growing interest from thousands of specialists. The service is based on an detailed research database and is available free of charge on the Internet. Interdrugs bears witness to Recordati's commitment to the development of new tools at the service of science and to the diffusion of the most up-to-date scientific knowledge.

Recordati also has an excellent reputation at the pharmacy level and continues to grow in the self-medication market more than the market itself, thanks to its offering and a number of successful products. The product portfolio comprises a number of OTC products (Imidazyl®, Imidazyl Antistaminico®, Proctolyn®, Recofluid®, Recotuss Sedativo®, Somac Control®, Transcop®, Antoral Gola®, Valontan®), medical devices (the Alovex® and Eumill® lines) and

dietary supplements (Lactò® and Proctolyn® Integra Plus). Recordati's reputation is also linked to successful products such as Alovex®, Imidazyl®, Eumill® and Proctolyn®, four market leaders with shares of more than 30% each which are performing very well. The Alovex® line comprises Alovex® active protection and Alovex dentizione®. The first is indicated for the treatment of aphthas and mouth sores while the second is a natural product for newborns which provides rapid relief from pain and irritation caused by teething. In the decongestant and antihistamine eye drops market, the Imidazyl® brand consolidated its leading position and in the natural eye drops segment the Eumill® line boasts 32% market share driven by the addition of a new product. Eumill Protection®, the lubricating and moisturizing drops which help to counteract ocular





dryness and fatigue is now available alongside Eumill®, the freshening and soothing eye drops. In the antihaemorrhoids segment the Proctolyn® line was extended with the launch of Proctolyn® Integra Plus, a new formulation which acts systemically. Recordati also offers a line of OTC cough medicines which comprises Recotus® Sedativo, syrup and tablets containing dextromethorphan bromide, an effective active principle for the symptomatic treatment of dry cough, and Recofluid®, a fluidifying mucolytic syrup which does not contain saccharose nor glucose and can therefore be administered to diabetics. Somic Control® is the first pantoprazole based OTC product to be sold in Italy. It is indicated for the short term treatment of the symptoms associated with gastroesophageal reflux and its activity lasts throughout the 24 hours.

FRANCE

In addition to having achieved leading market positions with Recordati corporate products, Laboratoires Bouchara Recordati holds top positions on the market for its local specialties and offers a line of OTC products which enjoys great success in France. Since 1999 Laboratoires Bouchara Recordati is the exclusive licensee of the Assistance Publique des Hôpitaux de Paris for the production and marketing of methadone. Methadone is a synthetic opioid analgesic, used as a substitute for heroin in somatic abstinence syndromes, in disintoxication from opiates and in maintenance programmes. A highly specialised group and dedicated staff lie behind the success of the disintoxication programmes which today involve 40,000 patients, four times as many as ten years ago. The benefits of treatment with methadone are universally recognised.

The most important are the decrease in deaths resulting from the use of narcotics, the reduction of the diffusion of viral infections (HIV, HCV), reduced health, legal and social costs related to the use of drugs and improvements in the health and rehabilitation of addicts.

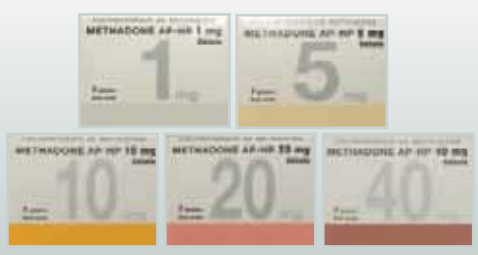
Laboratoires Bouchara Recordati continues to develop the product with the intention of making

its administration easier and more accessible.

A new capsules formulation, and more flexible prescribing conditions contribute to expand its use. Laboratoires Bouchara Recordati reinforces its position in the French OTC market. The Hexa line of products (Hexaspray®, Hexalyse® and Hexamer®) maintain their leadership and notoriety in the segment of winter maladies and Exomuc®, a well-known mucolytic agent, is much appreciated by the public. The company has also developed an important international presence in the former French colonies and is expanding in the Maghreb area, in French-speaking Africa and in Asia. Through its dynamic export and promotion activities it distributes a number of specialties from its product portfolio in 30 different countries. The main destinations of these exports are Algeria, Vietnam and Tunisia, and the largest product exported is Zanicidip® (lercanidipine).

GERMANY

An important part of the Recordati Pharma (previously denominated Merckle Recordati) operations is linked to its traditional presence in the gastroenterological area and in particular in that of chronic inflammatory intestinal diseases which consist mainly of Crohn's





disease and ulcerative colitis. In Germany approximately 320,000 patients suffer from these diseases. The "gold standard" treatment for these diseases is the administration of mesalazine. Claversal® (mesalazine), the established Recordati Pharma brand, is the second largest in its class and offers specialists in the field a full range of formulations. Every year Recordati Pharma organizes a symposium on gastroenterology which reached its 16th edition in 2011. Approximately 200 professionals from all over Germany receive a 360° update both on scientific progress and on health economics in the field of gastroenterology. Thanks to its sensitivity and to the attention devoted to these themes, Recordati Pharma became the official sponsor of the prestigious Felix Burda 2012 Award for the prevention of colorectal cancer. Another therapeutic area in which Recordati Pharma has developed

an established presence is that of orthopaedics. The company has been supplying first class products to orthopaedic specialists for over 40 years. The most important of these include Recosyn® (hyaluronic acid), which from 2011 is available in four different formulations for specific treatment regimens, Ortoton® (metocarbamol), Lipotalon® (dexamethasone palmitate) and SportVis™ (biocompatible hyaluronic acid adapted for soft tissues). Recordati Pharma is traditionally among the top five most highly rated pharmaceutical companies in the orthopedics field. It was the official supplier to the German Olympics team in the last summer and winter Olympics. The area of urology has now also become strategic for the German subsidiary which was the first to launch Urorec® (silodosin), the new drug for the treatment of benign

prostatic hyperplasia. Recordati Pharma is also successfully markets Kentera® (oxybutynin transdermal patch), indicated for urinary incontinence, and the inclusion of Remiprostan® (palmet extract) further enhanced its portfolio.

PORTUGAL

Jaba Recordati is well positioned in the Portuguese pharmaceuticals market, mainly in the cardiovascular and urological fields and in the market for OTC products. Its established presence in the cardiovascular area stems from the strong appreciation shown by the medical community and specialists for the subsidiary's products. Co-Tareg® (valsartan+HCTZ), Jaba Recordati's principal product, is closely followed by Zanipress® the fixed combination of lercanidipine and enalapril which today is the leading brand in the calcium channel blocker + ACE inhibitor market. Constant growth was also recorded for TransAct® LAT, a leading product in the market for transdermal patches within the topical antirheumatic class of drugs. Indicated for the symptomatic relief of localized pain involving the musculoskeletal system, it is an original delivery system for the administration of flurbiprofen,





a well-known and widely used non steroidal anti-inflammatory drug (NSAID). It is better tolerated thanks to this method of delivery. Among the OTC products Guronsan®, a leader in the market for tonics for fatigue, is the most important.

SPAIN

The subsidiary's main product is Cidine® (cinitapride), a drug indicated for the treatment of the symptoms of chronic postprandial dyspepsia. It is a gastroprokinetic frequently used in the gastroenterological field and is well known and appreciated by physicians.

In order to support family doctors and specialists, Recordati España contributed to the establishment of a "Comité de Expertos en Dispepsia" and published two original studies: "Problemas psicológicos en dispepsia" and "Derecho sanitario para gastroenterólogos". In addition to the area of gastroenterology Recordati España is also present in cardiology (Zanipress®, Zanidip®, Dermatrans®, Lopresor®) and in gynecology (Yoduk®, Lوسفerron®, Lomexin®). Recordati España, in collaboration with the Spanish Society of Cardiology, presented the results of the Cardiotens Study which analyzed data from

15,000 patients with hypertension over a period of 10 years with the objective of improving the treatment of hypertension and understanding its correlation with other diseases. As regards the area of gynecology Recordati España was the first company to educate both doctors and the general public on the risks of damage that iodine deficiency in mothers during pregnancy and lactation can cause to the physical and mental health of infants.

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

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

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

TURKEY

With its acquisition of the Turkish company Dr. F. Fric Ilaç, Recordati reinforces its presence in Turkey, a country where the pharmaceutical market is growing at rates significantly higher than those in Western Europe. The company has a core portfolio of original prescription products both in the primary care and specialist areas. These specialties are integrated into the portfolio of our Turkish subsidiary Yeni Recordati, one of the leaders in the Turkish pharmaceuticals market for urological disorders.

The urinary tract anti-infective products Hippurin® (methenamine hippurate) and Purinol® (methenamine+helmitol) and the antibacterial drug Levonidin® (levofloxacin) are enjoying growing visibility and acceptance among doctors and contribute to the success of our



Turkish subsidiary. Yeni Recordati has strengthened its network of medical representatives and in addition to the re-launch of Urispas®, the flavoxate based antispasmodic drug indicated for urinary incontinence, which reinforces its presence in the urological field, it has also re-launched Gyno-Lomexin® (fenticonazole) an antimycotic for gynecological use.

CZECH REPUBLIC AND SLOVAKIA

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

50%, Acylpyrin® is the market leader on the market for acetylsalicylic acid based drugs and Valetol® is one of the five most frequently sold non opioid analgesics in the Czech Republic. During the year Herbacos Recordati has extended its product portfolio with the launch of a number of corporate products such as Procto-Glyvenol®, Kentera®, Lercaprel® (lercanidipine+ enalapril) and Urorec® (silodosin).

GREECE

With a strong presence on the cardiovascular market, Recordati Hellas, in addition to lercanidipine and its fixed combination with enalapril, successfully markets Lopresor® (metoprolol tartrate USP), a selective beta-blocker indicated for the treatment of various cardiovascular diseases and in particular for hypertension and angina pectoris. The drug was re-launched in 2011 and

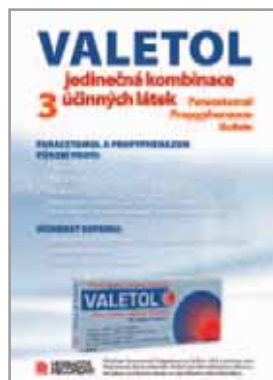
has become the Greek subsidiary's main product. The corporate product Urorec® (silodosin) was also launched in Greece in 2011.

ROMANIA

With the acquisition in 2010 of ArtMed International, a company dedicated to the promotion of pharmaceutical products in Romania with offices in Bucharest, which is now called Recordati România, Recordati has further consolidated its presence in Central and Eastern Europe. The romanian subsidiary promotes both prescription and OTC products. Its main products are Lomexin® (fenticonazole) and Revada® (diosmin) which is prescribed for venous insufficiency and other indications. The medicines which are currently promoted are indicated prevalently for disorders resulting from nutrition deficiencies. As from 2011 the company also markets Urorec® (silodosin) and Procto-Glyvenol®.

POLAND

The new subsidiary in Poland, Recordati Polska, was established in July of 2011 and will start its activity by marketing the corporate products Procto-Glyvenol®, Gyno-Lomexin® (fenticonazole) and Urorec® (silodosin).



Rare diseases and orphan drugs

A healthcare priority
a Recordati **priority**



R

Rare diseases bring great suffering to 39 million Europeans and their families (Dali, 2011). They are often debilitating conditions, defined in the European Union (EU) as having a prevalence of no more than five per 10,000 people. There are believed to be between 5,000 and 8,000 different rare diseases. Eighty percent have a genetic origin and in 50% of cases the onset occurs in childhood.

The specificities of rare diseases - limited number of patients and scarcity of relevant knowledge and expertise - single them out as a distinctive domain of very high European added-value. European cooperation ensures that scarce knowledge is shared and resources combined.

An orphan drug is a pharmaceutical agent that has been developed specifically to treat a rare medical condition. European legislation passed in 2000 explicitly recognized the unmet need of targeted treatments for orphan diseases and created regulatory pathways and incentives for manufacturers to develop orphan drugs.

This regulation is widely perceived to have been a success.

From April 2000, when the EU orphan drug regulation came in to effect, to mid 2011, 720 drugs had received orphan drug designation from the European Medicines Agency (EMA). Of those designated drugs, 72 had been granted Marketing Authorisation

(MA). Reports show that orphan drugs are estimated to account for between 1.7% and 4% of the total drugs expenditure. 40% of the orphan medicines were licensed for oncological and haematological conditions and about 30% of the orphan drug market consists of drugs for rare inborn errors of metabolism.

At the current rate it is believed that about 100 new orphan drugs will reach the market in the next nine years. Furthermore, there is a surge of international research investment, from different funding bodies such as the European Commission and NIH, to boost this number in an attempt to bring 200 new drugs to the market by 2020.

Orphan Europe (Recordati group): a leader in the Orphan Drug field

Orphan Europe, Recordati group, is a leading orphan drug pharmaceutical company in Europe dedicated to the research, development and marketing of treatments for rare diseases. It is the company with the second most orphan drugs on the European Market (2011). The company markets eight products, the majority being treatments for inborn errors of metabolism. Orphan Europe focuses on drugs for some of the most uncommon diseases. NAGS deficiency, treated with Carbaglu®, is 4000 times rarer than the European limit of 5 in 10,000 inhabitants; at the time of market authorisation, data was available on nine patients in Europe. In 2011 Carbaglu® received approval for an

additional indication, the treatment of three of the most common organic acidurias. Organic acidurias disrupt normal amino acid metabolism causing a buildup of organic acids in the body.





These disorders can cause similar clinical symptoms to NAGS deficiency. These are life threatening diseases predominantly present in infancy. Children affected are at an increased risk of severe disability, impaired quality of life and reduced life expectancy. Orphan Europe, Recordati group, has worldwide coverage, including the U.S.A., through its subsidiaries all over Europe and in the Middle East, and through the presence of dedicated Orphan Europe representatives, commercial agreements and direct deliveries.

Orphan drug specialists visit clinicians from many disciplines that diagnose and/or treat patients suffering from rare diseases. Hospital pharmacists, specialist nurses, biochemists and dieticians are also key contacts in these highly specialised disease areas. In addition to their medical and pharmacological knowledge of rare disorders the 40 orphan drug specialists are also trained in all aspects of orphan drug development and registration and are experienced in obtaining local reimbursement/funding for products.



ORPHAN DRUGS IN OUR PORTFOLIO

Adagen®	Pegademase bovine	Enzyme replacement therapy for the treatment of severe combined immunodeficiency disease associated with adenosine deaminase deficiency (SCID-ADA)
Carbaglu®	Carglumic acid	Treatment of hyperammonemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and some organic acidaemias (isovaleric acidaemia, methylmalonic acidaemia and propionic acidaemia)
Cystadane®	Betaine anhydrous	Treatment of homocystinuria
Cystagon®	Cysteamine bitartrate	Treatment of nephropathic cystinosis
Normosang®	Human hemin	Treatment of acute attacks of hepatic porphyria
Pedea®	Ibuprofen iv	Treatment of patent ductus arteriosus (PDA)
Vedrop®	Tocofersolan	Treatment or prevention of vitamin E deficiency in paediatric patients and adolescents suffering from congenital or hereditary chronic cholestasis
Wilzin®	Zinc acetate	Treatment of Wilson's disease
Cystadrops®	Cysteamine chlorhydrate	<i>In development</i> for the treatment of ocular manifestations of cystinosis



Orphan Europe Academy

Our commitment to rare diseases

Working in the field of rare diseases is an important responsibility to patients and healthcare professionals and we put this at the heart of our strategy. Orphan Europe launched the Academy in 2000 providing unconditional grants for training in rare disease. High-level courses are created under the authority of a scientific committee. The overall aim is to share experience in the management and outcome of rare disorders where individual experience is by its nature limited. Four live events

are held each year bringing together clinicians and scientists from all over the world to discuss innovations and new diagnostic and management strategies. In 2012, Orphan Europe Academy launched the first online e-learning course on hyperammonaemia which aims to provide physicians, world-wide, with clinically useful and the most up-to-date information concerning current knowledge and recommendations for care. Furthermore we work in partnership



with recreational camps for children with serious debilitating disease through our staff volunteering programme. We also support the work of European Reference Networks in providing equal and equitable care for patients with rare disease in Europe.


The **NORD** Corporate Award and the **U.S.** market

Orphan Europe's commitment to making its products available to patients suffering from rare diseases was recognized by the National Organisation for Rare Disorders (NORD) in the U.S.A. with its 2011 "Corporate Award". This important award was granted to Orphan Europe in recognition of the introduction into the United States of Carbaglu®, the first specific treatment approved by the FDA (Food and Drug Administration) for NAGS deficiency, a very rare inherited metabolic disease. NORD is a unique federation of voluntary health organizations dedicated to helping people with rare diseases and advocating for their rights.



Research & Development

During **2011** new products were approved and new clinical trials were launched. New molecules were identified to be evaluated and projects were initiated in new therapeutic areas.



D

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.

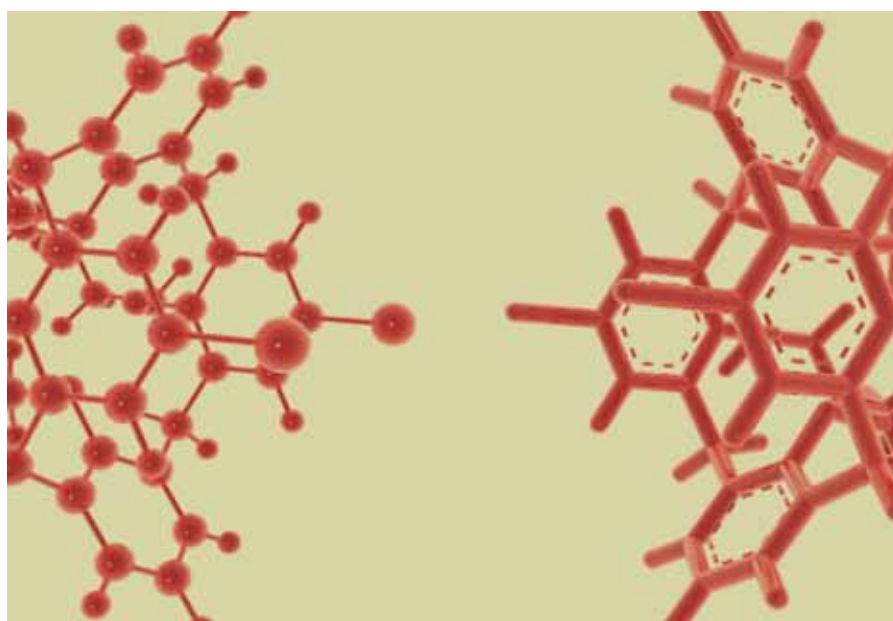
IN-HOUSE RESEARCH PROJECTS

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.



The Arrigo Recordati International Prize for scientific research



The 2011 edition of the Arrigo Recordati International Prize for Scientific Research was devoted to the theme "Prenatal congenital heart disease".



T

The prize was awarded to Lindsey Allan, consultant at King's College, London, UK.

The Jury's decision recognized the winner for her outstanding contributions in innovation and advances in Prenatal Congenital Heart Disease.

In the late seventies, thanks to advances in ultrasound technology and diagnostic imaging techniques, the study of the foetal heart and the diagnosis of congenital heart disease became possible. Lindsey Allan is a pioneer in this field: she was the first research worker in the world to document normal echocardiograph images of the foetal heart and to describe prenatal morpho-functional alterations in numerous cases of cardiac malformations. These discoveries led to the production, during the eighties, of an enormous quantity of data on the foetal heart, which was then documented in a large number of scientific publications which are a fundamental reference source today for specialists throughout the world. To be aware of a malformation before birth allows for a better life expectancy of the newborn. The ability to observe the foetal heart throughout pregnancy has extended the knowledge of normal and abnormal cardiac functionality enormously.

The Jury panel of the 2011 edition of the Prize was composed of experts who have provided leadership throughout

their long careers in the field of paediatric cardiology and was chaired by André Bozio (Professor of Cardiology, Claude Bernard University Lyon-1, Head of Paediatric Cardiology and Congenital Heart Disease Department, Cardiology Hospital Louis Pradel, Hospices Civils de Lyon, France). Members of the Jury were Klaus G. Schmidt (Professor of Paediatrics, Director of the Division of Paediatric Cardiology and Pneumology, University Medical Center, Heinrich-Heine-University of Düsseldorf, Germany) and Gurleen Sharland (Consultant/Reader Foetal Cardiology, Foetal Cardiology Unit, Evelina Children's Hospital, Guy's & St Thomas' NHS Foundation Trust, London, UK).

The award ceremony took place on 14th October 2011 during the 52nd ESPR (European Society for Paediatric Research) Annual Meeting in Newcastle, UK.

The prize is an international award which aims to promote scientific research in the field of cardiovascular disease. A prize of € 100,000 is presented every two years to a scientist who has demonstrated dedication to the advancement of scientific knowledge in cardiology. Each edition is devoted to a specific theme.

The theme for the next edition of the prize, which is to be held in 2013 will be: "The pivotal role of microcirculation in systemic and organ diseases".

Pharmaceutical Chemicals and Production Plants

Current strategy

Recordati's pharmaceutical chemicals strategy today focuses on:

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



T

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

EN ISO 14001:2004 by Det Norske Veritas Italia (DNV) an internationally accredited body.

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

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

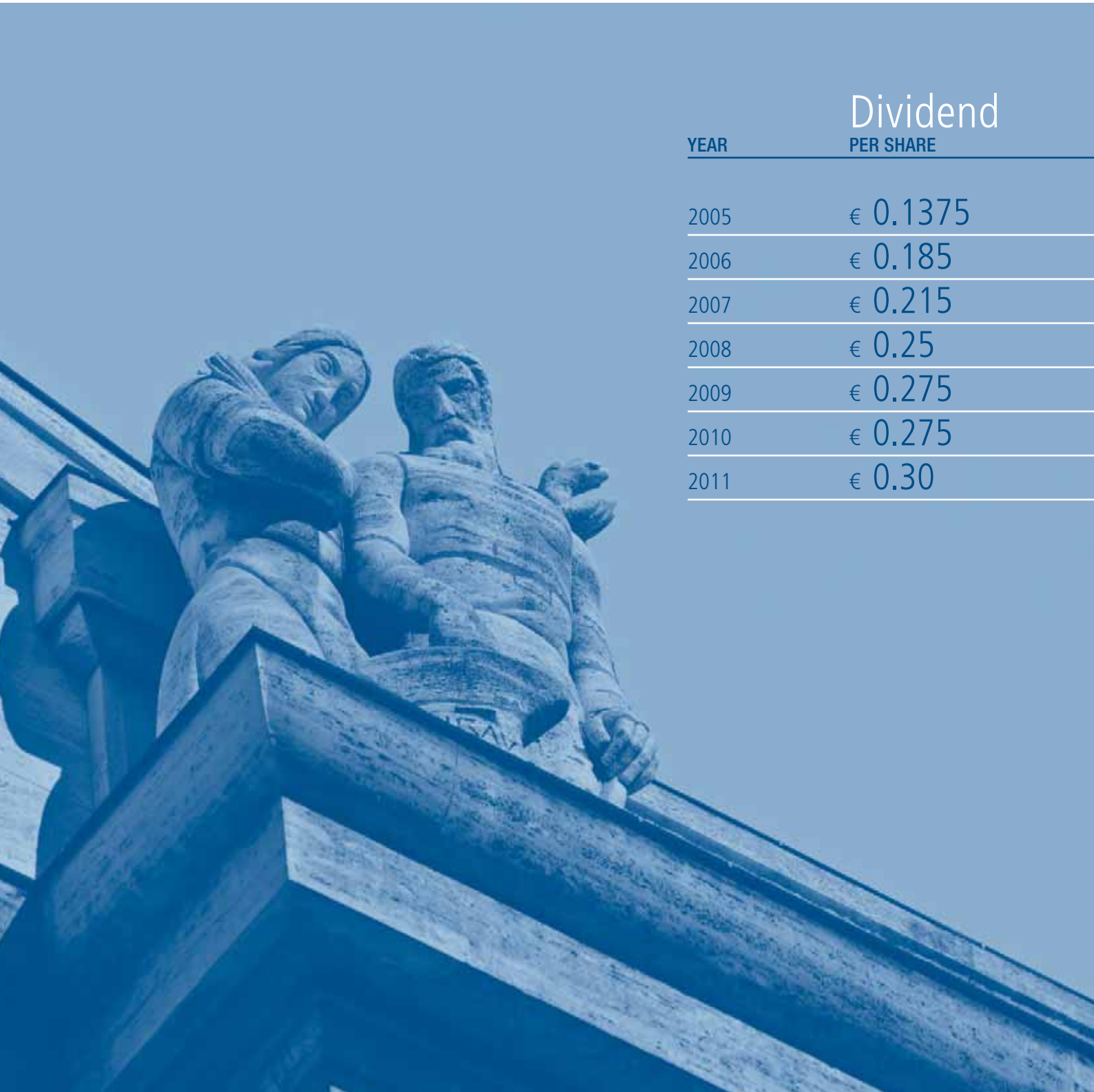
The laboratories in the Research and Development section are fitted with the latest equipment and are side by side with an extremely versatile pilot plant equipped for the industrialisation of processes.



Recordati also has four pharmaceutical production facilities all of which operate with full respect for environmental protection regulations and in compliance with Current Good Manufacturing Practices (cGMP). The largest are located in **Milan** in Italy, and at **Montluçon** in France. The Milan site occupies a surface area of 23,000 sq. m. and produces 50 million packages per year. It is specialised in the manufacture and packaging of solid oral forms, drops, injectables and products for topical use. The plant at Montluçon covers a surface area of 3,500 sq. m. and is specialised in the production and packaging of liquid, solid oral and spray formulations. It produces 30 million packages per year. The other two pharmaceutical production plants are located in **Turkey** and in the **Czech Republic**.

The Turkish site occupies a surface area of approximately 12,000 sq. m. with an installed production area of 3,000 sq. m. It produces 30 million packages per year, of which 60% is dedicated to third party production. It produces oral solid and liquid formulations and products for topical use. The plant in the Czech Republic produces creams, gels and ointments for a total of 2.5 million packages per year, some of which for third parties.

The Recordati Share

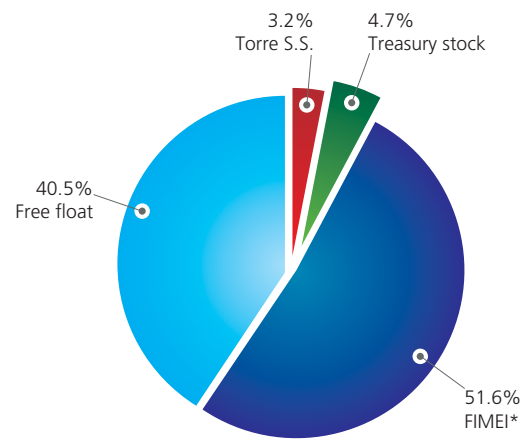


YEAR	Dividend PER SHARE
2005	€ 0.1375
2006	€ 0.185
2007	€ 0.215
2008	€ 0.25
2009	€ 0.275
2010	€ 0.275
2011	€ 0.30

THE RECORDATI SHARE

Listing:	Borsa Italiana Blue Chip segment, healthcare
ISIN Code:	IT 0003828271
Ticker:	Bloomberg REC IM, Reuters RECI.MI
Indexes:	FTSE Italia Mid Cap Index FTSE Italia All-Share Pharmaceuticals & Biotechnology Index: ICB Code 4570
Share Capital:	209,125,156 common shares
Nominal value:	€ 0.125 per share
EPS (diluted):	€ 0.556
Dividend per share:	€ 0.30

PRINCIPAL SHAREHOLDERS AT 31 DECEMBER 2011



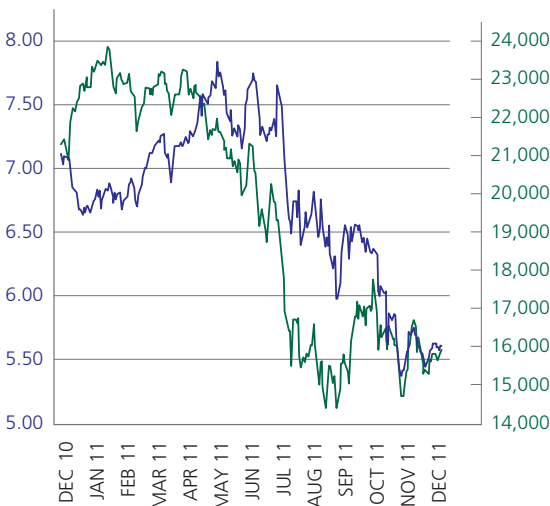
* FIMEI is 100% owned by the Recordati family

RECORDATI SHARE PERFORMANCE IN 2011

COMPARED TO FTSE ITALIA ALL-SHARE

Source: FactSet

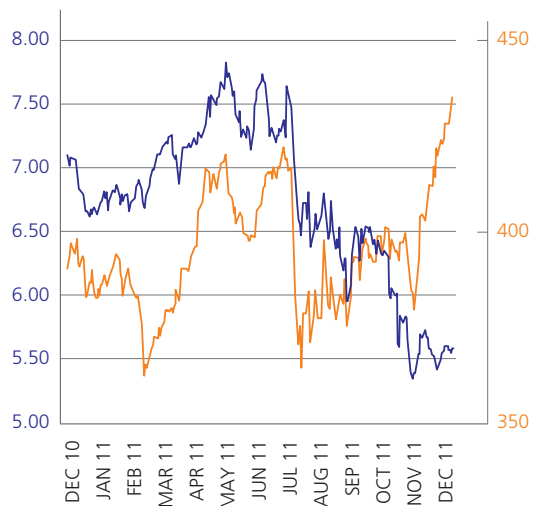
- Recordati S.p.A. (L)
- FTSE Italy All Share (IT) (R)



COMPARED TO STOXX 600 / HEALTHCARE

Source: FactSet

- Recordati S.p.A. (L)
- STOXX 600 / Health Care - SS (R)



changing marketplace
performances
since 1926
research
international
modern plant
innovative therapies
listed rare diseases
discovery urological disorders
lercanidipine
135 countries orphan drugs cardiovascular
product pipeline
trained specialist
local market
health care innovative medicines
academy pharmaceutical group
license agreements
value

Financial highlights

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

€ (thousands)	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	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

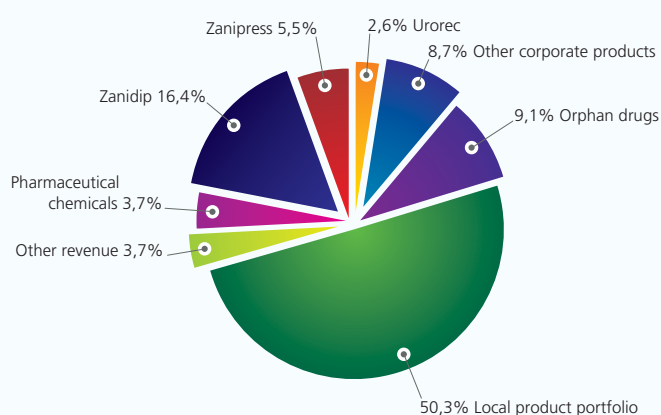
(3) Net income per share is based on average shares outstanding during the year net of average treasury stock. Average treasury stock amounted to 9,755,614 shares in 2011 and 10,955,043 shares in 2010. Shareholders' equity per share is based on total shares outstanding at year end net of treasury stock.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

2011 OPERATIONAL AND FINANCIAL REVIEWS

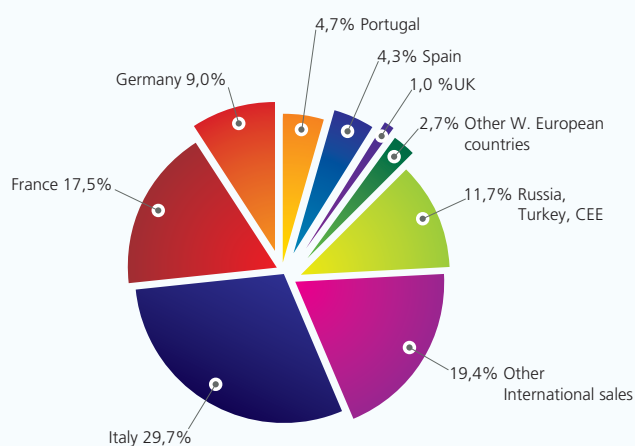
REVIEW OF OPERATIONS

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 is 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®	musculo-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 Zandip® (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 Ilaç, total € 29.0 million, a growth of 6.1% over the preceding year. During the fourth quarter Dr. F. Frik Ilaç 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), Urspas® (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 Ilaç. 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:

€ (thousands)	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, 2,689 in 2010 and 2,737 in 2009.

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 Ilaç 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 Ilaç 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 Ilaç 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 Fime S.p.A. consequent to the participation in a tax consolidation grouping under tax laws in Italy.

Except for the above, to our knowledge, no transactions or contracts have been entered into with related parties that can be considered significant, in value or conditions, or which could in any way materially affect the accounts.

FOURTH QUARTER 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 Ilaç.

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 Ilaç and Dr. F. Frik Ilaç and that the conditions indicated in the abovementioned art. 36 are fulfilled.

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 its 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 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 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

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 (<i>cash flow hedge</i>)		(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 (<i>cash flow hedge</i>)	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

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	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Interim dividend	Minority Interest	Total
Balance at 31 December 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 December 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 December 2011	26,141	83,719	(53,215)	(4,227)	(8,232)	26,600	445,745	116,434	(38,525)	40	594,480

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 Ilaç (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.

RECORDATI S.p.A. AND SUBSIDIARIES

Notes to the consolidated financial statements for the year ended 31 december 2011

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 Ilaç A.S. 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:

- 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.
- Intercompany payables and receivables and transactions, as well as intra-group profits and losses not yet realized, are eliminated.
- Any excess of the cost of acquisition over the value of equity at the date of acquisition is recognized as goodwill.
- 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 unrecognised 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 Ilaç	(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 Ilaç 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 Ilaç.

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:

€ (thousands)	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 3.9% rate to a broader taxable base which includes labour cost, interest and certain extraordinary items.

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

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, amounts to € 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 Ilaç.

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 Ilaç, 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 ilaç	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 İlaç	(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 Ilaç 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 Ilaç are € 7.8 million.

15. OTHER RECEIVABLES

Other receivables amount to € 21.3 million (€ 26.7 million 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. Friik Ilaç 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. Friik Ilaç accounts for € 0.2 million.

17. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

€ (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 Ilaç and Dr. F. Friik Ilaç 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. Friik Ilaç 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.

€ (thousands)	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 Ilaç by Citibank, at variable interest rate, repayable in 2012	2,722	-
Loan granted to Dr. F. Frik Ilaç by Vakıfbank, at variable interest rate, repayable by 2014	3,806	-
Various loans granted to Dr. F. Frik Ilaç 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	135.727

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 Ilaç.

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 Ilaç 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 product 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 Ilaç, 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 Ilaç 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 Ilaç 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 Ilaç. 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.S.. 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 (<i>fair value hedge</i>)	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 (<i>cash flow hedge</i>)	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 FINANCIAL 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.

RECORDATI S.p.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2011

ATTACHMENT 1.

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.p.A. <i>Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals</i>	Italy	26,140,644.50	Euro	Line-by-line
RECOFARMA S.p.A. <i>Dormant, holds pharmaceutical marketing rights</i>	Italy	1,258,400.00	Euro	Line-by-line
INNOVA PHARMA S.P.A. <i>Marketing and sales of pharmaceuticals</i>	Italy	1,920,000.00	Euro	Line-by-line
RECORDATI ESPAÑA S.L. <i>Development, production, marketing and sales of pharmaceuticals</i>	Spain	238,966,000.00	Euro	Line-by-line
RECORDATI S.A. Chemical and Pharmaceutical Company <i>Holding company</i>	Luxembourg	68,000,000.00	Euro	Line-by-line
BOUCHARA RECORDATI S.A.S. <i>Development, production, marketing and sales of pharmaceuticals</i>	France	4,600,000.00	Euro	Line-by-line
RECORDATI PORTUGUESA LDA <i>Dormant</i>	Portugal	24,940.00	Euro	Line-by-line
FARMARECORD LTDA <i>Dormant, holds pharmaceutical marketing rights in Brazil</i>	Brazil	166.00	BRL	Line-by-line
RECORDATI CORPORATION <i>Sales Agent for pharmaceutical chemicals</i>	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD <i>Development, production, marketing and sales of pharmaceuticals</i>	Ireland	200,000.00	Euro	Line-by-line
RECORDATI S.A. <i>Dormant, holds pharmaceutical marketing rights</i>	Switzerland	2,000,000.00	CHF	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. <i>Development, production, marketing and sales of pharmaceuticals</i>	France	14,000,000.00	Euro	Line-by-line
RECORDATI PHARMA GmbH* <i>Marketing and sales of pharmaceuticals</i>	Germany	600,000.00	Euro	Line-by-line
RECORDATI PHARMACEUTICALS LTD <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. <i>Marketing and sales of pharmaceuticals</i>	Greece	13,900,000.00	Euro	Line-by-line
JABA RECORDATI S.A. <i>Development, production, marketing and sales of pharmaceuticals</i>	Portugal	2,000,000.00	Euro	Line-by-line
JABAFARMA PRODUTOS FARMACÉUTICOS S.A. <i>Development, production, marketing and sales of pharmaceuticals</i>	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÉUTICOS S.A. <i>Development, production, marketing and sales of pharmaceuticals</i>	Portugal	50,000.00	Euro	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S.** <i>Holding company</i>	France	57,000,000.00	Euro	Line-by-line
ORPHAN EUROPE SWITZERLAND GmbH <i>Marketing and sales of pharmaceuticals</i>	Switzerland	20,000.00	CHF	Line-by-line
ORPHAN EUROPE MIDDLE EAST FZ LLC <i>Marketing and sales of pharmaceuticals</i>	United Arab Emirates	100,000.00	AED	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
ORPHAN EUROPE NORDIC A.B. <i>Marketing and sales of pharmaceuticals</i>	Sweden	100,000.00	SEK	Line-by-line
ORPHAN EUROPE PORTUGAL LDA <i>Marketing and sales of pharmaceuticals</i>	Portugal	5,000.00	Euro	Line-by-line
ORPHAN EUROPE S.A.R.L. <i>Development, production, marketing and sales of pharmaceuticals</i>	France	320,000.00	Euro	Line-by-line
ORPHAN EUROPE UNITED KINGDOM LTD <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	50,000.00	GBP	Line-by-line
ORPHAN EUROPE GERMANY GmbH <i>Marketing and sales of pharmaceuticals</i>	Germany	25,564.69	Euro	Line-by-line
ORPHAN EUROPE SPAIN S.L. <i>Marketing and sales of pharmaceuticals</i>	Spain	1,775,065.49	Euro	Line-by-line
ORPHAN EUROPE ITALY S.R.L. <i>Marketing and sales of pharmaceuticals</i>	Italy	40,000.00	Euro	Line-by-line
ORPHAN EUROPE BENELUX BVBA <i>Marketing and sales of pharmaceuticals</i>	Belgium	18,600.00	Euro	Line-by-line
FIC S.A.S. <i>Marketing and sales of pharmaceuticals</i>	France	100,000.00	Euro	Line-by-line
FIC MEDICAL S.A.R.L. <i>Marketing and sales of pharmaceuticals</i>	France	9,999.89	Euro	Line-by-line
YENI RECORDATI İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret A.S <i>Development, production, marketing and sales of pharmaceuticals</i>	Turkey	132,760,664.00	TRY	Line-by-line
HERBACOS RECORDATI s.r.o. <i>Marketing and sales of pharmaceuticals</i>	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o. <i>Marketing and sales of pharmaceuticals</i>	Slovakia	33,193.92	Euro	Line-by-line
RUSFIC LLC <i>Marketing and promotion of pharmaceuticals</i>	Russian Federation	3,560,000.00	RUB	Line-by-line
RECOFARMA İLAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.S. <i>Marketing and sales of pharmaceuticals</i>	Turkey	5,000.00	TRY	Line-by-line
RECORDATI ROMÂNIA S.R.L. *** <i>Promotion of pharmaceuticals</i>	Romania	95,200.00	RON	Line-by-line
DR. F. FRIK İLAÇ Sanayi Ve Ticaret A.S.**** <i>Marketing and sales of pharmaceuticals</i>	Turkey	40,000,057.00	TRY	Line-by-line
RECORDATI POLSKA sp. z o.o.***** <i>Non operational</i>	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										Total
	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 İlaç A.Ş.	
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%
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 İLAÇ 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 İLAÇ 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.

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

ATTACHMENT 2.

Type of service	Provider of the service	Recipient	Fees Amounts in €
Accounting audit	Auditor of Parent Company	Parent Company	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

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 of 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 Council, 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*

AUDITORS' REPORT



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

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(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/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate



Recordati Group
Report of the auditors
31 December 2011

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/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

CORPORATE GOVERNANCE REPORT AND OWNERSHIP STRUCTURE

FINANCIAL YEAR 2011

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

Approved 7th March 2012 by the Board of Directors

Website: www.recordati.com

GLOSSARY

CG Code: the Corporate Governance Code for listed companies approved in March 2006 (and amended in 2010) by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. Where not otherwise specified, references to principles, criteria and comments are to be understood as to the 2006 Code.

CG Code 2011: the Corporate Governance Code for listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., the Italian Banking Association, Ania (national insurance association), Assogestioni (national association of asset management companies), Assonime (joint stock company association) and Confindustria (Confederation of Italian Industry).

CC: the Italian Civil Code.

Board: the Board of Directors of the Recordati S.p.A.

Issuer: Recordati S.p.A.

Year: the financial year to which this Report relates (2011).

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

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

Consob related party regulations: the regulations issued by the Consob with Resolution No. 17221 of 12th March 2010 (as subsequently amended) concerning transactions with related parties.

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

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

1. THE ISSUER

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

The corporate governance structure of the Company is based on a conventional organisational model and therefore consists of the following corporate bodies: (i) the Shareholders' Meeting, (ii) the Board of Directors, (iii) the Board of Statutory Auditors. Accounting control is delegated, in compliance with the relative legislation in force, to a firm of auditors registered in the special roll maintained by the Consob.

The Board of Directors has formed two committees from among its members with consultative and proposal-making functions: the Remuneration Committee and the Internal Audit Committee, both consisting exclusively of independent directors.

The Company observes the CG Code, in accordance with the procedures contained in this report, and it will assess, during the course of 2012 – and in any case by the end of that financial year – whether to apply amendments to the CG Code approved in December 2011, reporting this to markets in the Corporate Governance Report to be published in 2013.

Unless otherwise indicated, the information contained in this report relates to the date of its approval by the Board of Directors (7th March 2012).

2. OWNERSHIP STRUCTURE (pursuant to Art. 123-*bis*, paragraph 1 of the TUF (at 7th March 2012))

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

The subscribed and paid up share capital amounts to € 26,140,644.5 and is represented by 209,125,156 ordinary shares each with a par value of € 0.125 as reported in the table at the end of this section. Each share entitles the holder to a proportional part of the profits allocated for distribution; Art. 28 of the By-Laws provides that the net profits on the balance sheet are to be distributed as follows: (a) 5% (five percent) to the legal reserve fund up to the amount established by the law; (b) the remainder, unless the Shareholders' Meeting, as proposed by the Board, resolves to allocate funds for extraordinary reserves or for other purposes, or to postpone part or all of the distribution to all shares to successive years, to be distributed to all shares.

As reported in the table below, there are no other categories of shares, nor other financial instruments that assign the right to subscribe to new share issues, with the exception of the conditions indicated below in the context of stock option plans.

The document entitled "Information on Recordati S.p.A.'s stock option plans" disclosed to markets on 17th September 2007 and the information documents prepared in accordance with Art. 84-bis of the Consob Issuers' Regulations relating to each outstanding stock option plan, available on the Company website at the address http://www.recordati.it/rec_it/investors/regulated_information/stock_options, may be consulted for information on existing stock option plans and shares issued at the service of those plans.

STRUCTURE OF THE SHARE CAPITAL

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

OTHER FINANCIAL INSTRUMENTS

(conferring the right to subscribe new share issues)

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

b) Restrictions on transfer of securities

(pursuant to Art. 123-bis, paragraph 1, letter b) of the TUF)

The shares of the Company are freely transferable.

c) Significant holdings in share capital

(pursuant to Art. 123-bis, paragraph 1, letter c) of the TUF)

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

SIGNIFICANT SHAREHOLDINGS

Declarant	Shareholder	Percentage (%) of ordinary share capital	Percentage (%) of voting share capital
FIMEI S.p.A.	FIMEI S.p.A.	51.644%	51.644%
TORRE S.S.	TORRE S.S.	3.198%	3.198%
FMR LLC	Fidelity Low Price Stock Fund	2.032%	2.032%
SCHRODER INVESTMENT	SCHRODER INVESTMENT	2.002%	2.002%
MANAGEMENT LTD	MANAGEMENT LTD		
BLACK ROCK INC	BLACKROCK ASSET MANAGEMENT IRELAND LIMITED	0.011%	0.011%
	BLACKROCK INSTITUTIONAL TRUST COMPANY NA	1.248%	1.248%
	BLACKROCK ADVISORS (UK)	0.478%	0.478%
	BLACKROCK INVESTMENT MANAGEMENT LLC	0.053%	0.053%
	BLACKROCK FINANCIAL MANAGEMENT INC	0.005%	0.005%
	BLACKROCK ASSET MANAGEMENT JAPAN LIMITED	0.016%	0.016%
	BLACKROCK ASSET MANAGEMENT AUSTRALIA LTD	0.010%	0.010%
	BLACKROCK FUND ADVISORS	0.185%	0.185%
	BLACKROCK INTERNATIONAL LIMITED	0.007%	0.007%
	TOTAL	2.013%	2.013%

As at 7th March 2012, Recordati S.p.A. held 4.6770% of treasury stock (4.6770% of the share capital with voting rights) without voting rights in accordance with the law

d) Securities with special rights

(pursuant to Art. 123-bis, paragraph 1, letter d) of the TUF)

No securities with special rights of control have been issued.

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

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

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

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

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

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

h) Change of control clauses (pursuant to Art. 123 bis, paragraph 1, letter h) of the TUF) and by-law provisions concerning public tender offers to purchase (pursuant to Art. 104, paragraph 1-ter and 104-bis, paragraph 1)

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

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

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

The By-Laws of the company do not allow exceptions to the provisions of Art. 104, paragraph 1-ter of the TUF on the passivity rule concerning public tender offers to purchase, nor do they allow the application of neutralisation rules pursuant to Art. 104-bis, paragraphs 1 of the TUF.

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

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

The increase in the share capital may be performed in one or more tranches, gratuitously or by payment, for a total maximum amount of € 50,000,000 within a period of no more than five years from the date of the resolution, by issuing ordinary shares and/or warrants for the subscription to such shares, to assign or to offer as an option to shareholders, with the right pursuant to the joint provisions of CC Art. 2441, last paragraph and TUF Art. 134, second paragraph, to offer subscription to the shares to Recordati S.p.A. employees or to subsidiaries of the Company in relation to the stock option plans decided by the Shareholders' Meeting (and therefore with the possibility to exclude the option rights to one fourth of the new issue).

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

That same Shareholders' Meeting authorised Directors, in accordance with Art. 2420-ter of the C.C. to decide the issue in one or more tranches, for a total maximum nominal amount of € 80,000,000, of bonds convertible to ordinary shares, or valid warrants to subscribe to such shares, to offer in option to shareholders within a period of no more than five years from the date of resolution, in observance of applicable law and regulations concerning the issuing of bonds, and at the same time, deciding an increase of share capital for the amount that corresponds to the nominal value of the shares to be attributed in conversion.

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

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

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

Having considered that the current authorisations pursuant to Art. 2443 of the CC and to Art. 2420-ter of the CC. will expire on 11th April 2012, the Board resolved to submit a proposal to the Shareholders' Meeting convened to approve the 2011 annual report to renew those authorisations in order to maintain the necessary operational flexibility over an appropriate time horizon. The Directors Report on the relative items on the agenda, which

will be made available within the legal time limits on the Company website and elsewhere, may be consulted for further information.

In ordinary session on 13th April 2011 a Shareholders' Meeting renewed the authorisation to purchase and assign treasury shares, pursuant to CC articles 2357 *et seq.*, until approval of the financial statements at 31st December 2011, scheduled for 19th April 2012. In particular, the maximum number of shares that may be acquired, after accounting for the number of treasury shares already held in the Company's portfolio, is 20,000,000, which corresponds to a total potential payment of not more than € 120,000,000, at a minimum price not less than the nominal value of Recordati shares (€ 0,125) and a maximum price not greater than the average of official Borsa prices during the five sessions prior to the acquisition, plus 5%. Purchases must be made on regulated markets, in observance of Art. 144bis, paragraph one, letter b), of the Consob Issuers' Regulations and according to standard practices recommended by the Consob in accordance with TUF article 180.

At the closing date of the Year, the Company held 9,785,790 treasury shares in portfolio, which represent 4.6794% of the share capital.

On the basis of that resolution, on 22nd September 2011, as disclosed to the market on that date, the Company commenced a treasury stock programme to purchase ordinary shares of Recordati to use at the service of stock option plans for employees of companies belonging to the Recordati Group already adopted by the Company and of plans that might be adopted in future, also pursuant to and for the purposes of market practices concerning the purchase of treasury stock for the constitution of "share inventories" permitted by the CONSOB, at the service of plans, in accordance with Art. 180, paragraph 1, letter c) of Legislative Decree No. 58/1998, with resolution No. 16839 2009.

As part of the implementation of that programme, the Company purchased 1,000,000 ordinary shares for a total investment of € 6,182,135.61 euro.

On 7th March 2012, the Company held 9,780,790 treasury shares treasury shares in portfolio representing 4.677% of the share capital.

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

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

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

Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A. is a mere financial holding company with no operations of any kind; no procedures exist to furnish authorizations or instructions to the Company in its relations with the Parent Company and therefore the Company sets its own strategic and operating policies in full autonomy.

The fully controlled Italian subsidiaries have acknowledged management and co-ordination by the Company and have fulfilled legal disclosure requirements in this respect.

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

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

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

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

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

4. BOARD OF DIRECTORS

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

The appointment and replacement of Directors is regulated by articles 15, 16 and 18 of the By-Laws, the text of which, last amended by a Shareholders' Meeting held on 13th April 2011 in order to make optional amendments to comply with Legislative Decree No. 27/2010 in implementation of the "shareholders rights" EU Directive, is reproduced for your information in full below:

Art. 15) The Board of Directors shall be appointed from lists of candidates presented by shareholders, according to the procedures as indicated below, in which the candidates are identified by progressive numbers.

The lists, signed by the shareholders who present them, must be deposited at the registered office of the Company at least twentyfive days prior to the date of the first convention of the Shareholders' Meeting, available to anyone who requests to see them and they will also be subject to other forms of publicity in accordance with laws and regulations in force at the time.

Every shareholder, shareholders who participate in a significant shareholders' agreement pursuant to TUF Art. 122, the parent company, subsidiaries and companies subject to joint control pursuant to TUF Art. 93, may not present or contribute to the presentation of more than one list, not even by means of another person or trustee, nor may they vote for different lists, and each candidate may be listed in only one list or will be disqualified. The subscriptions and votes expressed in violation of this prohibition will not be attributed to any list.

Only shareholders individually or jointly possessing a total number of shares with voting rights representing at least 2.5% of capital stock with voting rights at ordinary meetings, or representing a lesser percentage as established by binding legislative or regulatory provisions which shall be specified in the notice of meeting, shall have the right to submit lists.

The following items must be filed for each list within the respective deadlines set out above and as provided by applicable regulations: (i) statements by each candidate to the effect that each accepts candidacy and declares, assuming full responsibility, that there are no reasons preventing the candidate from being

electd or rendering him unsuitable for the office, and that the candidate meets any specific requirements for the relevant office; (ii) a curriculum vitae detailing each candidate's personal and professional characteristics and indicating that the candidate may be considered independent.

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

Lists that are presented but are not in accordance with the provisions as above will be considered as not presented.

The Board of Directors will be elected as follows:

- a) all of the Directors to be appointed, except one, will be selected from the list that obtained the greatest number of votes, following the progressive order in which they are listed on the list;*
- b) the remaining director shall be the candidate placed at the number one position on the minority list, which shall not be connected in any way, even indirectly, with those who submitted or voted for the list indicated in letter a) above, which obtains the second-highest number of votes. For this purpose, lists that did not obtain a percentage of votes equal to at least half of that required for presentation of the lists as at the fourth paragraph of this article will not be considered.*

For the purposes of the appointment of directors as indicated at point b) above, in the event of a tie between lists, the list presented by shareholders possessing the larger shareholding, or subordinately the larger number of shareholders, shall prevail.

If the candidates elected by the method as above do not include an adequate number of independent Directors with the characteristics as established for statutory auditors at TUF Art. 148, third paragraph, equal to the minimum number established by the law in relation to the total number of Directors, the last non-independent candidate, according to the progressive numbering, of the list that obtained the greatest number of votes as at letter a) of the paragraph above, will be substituted by the first independent candidate, according to the progressive numbering, of the non-elected candidates on the same list, or if not possible, by the first independent candidate, according to the progressive numbering, of the non-elected candidates of the other lists, according to the number of votes obtained by each. This procedure of substitution will be followed until the board of directors is composed of a number of members who have the qualifications as at TUF Art. 148, third paragraph, equal at least to the minimum legal number. If this procedure does not produce the latter result, the substitution will be effected by resolution of the Shareholders' Meeting by relative majority, after presentation of candidates who possess the qualifications as cited above.

If only one list is presented, all of the Directors will be selected from the same list. If no list is presented the Shareholders' Meeting will decide by legal majority, without following the procedure as above.

Any different or additional compulsory provisions of the law or regulations will form an exception to these provisions.

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

Article 18) - Unless already provided for by the Shareholders' Meeting, the Board shall appoint a Chairman and may appoint a Vice-Chairman from among its members. The Board shall also appoint one or more Managing Directors from among its members. The Chairman shall have all the powers vested in him by law; in the case of his absence or inability to attend for any reason, the said powers shall be exercised by the Vice-Chairman, or in his absence, by the most senior Director.

Finally, the Board shall appoint a Secretary, who need not be a member of the Board.

It is also underlined that, on the basis of the By-Laws in force, the right to submit slates is only held by shareholders who, individually or together with other shareholders submitting slates, hold voting shares representing at least 2.5% of the voting capital in an Ordinary Meeting, or representing a lower percentage established by mandatory laws or regulations. In this respect in accordance with articles 144-*quater* and 144-*septies* of the Issuers' Regulations and CONSOB resolution No. 18083 of 25th January 2012, the percentage of the share capital required to present lists is currently 2%.

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

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

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

Finally if this procedure does not lead to the aforementioned result, the directors shall be replaced by a resolution passed by relative majority of the Shareholders' Meeting upon presentation of candidates satisfying the above requirements of independence.

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

The By-Laws do not lay down any additional requirements for the independence of Directors with respect to those contained in Art. 148, paragraph 3, of Legislative Decree No. 58/1998, because the Company adheres to the CG and the Board of Directors verifies possession of the requirements of independence in accordance with the CG and consequently when a Shareholders' Meeting appoints Directors, the Board of Directors invites candidates to the position of Director contained on lists to declare also these requirements, as adopted by the Company.

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

With regard to the new regulations on gender balance in corporate bodies (L. No. 120/2011, new articles 147-*ter* and 148 of the TUF, new Art. 144-*undecies* of the Issuers Regulations), which will apply to the renewal of corporate bodies subsequent to 18th August 2012, the Company intends to make the necessary amendments to the By-Laws in order to comply with the new regulations in coming months and in any case before that date.

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

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

The By-Laws currently in force state that the Company is managed by a Board of Directors consisting of a number of members varying between six and sixteen. A shareholders' resolution of 13th April 2011 set the number of directors elected at ten and their term of office until the date of the Shareholders' Meeting convened to approve the 2013 Annual Report. The members of the Board of Directors in office at the end of the Year are given below. They were elected by a Ordinary Shareholders' Meeting on 13th April 2011. On that occasion only one slate of candidates for the office of director was presented by the shareholder FIMEI S.p.A. The slate presented by FIMEI S.p.A. consisted of the following candidates to the Board of Directors for the years 2011-2012-2013:

1. *Ing.* Giovanni Recordati
2. *Dr.* Alberto Recordati
3. *Sig.* Andrea Recordati
4. *Prof.* Silvano Corbella Independent
5. *Dr.* Mario Garraffo Independent
6. *Dr.* Germano Giuliani Independent
7. *Dr.* Umbero Mortari Independent
8. *Avv.* Carlo Pedersoli Independent
9. *Prof.* Marco Vitale Independent
10. *Dr.* Walter Wenninger Independent

All the candidates listed above were elected with 147,899,536 shares in favour out of 150,192,650 shares voting (98.473%). The voting share capital represented 71.82% of the share capital of the Issuer.

The personal and professional characteristics of each Director are documented in Attachment 1 to this Report along with the offices held by directors in other listed companies.

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

Office	Members	In office since	In Office until	Board of Directors							Internal Control Committee		Remuneration Committee	
				Slate (M/m)*	Exec.	Non Exec.	Indep. according to CG Code	Indep. according to TUF	% ***	Number of other positions ****	*** **	% ***	*** **	% ***
Chairman and CEO	GIOVANNI RECORDATI	13.4.2011	Approval of 2013 AR	M	X					100	0			
Vice Chairman	ALBERTO RECORDATI	13.4.2011	Approval of 2013 AR	M	X					81,82	0			
Director	SILVANO CORBELLA	13.4.2011	Approval of 2013 AR	M		X	X	X		100	0		X	
Director	MARIO GARRAFFO	13.4.2011	Approval of 2013 AR	M		X	X (**)	X		72,73	2	X	75	
Director	GERMANO GIULIANI	13.4.2011	Approval of 2013 AR	M		X	X	X		87,50	0		X	100
Director	UMBERTO MORTARI	13.4.2011	Approval of 2013 AR	M		X	X	X		100	0		X	100
Director	CARLO PEDERSOLI	13.4.2011	Approval of 2013 AR			X	X (**)	X		100	0			
Director	ANDREA RECORDATI	13.4.2011	Approval of 2013 AR	M	X			X (*)		90,91	0			
Director and Lead independent director	MARCO VITALE	13.4.2011	Approval of 2013 AR	M		X	X (**)	X (**)		81,82	0	X	75	
Director	WALTER WENNINGER	13.4.2011	Approval of 2013 AR	M		X	X	X		100	0			

Directors retiring on 13.4.2011

	FEDERICO NAZZARI	11.4.2008	Approval of 2010 AR	M	X			X		100	0			
	WILLIAM GUNNARSSON	11.4.2008	Approval of 2010 AR	M		X	X	X		66,67	0		X	80

Remuneration Committee members retired 13.4.2011

	MARIO GARRAFFO	11.4.2008	Shareholders' meeting 13.4.2011										X	100
	WILLIAM GUNNARSSON	11.4.2008	Shareholders' meeting 13.4.2011										X	80
	WALTER WENNINGER	11.4.2008	Shareholders' meeting 13.4.2011										X	100

* M/m are given in this column where "M" indicates a member elected from the majority slate and "m" from a minority slate.

(**) The Board has qualified Prof. Marco Vitale, Dr. Mario Garraffo and Avv. Pedersoli as independent, even though they have been directors of the Company for more than nine years during the past twelve, and in the case of Prof. Vitale even though he has been appointed as a professional consultant to the Company with an annual fee of € 50,000.00 (a non significant amount), considering that by their specific expertise and professional commitment to constant control and stimulation of the Board, they have demonstrated that they have maintained their characteristics of independence and freedom of judgement in evaluating the operations carried out by management.

(***) This column contains the percentage attendance of directors at the relative board and committee meetings (number of presences/number of meetings held during the actual period of office of the person concerned). For directors re-appointed by the Shareholders' Meeting of 13th April 2011, the percentage was calculated on eleven board meetings, while for newly appointed directors the percentage was calculated on eight meetings. Finally for retiring directors the percentage was calculated on three meetings. For members of the Remuneration Committee, the percentage for newly appointed members was calculated on four meetings, while the percentage was calculating on five meetings for members retiring on 13th April 2011.

(****) This column gives the number of appointments as a director or statutory auditor held by the person concerned in other companies listed on regulated markets, including foreign markets, in financial, banking or insurance companies or in large companies, as in the list contained in Attachment 1 of this document. which may be consulted.

(*****) An "X" in this column indicates that the Director is a member of the committee. In this respect, on 13th April 2011 a resolution of the Board of Directors appointed the following new members to the Remuneration Committee: Silvano Corbella (Chairman), Germano Giuliani and Umberto Mortari. The following directors were confirmed as members of the Internal Audit Committee: Marco Vitale (Chairman), Mario Garraffo and Carlo Pedersoli.

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

Number of meetings held during the year in question:	Board meetings:	Audit committee:	Remuneration committee:
	11	4	9

Maximum number of offices held in other companies

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

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

During the Year the Board of Directors met eleven times, with sessions that lasted an average of approximately two hours, on the following dates: 13th January 2011; 9th February 2011, 9th March 2011; 13th April 2011; 6th May 2011; 27th June 2011, 26th July 2011; 21st September 2011, 25th October 2011, 14th November 2011 and 20th December 2011. For the current year nine meetings are planned, and the Board has already met on 9th February 2012.

The promptness and completeness with which information is provided before board meetings is ensured by the Chairman with the distribution of documents relating to the items on the agenda to members a few days immediately preceding the date set for the meetings. On rare occasions it has not been possible to provide information concerning some items on the agenda until the time of the board meeting itself for reasons of confidentiality and urgency.

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

In accordance with Art. 22 of the By-laws, the Board is the corporate body endowed with the broadest powers to handle ordinary and extraordinary management of the Company and it has the right to conclude all acts that it deems appropriate in order to conduct business and to achieve the corporate purposes, excluding only those reserved by the law exclusively for the Shareholders' Meeting. In accordance with CC. Art. 2365, paragraph 2, the Board of Directors is also authorized to decide on the following matters:

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

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

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

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

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

- it studied and approved the 2012 budget of the Group;
- it approved the most significant corporate provisions;
- it identified the subsidiaries with strategic characteristics, based principally on dimensional criteria (revenues) or evaluation of the special characteristics of the market on which the subsidiary operates (such as the orphan drugs market). The following companies are qualified as strategic subsidiaries: Laboratoires Bouchara Recordati S.a.s, Recordati Ireland Ltd., Jaba-Recordati S.A., Recordati Pharma GmbH (formerly Merckle Recordati GmbH), Innova Pharma S.p.A., Orphan Europe SARL and lastly Dr. F. Frik Ilaç Sanayi Ve Ticaret Anonim Sirketi and Yeni Recordati Ilac Ve Hammaddelerei Sanayi Ve Ticaret Anonim Sirketi;
- it issued a positive evaluation of the adequacy of organisational, administrative and accounting structures, with particular reference to the internal control system and management of conflicts of interest, on the basis of the information provided to the Board in specific reports and other documentation (such as organisational diagrams) presented by the manager responsible for internal control, the Internal Audit Committee, the Supervisory Authority pursuant to Legislative Decree no. 231/2001 and by the Chairman and CEO himself.
- on 13.4.2011, having examined the proposals submitted by the relative committee and having obtained an opinion from the Board of Statutory Auditors, the Board of Director set the remuneration of the CEO and the other Directors who occupy particular positions and decided how

the total remuneration due to the members of the board was to be distributed.

- it evaluated management trends, with particular attention to the information provided by the Chairman and CEO, at the same time it compared the results with the budget provisions;
- it studied and approved strategic operations of the Company and its subsidiaries in advance, when such operations were strategically significant in relation to the economic and financial welfare of the Company (with particular reference to participation in other undertakings and special drugs).

In this respect, on 24th November 2010 the Board adopted "Regulations for related-party transactions" – available on the Company website – which establishes general criteria for the identification of related-party transactions. Section 12 of this report may be consulted for a description of those criteria and for further information on regulations governing transactions with related parties.

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

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

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

The Board of Directors conducted an evaluation of the size, composition and functioning of the Board and its committees. This evaluation was conducted by asking each Director to compile a questionnaire prepared by the Legal Service and Corporate Affairs Office of the Company. The results of that questionnaire were discussed in a board meeting of 9th February 2012. The results of the evaluation were positive and potential improvements were suggested by some Directors.

The Shareholders' Meeting of 13.04.2011 authorised a general and anticipatory exception to the prohibition on competition pursuant to Art. 2390 of the CC. Following their appointment as Directors of the Company, Dr. Mortari and Dr. Giuliani announced in a Board Meeting, as already mentioned in their *curricula vitae* deposited when slates for election by

a Shareholders' Meeting were presented, that they occupied positions in the companies Visufarma S.p.A. and Giuliani S.p.A. respectively, both operating in the pharmaceuticals sector and therefore potentially in competition with the Company. The Board considered, in accordance with the Corporate Governance Code for listed companies, that at that time no difficulties existed in relation to positions filled by the said Directors in the companies mentioned.

4.4 EXECUTIVE OFFICERS AND BODIES

Chairman and Chief Executive Officer

In accordance with article 23 of the By-Laws, representation of the Company shall be attributed to the Chairman of the Board of Directors or, in the event of his absence or inability to attend for any reason, to the Vice-Chairman, with sole signing authority for implementation of all resolutions of the Board unless otherwise resolved. The Chairman or, in the event of his absence or impediment for any reason, the Vice-Chairman, shall represent the Company before the law, with the power to take legal action and institute judicial and administrative proceedings at all levels of jurisdiction, including with respect to revocation and cassation proceedings, and appointing lawyers and attorneys for lawsuits.

In accordance with article 24 of the By-Laws, the Board of Directors may delegate all or part of its powers and functions not only to the Chairman, but also to the Vice-Chairman and one or more executive directors and it may grant special mandates to individual Directors or managers of the Company, including the power of attorney, determining their functions and powers under the law. In accordance with article 25 of the By-Laws, the Board may also delegate all or part of its powers to an Executive Committee.

On 13th April 2011 the Board of Directors appointed Ing. Giovanni Recordati not only to the position of Chairman of the Board of Directors but also to that of Chief Executive Officer with the purpose of improving the efficiency of the management of the Company.

In his role as Chief Executive Officer, Ing. Giovanni Recordati has been authorised, within the limits permitted by Law, to exercise the broadest powers for the ordinary and extraordinary management of the Company, expressly including the power to appoint directors and his agents, persons with specific duties, experts and agents of the Company in general for specific actions or types of action, with the sole, exclusive and mandatory exclusion of the following operations reserved to the Board of Directors, except for operations performed with or between other companies of the Recordati Group:

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

The Chairman and Chief Executive Officer also: (i) convenes the Board meetings and ensures that the members of the Board and the Board of Statutory Auditors are provided, with reasonable advance notice, excepting

situations of necessity or urgency, with the documentation and information necessary to enable them to express an informed opinion about the matters submitted to their examination and approval, (ii) coordinates the activities of the Board and conducts the proceedings of Board meetings; (iii) continuously provides information about the frequent variations of the law and the regulations that govern the sector and their impact on the Company, in order to develop the awareness of all Directors in relation to the situation and dynamics of the Company.

Executive Committee

No executive committee has been formed.

Reporting to the Board

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

4.5 OTHER EXECUTIVE DIRECTORS

In addition to the Chairman and CEO, the other Directors that qualify as executives are *Dr. Alberto Recordati* and *Dr. Andrea Recordati*. *Dr. Alberto Recordati*, Vice-Chairman of the Board of Directors, co-ordinates R&D and "Group Licensing-in" activities and he is also a director of some subsidiaries in the Group (including one of strategic importance). *Dr. Andrea Recordati* is head of the "International Pharmaceutical Division" and responsible for the co-ordination of licensing-out activities and he has also filled the position of Managing Director of some strategic subsidiaries.

During the course of meetings of the Board of Directors, the Chairman and Chief Executive Officer gives necessary information on the affairs of the Company and the Group, which includes information on the most important changes in legislation and regulations in the sector and their impact on the Company. During the year detailed information was given on the newly acquired Turkish company *Dr. Frik Illac* and on the project to integrate and merge this with the Turkish subsidiary *Yeni Recordati Illac*. No additional specific initiatives were necessary to increase the Directors' knowledge of the company and its dynamics, considering, moreover, that all members of the Board have an in-depth knowledge of Company and the Group, either because of the many years in office or great experience acquired working in the sector.

4.6 INDEPENDENT DIRECTORS

Following the appointment by a Shareholder' Meeting on 13th April 2011 of seven Directors, *Dr. Silvano Corbella*, *Dr. Mario Garraffo*, *Dr. Germano Giuliani*, *Dr. Umberto Mortari*, *Avv. Carlo Pedersoli*, *Prof. Marco Vitale* and *Dr. Walter Wenninger*, having taken account of the declarations issued by these directors, the Board of Directors, confirmed their possession of the requirements of independence pursuant to Art. 148, paragraph 3 of the TUF and the requirements of independence set forth in the CG Code, except for that which was reported in the notes to the table on page 14 and for that which is specified below.

The requirements of independence for directors are ascertained annually and they were last ascertained on 9th February 2012 when the Board repeated that assessment for each of the non executive directors, as reported below, in accordance, amongst other things, with the recommendations formulated by the Borsa Italiana Corporate Governance Committee on 3rd March 2010 and the 2011 CG Code.

On that occasion the Board confirmed its previous assessment concerning the relationship between the Company and *Prof. Vitale*, attributable to a professional engagement worth € 50,000.00 annually, considering the relationship cited as not significant for the purposes of independence in consideration of the small quantitative nature of the engagement. Furthermore, the Board of Directors decided not to include the

requirement relating to a Director holding office for more than nine of the last twelve years among those pursuant to the CG on the basis of which the assessment of the independence of Directors is performed. This is because, with precise reference to *Prof. Vitale*, *Dr. Garraffo* and *Avv. Pedersoli*, the Board considered that because of their specific expertise and professionalism and for their constant work in supervising and stimulating the Board they have demonstrated that they have maintained their characteristics of independence and freedom of judgement in assessing the work of management intact. Furthermore, the Board of Directors noted that the continuation of a Director in office for more than nine years should not in itself be considered a negative requirement for qualification as independent if the other requirements of the CG are satisfied. This is because great experience of the specific affairs of the issuer, the stature and professionalism of the persons considered, the absence of interests and significant relations with the Company constitute a value to be considered positively and such as to consider their capacity to judge freely and without bias to be untarnished.

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

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

4.7 LEAD INDEPENDENT DIRECTOR

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

5. CONFIDENTIALITY OF CORPORATE INFORMATION

Following amendments to TUF introduced by Law no. 62/2005 (EC Law 2004) on matters of market abuse, in 2006 the Board of Directors approved the proposal of the Chairman and CEO for "Internal regulations for handling confidential information" (to substitute an internal procedure for the management and external communication of information and confidential documents, adopted in 2001 in accordance with the Corporate Governance Code in force at the time).

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

In implementing these regulations, a procedure for "Management of the register persons who have access to confidential information" has been adopted, which establishes the method of keeping and updating the same.

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

In 2006 the Board also decided the adoption of an "internal dealing" procedure to discipline communications about transactions in Recordati S.p.A. shares or other related financial instruments issued by "significant persons", in order to implement the provisions at TUF Art. 114, paragraph 7 (and the provisions of the regulations for application of the same).

Initially some executives holding management positions, insofar as they had regular access to confidential information, were considered (together with directors, statutory auditors, the general manager and the parent company FIMEI S.p.A.) "significant persons" for the purposes of this procedure, even if they did not hold the power to make management decisions which might affect the future development and prospects of the Company.

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

6. INTERNAL COMMITTEES OF THE BOARD

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

7. APPOINTMENTS COMMITTEE

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

8. REMUNERATION COMMITTEE

Please consult the relevant part of the Report on Remuneration published in accordance with Art. 123-ter of the TUF for information on this section.

9. DIRECTORS' REMUNERATION

Please consult the relevant part of the Report on Remuneration published in accordance with Art. 123-ter of the TUF for information on this section.

10. INTERNAL AUDIT COMMITTEE

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

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

The Committee met four times during the year on 13th January 2011, 9th February 2011, 9th March 2011 and 26th July 2011. The committee met for the first time during the current year on 9th February 2012. The percentage attendance of Committee members at meetings is shown in the table contained at the end of section 4.2 of this Report.

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

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

Invited by the Chairman of the Committee and with regard to individual items on the agenda, various non-members have participated in some meetings, in particular the General Manager for the co-ordination of operations, the Internal Control Officer, the Supervisory Committee pursuant to Legislative Decree 231/01, representatives of the Audit Firm and the heads of the prevention and protection services for production sites in Italy, on matters concerning safety at the workplace.

The Group Legal Affairs is always involved for the minuting of meetings.

Duties assigned to the Internal Audit Committee

The Internal Audit Committee assists the Board of Directors in carrying out a number of tasks within the remit of the Board, namely:

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

The Internal Audit Committee also:

- assesses, together with the Financial Reporting Officer and with the auditors, the correct use of accounting principles and their consistency in the preparation of the consolidated financial statements;
- at the request of the specially appointed Executive Director, expresses opinions on specific aspects concerning the identification of the principal business risks and concerning the design, construction and management of the internal control system;
- examines the work plan prepared by the Internal Control Officer and his periodic reports;
- evaluates the proposals submitted by the audit firm with a view to being awarded the contract, as well as the work plan prepared for the audit and the results set out in the report and in any management letter;
- reports to the Board on the activities undertaken and on the adequacy of the internal control system, at least once every six months, at the time of approval of the annual accounts and half-yearly report;

- makes proposals to the Board of Directors regarding changes to be made to the Organisational Model established pursuant to Legislative Decree 231/01 adopted by the Company;
- makes proposals to the Board of Directors regarding the appointment of members of the Supervisory Board set up pursuant to Legislative Decree 231/01 and regarding the allocation of the annual budget to that body;
- expresses an opinion on the appointment and dismissal of the internal control officer(s);
- expresses an opinion on the appointment of the financial reporting officer;
- expresses an opinion on the Regulations for Related-Party Transactions which the Company must adopt in compliance with CONSOB Regulation No. 17221 of 12th March 2010 and also on any subsequent amendments to those regulations;
- expresses an opinion, either binding or not binding, on related-party transactions of major importance and on related-party transactions of minor importance in compliance with the aforementioned regulations governing related-party transactions adopted by the Company, unless they consist of related-party transactions which concern remuneration;
- performs any additional tasks that are assigned to it by the Board of Directors.

Oversight of the effectiveness of the legal auditing process has been referred by the Board of Directors to the Board of Statutory Auditors, by virtue of the powers granted to it by current legislation (Legislative Decree No. 39/2010).

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

Meetings of the Internal Audit Committee were properly minuted.

The Committee had the opportunity to access company information and access the units necessary to perform its duties; it did not make use of external advisors.

The committee did not incur any expenses in the performance of its duties during the Year.

11. INTERNAL AUDIT SYSTEM

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

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

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

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

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

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

11.a) Principal characteristics of the risk and internal control management system in relation to the financial reporting process.

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

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

A description is given below, in accordance with the regulations in force, of the characteristics of the system adopted, with particular reference to (a) the stages of the risk and internal control management system in relation to the financial reporting process and (b) the roles and functions involved.

(a) The stages of the risk and internal control management system in relation to the financial reporting process and

The Issuer has implemented a model for the administrative and accounting control of the system (hereinafter also the "262 Control Model") for some time now in order to ensure the effectiveness of that system. It has also assigned responsibility for verifying proper application of that model and for monitoring the functioning and adequacy of the Internal Control System in relation to the model to the Manager appointed to prepare corporate accounting documents.

The 262 Control Model control model consists of a set of corporate rules and procedures designed to enable objectives of reliability, accuracy, completeness and promptness in financial reporting to be achieved by identification and management of the main risks attaching to the preparation and disclosure of financial information.

The 262 Control Model consists of

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

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

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

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

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

When risks were identified following annual risk assessment activities, the Company and the Group put procedures, protocols and documents in place to control administrative and accounting activities.

The body of the administrative and accounting manuals and procedures is comprised of the following principal documents:

- the Group Accounting and Reporting Manual, designed to ensure the application of uniform criteria in the Group with regard to the recognition, classification and measurement in the accounts of operating and financial events;
- a system of internal certification by the management and administrative chiefs (CEO and Financial Controller) of the subsidiaries of the Recordati Group with regard to the accuracy, reliability and completeness of accounting information and its compliance with Group accounting policies and local regulations. This system, set out in the Group Accounting and Reporting Manual, is designed, amongst other things, to support the signing of certifications and attestations required by law of the Financial Reporting Officer and of the Chief Executive Officer;

- administrative and accounting procedures and protocols for closing accounts at the end of accounting periods and preparing annual financial statements and reporting packages which define control responsibilities, activities and rules to follow for the administration and accounts of the Parent Company and its subsidiaries;
- procedures for preparation of the consolidated financial statements which regulate the operations and controls to be performed for the preparation of the consolidated financial statements, describing, amongst other things, the activities to be performed in the consolidation IT system adopted by the Group and used in its subsidiaries and which define the responsibilities of the various functions for the proper functioning of that system;
- calendar of end of period activities: a document which is updated and distributed monthly, which gives deadlines for the process of closing accounts and preparing financial statements, reporting packages and the consolidated financial statements;
- operational procedures which define the activities, responsibilities and management operations in terms of authorisation, implementation, control, official approval and recognition in the accounts for those accounting and reporting areas considered significant, in co-ordination with annual accounting and administrative risk assessment. Those responsible for the functions and for the subsidiaries involved in the process of preparing and managing accounting and financial information are responsible for the proper functioning and update of the administrative and accounting internal control system in relation to all the processes and accounting reporting under their control and they must constantly monitor those administrative and accounting procedures in order to ensure that they are properly applied and appropriate to the existing processes;
- tables of administrative and accounting controls, which describe the control activities implemented in each administrative and accounting process in relation to the risk identified and the related control objectives and which summarise the results of control testing activities performed by the Internal Audit Function. The controls described by those tables represent the application of control principles described in administrative and accounting control procedures. These tables are therefore used as a tool for the identification of the key controls in place, specific to each significant process, and for the identification of tests to be performed to assess the adequacy of the administrative and accounting internal audit system. These tables are constantly updated by the Internal Audit Function.

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

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

The Financial Reporting Officer appointed to prepare corporate accounting documents is also responsible for monitoring the administrative and accounting internal control system on the basis of information received

from the chiefs of corporate functions and reports on the activities performed by the Internal Audit function, in order to ensure that the body of procedures is updated and that the controls identified by means of the administrative and accounting procedures are actually implemented.

(b) Roles and functions involved in the system for the management of risks and internal control in relation to the financial reporting process

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

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

11.1 EXECUTIVE DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL SYSTEM

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

The Executive Director responsible for monitoring the functionality of the internal control system:

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

11.2 INTERNAL CONTROL OFFICER

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

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

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

The Officer's duties are as follows:

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

In particular, during the Year, the Internal Control Officer:

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

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

11.3 ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001.

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

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

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

The Model consists of a general part and a specific part, arranged into different sections. The general part includes, inter alia, the Code of Ethics, the Disciplinary System and the By-Laws of the Supervisory Board. The specific part includes, inter alia, a "map" of the areas where the risk of crime is more marked and a significant number of "protocols" through which measures are put in place to prevent the commission of offences in the areas identified in the map. A similar model has been adopted for the subsidiaries Innova Pharma S.p.A. and Orphan Europe Italia S.r.l.

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

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

A training programme is in progress for subsidiaries on the Group Code of Ethics.

11.4 AUDIT FIRM

KPMG S.p.A. is the firm of external auditors appointed to audit the Company. The appointment was formally made by a Shareholders' Meeting on 13th April 2011 for the years 2011-2019, as proposed by the Board of Statutory Auditors. The appointment of the previous audit firm Deloitte & Touche S.p.A. expired at the time of the shareholders' meeting held to approve the 2010 Annual Report and Deloitte & Touche S.p.A. could not be appointed again because it had reached the maximum number of years of engagement permitted by law.

11.5 THE FINANCIAL REPORTING OFFICER

On 3rd May 2007, the Board of Directors, having noted the favourable opinion of the Board of Statutory Auditors and of the Internal Audit Committee, appointed Fritz Squindo, General Manager for the co-ordination of operations, as the Financial Reporting Officer.

During that meeting, it was confirmed that he satisfied the requirements of respectability and professionalism laid down in the applicable legislation and in the Company's By-Laws, which stipulate, in Art. 25, that the Financial Reporting Officer must not only satisfy the requirements of respectability laid down by law for those performing administrative and managerial duties but also the requirements of professionalism characterised by specific competence in administrative and accounting matters. This competence, to be verified by the Board of Directors, must be acquired through working experience in a position of adequate responsibility over a suitable period of time.

The Financial Reporting Officer is given duties and powers to perform that assignment, which include the provisions of the operational guidelines for that manager approved by the Board of Directors on 3 May 2007.

11.6 REGULATIONS FOR CONTROLLED FOREIGN COMPANIES LOCATED IN NON-EU COUNTRIES

In relation to the provisions of articles 36 and 39 of the Markets Regulations concerning the conditions for the listing of the parent companies of companies formed and regulated under the laws of countries

that do not belong to the EU and which are of significant importance for the purposes of consolidated financial statements, since 31st December 2011 the regulatory provisions of Art. 36 of the Markets Regulations have applied to the Turkish subsidiaries Yeni Recordati İlaç Sanayi Ve Ticaret Anonim Sirketi and Dr. F. Frik İlaç Sanayi Ve Ticaret Anonim Sirketi.

The Company has ascertained that the administrative, accounting and reporting systems in place in the Group enable the following:

- a) to publish the financial statements of subsidiaries used for preparing consolidated financial statements;
- b) to provide regular reports to the Company and auditors of the parent company on the operating, capital and financial positions, which are needed to prepare consolidated financial statements;
- c) reporting to the auditors of their parent company with the information they require to conduct annual and interim audits of the accounts of the parent company itself.

Finally the Company possesses continuous knowledge of the composition of the corporate bodies of the controlled companies with information on the company officers and on the corporate by-laws of the companies.

12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

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

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

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

- the Internal Audit Committee was identified as the Committee Responsible for issuing a reasoned opinion on both transactions of major importance and transactions of minor importance, except for related-party transactions concerning remuneration, for which the Committee Responsible would be the Remuneration Committee. As already reported both committees are composed exclusively of independent Directors;
- a related-party transaction is defined as any transfer of resources, services or obligations (i.e. any contractual commitment) between Recordati – either directly or through its subsidiaries – and one or more Recordati Related Parties, independently of whether any consideration has been agreed upon;
- a Recordati related party is defined as:
 - (a) the parent of Recordati and its shareholders;
 - (b) any other party which, either directly or indirectly, including through subsidiaries, trust companies or intermediaries and/or jointly with other parties (also defined as related parties):

- (i) exercises Control over Recordati, is controlled by it or is subject to Common Control;
- (ii) holds an interest in the share capital of Recordati such that it is able to exert Significant Influence over it;
- (c) an associate company of Recordati;
- (d) a joint venture in which Recordati SpA is a venturer;
- (e) an executive with strategic responsibilities of Recordati or its parent;
- (f) a close member of the family of one of the parties referred to in letters (a), (b) or (e);
- (g) an entity in which one of the parties referred to in letters (e) or (f) exercises Control, Joint Control or Significant Influence or holds, either directly or indirectly, a significant proportion, and in any case not less than 20%, of the voting rights;
- (h) a collective or individual, Italian or foreign, supplementary pension fund, formed for the benefit of Recordati employees, or any other entity related to it, to the extent by which that fund has been formed or promoted by Recordati, or in the circumstance that Recordati may influence its decision-making processes.
- Executives with Strategic Responsibilities are defined as those persons who have power over and responsibility, either directly or indirectly, for the planning, management and control of the activities of the Company, including the directors (executive and non executive) of the company itself, full members of the Board of Statutory Auditors, the general managers, the manager appointed to prepare corporate accounting documents (the "Financial Reporting Officer") and all those additional persons identified from time to time such by the Board of Directors, and proposed by the Chief Executive of the Company;
- Transactions of Major Importance are defined as those related-party transactions for which at least one of the relevance indicators contained in the aforementioned Attachment No. 3 of the Consob Regulations and which are applicable according to the characteristics of each related-party transaction (i.e. value of the transaction in relation to shareholders' equity or, if greater, to capitalisation; total assets of the entity involved in the transaction compared to the total assets of the Company; total liabilities of the entity acquired compared to the total assets of the Company) exceeds 5%;
- Transactions of Minor Importance are defined as those related-party transactions which are not transactions of major importance and not transactions of negligible amount i.e. transactions for an individual amount of less than 150,000 euro.

The Regulations do not apply to:

- Transactions of Negligible Amount unless they are more than one Transaction of Negligible Amount performed as part of a single plan, the total value of which exceeds the sum of 150,000 euro;
- intercompany transactions provided that no Significant Interests of other related parties of the Company exist in the subsidiaries of Recordati or in associate companies of Recordati which are counterparties to the transaction. It is considered that the existence of "Significant Interests" of other related parties could be determined by:
 - the existence of a significant amount receivable by the Chief Executive Officer of the Parent from a subsidiary;
 - one or more directors or other executives with strategic responsibilities shared between companies who benefit from share based incentive schemes (or in any case variable remuneration) dependent on the results of subsidiaries or associate companies with which the transaction is performed;
 - an interest held in a subsidiary or associate company (even indirectly) by the party that controls the parent.
- shareholders' resolutions pursuant to Art. 2389, paragraph one of the Italian Civil Code, concerning the remuneration due to members of the Board of Directors and resolutions concerning the remuneration of Directors appointed to special positions which forms part of the total

amount determined in advance by shareholders in accordance with Art. 2389, paragraph three of the Italian Civil Code;

- shareholders' resolutions pursuant to Art. 2402 of the Italian Civil Code, concerning the remuneration due to members of the Board of Statutory Auditors;
- remuneration schemes based on financial instruments approved by shareholders in accordance with Art. 114-bis of the TUF and the relative transactions to implement them;
- decisions (other than those referred to under the preceding letter c) concerning the remuneration of Directors, Directors appointed to special positions and other executives with strategic responsibilities, when (i) the Company has adopted a remuneration policy (the formulation of which involved a committee formed exclusively of non executive directors, the majority of which are independent) (ii) the Company has submitted a report which illustrates the remuneration policy to a Shareholders' Meeting for approval or a consultative vote, and (iii) the remuneration actually assigned is consistent with that policy;
- decisions, to be taken when a professional arrangement is established with Recordati, concerning the remuneration of executives with strategic responsibilities, other than Directors and members of the Board of Statutory Auditors;
- transactions which fall within the ordinary performance of operating activities and the related financial activities concluded under conditions equivalent to market conditions or standards (i.e. conditions similar to those normally practiced with non related parties for transactions of an analogous nature, magnitude and risk or based on regulated tariffs or on compulsory prices or those practised for parties with which the Company is obliged by law to negotiate a determined consideration). The "ordinary performance" is identified by considering the contents, recurrence, function or purpose and timing of the transaction and also the nature of the counterparty, even if it is a related party. Operating Activities are defined as the main revenue generating activities and all other normal activities of the Company that are not classifiable as investment or financial activities pursuant to International Financial Reporting standard seven adopted by EC Regulation No. 1126 of 2008, as subsequently amended from time to time. Should the exemption contained in this point apply, the Company is nevertheless required, without prejudice to Art. 114, paragraph 1 of the TUF, to comply with the provisions of Art. 13, paragraph 3, letter c), points i) and ii) of the Consob Regulation No. 17221 of 12th March 2010;
- demerger transactions in the strict sense of the proportional type, share issues with option rights reserved to shareholders and to any holders of financial instruments (therefore issuances which are performed without excluding their option rights) and transactions for the purchase/sale of treasury stock if performed, other conditions remaining the same, to the benefit of both related parties and all others holding rights;
- transactions to be performed on the basis of instructions for the purposes of stability issued by the supervisory authority, without prejudice to disclosure obligations under Consob Regulations.

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

13. APPOINTMENT OF AUDITORS

The appointment of Statutory Auditors is regulated by article 26 of the By-Laws, which is reproduced below:

“Art. 26) The Shareholders’ Meeting shall appoint the Board of Statutory Auditors, comprising three statutory auditors and two alternate auditors, who may be re-elected, and shall determine their remuneration. Their powers, duties and term of office shall be as established by law.

Auditors shall satisfy the requirements laid down in current laws and regulations. As regards requirements of professionalism, the matters and sectors of activity strictly connected with that of the company are the research, production and sale of chemical and pharmaceutical products.

The minority shareholders shall elect one Statutory Auditor and one Alternate Auditor.

Unless otherwise provided for in laws or regulations, the Board of Statutory Auditors shall be appointed according to the procedures set out in the following paragraphs on the basis of lists submitted by Shareholders in which candidate are listed by means of a progressive number.

The list must specify whether each candidate is nominated for the position of Statutory Auditor or for the position of Alternate Auditor.

Only Shareholders individually or jointly possessing a total number of shares with voting rights representing at least 2.5% of capital stock with voting rights or representing a lesser percentage as established or provided by binding legal or regulatory provisions which shall be specified in the notice of meeting shall have the right to present lists.

Each shareholder, including shareholders who have signed a shareholders’ agreement pursuant to Art. 122 of Legislative Decree no. 58/1998, the holding entity, subsidiaries, and jointly controlled entities are not permitted to submit or help to submit more than one list or vote for different lists, including through an intermediary or trust company. Each candidate may only be present on one list failing which he will be ineligible. Votes cast in violation of the above prohibition shall not be attributed to any list.

Submitted lists shall be deposited at the Company’s registered office at least twentyfive days before the date scheduled for the Shareholders’ Meeting at first call without prejudice to any further forms of disclosure required by any rules or regulations from time to time in force.

Without prejudice to all other rules prescribed by the rules and regulations in force the following documents shall be submitted together with each list by the deadline specified above:

- a) information on the identity of the shareholders who have submitted the lists, indicating the total percentage of capital stock held;*
- b) a declaration by shareholders other than those who hold, including jointly, a controlling interest or relative majority, attesting to the absence of any forms of association with such shareholders, as provided by applicable regulations;*
- c) a thorough report of the personal characteristics of candidates and a declaration from the said candidates attesting that they possess the requirements established by law, together with their acceptance of the candidature.*

Lists not satisfying the requirements specified above shall be considered as not having been submitted.

Auditors shall be elected as follows:

- 1. from the list which obtained the highest number of votes at the Shareholders’ Meeting, two statutory auditors and one alternate auditor shall be elected, based on the progressive order with which they are listed in the sections of the list;*
- 2. from the second list which obtained the highest number of votes at the Shareholders’ Meeting and which, in accordance with regulations in force, has no connection, not even indirectly, with those who submitted and voted for the list which obtained the highest number of votes, one statutory auditor, who shall chair the Board of Statutory Auditors, and one alternate auditor shall be elected, based on the progressive order with which they are listed in the list.*

In the event of a tie between lists for the appointment of the Auditors indicated in point 2 of the foregoing paragraph, the list submitted by shareholders owning

the largest shareholding or, alternatively, the list submitted by the largest number of shareholders shall prevail.

Should a single list or no list be submitted, all candidates for the posts of Statutory and Alternate Auditors named on the list or respectively those voted for by the Shareholders’ Meeting shall be elected provided that they obtain the respective majority of the votes cast in the Shareholders’ Meeting.

Should they no longer satisfy the requirements laid down by law and in the by-laws, the auditor shall leave office.

Should it become necessary to replace a statutory auditor, the alternate auditor belonging to the same list as the outgoing auditor shall take the latter’s place or, failing this, should the minority auditor leave office, he shall be replaced by the next candidate on the list from which the outgoing auditor was elector, or, alternatively, by the first candidate on the minority list that obtained the second highest number of votes.

It is understood that the board of statutory auditors shall continue to be chaired by the minority auditor.

The procedure outlined below shall be followed when the Shareholders’ Meeting is required to appoint statutory and/or alternate auditors to complete the board: if it is necessary to replace auditors elected on the basis of the majority list, the replacements shall be appointed by relative majority vote without list voting; if, however, it is necessary to replace auditors elected on the basis of the minority list, the Shareholders’ Meeting shall replace them by a relative majority vote by choosing them from the candidates on the list from which the outgoing auditor was elected or on the list that obtained the second highest number of votes.

Should the application of the above procedures not result in the replacement of the auditors designated by minority shareholders for whatever reason, the Shareholders’ Meeting shall hold a relative majority vote, following the presentation of candidatures by shareholders that, individually or together with others, possess shareholdings with voting rights that represent at least the percentage indicated above in relation to the procedure for the presentation of lists. However, votes registered by shareholders who hold the relative majority of voting rights that may be exercised in the meeting as identified in disclosures made in accordance with applicable regulations, whether directly, indirectly, or jointly with other shareholders who have signed a shareholders’ agreement as indicated in article 122 of Italian Legislative Decree No. 58/1998, shall not be considered in establishing the outcome of said vote.

Members of the Board of Statutory Auditors may participate in meetings remotely by means of audio-visual connection, video conferencing or telephone link-up systems.

In the above case:

- the following must always be established:*
 - a) the identity of all members attending at each connection point shall be verified;*
 - b) each member attending shall be permitted to express a personal opinion verbally, to view, receive or send any documentation and to participate simultaneously in the discussion of the points at issue and pass resolutions; meetings of the Board of Statutory Auditors shall be considered to be held at the place where both the Chairman and Secretary are located.*
- The legal audit of the Company’s accounts shall be performed by the Audit Firm on the basis of applicable regulations”.*

It is underlined that the right to submit lists is only held by shareholders who, individually or together with other shareholders submitting lists, hold voting shares representing at least 2.5% of the voting capital in the Ordinary Meeting, or representing any lower percentage established by mandatory laws or regulations. In accordance with articles 144-quater and 144-septies of the regulations adopted by CONSOB Resolution No 11971 of 14.4.1999 and CONSOB Resolution No. 18083 of 25th January 2012, the percentage of the share capital required to present lists of candidates to supervisory bodies is currently 2%.

The minority lists shall elect one Statutory Auditor and one Alternate Auditor. As regards the appointment mechanism adopted for choosing the candidates on the various lists submitted, note that, again according to the above transcribed Art. 26 of the By-Laws, two statutory auditors and

one alternate auditor are elected from the list which obtained the highest number of votes in the Shareholders' Meeting, based on the progressive order with which they are listed in the sections of the list; from the second list which obtained the highest number of votes after the first list and which has no connection, not even indirectly, with the shareholders who submitted or voted for the list which obtained the highest number of votes, one statutory auditor, who will chair the Board of Statutory Auditors, and one alternate auditor are elected, based on the progressive order with which they are listed in the list.

14. AUDITORS

The composition of the Board of Statutory Auditors in office on the closing date of the Year is shown below. The Board was appointed by the Ordinary Shareholders' Meeting of 13th April 2011 and its term of office will expire at the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2013.

One single slate of candidates was presented for the office of Statutory Auditor in the ordinary Shareholders' Meeting of 13th April 2011 by the shareholder FIMEI S.p.A. The slate presented by FIMEI S.p.A. contained the following candidates to the Board of Statutory Auditors for the years 2011-2012-2013:

- | | |
|-----------------------------|-------------------|
| 1. Dr. Marco Nava | Statutory Auditor |
| 2. Dr. Marco Rigotti | Statutory Auditor |
| 3. Dr. Achille Severgnini | Statutory Auditor |
| 4. Dr. Marco Antonio Viganò | Alternate Auditor |
| 5. Dr. Antonio Mele | Alternate Auditor |

All the candidates listed above were elected with 149,910,627 shares in favour out of 150,192,650 shares voting (99.812%). The voting share capital represented 71.684% of the share capital of the Issuer.

Curricula vitae providing information on the personal and professional characteristics of each candidate were attached to the slate presented by FIMEI, accompanied by a list of the management and supervisory positions occupied in other companies and which are significant in accordance with the law and also by declarations made by each candidate that they accept their candidature and that there are no grounds for ineligibility or incompatibility and that they satisfy the requirements prescribed by law and in the by-laws for the office of Statutory Auditor. The above documentation may be consulted on the website www.recordati.it (in the section Investor Relations, shareholders' meetings, financial year 2011).

The personal and professional characteristics of each auditor are in any case contained in attachment 1 of this Report.

Board of Statutory Auditors

Office	Members	In office since	In Office until	(M/m)	Indep. according to CG Code	Indep. according to TUF	** (%)	Number of other offices ***
Chairman	MARCO NAVA	13.4.2011	Approval of 2013 AR	M	X	X	100	29
Statutory auditor	MARCO RIGOTTI	13.4.2011	Approval of 2013 AR	M	X	X	87,5	5
Statutory auditor	ACHILLE SEVERGNINI	13.4.2011	Approval of 2013 AR	M	X	X	100	14
Alternate auditor	ANTONIO MELE	13.4.2011	Approval of 2013 AR	M	X	X	-	6
Alternate auditor	MARCO ANTONIO VIGANÒ	13.4.2011	Approval of 2013 AR	M	X	X	-	21

Statutory Auditors retiring on 13.4.2011

Alternate auditor	MARCO ANTONIO VIGANÒ	11.4.2008	Approval of 2010 AR	M	X	X	-	5
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* *M/m* are given in this column where "M" indicates a member elected from the majority slate and "m" from a minority slate.

** This column contains the percentage attendance of Auditors at the relative board meetings of Statutory Auditors (number of presences/number of meetings held during the actual period of office of the person concerned).

*** This column gives the number of appointments as Director or Statutory Auditor held by the person pursuant to article 148-bis of the TUF. The full list of offices is published by the CONSOB on its website, pursuant to article 144-quinquiesdecies of the Issuers' Regulations.

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

Number of meetings held during 2011: 9

The Board of Statutory Auditors met nine times during the year, with meetings lasting two hours on average, on the following dates: 14th January 2011, 20th January 2011, 3rd March 2011, 23rd May 2011, 22nd June 2011, 25th July 2011, 25th October 2011, 17th November 2011 and 14th December 2011.

As regards the current year, eight meetings are scheduled and the Board of Statutory Auditors has already met on 28th February 2012. The percentage attendance of Auditors in these meetings is shown in the table above.

The Board of Statutory Auditors conducted an internal verification of its independence after its appointment. It was found from the outcome of that verification that all the Statutory Auditors in office possessed the requirements for independence according to Art. 148 of the TUF and also with regard to the criteria contained in the CG Code. That assessment was repeated with a positive outcome on 28th February 2012.

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

The Board of Statutory Auditors has checked the independence of the audit firm KPMG S.p.A., checking both compliance with legislative provisions and the nature and extent of services other than financial auditing

provided to a number of subsidiaries by the same audit firm and by the entities belonging to the latter's network. For information concerning services other than those of auditing the accounts provided by the audit firm to the Company and its subsidiaries, reference may be made to the relative attachment "Disclosure of auditors' fees for accounting audits and other services" to the consolidated financial statements at 31st December 2011 and the draft separate financial statements of Recordati S.p.A. at 31st December 2011.

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

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

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

15. RELATIONS WITH SHAREHOLDERS

The Company has created a specific section on its website called "Investors", which is easily identifiable and accessible and which contains important information about the Company for its shareholders so that they can exercise their rights in an informed manner. The Company has also created a special section on its website entitled "Regulated information" in which regulated information pursuant to Art. 113-ter of the TUF that is regulated is published as required by article 65 bis of the Issuers' Regulations.

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

The Investor Relations function of the Company is also responsible for relations with financial analysts who cover the Company and with institutional investors. That function organises periodic "conference call" meetings designed to provide periodic operational and financial information and the documentation presented in those meetings is disclosed to the public at the same time on the Company website and it is filed with Borsa Italiana.

16. SHAREHOLDERS' MEETINGS

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

On 26th October 2010 the Board of Directors amended the Corporate By-Laws in order to make compulsory amendments to comply with Legislative Decree No. 27/2010. The Shareholders' Meeting of 13th April 2011 approved amendments of an optional nature, recommended by the Board of Directors, to the Corporate By-Laws in accordance with Legislative Decree No. 27/2010. In this respect the Directors' Report on the item disclosed to the public for that Shareholders' Meeting may be consulted on the Company website www.recordati.it (in the section Investor Relations, shareholders' meetings, financial year 2011).

In accordance with Art. 9 of the Corporate By-Laws in force (in the version last amended by a Shareholders' Meeting of 13th April 2011), Shareholders' Meetings are convened in the manner and within the legal time limits on the Company website and, where necessary due to mandatory provisions or decided by the directors, in the Official Gazette and in at least one of the following national newspapers: "Il Corriere della Sera", "La Repubblica", "La Stampa", "Il Giornale", "Milano Finanza", as well as according to other procedures provided for by the legislation and regulations currently in force.

Following amendments made by the Shareholders' Meeting of 13th April 2011 to the By-Laws, Art. 9 states that "notice to convene may also contain the date of meetings convened subsequent to the first. The Board of Directors may decide, if it considers it appropriate, to convene Ordinary and Extraordinary Shareholders' Meetings to be held following one single Notice of Meeting. In the case of a single call the legal majorities for that purpose apply."

Furthermore, that same Art. 9 of the By-Laws also states that: "Ordinary Shareholders' Meetings are called to approve the financial statements within one hundred and twenty days of the end of the company's financial year. Where permitted by the law, a Shareholders' Meeting may be convened within onehundredandeighty days from the end of the financial year. Directors shall indicate the reasons for the delay in the report required by Article 2428 of the Italian Civil Code.

Other than on the initiative of the Board of Directors, a Shareholders' Meeting may be called pursuant to the law by the Board of Statutory Auditors or by only two of its members, or upon the request of shareholders representing at least 5% of the capital stock."

In accordance with Art. 12 of the By-Laws in force, resolutions of ordinary and extraordinary meetings, on the first and successive calls, as well as for single calls, are valid if made in the presence of the required number of persons and the majorities required by law. Therefore an ordinary Shareholders' Meeting is validly constituted in first call with the attendance of shareholders accounting for at least half of the share capital with voting rights at the meeting itself and resolutions are passed by an absolute majority of those participating, including abstentions.

An ordinary Shareholders' Meeting is validly constituted in second call no matter what proportion of the share capital is represented and resolutions are passed by an absolute majority of those participating, including abstentions.

An extraordinary Shareholders' Meeting is validly constituted in first call with the attendance of shareholders accounting for at least half of the share capital and resolutions are passed with the vote in favour of shareholders representing at least two thirds of the share capital.

An extraordinary Shareholders' Meeting is validly constituted in second call with the attendance of shareholders accounting for at least a third of the share capital and resolutions are passed with the vote in favour of shareholders accounting for at least two thirds of the share capital present at the meeting.

In the case of a single call: an Ordinary Shareholders' Meeting passes

resolutions with an absolute majority, whatever the percentage of the capital stock represented and an Extraordinary Shareholders' Meeting is validly constituted when at least one fifth of the capital stock is represented and it passes resolutions with the vote in favour of at least two thirds of the share capital represented in the Shareholders' Meeting.

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

In accordance with Art. 10 of the By-Laws, as per the text amended by the Shareholders' Meeting of 13th April 2011, those holding the right to vote may be represented by a written proxy, where no incompatibilities and limitations exist pursuant to the legislation and regulations in force. The Company may be notified of the proxy for participation in the Shareholders' Meeting by sending the document to the email address indicated in the Notice of Meeting.

Furthermore, the new Art. 135-*undecies* of the TUF, inserted by Legislative Decree No. 27/2010 introduced a "Designated representative of a listed company" "unless the Corporate By-Laws stipulate otherwise, listed companies designate a representative for each Shareholders' Meeting to which shareholders may grant an authorisation, by the end of the second day of market trading prior to the date set for the Shareholders' Meeting in first or second call, with voting instructions on all or some of the motions on the agenda. The proxy is valid solely for proposals in relation to which voting instructions have been given." At present Recordati's Corporate By-Laws contain no provisions in this respect, and this new provision is therefore considered applicable to future Shareholders' Meetings of the Company, until different provisions are introduced to the Company By-Laws.

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

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

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

The Board of Directors, through the Chairman and Chief Executive Officer, reported, in the Shareholders' Meeting held on 13th April 2010, on activities undertaken and those planned, and responded to questions posed by a number of shareholders. The volume containing a copy of the draft separate financial statements and consolidated financial statements, with the accompanying reports and the Directors' Reports on the proposals

concerning items placed on the agenda was handed out at the entrance and also sent to shareholders who had taken part in recent meetings in order to ensure adequate disclosure of the necessary information so that they could take the decisions for which they are responsible with full knowledge of the facts. The above documentation has been made available and it may be consulted on the Company website www.recordati.it.

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

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

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

18. CHANGES OCCURRING SINCE THE END OF THE YEAR

No changes in the structure of the corporate governance of the company have occurred since the end of the Year. Nevertheless, activities are in progress to assess the innovations introduced to the CG Code with the new edition of that code approved in December 2011 and possible actions to comply with it to be implemented during the financial year.

In this respect, Issuers have been invited to apply the amendments to the GC Code approved in December 2011 by the end of the financial year 2012, informing markets of this application in the corporate governance report to be published in 2013.

On the basis of a recommendation made by the Remuneration Committee, in 2011 the Board of Directors voted to postpone application of article 7 (now article 6) of the Corporate Governance Code and in particular with regard to setting a remuneration policy, considering it best to wait for the regulations that implement the new article 123-*ter* of the Consolidated Finance Act to be issued and to subsequently publish a single policy document for the remuneration of Directors and key management personnel which takes account of both the legislation and the Corporate Governance Code.

With Resolution No. 18049, on 23rd December 2011 the Consob issued amendments to the regulations for the implementation of the TUF on the remuneration of the directors of listed companies.

In a Board Meeting of 7th March 2012, the examination and approval of the Report on Remuneration was programmed which will then be published within the legal time limits in accordance with Art. 123-*ter* of the TUF, on the basis of a recommendation of the Remuneration Committee.

Milan, 7th March 2012

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

ATTACHMENT 1

PROFESSIONAL OVERVIEW OF THE DIRECTORS

GIOVANNI RECORDATI

Giovanni Recordati holds a degree in chemical engineering from the Politecnico di Milano and a master's degree in Management Sciences from Imperial College London.

He joined Recordati in 1974 as a researcher. In 1980, he was appointed as Central Production Manager and, in 1984, as Deputy General Manager for Operations and Research. In 1990, he was appointed Chief Executive Officer with responsibility for managing the operational activities of the Group's Italian and foreign companies. He has been a member of the Board of Directors since 1977. Presently he is Chairman, Chief Executive Officer and General Manager of Recordati S.p.A. as well as holding positions in other group positions.

ALBERTO RECORDATI

Alberto Recordati graduated from University of London King's College in 1977 with a degree in biochemistry and in 1984 successfully completed a research PhD within the Biochemistry Department of Charing Cross Hospital Medical School part of that same university.

He joined Recordati in 1984 as a researcher in the biochemistry laboratories. In 1987 he was appointed Head of the Planning and Product Development Office. From 1990 to 1992, he worked for the US subsidiary Pharmetrix Corp as research project coordinator. In 1992 he was appointed Industrial Manager for Biochemicals with responsibility for biochemical/microbiological research and for the Cascina de' Pecchi biochemical/fermentation production site. In 1995, he became Head of the Chemical Research and Technologies Division. In 1999, he was appointed director in charge of the fine chemicals sector and in 2004 Deputy Chairman of Recordati S.p.A. He has held responsibility for co-ordinating the "Drug Discovery" and "Drug Development" activities of the Company since 2008 and also for licensing-in activities since 2011 .

SILVANO CORBELLA

Silvano Corbella was born in Novara, April 18th 1965. After he received the degree in Business Administration at Bocconi University in Milan, he began the academic career, teaching at Bocconi University, SDA Bocconi, Libero Istituto Universitario Carlo Cattaneo in Castellanza and Cattolica University in Cremona. In 1994 he joined the University of Verona as Assistant Professor. At the same time, and until 2008, he taught at SDA Bocconi, where for nearly a decade he was also tenured of the Financial Accounting course at the Master in Business Administration. At the beginning of 2011, after various career steps, he became Full Professor at the University of Verona, where he has been teaching Accounting and carrying out his research activity for 15 years.

He is Chartered Accountant and Auditor and holds various assignments: he is Chairman and/or Supervisory Body member of both listed and unlisted companies and of an American Merchant Bank branch. Moreover, he is member of several Boards of Statutory Auditors. In relation to his professional activity, he provided capital evaluations for different purposes, also with regard to listed companies, and financial – economic opinions; he has been an accounting expert of Arbitral Board and of civil and penal proceedings.

He is author of several articles and four monographs on topics related to internal audit system, financial statement and stock options. With regard to these topics, he is a regular speaker at conferences and workshops.

Prof. Silvano Corbella is member of the Board of Statutory Auditors of the following companies:

1. Leonardo & Co S.p.A.
2. Euraleo S.r.l.
3. Growermetal S.r.l.
4. Procos S.p.A.
5. Librerie Feltrinelli S.r.l.
6. Gian Giacomo Feltrinelli Editore S.r.l.
7. Ivri Direzione S.p.A.
8. I.V.R.I. Istituti di Vigilanza Riuniti S.p.A. (Milan)

Prof. Silvano Corbella is, also, member of the Board of Directors of EVS Embedded Vision Systems S.r.l.

MARIO GARRAFFO

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

Dr. Garraffo holds the following additional positions:

- Chairman IVG SGR SpA
- Director of GE INTERBANCA SpA

MARIO GERMANO GIULIANI

Mario Germano Giuliani was born in London on February 26th 1972 and he holds a degree in Economy and Commerce from the Catholic University of Sacred Heart in Milan, Italy.

He starts his career in the pharmaceutical industry in 1996 in Giuliani SpA where he works in marketing, sales, finance and control.

In 1998 and 1999, Mr. Giuliani was an investment professional with Vector Fund Management, a private equity firm focused on healthcare and life sciences with approximately \$250 million under management.

After his experience in the US, Mr. Giuliani re-joins Giuliani SpA as chief financial officer until 2001. In 2001 he becomes chief executive officer and in 2003 president.

UMBERTO MORTARI

Umberto Mortari was born in Milan on October 27th, 1946. He got a degree in Law at the "La Sapienza" University of Rome. He attended different Business and Management Programs at INSEAD and at the Business Schools of Harvard University and Michigan University.

In June 2001 he was awarded by the University of Chieti "G.D'Annunzio" an HC degree in Medicine and in September 2005, by the University of Pavia, an HC degree in Pharmacy.

He joined Merck Sharp & Dohme (Italia) S.p.A. in 1972, where he held various positions in the areas of Marketing, Sales and Business Planning Research.

In 1981 he was appointed Marketing Director, in 1986 Director of Pharmaceutical Division, in 1987 member of the Board of Directors and Managing Director in 1991.

Since January 1992 to December 2007 he became President, Managing Director and Vice President of Merck Europe. He has held the following positions in other companies of Merck Italia Group: President and Managing Director of Neopharmed in Milan; President and Managing Director of the Istituto Gentili in Pisa; member of the Board of Directors of the Istituto di Ricerche Biomolecolari-Pietro Angeletti in Pomezia and President of the MSD Foundation.

Member of FARMINDUSTRIA Board, where he was Vice President for eight years.

He was also President of the Center of Clinical Physiology and Hypertension of the University of Milan; Vice President of the Forum for Biomedical Research of CENSIS and member of the Board of the Italian Society of Pharmaceuticals Sciences.

Currently he is President of the "Accademia degli Incolti", President of the Executive Committee of Gaffi Editore in Rome and member of Visufarma S.p.A. Board of Directors.

CARLO PEDERSOLI

Carlo Pedersoli was admitted to the Milan bar in 1980.

A partner in the Pedersoli e Associati law firm, he is a civil lawyer who deals predominantly in company and commercial law for national and international clients operating both in the financial/banking sector and in the industrial sector. He has spoken at conferences on company and commercial law, analysing the topic of financial statements, validity of shareholders' resolutions and responsibility of auditors.

As well as forming part of the Board of Directors and of the Internal Audit Committee of Recordati S.p.A., he is also a member of the Board of Directors of Welfare Italia Servizi S.r.l..

He has also been a Director of the companies Riello S.p.A., Sigla Engineering S.p.A., Nextam Partners SGR S.p.A. and Chairman of the company Sistemi Tecnologici Holding S.p.A., the holding company of Sistemi Tecnologici S.p.A. which is in turn the holding company of Sirti S.p.A..

ANDREA RECORDATI

Andrea Recordati gained a Bachelor of Arts in medieval and modern history from the University of London Royal Holloway and Bedford New College. Between September 1995 and March 1998, he participated in the SmithKline Beecham Management Access Program, in the United Kingdom, starting off as Assistant Product Manager in Consumer Healthcare and then, for one year, occupying the role of medical representative in Essex before becoming Project Manager responsible for the development and implementation of an innovative SmithKline Beecham marketing initiative.

He joined Recordati in 1998 as Project Leader for a project aimed at improving Sales Force productivity and better use of marketing investments. In April 1998, he joined the Board of Directors of the Company.

In 1999, he was given responsibility for Pharmaceutical Business Development.

In March 2002, the Lercanidipine Business Unit was set up and he was appointed head of that unit. Since November 2002, he has been responsible for setting up the subsidiary Recordati Ireland and its industrial plant and, subsequently, for setting up the UK subsidiary. In September 2006, he was appointed Sole Director of the German subsidiary Merckle Recordati GmbH. In August 2007, the Northern and Central Europe Subsidiaries Division was set up and he was appointed head of that division. That division was enlarged in 2010 to include all western European companies. In February 2011 he was appointed General Manager of the International Pharmaceuticals Division.

MARCO VITALE

Marco Vitale business economist. He has taught for several years business economy at Pavia University; Bocconi University, Milan; Libero Istituto Universitario Carlo Cattaneo (for which he was vice-president, President of the Scientific Committee, and responsible for management area and which he contributed to create). He has been chairman of Istud (Foundation for the business culture and management), which he also contributed to relaunch, and has been co-ordinator for management area of ISTAO, post-degree management school founded by the economist Prof. Giorgio Fuà.

Former partner of Arthur Andersen & Co., he is founding partner and president of Vitale–Novello & Co. S.r.l., top management consulting firm. In this context he is consultant and member of the board of directors for many important companies.

He is President from March 2010 of Fondo Italiano di Investimenti SGR SpA, constituted by the Treasury Ministry, Confindustria, ABI, Banca Intesa, Unicredit, Monte Paschi, Crediop and some popular banks, with a capital of 1.2 billion Euro, with the aim of sustaining development projects and internationalization of little medium companies.

He has been president from 1984 till 2003 of A.I.F.I. (Italian Venture Capital and Private Equity Association) and promoter and first president of Arca Group, the mutual fund company of popular banks. He has been Vice-president, member of the board and of the Executive Committee of Banca Popolare di Milano from 2001 till 2009 and was Chairman of Bipiemme Gestioni S.G.R., the Asset Management Company of the BPM Group.

President of the Rino Snaidero Scientific Foundation; President of the Scientific Committee of AldAF (the Italian Family Business Association); member of the Board of Olivetti Foundation; member of the Board of FAI Foundation.

He has been appointed to several important public tasks.

He contributes to important leading newspapers and business magazines.

He published several books including:

Società, bilanci e borse valori in un mercato mobiliare evoluto (Etas-Kompass); La riforma delle società per azioni (Giuffrè); La lunga marcia verso il capitalismo democratico (Ed. Il Sole-24 Ore); Liberare l'economia: le privatizzazioni come terapia alla crisi italiana (Ed. Marsilio); Le Encicliche sociali, il rapporto fra la Chiesa e l'economia (Ed. Il Sole-24 ore); Sviluppo e Spirito d'Impresa (Ed. Il Veltro); America. Punto e a capo (Scheiwiller); Il Mito Alfa (Egea editore, Bocconi); Lezioni di Impresa, da tempi e luoghi diversi – I proverbi di Calatafimi (Piccola Biblioteca Inaz, 2008); Gli angeli nella città (ESD Edizioni); Passaggio al Futuro, Oltre la Crisi attraverso la Crisi (Ed. Egea, Bocconi); Corruzione (ESD Bologna 2010); Responsabilità nell'impresa (Piccola Biblioteca d'Impresa Inaz, 2010); Spiritualità nell'impresa (Piccola Biblioteca d'Impresa Inaz, 2011); Viaggio nello sport italiano (ESD Edizioni, 2011).

He was editor in Italy and USA of the bilingual version of the essay of Carlo Cattaneo: "Intelligence as a principle of public economy".

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

Prof. Vitale holds the following additional positions:

- Director ETICA SGR SpA.
- Director SAME DEUTZ FAHR SpA.
- Chairman SAME DEUTZ FAHR ITALIA SpA.
- Director ERMENEGILDO ZEGNA HOLDITALIA SpA.
- Director Snaidero SpA.
- Director LUVÉ SpA
- Director SMEG SpA
- Director Banca Passadore SpA
- Chairman of the Fondo Italiano d'Investimento SGR

WALTER WENNINGER

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

He has been a member of the Management Board of Bayer Ag with responsibility for health care and life science and also Chairman of the Board of Directors of Bayer Corp. Pittsburg, USA.

He has been a member of the Board of Trustees of the German Cancer Research Centre of Heidelberg and of the German Cardiac Research Foundation of Frankfurt.

He currently occupies various positions on the boards of directors of European biopharmaceutical firms and he is a member of the executive committee of the Robert-Koch-Foundation in Germany.

The *Dr. Wenninger* holds positions in the following companies:

- Deputy Chairman of the Board of Directors of Paion AG, Aachen, Germany until May 2011.
- Chairman of the Board of Directors of Noxxon Pharma AG, Berlin, Germany.
- Deputy Chairman of Santaris Pharma, Horsholm, Denmark.
- Deputy Chairman of Evotec AG, Hamburg, Germany.
- Member of the Novo A/S Advisory Group Hellerup, Denmark since September 2010.

CURRICULA VITAE OF THE MEMBERS OF THE BOARD OF STATUTORY AUDITORS

STATUTORY AUDITORS

MARCO NAVA, Chairman of the Board of Statutory Auditors

Marco Nava graduated in Economics and Commerce and in Jurisprudence at the *Università Cattolica del Sacro Cuore* of Milan. He started his career as an accountant in 1988. He has been registered as an auditor since the first publication of the register (1995).

He performs his principal activity as an accountant with his own offices in a partnership of accountants and lawyers.

He is a statutory auditor and external auditor for companies operating in various sectors.

Marco Nava holds positions in the following companies:

- Chief Executive Officer Nava Viganò Revisori Associati Srl
- Sole director Tazat Srl
- Chairman of the Board of Directors QE Qualità Europe Srl
- Chairman of the Board of Statutory Auditors Cavenaghi SpA
- Chairman of the Board of Statutory Auditors Dott. G. Cavenaghi SpA
- Chairman of the Board of Statutory Auditors Finset srl
- Chairman of the Board of Statutory Auditors Fratelli Re SpA
- Chairman of the Board of Statutory Auditors Generale de Santé Italia SpA
- Chairman of the Board of Statutory Auditors Max Moda SpA
- Chairman of the Board of Statutory Auditors Prodotti naturali SpA
- Chairman of the Board of Statutory Auditors Promunidi Srl
- Chairman of the Board of Statutory Auditors RBR Valvole SpA
- Chairman of the Board of Statutory Auditors SL Diagnostic Services Italy Srl
- Chairman of the Board of Statutory Auditors Synlab Italia Srl
- Statutory Auditor Beaumanoir Italy srl
- Statutory Auditors Campo SpA
- Statutory Auditor Elcrom srl
- Statutory Auditor Emiflex SpA
- Statutory Auditor Fimei SpA
- Statutory Auditor Giuseppe & Fratelli Bonaiti SpA
- Statutory Auditor Innova Pharma SpA
- Statutory Auditor J Colors SpA
- Statutory Auditor Junionfin SpA
- Statutory Auditor Marionnaud Parfumeries Italia SpA
- Statutory Auditor Pompetravaini SpA
- Statutory Auditor Recofarma Srl
- Statutory Auditor S.I.S.A. Società Italiana Spalmature ed Affini SpA
- Statutory Auditor Twister Communications SpA
- Sole Auditor Avio San Michele Srl.

MARCO RIGOTTI

Marco Rigotti was born in Milan on 16th June 1967. He graduated in Corporate Economics at the Bocconi University of Milan in 1992, and registered with the *Albo dei Dottori Commercialisti* (association of chartered accountants) of Milan in 1993 and in the register of auditors in 1999.

He left the Consob in 1998 where he performed studies into insider trading and share price manipulation. He practices as an accountant in Milan and performs research at the A. Sraffa Department of Legal Studies at the Bocconi University where he is a lecturer in commercial law.

He is the author of numerous academic publications on company law and financial markets.

Marco Rigotti holds positions in the following companies:

- Chairman of the Board of Directors Meridiana Fly S.p.A.
- Chairman of the Board of Statutory Auditors TAS S.p.A.
- Chairman of the Board of Statutory Auditors TAS NCH HOLDING S.p.A.
- Chairman of the Board of Statutory Auditors ZAGLIANI S.p.A.
- Statutory Auditor POLARIS INVESTMENT ITALIA Società di Gestione del Risparmio S.p.A.

ACHILLE SEVERGNINI

Achille Severgnini graduated in Business Administration at "Libero Istituto Universitario Carlo Cattaneo" in Castellanza in 1998.

Registered as an Account of Dottori Commercialisti in Milan in 2002 and since 2002 had his career at Milan, as a partner of Studio Severgnini - Commercialisti Associati.

He is a director, statutory auditor and external auditor for the following companies:

- Statutory Auditor di Artes s.r.l.
- Chairman of the Board of Statutory Auditors Bacamul S.p.A.
- Statutory Auditor Colombo Immobiliare 81
- Statutory Auditor Fazzini S.p.A.
- Director Finsev S.p.A.;
- Director Giuliani Group S.p.A.
- Director Giuliani S.p.A.
- Statutory Auditor Immobiliare Vitagliano S.p.A.
- Chairman of the Board of Statutory Auditors Immobiliare Apollo XIV S.p.A.
- Statutory Auditor Immobiliare Arkimede S.p.A. in liquidation
- Statutory Auditor Imolva S.p.A.
- Chairman of the Board of Directors of Severgnini Family Office s.r.l.
- Chairman del Board of Directors SFO Fiduciaria s.r.l.
- Statutory Auditor Stella Blu S.p.A.

ALTERNATE AUDITORS

ANTONIO MELE

Antonio Mele was born in Galatina (LE) on the 5th of June 1968 and he graduated with highest honors in Economics and Banking in 1991, he is a Chartered Accountant registered in Milan since 2007 and member of the Auditors Register since 1999.

Antonio started his career in Consob as supervisory inspector.

After leaving Consob in 1999, he joined Sanpaolo IMI Group (now Intesa Sanpaolo), working in various roles in Banca IMI, the Group investment bank; in 2002 he became CFO and in 2005 he was appointed Head of the Operations (including all the support functions: finance and administration, middle office, back office, legal, etc...).

In 2007 Antonio left the Group starting an independent consultancy activity focused on banking and financial sector (financial reporting, governance, operations, legal and compliance).

Antonio is collaborating with leading investment banks in structuring various capital market transactions.

Antonio currently serves as:

- Member of the Statutory Audit Board of MERIDIAN Fly SpA
- Member of the Statutory Audit Board of MERIDIANA SpA
- Member of the Statutory Audit Board of SHINE SIM SpA
- Member of the Statutory Audit Board of NCH Holding Ltd
- Member of the Statutory Audit Board of SOFIB S.r.l.
- Member of the Statutory Audit Board of VALUE INVESTMENTS SpA

MARCO ANTONIO VIGANO'

Marco Antonio Viganò graduated in Corporate Economics, specialising in freelance professionals, at the Bocconi University of Milan in 1984. He passed state examinations and qualified to practice as an accountant in 1986 when he registered with the *Albo dei Dottori Commercialisti* (association of chartered accountants) of Milan.

He has been registered as an auditor since the first publication of the register (1995). An expert in commercial and tax law, he practices as an accountant and advises companies, groups and organisations operating in a variety of economic sectors.

He has been a lecturer at the *Scuola di Formazione del Praticantato* for accounting students and accountant and auditor for the *Università Cattolica del Sacro Cuore* of Milano.

Dr. Marco Antonio Viganò occupies the following management and supervisory positions in other companies:

This auditor holds positions in the following companies:

- Sole Director Chem Investment Consulting Srl.
- Chief Executive Officer QE Qualità Europa Srl.
- Director R.B.R. Valvole SpA.
- Chairman of the Board of Statutory Auditors Beaumanoir Italy Srl.
- Chairman of the Board of Statutory Auditors Elcrom Srl.
- Chairman of the Board of Statutory Auditors J Colors SpA.
- Chairman of the Board of Statutory Auditors Junionfin SpA.
- Chairman of the Board of Statutory Auditors Marionnaud Parfumeries Italia SpA.
- Chairman of the Board of Statutory Auditors SF Foundry Service SpA.
- Chairman of the Board of Statutory Auditors Twister Communication Group SpA.
- Chairman of the Board of Statutory Auditors Vibro-mac Srl.
- Chairman of the Board of Directors Masseria Giancamisa Soc. Agr. Srl.
- Chairman of the Board of Directors Nava Viganò Revisori Associati Srl.
- Statutory Auditor Emiflex SpA.
- Statutory Auditor Finset Srl.
- Statutory Auditor Fratelli Re SpA.
- Statutory Auditor Generale de Santé Italia SpA.
- Statutory Auditor Immobiliare Parabiago SpA.
- Statutory Auditor Immobiliare Risanamento SpA.
- Statutory Auditor Pompetravaini SpA.
- Statutory Auditor Vi.Ma. SpA.

This booklet is a summary of the 2011 Report of Board of Directors of Recordati SpA, which has been publicly filed in accordance with Italian law.

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

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(elected by
the Shareholders' Meeting
of April 13, 2011)

Giovanni Recordati
Chairman and Chief Executive Officer

Alberto Recordati
Vice Chairman

Silvano Corbella
University Professor
Accountant and External Auditor

Mario Garraffo
Former Senior Advisor
GE Europe

Mario Germano Giuliani
Chairman Giuliani S.p.A.

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

Carlo Pedersoli
Partner
Pedersoli e Associati Law Firm

Andrea Recordati
General Manager
Pharmaceuticals International

Marco Vitale
Economist and Business Consultant

Walter Wenninger
Former Member of the
Board of Management Bayer AG

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President

Mario Garraffo
Carlo Pedersoli

REMUNERATION COMMITTEE

Silvano Corbella
President

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Umberto Mortari

STATUTORY AUDITORS

Marco Nava
President

Marco Rigotti
Achille G. Severgnini
Auditors

Marco Antonio Viganò
Antonio Mele
Alternate auditors

EXTERNAL AUDITORS
KPMG S.p.A.

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Giovanni Recordati
Chairman
and Chief Executive Officer

Alberto Recordati
Vice Chairman

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Corporate Development

Luciano Bonacorsi
Human Resources

Celestino Di Rollo
Pharmaceuticals, Italy

Duccio Favara
Licensing

Daria Ghidoni
Group Legal Affairs

Safuan Gritli
International Medical and Marketing

Amedeo Leonardi
Drug Discovery

Giovanni Mariani
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Diego Provedini
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Andrea Recordati
Pharmaceuticals International

Arnaldo Restelli
Central and Eastern
European Subsidiaries

Paolo Romagnoli
Pharmaceutical Chemicals

Marco Liguori
Special Care and Orphan Drugs
General Manager Orphan Europe

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

Marianne Tatschke
Investor Relations & Communications

RECORDATI

Industria Chimica e Farmaceutica S.p.A.

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