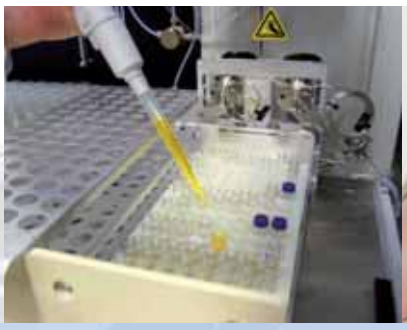
ANNUAL REPORT 2007

RECORDATI

CONTENT

FINANCIAL HIGHLIGHTS

REVENUE

€ (thousands)	2007	%	2006	%	Change 2007/2006	%
Pharmaceuticals	594,434	94.6	537,834	93.3	56,600	10.5
Pharmaceutical chemicals	34,001	5.4	38,352	6.7	(4,351)	(11.3)
TOTAL REVENUE	**628,435**	**100.0**	**576,186**	**100.0**	**52,249**	**9.1**
Italy	203,656	32.4	203,432	35.3	224	0.1
International	424,779	67.6	372,754	64.7	52,025	14.0

KEY CONSOLIDATED DATA

€ (thousands)	2007	% of Revenue	2006	% of Revenue	Change 2007/2006	%
EBITDA[1]	157,465	25.1	143,648	24.9	13,817	9.6
Operating income	131,496	20.9	120,341	20.9	11,155	9.3
Net income	84,865	13.5	74,031	12.8	10,834	14.6
Dividends	42,220[2]		36,956		5,264	14.2
Dividends/net income	49.7%		49.9%			

[1] Earnings before interest, taxes, depreciation and amortization

[2] Proposed by the Board of Directors and calculated on the number of shares outstanding at year-end, net of treasury stock which amounted to11,472,355 shares

	31 December 2007	31 December 2006	Change 2007/2006	%
Net financial position[3]	(97,159)	22,363	(119,522)	n.s.
Shareholders' equity	390,603	366,802	23,801	6.5

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

PER SHARE

€ per share [4]	2007	2006	Change 2007/2006	%
Net income	0.427	0.370	0.057	15.4
Shareholders equity	1.989	1.836	0.153	8.3
Dividend	0.215[5]	0.185	0.030	16.2
Shares outstanding:				
- average during the year	198,557,743	200,053,683		
- at December 31	196,372,301	199,759,765		

[4] Net income per share is based on average shares outstanding during the year net of average treasury stock. Average treasury stock amounted to 8,495,866 shares in 2007 and 5,720,085 shares in 2006.

Shareholders' equity per share is based on total shares outstanding at year end net of treasury stock. Treasury stock amounted to 11,472,355 shares at 31 December 2007 and 6,654,891 shares at 31 December 2006.

[5] Proposed by the Board of Directors


G. RECORDATI

LETTER FROM THE CHAIRMAN

CONSOLIDATED REVENUE € 628.4 MILLION, OPERATING INCOME € 131.5 MILLION AND NET INCOME € 84.9 MILLION

"The acquisition of Orphan Europe reinforces our new product pipeline and enhances the group's know-how in the management of highly specialized products, a developing segment in the current pharmaceutical market."

To Our Shareholders,

In 2007 the revenues and profitability of our business further improved thanks to the continued development of our international business, the growth of our original antihypertensive drug lercanidipine and the careful management of company resources. Revenue is up 9.1%, operating income is up 9.3% and net income is up 14.6% over the 2006 results. In line with our strategy to expand our activities in new markets and reinforce our new product pipeline, Orphan Europe, a European group specialized in rare diseases, was acquired. This acquisition enhances the group's know-how in the management of highly specialized products, a developing segment in the current pharmaceutical market.

Consolidated revenue is € 628.4 million, an increase of 9.1% over the same period of the preceding year. Pharmaceutical sales are € 594.4 million, an increase of 10.5% and include the Portuguese business acquired at the end of 2006. The international pharmaceutical business grows by 16.5%, while sales in Italy are substantially in line with the preceding year despite the price cuts imposed during the second half of 2006. Sales of lercanidipine, Recordati's original antihypertensive drug, are up by 8.9%. Pharmaceutical chemical sales are € 34.0 million, down by 11.3% as compared to the preceding year.

Operating income, at 20.9% of sales, is € 131.5 million, an increase of 9.3% over the preceding year. Gross margin improves further due to a favourable product mix and now stands at 67.2% of sales. R&D expenditure is € 49.1 million, an increase of 8.2%.

Net income, at 13.5% of sales, is € 84.9 million, an increase of 14.6%, a higher growth than that of operating income due to an improved tax rate.

The net financial position at 31 December 2007 is a net debt of € 97.2 million (as opposed to a net cash position of € 22.4 million at 31 December 2006) as a result of the acquisition of Orphan Europe which required a cash outlay of € 135 million. Shareholders' equity further increased and is € 390.6 million.

During 2007 important initiatives for the development of the group were carried out.

To begin with, the launch of our new antihypertensive product which associates lercanidipine and enalapril in a fixed combination initiated. In April it was launched in Germany under the brand Zanipress® by our subsidiary Merckle Recordati and by Meda, an international pharmaceutical company, as Zaneril®. In October the product, under the brand Carmen ACE®, was launched on the German market also by Berlin Chemie (Menarini group) which already markets lercanidipine there successfully. Licensing agreements for the sale of the new product in other markets were finalized and the agreement with Meda for the Spanish market is one of these.

In January Recordati Ireland Ltd. initiated commercial operations in the Irish pharmaceutical market where Zanidip® (lercanidipine) is now promoted directly by this subsidiary following the termination of the agreement with the previous licensee. Furthermore, in April our subsidiary Recordati Hellas initiated sales of Lercadip® (lercanidipine) in Greece in both its 10 and 20mg dosage forms.

In December the acquisition of Orphan Europe, a European pharmaceutical group with headquarters in Paris dedicated to the development, registration, marketing and distribution of unique drugs for the treatment of rare and orphan diseases, was finalized. Orphan Europe employs about 120 personnel and has subsidiaries in nine European countries and in the United Arab Emirates as well as representative offices in seven countries. Orphan Europe currently markets ten products which target mostly chronic and life-threatening diseases and has other innovative drugs in development. Orphan Europe is one of very few European specialists in the neonatal, paediatric and metabolic disorders fields. It has a unique distribution network from a centralized unit in Paris which serves patients throughout the EU and in many other countries worldwide. Over 50 well trained orphan drug specialists operate out of 17 different countries, in collaboration with a scientific and product support central team and with healthcare professionals and patient groups to improve knowledge and awareness of rare diseases. Furthermore, the group includes the Orphan Europe Academy which provides healthcare professionals with the opportunity to share and increase knowledge, develop new ideas, and strengthen scientific collaboration in the area of rare diseases.

The orphan drug market is a niche market with significant growth potential. Only a few of the total estimated 6,000 to 8,000 rare diseases are currently treated pharmacologically. The identification and awareness of rare diseases is constantly increasing and the continuous scientific advances are enabling earlier diagnosis of these diseases and the development of adequate therapies. Public healthcare authorities in many countries are sensitive to the needs of patients suffering from these diseases and the social issue they represent.

The acquisition of Orphan Europe fits well with Recordati's growth strategy based on expansion and the strengthening of its product portfolio and pipeline. The development of Stanate® and Infasurf®, two new neonatology products obtained under license, will surely benefit from the expertise which Orphan Europe is able to provide. Furthermore, Orphan Europe represents a unique opportunity to strengthen our R&D capabilities and to establish even closer relationships with academic researchers and eminent scientists.

As regards our R&D activities, in September the double-blind portion of the phase III study of silodosin, licensed from Kissei, was successfully completed. Silodosin is a new selective alpha blocker

for the treatment of symptoms associated with benign hypertrophy of the prostate, a condition affecting millions of male patients across the world. The study was designed to show superiority of silodosin over placebo and non-inferiority to tamsulosin in all parameters. Silodosin was found to be significantly superior to placebo in all parameters, with scores that were always equal to or better than those of tamsulosin. There were no safety issues. The drug is already successfully marketed in Japan by Kissei and Daiichi Sankyo. In the US the licensee Watson Pharmaceuticals filed for approval with the FDA in February 2008. Recordati is completing the long-term portion of the phase III study and plans to file for approval in Europe, and in other countries of the licensed territory, during the last quarter of 2008.

At the end of May Jaba Recordati transferred its industrial lease agreement for the production site in Loures, Portugal, and the associated pharmaceutical manufacturing business to Clintex Produtos Farmacêuticos for an amount of € 1.8 million which includes the value of existing inventories.

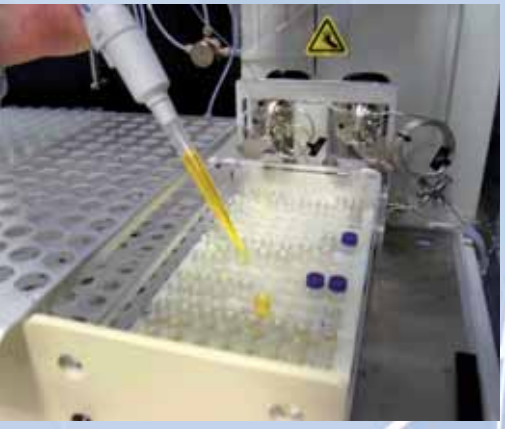
Our development strategy will continue to be based upon the reinforcement of our product pipeline and the further internationalization of our business. The search for new products, both through our internal research and development activities and through alliances with other pharmaceutical companies, will also be aimed at new treatments for rare diseases, a niche market which has significant growth potential. Furthermore, we intend to enter the markets of Eastern Europe which have interesting development prospects and to strengthen our presence, through selective acquisitions, in the markets where we are already present.

In order to achieve these ambitious targets we count, as always, on the entrepreneurship and determination of our management team, the professional skills of our employees and the trust of our shareholders. We would like to express our gratitude to all of them for their contributions during 2007.

DIVIDENDS

Based on these results, the Board of Directors of the parent company will propose to the shareholders a dividend of € 0.215 per share (€ 0.185 per share last year) to be paid to all shares outstanding, excluding those in treasury stock, as from 24 April 2008 (trading ex-dividend as of 21 April 2008). This per share dividend includes the accretion deriving from the dividend which would have been due to the shares in treasury stock.

Giovanni Recordati
Chairman and Chief Executive Officer



RESEARCH AND DEVELOPMENT

THE INVESTMENT OF RESOURCES AND THE DEDICATION TO R&D CONTINUED IN 2007 AND ARE OF FUNDAMENTAL IMPORTANCE IN THE GROUP'S STRATEGY.

"The introduction of new products is of primary importance for the group's growth. With the acquisition of Orphan Europe our pipeline has become richer with the addition of new products indicated for the treatment of rare diseases."

The investment of resources and the dedication to research and development activities continued during 2007 and are of fundamental importance in the group's strategy. The introduction of new products both through our internal R&D activities and through alliances with other leading pharmaceutical companies is of primary importance for the group's growth in the future. Our product pipeline comprises drugs and drug candidates in various development phases in order to ensure a balanced use of resources and a continuous flow of new products for market introduction.

PIPELINE

NAME	ORIGINATOR	INDICATION	DEVELOPMENT STATUS
Zanipress® / Zanitek®	Recordati	Hypertension (lercanidipine + enalapril)	Launched in the RMS (Germany) MRP ongoing
rupatadine	Uriach	Rhinitis, allergic, seasonal / perennial urticaria	Approved
fentanyl patch	Lavipharm	Moderate to severe chronic pain	Filed in the RMS (UK)
prulifloxacin	Nippon Shinyaku / Angelini	Infection, respiratory tract, urinary tract	Filed
silodosin	Kissei	Benign prostatic hyperplasia	Phase III
pitavastatin	Kowa	Hyperlipidemia, general	Phase III
2 new lercanidipine combinations	Recordati	Hypertension	Phase II
lercanidipine MR	Different technology platforms	Hypertension, general	Formulation / Phase II
REC 0422	Recordati	Overactive bladder and incontinence	Preclinical
REC 1819	Recordati	Overactive bladder and incontinence	Preclinical

RMS – Reference Member State
MRP – Mutual Recognition Process

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

Zanipress®/Zanitek® is a new specialty indicated for the treatment of hypertension developed by Recordati. It is a fixed combination of lercanidipine and enalapril, an extensively used drug belonging to the angiotensin conversion enzyme inhibitors class (ACE inhibitors). The product was launched in Germany in April 2007 and the outcome of the mutual recognition process to obtain approvals for the rest of Europe is expected within the first quarter 2008.

Fixed combinations of more than one antihypertensive agent will play a significant and increasing role in the future hypertension market. The international guidelines for the treatment of hypertension establish new aggressive targets for blood pressure control in order to minimize the risk of severe cardiovascular events. Most hypertensive patients, especially those with other associated risk factors, now require multiple therapies using more than one drug to keep their blood pressure at desired levels. Associations of a calcium channel blocker and an ACE inhibitor are frequently prescribed in

such conditions. Furthermore, large clinical outcome trials show that cardiovascular events are drastically reduced by using modern antihypertensive drug combinations (such as those belonging to the calcium channel blocker and ACE inhibitor classes) as opposed to using older treatments. These findings confirm the usefulness of our new treatment which combines a last generation calcium channel blocker, lercanidipine, with a widely prescribed ACE inhibitor.

The advantages of fixed combinations as opposed to the administration of separate treatments are significant. The combined dosages of the drugs are those broadly used by the physician and their efficacy and tolerability have been clinically proven. Patient compliance – which is extremely important in chronic treatments aimed at reducing and preventing cardiovascular risk – is increased. The cost of treatment is reduced, an advantage which could play an important role in curbing public healthcare spending.

The expected increase in the use of these fixed combination therapies for the treatment of hypertension is behind the decision to develop other new associations of our drug lercanidipine and other active principles used for the same indication. The first of these is based on lercanidipine and another drug acting on the angiotensin II receptor while the second is an original fixed combination targeting more severe patients.

During 2007, the project with LifeCycle Pharma and that with Osmotica Pharmaceutical Europe for the creation of new formulations of lercanidipine to improve its clinical profile progressed. Furthermore, a project was initiated with Pharmaten to develop a new immediate release formulation.

Rupatadine is a latest generation systemic antihistamine drug indicated for the treatment of allergies and in particular allergic rhinitis. This product, which is already on the market in Spain, was recently approved in other European countries and can also be marketed by us in France, Germany, Italy and in the United Kingdom under a license agreement with the Spanish pharmaceutical company Uriach.

Fentanyl is a centrally acting, potent analgesic. In its transdermal form, designed to deliver fentanyl through the skin for up to three days, it is used to treat moderate to severe chronic pain, such as that experienced in cancer. Recordati has a multi-territorial license from Lavipharm Laboratories (U.S.A.) for the marketing and sale of a new fentanyl transdermal patch in France, Germany, Italy, Spain and the United Kingdom. This product is awaiting approval by the Medicines Agency in the United Kingdom.

Prulifloxacin is a latest generation anti-bacterial fluorquinolone discovered by the Japanese pharmaceutical company Nippon Shinyaku and developed in Europe by Angelini. It is indicated for the treatment of infections of the urinary tract and certain infections of the respiratory tract. Recordati has a license from Angelini for the marketing of the drug in Spain.

Silodosin is a new compound indicated for the treatment of symptoms associated with benign prostatic hyperplasia. It is a selective alpha-1A receptor antagonist which relaxes smooth muscles at the prostate and the urethra. Urinary resistance is consequently decreased and thus symptoms associated with benign prostatic hyperplasia are alleviated. This condition is frequently observed in ageing men and its symptoms significantly reduce quality of life. Benign prostatic hyperplasia is increasing in frequency due to the progressive ageing of the population. Recordati obtained a license from the Japanese pharmaceutical company Kissei at the end of 2004 for the development and marketing of silodosin in all European countries and some countries outside Europe. During 2007 the

double-blind portion of the phase III study of silodosin was successfully completed. The trial was conducted in 11 European countries with 1128 patients (977 randomized) enrolled in 70 clinical centres. The study was designed to show superiority of silodosin over placebo and non-inferiority to tamsulosin following a treatment period of 12 weeks. Silodosin 8mg dosed once daily was found to be significantly superior to placebo in all parameters, with scores that were always equal to or better than those of tamsulosin. There were no safety issues. The overall discontinuation rate due to adverse events was low and similar in all groups. The drug is already on the market in Japan and has been filed for approval in the US. Recordati is completing the long-term portion of the phase III study and plans to file for approval in Europe, and in other countries of the licensed territory, during the last quarter of 2008.

Pitavastatin is a statin, a class of drugs which is widely used for the treatment of hypercholesterolemia. This compound, which is already on the market in Japan, was developed by the Japanese pharmaceutical company Kowa. Kowa is completing the phase III development of the drug also in Europe. Pitavastatin has a high capacity for reducing both the cholesterol fraction associated with high cardiovascular risk (LDL) as well as triglyceride levels, and at the same time increasing the "protective" fraction of cholesterol (HDL). Recordati has rights covering the sale of the drug in Italy where, as in the rest of the industrialized world, hypercholesterolemia is quite a common condition and, ever more frequently, guidelines issued by competent authorities recommend adequate treatment in order to reduce morbidity and mortality resulting from cardiovascular events. Statins represent one of the most significant contributions to cardiovascular therapy.

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. This condition, known as Overactive Bladder (OAB), is either idiopathic or due to known conditions (interstitial cystitis, neurogenic causes, etc.). Only 7 million of the estimated 65 million OAB sufferers in the U.S. and the EU are treated at any time. Under-diagnosis and under-treatment are the main reasons. This situation is often due to the lack of satisfactory efficacy and tolerability of existing drugs. Unmet medical and market needs are therefore significant and opportunities exist for the development of effective and well tolerated drugs. Recordati has specific know-how in the area of disorders of the lower urinary tract acquired over forty years of research in this field and is currently taking into development two innovative products. REC 0422 is a combination of two existing drugs, indicated for other conditions, which has displayed a significant synergistic effect in pharmacological model of OAB. REC 1819 has a completely new mechanism of action at the central nervous system level.

As from December, with the acquisition of Orphan Europe, our R&D product pipeline has become richer with the addition of new products indicated for the treatment of rare diseases. In most cases these are unique life-saving products.

PIPELINE – DRUGS FOR RARE DISEASES

NAME	ORIGINATOR	INDICATION	DEVELOPMENT STATUS
Carbaglu®	Orphan Europe (Recordati)	NAGS deficiency	Approved in EU Pre-registration in US
Carbaglu®	Orphan Europe (Recordati)	Organic acidaemias	Pre-registration in EU
Vedrop®	Orphan Europe (Recordati)	Vitamin E deficiency in cystic fibrosis and chronic cholestasis	Filed with EMEA
Infasurf®	Ony	Calf derived surfactant for RDS	Pre-filing
Stanate®	Rockefeller U. / InfaCare	Neonatal jaundice, hyperbilirubinemia	Phase II / III
Cystagon®	Mylan	Other indication unrelated to nephropathic cystinosis	Phase II / III
Cystadrops®	Orphan Europe (Recordati)	Ocular cystinosis	Phase II
Normosang®	Orphan Europe (Recordati)	Hepatic porphyria	Approved in EU Pre-registration in US
PI-0824	Peptimmune	Pemphigus vulgaris	Phase I

Carbaglu® (carglumic acid), developed by Orphan Europe, is an orphan drug approved by the European Medicine Evaluation Agency (EMEA) in 2003 for the treatment of N-Acetyl Glutamate Synthase deficiency. The NAGS deficiency is an extremely rare inherited, metabolic disorder which leads to accumulation of ammonia in the blood. If not adequately treated, hyperammonaemia causes irreversible brain damage, coma, and eventually death. This genetic disorder demands a life-long treatment. Carbaglu is the only existing specific treatment of NAGS deficiency. Orphan Europe is currently preparing the submission of a registration dossier to the Food and Drug Administration (FDA) in the USA. Carbaglu is also in pre-registration phase in Europe for additional indications in organic acidaemias (OA). OA is a group of metabolic disorders characterized by the enzymatic dysfunction of a specific step in amino acid catabolism, which leads to accumulation of toxic precursors damaging brain, liver, kidney, pancreas, retina, and other organs. Hyperammonaemia is present during every decompensation episode of OA, prompting an effective treatment (such as Carbaglu) to control hyperammonaemia. OAs are 10 times more frequent than all urea cycle disorders together and would require intermittent treatment with Carbaglu during hyperammonaemic episodes.

Vedrop® (tocofersolan) is a paediatric drug developed by Orphan Europe, indicated for vitamin E deficiency in children with cystic fibrosis or hereditary/congenital chronic cholestasis. It is an oral water-soluble preparation of vitamin E which is easily absorbed in the digestive tract in these patients. Vedrop® was specially formulated in liquid form to facilitate its oral administration to children. Cystic fibrosis and hereditary/congenital chronic cholestasis constitute severe clinical conditions affecting pancreatic/biliary secretions which cause a deficient absorption of essential fat-soluble vitamins (such

as vitamin E). In these patients, vitamin E deficiency leads to impaired neurologic development, anemia and other oxidative stress induced pathologies. The registration dossier was submitted to the EMEA mid 2007; marketing authorization in Europe is expected in 2009.

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

Stanate® (stannsoporfin, tin-mesoporphyrin) is a compound discovered at Rockefeller University and currently under development by InfaCare for the treatment of neonatal hyperbilirubinemia (jaundice). Jaundice occurs in many newborns, especially if they are premature or as a consequence of congenital diseases which increase its risk and severity. High levels of hyperbilirubinemia, especially if they rise suddenly, may cause irreversible brain damage. In severe cases, infants not responding to phototherapy require exchange transfusion, a complex and risky procedure. Stannsoporfin was demonstrated to be efficacious in the prevention and treatment of neonatal jaundice and the new guidelines released by the American Academy of Pediatrics indicate that, if approved, the compound could find immediate application in infants who are not responding to phototherapy. The drug is currently in clinical development in the USA. A license agreement was entered into with InfaCare Pharmaceuticals for the development and marketing of this innovative drug in the whole of Europe (45 countries) and in 19 Middle East and North African countries. Orphan Europe will complete the clinical development of Stanate® in Europe in accordance with the relevant regulatory bodies' scientific advice. The plan addresses hyperbilirubinemia caused by G6PD deficiency and AB0 incompatibility.

Cystagon® (cysteamine bitartrate) was developed by Mylan Labs (USA) and is marketed in Europe by Orphan Europe for the indication of nephropathic cystinosis. Cystinosis is a rare inherited metabolic disorder which ultimately leads to renal failure and kidney transplantation. Cystagon is a life-long treatment which delays the onset of renal problems. Another promising indication, unrelated to nephropathic cystinosis but much more common, is under clinical development (phase II) by Orphan Europe and specialized academic centers.

Cystadrops® (cysteamine chlorhydrate) are eye drops developed by Orphan Europe for "ocular cystinosis" which cannot be treated 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 eye infections. Cystadrops was specially formulated in a gel form for a patient-friendly administration with a few instillations per day only. A phase II clinical study of Cystadrops is currently ongoing in patients.

Normosang® (human haemin) is indicated for the treatment of acute attacks of hepatic porphyria. Porphyrias are rare, genetic disorders which require immediate medical care during their acute and very painful manifestations. Normosang is an emergency medicine that it is recognised as the gold standard therapy to stop the attack and prevent neuropathic complications. First introduced in 1987, it is now approved by mutual recognition in 27 EU countries. Orphan Europe is discussing with the FDA the registration of Normosang in the USA.

In partnership with Peptimmune (USA), Orphan Europe is developing PI-0824 for the treatment of *pemphigus vulgaris* (PV). PV is a severe autoimmune disorder caused by the formation of autoantibodies to desmoglein 3, a cell adhesion protein found in desmosomes. Left untreated, PV was a fatal disease affecting the skin and mucous membranes. Today, PV is usually treated by high doses of systemic corticosteroids and sometimes additional immunosuppressants to control the disease. PI-0824 is a small peptide derived from human desmoglein 3 which was discovered by Harvard University researchers. It should induce immune tolerance when injected by intravenous infusions, thus reducing the heavy treatment prescribed currently. Orphan Europe and Peptimmune are collaborating on an immunology study in human subjects before initiating a phase II study in PV patients.

Mr. Giovanni Recordati and
Professor Jean-Pierre Bassand award
the Arrigo Recordati prize to Patrick W. Serruys MD

THE ARRIGO RECORDATI INTERNATIONAL PRIZE FOR SCIENTIFIC RESEARCH

Patrick W. Serruys, MD

The 2007 edition of the Arrigo Recordati International Prize for Scientific Research, a prize awarded for lifetime achievement in the advancement of scientific knowledge in the field of cardiovascular disease, was dedicated to ischemic cardiomyopathy, including interventional cardiology. Coronary artery disease is the first cause of mortality and morbidity in the industrialized world, and interventional cardiology contributes significantly to the treatment of this disease.

The Prize was awarded to Patrick W. Serruys, MD, Director of Interventional Cardiology, Thoraxcenter, Erasmus MC, Rotterdam, The Netherlands. Professor Bassand, on behalf of the Jury, officially handed over the award to the winner with the following motivation: "The Recordati Prize is awarded to Patrick W. Serruys in recognition of his outstanding achievements in the field of interventional cardiology and ischemic heart disease". Patrick W. Serruys was the initiator of the first study comparing stents with balloon angioplasty, his fields of research are coronary artery disease and interventional cardiology, ranging from basic science to clinical trials.

The Jury comprised experts who have shown leadership throughout their long careers in the fields of cardiology and ischemic heart disease and was chaired by Jean-Pierre Bassand, Professor of Cardiology and Chief of the Department of Cardiology at the University Hospital Jean-Minjoz in Besançon, France. The other members were Maarten L. Simoons, Professor and Head of the Cardiology Department, Erasmus MC – Thoraxcenter, Rotterdam, The Netherlands e James T. Willerson, President, University of Texas Health Science Center and President-Elect, Texas Heart Institute, Houston, Texas, USA.

The award ceremony took place in Cernobbio (Lago di Como) on occasion of the 17th European Meeting on Hypertension 2007.

The theme chosen for the 2009 edition of the Prize is "innovation and advances in imaging diagnostics in heart disease".

REVIEW OF OPERATIONS

SALES OF PHARMACEUTICALS GROW BY 10.5% AND INTERNATIONAL PHARMACEUTICAL SALES BY 16.5%. ZANIDIP® (LERCANIDIPINE) IS NOW SOLD DIRECTLY BY OUR OWN ORGANIZATIONS IN 8 COUNTRIES.

"With a first launch in Germany the European roll-out of our new antihypertensive drug, a fixed combination of lercanidipine and enalapril, started."

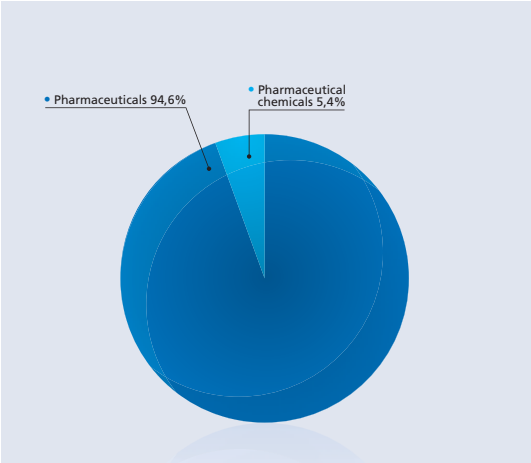
REVENUE

€ (thousands)	2007	2006	Change 2007/2006	%
Italy	201,252	200,459	793	0.4
France	140,453	134,036	6,417	4.8
Germany	52,786	51,301	1,485	2.9
Portugal	45,717	-	45,717	n.s.
Spain	21,940	30,512	(8,572)	(28.1)
United Kingdom	11,642	10,731	911	8.5
Ireland	1,684	-	1,684	n.s.
Greece	802	-	802	n.s.
Other international sales	118,158	110,795	7,363	6.6
Total pharmaceutical revenue	594,434	537,834	56,600	10.5
Pharmaceutical chemical revenue	34,001	38,352	(4,351)	(11.3)
Total revenue	**628,435**	**576,186**	**52,249**	**9.1**

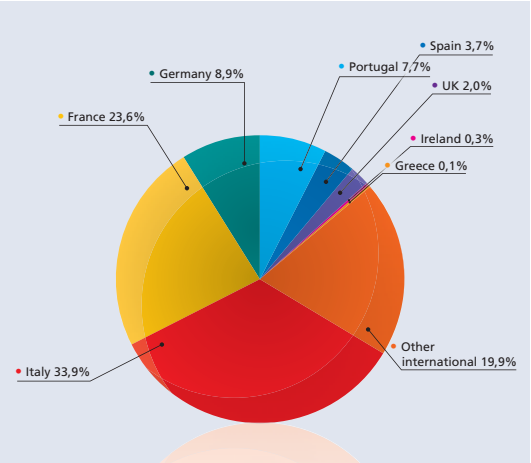
Both years include sales as well as income from up-front payments, royalties and miscellaneous items.

Revenues are up 9.1% over the preceding year with an increase of 14.0% in international revenues (€ 424.8 million) which now represent 67.6% of total revenue. Pharmaceutical revenues grow by 10.5% and include the sales of Jaba Recordati which are consolidated as from 1 January 2007. Excluding this new business, pharmaceutical sales increase by 2.0%.

REVENUE BY BUSINESS



PHARMACEUTICAL REVENUE



ZANIDIP® (LERCANIDIPINE)

Zanidip® (lercanidipine), a calcium channel blocker for the treatment of hypertension discovered and developed by Recordati, performed well in 2007, becoming the second most prescribed calcium channel blocker in the countries where it is present with an average market share of over 10%. It is sold directly to the market by our own marketing organizations in the five main European markets and as from 2007 also in Ireland, Greece and Portugal. In the other markets it is sold by licensees.

In 2007 lercanidipine sales increased by 8.9% and accounted for 29.7% of total sales and 31.4% of pharmaceutical sales. Its sales breakdown is shown in the following table:

LERCANIDIPINE SALES

€ (thousands)	2007	2006	Change 2007/2006	%
Italy	44,729	40,463	4,266	10.5
France	43,619	37,086	6,533	17.6
United Kingdom	11,320	10,637	683	6.4
Spain	7,451	8,539	(1,088)	(12.7)
Germany	6,833	3,754	3,079	n.s.
Others*	5,517	1,497	4,020	n.s.
Direct sales	119,469	101,976	17,493	17.2
Sales to licensees*	67,381	69,593	(2,212)	(3.2)
Total lercanidipine sales	**186,850**	**171,569**	**15,281**	**8.9**

** Includes Bouchara Recordati's export sales of € 2.8 million in 2007 and € 1.5 million in 2006, sales in Ireland as from 1 January 2007 of € 1.7 million, sales in Greece as from April 2007 of € 0.8 million and sales in Portugal as from September 2007 of € 0.2 million.*

Sales of Zanedip® and Lercadip®, the two brands of lercanidipine sold by Recordati in Italy, are € 44.7 million, an increase of 10.5%. Lercanidipine achieved a 13.3% share of the Italian calcium channel blocker market during the last quarter of 2007, a 12.5% increase over the same period of the preceding year.

Lercanidipine is marketed in France by Bouchara Recordati and Pierre Fabre. Our product is very successful in this market and has reached a market share of 29.4% in the fourth quarter 2007. Sales of Zanidip® by Bouchara Recordati are € 43.6 million, an increase of 17.6% over the preceding year.

In the United Kingdom Zanidip®, which is sold exclusively by Recordati Pharmaceuticals, generated sales of € 11.3 million, up 6.4% over 2006. The share of lercanidipine in this market is growing and in the fourth quarter reached 6.3%.

In Spain Zanidip® recorded sales of € 7.5 million, down by 12.7% as compared to 2006 as a result of a change in commercial policy. Together with the brands sold by licensees Uriach and Rottapharm, lercanidipine achieved a 10.0% share of the Spanish calcium channel blocker market in the fourth quarter 2007.

In Germany, where Merckle Recordati sells Corifeo® (lercanidipine) as from May 2006 and launched Zanipress® (the new fixed combination of lercanidipine and enalapril) in April 2007, lercanidipine sales total € 6.8 million. The new product was also launched by Meda, an international pharmaceutical company, under the brand Zaneril® and by Berlin Chemie (Menarini group), who already markets lercanidipine in Germany successfully, under the brand Carmen ACE®.

In Ireland Recordati Ireland promotes Zanidip® (lercanidipine) directly following the termination of the agreement with the previous licensee. Furthermore, in April our subsidiary Recordati Hellas initiated sales of Lercadip® (lercanidipine) in Greece in both its 10 and 20mg dosage forms. As from September our subsidiary in Portugal, Jaba Recordati, markets lercanidipine directly under the brand Zanidip®.

Lercanidipine is also marketed in a further 77 countries. Of these the main ones are the other European markets, Australia and South Korea. Overall, sales to licensees in 2007 are € 67.4 million, down slightly as compared to the preceding year.

PHARMACEUTICALS, ITALY

€ (thousands)	2007	2006	Change 2007/2006	%
Prescription pharmaceuticals [a]	178,467	179,226	(759)	(0.4)
Self-medication pharmaceuticals [b]	22,785	21,233	1,552	7.3
Pharmaceuticals, Italy	**201,252**	**200,459**	**793**	**0.4**

[a] Prescription pharmaceuticals include both reimbursable and non-reimbursable drugs.
[b] Self-medication pharmaceuticals include OTC products and other pharmaceuticals not requiring a prescription. All self-medication pharmaceuticals are not reimbursable.

Sales in Italy of prescription drugs (including lercanidipine) are substantially in line with those of 2006. The cost containment measures imposed by the healthcare authorities in 2006, in July and again in October, resulted in a negative price effect during 2007 of € 9.4 million which was almost totally offset by an increase in sales volumes.

The following table shows sales of the main products in our Italian portfolio:

€ (thousands)	Therapeutic area	2007	2006	Change 2007/2006	%
Zanedip®/Lercadip®	Hypertension	44,730	40,463	4,267	10.5
Entact®	Depression	30,049	28,539	1,510	5.3
Peptazol®	Gastroenterology	19,080	25,932	(6,852)	(26.4)
Tora-Dol®	Analgesia	17,752	18,185	(433)	(2.4)
Elopram®	Depression	12,329	15,340	(3,011)	(19.6)
Isocef®	Anti-infective	9,440	8,302	1,138	13.7
Rextat®	Anti-cholesterol	8,567	5,851	2,716	46.4

The cardiovascular therapeutic area accounts for 35.5% of prescription pharmaceutical sales and is still the largest in our portfolio thanks to the sales of lercanidipine, of Rextat® and Lovinacor® (lovastatin based drugs indicated for the treatment of hypercholesterolemia) and of Nitrocor®, a nitroglycerin transdermal patch for the treatment of angina.

In the CNS (Central Nervous System) area (21.7% of sales), Entact® (escitalopram), an SSRI antidepressant which is highly specific and selective and has an excellent tolerability profile, continues to perform well and has increased sales by 5.3%. Sales of Elopram® (citalopram), on the other hand, are decreasing due to competition from generic versions which resulted in a progressive price reduction.

In the gastroenterological area (13.4% of sales), our main product Peptazol® (pantoprazole), a proton pump inhibitor for the treatment of ulcers, is feeling the pressure of the generic competition within this class of products which resulted in a significant price reduction as from October. Within the analgesia/anti-inflammatory therapeutic area (10.8% of sales), Tora-Dol® (ketorolac) maintains its position as the market leader in its class. Regarding the anti-infective area (10.6% of sales) sales of Isocef® (ceftibuten) and Octegra® (moxifloxacine), an antibacterial fluorquinolone, increase over the preceding year by 13.7% and 4.3% respectively.

Sales of self-medication products in 2007 are € 22.8 million, up 7.3% over the preceding year. Sales of Imidazyl® increased during the year while Proctolyn® declined slightly. Sales of Alovex™, for the treatment of oral cavity aphthas, are up 11.5% to € 4.0 million, consolidating its position as a reference product for this condition. Sales of Lactò®, a dietary supplement, are up during the year as are those of Eumill®, single dose eye drops which, together with Imidazyl®, reinforces Recordati's leadership in the eye drops market.

As from 1 March 2007 the Italian pharmaceuticals agency (AIFA) allows companies to chose between maintaining the 5% price reduction imposed in October 2006 or substituting it with an up-front payment of an amount equivalent to 5% of sales recorded in the previous year. This option can be exercised for each product individually or for the entire product portfolio. Recordati has chosen to avail itself of this pay-back option selectively.

The 2008 budget established the limit for pharmaceuticals expenditure at 14% of total healthcare spending and a new system for the control of this expenditure by the national healthcare service was introduced. The new system requires that the Italian pharmaceuticals agency (AIFA) assign an annual budget to each pharmaceutical company and that any sales in excess of this budget be repaid if the overall public expenditure for pharmaceuticals exceeds the 14% limit mentioned above.

PHARMACEUTICALS, FRANCE

In 2007 revenue realized in France by Bouchara Recordati is € 140.5 million, an increase of 4.8% over the preceding year.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2007	2006	Change 2007/2006	%
Zanidip®	Hypertension	43,619	37,086	6,533	17.6
Methadone	Drug addiction	12,566	10,889	1,677	15.4
Tenstaten®	Hypertension	12,274	12,224	50	0.4
Hexa line	Respiratory	11,747	11,425	322	2.8
Abufene®	Gynecology	8,704	8,444	260	3.1

The cardiovascular area is the most significant (48.0% of sales) thanks to the continuing success of Zanidip®, the relaunch of Tenstaten® (cicletanine), a diuretic indicated for the treatment of hypertension and steady sales of Epinitril®, a nitroglycerin transdermal patch for the treatment of angina which generated sales of € 4.6 million, in line with those of 2006.

The respiratory therapeutic area accounts for 17.9% of total sales and decreased slightly as compared to the preceding year due to lower sales of Exomuc® as a result of its exclusion, as from March 2006, from the list of reimbursed products. The Hexa line of products on the other hand increased slightly, despite its exclusion from the list of reimbursed products, thanks to its success in the OTC market. A new mucolytic product Exotoux® (carbocysteine) was launched during 2007 and sales of Neo-Codion®, a codeine based cough mixture, increase by 1.7%.

Abufene®, a drug indicated for the treatment of menopausal symptoms, consolidated its position in the market reaching sales of € 8.7 million, an increase over the preceding year.

In France on 1 March 2006 a revision of the list of reimbursed products was implemented with the exclusion of entire product classes. Our Hexa line of products and Exomuc® were impacted by this measure. Self-medication is now the new reference market for these products which have benefited from their well known brands and the possibility of free pricing. During 2007 and at the beginning of 2008 prices have been reduced for the main generic products.

PHARMACEUTICALS, GERMANY

Sales generated by our subsidiary Merckle Recordati are € 52.8 million, up over the preceding year. The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2007	2006	Change 2007/2006	%
Claversal®	Gastroenterology	16,536	16,724	(188)	(1.1)
Suplasyn®	Muscolo-skeletal	7,729	9,229	(1,500)	(16.3)
Corifeo®	Hypertension	6,014	3,754	2,260	n.s.

Claversal® (mesalazine), indicated for the treatment of ulcerative colitis, is the most important product in the portfolio. As from May 2006, Corifeo® (lercanidipine) is part of the product portfolio following the repurchase of marketing rights from UCB, the previous licensee for this brand. At the end of April 2007 Zanipress®, the new fixed combination of lercanidipine and enalapril, was launched.

In order to curb public healthcare spending the application of reference prices for drug reimbursement was again extended to other product classes in 2007 and the prices further reduced without a significant impact on our product portfolio. Furthermore, physicians are required to abide by strict prescription guidelines, which also include a defined share of generic medicines, to create savings in public healthcare spending. As from 2007 discounts which must be recognized to the Krankenkassen were increased on some products and, as from 1 June 2008, a further reduction of reference prices is expected.

PHARMACEUTICALS, PORTUGAL

Revenue in Portugal generated by our new subsidiaries, which are consolidated as from 1 January 2007, is € 45.7 million, of which € 36.7 million are attributable to the sale of pharmaceutical products. These are up over the preceding year by 13.3% and the main products are: Tareg®/Co-Tareg® (valsartan/valsartan+HCTZ), antihypertensive drugs under license from Novartis, which generated sales of € 3.6 million; Duagen® (dutasteride), a drug indicated for the treatment of benign prostatic hyperplasia under license from GSK, which generated sales of € 3.2 million and Ulcermin® (sucralfate), indicated for the treatment of peptic ulcers, which generated sales of € 2.8 million.

Jaba Recordati is also involved in pharmaceutical toll manufacturing and revenues generated by this business in 2007 are € 9.0 million. The part of this business which was carried out at the Loures production site was sold in May 2007.

PHARMACEUTICALS, SPAIN

Revenues in Spain in 2007 recorded by Recordati España were € 21.9 million, a significant reduction as compared to the preceding year (-28.1%) due to the expiry of the license for Ulcotenal® (pantoprazole) in April 2006 and to a change in commercial policy which resulted in stock reductions in the distribution pipeline.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2007	2006	Change 2007/2006	%
Cidine®	Gastroenterology	7,923	10,406	(2,483)	(23.9)
Zanidip®	Hypertension	7,451	8,539	(1,088)	(12.7)
Dermatrans®	Cardiovascular	2,415	2,314	101	4.4
Alergoliber®	Respiratory	1,801	2,103	(302)	(14.4)

PHARMACEUTICALS, UNITED KINGDOM

Sales in the United Kingdom generated by subsidiary Recordati Pharmaceuticals are € 11.6 million and are almost exclusively related to Zanidip® (lercanidipine) which was relaunched by the new marketing organization in April 2006.

PHARMACEUTICALS, IRELAND

Sales in Ireland generated by subsidiary Recordati Ireland are € 1.7 million and are almost entirely related to Zanidip® (lercanidipine) which was relaunched by the new marketing organization in January 2007 following the termination of the agreement with the previous licensee.

PHARMACEUTICALS, GREECE

Sales in Greece generated by subsidiary Recordati Hellas Pharmaceuticals are € 0.8 million and are exclusively related to Lercadip® (lercanidipine) which was launched by the new marketing organization in April 2007.

OTHER INTERNATIONAL SALES

Other international sales include product sales to, and other income from, the licensees of our proprietary active ingredients, as well as foreign sales by our French subsidiary.

€ (thousands)	2007	2006	Change 2007/2006	%
Lercanidipine	65,278	67,375	(2,097)	(3.1)
Fenticonazole	6,425	6,461	(36)	(0.6)
Flavoxate	6,276	6,176	100	1.6
Total sales to licensees	77,979	80,012	(2,033)	(2.5)
Bouchara Recordati*	36,229	28,323	7,906	27.9
Other income	3,950	2,460	1,490	60.6
Other international sales, total	**118,158**	**110,795**	**7,363**	**6.6**

** Includes lercanidipine sales of € 2.8 million in 2007 and € 1.5 million in 2006.*

Sales of lercanidipine to international licensees are slightly down as a result of the repurchase of our selling rights in some countries where the product is now sold directly, and of price reductions in Germany and in South Korea. Sales of fenticonazole, an antimycotic for dermatological and gynecological use, are substantially in line with the preceding year. Sales of flavoxate, an antispasmodic for the treatment of urinary incontinence, increase slightly (+1.6%).

Sales outside France by our French subsidiary Bouchara Recordati are up by 27.9% with a performance in Russia and the Ukraine worthy of note. Other income includes mainly royalties and up-front payments.

PHARMACEUTICAL CHEMICALS

€ (thousands)	2007	%	2006	%	Change 2007/2006	%
Italy	2,403	7.1	2,973	7.8	(570)	(19.2)
Europe (Italy excluded)	10,965	32.2	11,497	30.0	(532)	(4.6)
America	13,726	40.4	16,508	43.0	(2,782)	(16.9)
Australasia	5,657	16.6	6,410	16.7	(753)	(11.7)
Africa	1,250	3.7	964	2.5	286	29.7
International licensees	**34,001**	**100.0**	**38,352**	**100.0**	**(4,351)**	**(11.3)**

Sales of pharmaceutical chemicals which comprise active substances produced exclusively in the Campoverde d'Aprilia (Latina, Italy) plant are down by 11.3% as compared to the preceding year following the decision to stop the production of some less profitable products and to increase use of the plant's capacity for the production of the active ingredients required by our pharmaceutical business.

FINANCIAL REVIEW

INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2006:

€ (thousands)	2007	%	2006	%	Change 2007/2006	%
Revenue	**628,435**	**100.0**	**576,186**	**100.0**	**52,249**	**9.1**
Cost of sales	(206,350)	(32.8)	(192,011)	(33.3)	(14,339)	7.5
Gross profit	**422,085**	**67.2**	**384,175**	**66.7**	**37,910**	**9.9**
Selling expenses	(202,043)	(32.2)	(191,126)	(33.2)	(10,917)	5.7
R&D expenses	(49,122)	(7.8)	(45,395)	(7.9)	(3,727)	8.2
G&A expenses	(33,927)	(5.4)	(27,167)	(4.7)	(6,760)	24.9
Other income (expense), net	(5,497)	(0.9)	(146)	0.0	(5,351)	n.s.
Operating income	**131,496**	**20.9**	**120,341**	**20.9**	**11,155**	**9.3**
Financial income (expense), net	(4,071)	(0.6)	(2,159)	(0.4)	(1,912)	88.6
Pretax income	**127,425**	**20.3**	**118,182**	**20.5**	**9,243**	**7.8**
Provision for income taxes	(42,560)	(6.8)	(44,151)	(7.7)	1,591	(3.6)
Net income	**84,865**	**13.5**	**74,031**	**12.8**	**10,834**	**14.6**

The volume, price and currency effects on revenue are shown in the following table:

Change as % of revenue	Volume Effect	Price Effect	Currency Effect	Total Change
Pharmaceuticals	12.3	(1.6)	(0.2)	10.5
Pharmaceutical chemicals	(3.3)	(3.5)	(4.5)	(11.3)
Total change	11.3	(1.7)	(0.5)	9.1

The increase in volumes is due mainly to the consolidation as from 1 January 2007 of the pharmaceutical business acquired in Portugal. Excluding this consolidation effect, pharmaceutical sales volumes increase by 3.9%. The negative price effect is due essentially to the price reductions imposed in Italy during the second half 2006. The negative currency effect is due to sales denominated in U.S. dollars, in particular generated by the pharmaceutical chemicals business.

International revenues went from € 372.8 million to € 424.8 million, an increase of 14.0%. In 2007 international sales represent 67.6% of total revenue. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2007	%	2006*	%
Europe (Italy excluded)	356,543	83.9	304,449	81.7
Australasia	30,196	7.1	32,160	8.6
America	19,782	4.7	21,536	5.8
Africa	18,259	4.3	14,609	3.9
Total international revenue	**424,780**	**100.0**	**372,754**	**100.0**

** Restated for comparison purposes.*

Gross profit is € 422.1 million with a margin of 67.2% on sales, a further improvement over that of last year thanks to a favorable product mix.

Selling expenses increase by 5.7% but decrease as a percent of sales from 33.2% to 32.2%.

R&D expenses, at € 49.1 million, increase by 8.2% over those of the preceding year mainly due to the clinical trials of products in development.

G&A expenses are up by 24.9% and now include the management cost of some subsidiaries which was previously recognized in selling expenses.

Other income/expense shows a net expense of € 5.5 million which includes a € 2.9 million impairment cost. The payback to the Italian pharmaceuticals agency (AIFA), in substitution for the 5% price reduction on selected products, as from March 2007 is also included in this line.

Net financial charges are € 4.1 million (€ 2.2 million in 2006), a significant increase over the preceding year due to the strong reduction in the value of investment funds as a result of the recent financial markets' crisis. All investments in funds were disposed of during August and currently liquidity is held in short-term bank deposits and money market funds.

The effective tax rate for the year is 33.4%, a significant improvement as compared to 2006.

Group net income is € 84.9 million, an increase of 14.6% over the preceding year.

FINANCIAL POSITION

During 2007 important investments were made with the aim of expanding our European presence and enhancing our product portfolio.

Orphan Europe, a European pharmaceutical group dedicated to the development, registration, marketing and distribution of unique drugs for the treatment of rare and orphan diseases, was acquired. The operation was concluded in December with the payment of € 135 million. The balance sheet was consolidated line by line at 31 December 2007 and the effect is shown in detail in the notes to the financial statements.

A further € 9.2 million were invested in intangible assets, the most important of which involve license agreements entered into by Bouchara Recordati (€ 3.5 million), by Recordati Ireland (€ 2.5 million) and by Merckle Recordati (€ 1.6 million).

An amount of € 6.6 million was invested in property, plant and equipment, mostly by the parent company.

Net working capital for operations at 31 December 2007 is € 89.8 million, which includes the consolidation of Orphan Europe, and is thus comprised:

€ (thousands)	31.12.2007	% of Revenue	31.12.2006	% of Revenue	Change 2007/2006	%
Trade receivables, net	134,454	21.4	123,418	21.4	11,036	8.9
Inventories	74,737	11.9	74,670	13.0	67	0.1
Other current assets	28,031	4.4	12,791	2.2	15,240	119.1
Current assets	**237,222**	**37.7**	**210,879**	**36.6**	**26,343**	**12.5**
Trade payables	80,343	12.8	71,537	12.4	8,806	12.3
Tax payable	15,762	2.5	22,076	3.8	(6,314)	(28.6)
Other current liabilities	51,290	8.2	49,051	8.6	2,239	4.6
Current liabilities	**147,395**	**23.5**	**142,664**	**24.8**	**4,731**	**3.3**
Net working capital for operations	**89,827**	**14.2**	**68,215**	**11.8**	**21,612**	**31.7**
Days of sales outstanding	67		74			
Inventories as % of cost of sales	34.3%		33.6%			

Following the significant cash outlay for the acquisition of Orphan Europe and the further purchase of treasury stock, the net financial position at 31 December 2007 shows a net debt of € 97.2 million.

€ (thousands)	31.12.2007	31.12.2006	Change 2007/2006	%
Cash and short-term financial investments	89,382	145,029	(55,647)	(38.4)
Bank overdrafts and short-term loans	(98,796)	(14,574)	(84,222)	n.s.
Loans – due within one year	(2,939)	(20,446)	17,507	(85.6)
Net liquid assets	**(12,353)**	**110,009**	**(122,362)**	**(111.2)**
Loans – due after one year [1]	(84,806)	(87,646)	2,840	(3.2)
Net financial position	**(97,159)**	**22,363**	**(119,522)**	**n.s.**

[1] Includes the measurement at fair value of hedging derivatives (fair value hedge).

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

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

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

€ (thousands)	Shareholders' equity 31.12.2007	31.12.2006	Net income for the year 2007	2006
Recordati S.p.A.	261,842	268,948	50,376	50,631
Consolidation adjustments:				
Margin in inventories	(19,740)	(11,678)	(8,062)	(1,693)
Related deferred tax	6,212	3,854	2,358	558
Other adjustments	0	0	(83)	(91)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already booked by Recordati S.p.A.	96,183	63,716	0	0
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	49,490	41,626	49,490	41,626
Dividends received from consolidated subsidiaries	0	0	(19,993)	(17,000)
Impairment writedown of equity investments	0	0	10,779	0
Translation adjustments	(3,384)	336	0	0
Consolidated financial statements	**390,603**	**366,802**	**84,865**	**74,031**

Further details are provided in the consolidated financial statements and in the notes to the financial statements.

FOURTH QUARTER 2007 RESULTS

INCOME STATEMENT

The following table shows the profit and loss accounts for the fourth quarter 2007.

€ (thousands)	IV Quarter 2007	%	IV Quarter 2006	%	Change 2007/2006	%
Revenue	**162,028**	**100.0**	**136,620**	**100.0**	**25,408**	**18.6**
Cost of sales	(55,898)	(34.5)	(47,188)	(34.5)	(8,710)	18.5
Gross profit	**106,130**	**65.5**	**89,432**	**65.5**	**16,698**	**18.7**
Selling expenses	(51,088)	(31.5)	(43,663)	(32.0)	(7,425)	17.0
R&D expenses	(12,255)	(7.6)	(11,255)	(8.2)	(1,000)	8.9
G&A expenses	(9,260)	(5.7)	(6,911)	(5.1)	(2,349)	34.0
Other income (expense), net	(2,928)	(1.8)	753	0.6	(3,681)	n.s.
Operating income	**30,599**	**18.9**	**28,356**	**20.8**	**2,243**	**7.9**
Financial income (expense), net	(944)	(0.6)	(354)	(0.3)	(590)	166.7
Pretax income	**29,655**	**18.3**	**28,002**	**20.5**	**1,653**	**5.9**
Provision for income taxes	(8,827)	(5.4)	(9,893)	(7.2)	1,066	(10.8)
Net income	**20,828**	**12.9**	**18,109**	**13.3**	**2,719**	**15.0**

Consolidated revenue in the fourth quarter 2007 is € 162.0 million, an increase of 18.6% compared to that of the preceding year. Pharmaceutical sales are up by 20.5% while pharmaceutical chemicals sales are € 8.0 million, down with respect to those of 2006 (-9.2%).

Operating income at € 30.6 million is 18.9% of sales, a margin lower than that in preceding quarters due to impairment charges of € 2.9 million which were booked to other expense in the quarter.

Net income is up by 15.0% and benefits from a favorable tax rate.

CONSOLIDATED FINANCIAL STATEMENTS

Recordati S.p.A. and Subsidiaries
Consolidated Financial Statements at and for the year ended 31 December 2007

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 2006.

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

INCOME STATEMENT

€ (thousands)	Note	2007	2006
Revenue	**3**	**628,435**	**576,186**
Cost of sales	4	(206,350)	(192,011)
Gross profit		**422,085**	**384,175**
Selling expenses	4	(202,043)	(191,126)
R&D expenses	4	(49,122)	(45,395)
G&A expenses	4	(33,927)	(27,167)
Other income (expense), net	4	(5,497)	(146)
Operating income		**131,496**	**120,341**
Financial income (expense), net	5	(4,071)	(2,159)
Pretax income		**127,425**	**118,182**
Provision for income taxes	6	(42,560)	(44,151)
Minority interest		0	0
Net income		**84,865**	**74,031**
Earnings per share			
Basic		€ 0.427	€ 0.370
Diluted [1]		€ 0.417	€ 0.359

[1] *Diluted earnings per share is calculated taking into account new shares authorized but not yet issued.*

Earnings per share (EPS) are based on average shares outstanding during each year, 198,557,743 in 2007 and 200,053,683 in 2006, net of average treasury stock which amounted to 8,495,866 shares in 2007 and 5,720,085 shares in 2006.

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007

ASSETS

€ (thousands)	Note	31 December 2007	31 December 2006
Non-current assets			
Property, plant and equipment	7	68,006	71,916
Intangible assets	8	90,521	92,490
Goodwill	9	243,942	129,771
Other investments	10	3,115	696
Other non-current assets	11	1,460	1,268
Deferred tax assets	12	21,044	18,798
Total non-current assets		**428,088**	**314,939**
Current assets			
Inventories	13	74,737	74,670
Trade receivables	14	134,454	123,418
Other receivables	15	24,784	11,002
Other current assets	16	3,247	1,789
Short-term financial investments, cash and cash equivalents	17	89,382	145,029
Total current assets		**326,604**	**355,908**
Total assets		**754,692**	**670,847**

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007

EQUITY AND LIABILITIES

€ (thousands)	Note	31 December 2007	31 December 2006
Shareholders' equity			
Share capital		25,981	25,802
Additional paid-in capital		78,952	73,165
Treasury stock		(59,103)	(30,653)
Hedging reserve *(cash flow hedge)*		(113)	(1,081)
Translation reserve		(3,384)	336
Other reserves		25,529	24,926
Retained earnings		237,876	200,276
Net income for the year		84,865	74,031
Group shareholders' equity	18	**390,603**	**366,802**
Minority interest	19	8	0
Shareholders' equity		**390,611**	**366,802**
Non-current liabilities			
Loans – due after one year	20	77,250	83,697
Staff leaving indemnities	21	20,431	22,587
Deferred tax liabilities	22	9,601	9,402
Other non-current liabilities	23	0	5,645
Total non-current liabilities		**107,282**	**121,331**
Current liabilities			
Trade payables	24	80,343	71,537
Other payables	25	40,868	32,159
Tax liabilities	26	15,762	22,076
Other current liabilities		346	413
Provisions	27	10,076	16,479
Fair value of hedging derivatives *(cash flow hedge)*	28	113	1,081
Fair value of hedging derivatives *(fair value hedge)*	20	7,556	3,949
Loans – due within one year	20	2,939	20,446
Bank overdrafts and short-term loans	29	98,796	14,574
Total current liabilities		**256,799**	**182,714**
Total equity and liabilities		**754,692**	**670,847**

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	Total
Balance at 31 December 2005	**25,631**	**67,664**	**(20,410)**	**(3,158)**	**1,824**	**23,485**	**162,718***	**64,543**	**322,297**
Allocation of 2005 net income:									
- Dividends distributed								(27,534)	(27,534)
- Retained earnings							37,009	(37,009)	
Increase in share capital	171	5,501							5,672
Net income for the period								74,031	74,031
Share buy-back			(10,243)						(10,243)
Changes in fair value of hedging derivatives				2,077					2,077
Effect of application of IAS/IFRS						1,441	549		1,990
Translation Adjustment					(1,488)				(1,488)
Balance at 31 December 2006	**25,802**	**73,165**	**(30,653)**	**(1,081)**	**336**	**24,926**	**200,276**	**74,031**	**366,802**
Allocation of 2006 net income:									
- Dividends distributed								(36,956)	(36,956)
- Retained earnings							37,075	(37,075)	
Increase in share capital	179	5,787							5,966
Net income for the period								84,865	84,865
Share buy-back			(29,862)						(29,862)
Sale of treasury stock			1,412				(87)		1,325
Changes in fair value of hedging derivatives				968					968
Effect of application of IAS/IFRS						603	625		1,228
Other changes in equity							(13)		(13)
Translation Adjustment					(3,720)				(3,720)
Balance at 31 December 2007	**25,981**	**78,952**	**(59,103)**	**(113)**	**(3,384)**	**25,529**	**237,876**	**84,865**	**390,603**

** Restated following the adoption of IAS/IFRS by the parent company.*

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

€ (thousands)	2007	2006
Operating activities		
Cash flow		
Net Income	84,865	74,031
Depreciation of property, plant and equipment	13,180	11,756
Amortization of intangible assets	12,789	11,551
Impairment of assets	2,866	0
Total cash flow	**113,700**	**97,338**
(Increase)/decrease in deferred tax assets	(1,354)	(3,736)
Staff leaving indemnities - provision	1,068	3,683
Staff leaving indemnities - payment	(3,626)	(3,917)
Increase/(decrease) in other non-current liabilities	(6,040)	(5,026)
	103,748	**88,342**
Changes in working capital		
Trade and other receivables	(10,606)	11,616
Inventories	3,886	4,180
Other current assets	(949)	464
Trade and other payables	11,066	(28,006)
Tax liabilities	(8,615)	11,984
Other current liabilities	(97)	(68)
Provisions	(6,613)	8,082
Changes in working capital	**(11,928)**	**8,252**
Net cash from operating activities	**91,820**	**96,594**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(6,171)	(6,640)
Net (investments)/disposals in intangible assets	(8,818)	(13,930)
Net (increase)/decrease in equity investments (acquisition of Orphan Europe)	(135,637) **	-
Net (increase)/decrease in equity investments (acquisition of Grupo Jaba)	(1,207)***	(45,603)***
Net (increase)/decrease in other equity investments	(2,419)	236
Net (increase)/decrease in other non-current assets	232	(15)
Net cash used in investing activities	**(154,020)**	**(65,952)**
Financing activities		
New bank loans raised	8	0
Net financial position of acquired companies	4,710	(15,474)
Issue of share capital	179	171
Additional paid-in capital increase	5,787	5,501
Changes in treasury stock	(28,537)	(10,243)
Effect of application of new IAS/IFRS	1,228	1,990
Other changes in equity	(13)	-
Re-payment of loans	(20,355)	(22,509)
Dividends paid	(36,956)	(27,534)
Proceeds on sale of pharmaceutical chemicals plant	-	12,634
Change in translation reserve	(3,720)	(1,488)
Net cash from/(used in) financing activities	**(77,669)**	**(56,952)**
Changes in short-term financial position	**(139,869)**	**(26,310)**
Short-term financial position at beginning of year *	130,455	156,765
Short-term financial position at end of period *	(9,414)	130,455

* *Includes cash and cash equivalents net of bank overdrafts.*

** *Acquisition of Orphan Europe: Working capital (9,684), Cash and cash equivalents (10,739), Property, plant, equipment and intangible assets (6,153), Goodwill (114,608), Deferred tax assets (892), Minority interest 8, Non-current liabilities 402, Bank loans 6,029.*

*** *Acquisition of Jaba companies in 2006: Working capital (10,267), Property, plant, equipment and intangible assets (15,767), Goodwill (35,203), Deferred tax liabilities 160 and Loans 15,474. Further allocation in 2007: Property, plant, equipment and intangible assets (2,238), Goodwill 437, Deferred tax liabilities 594.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. GENERAL

The consolidated financial statements at 31 December 2007 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, their percentage of ownership and a description of their activity are set out in attachment 1.

In December the closing of the acquisition of Orphan Europe, a European group dedicated to treatments for rare diseases, was completed, thus leading to the addition of 12 new companies to the consolidation perimeter. The acquisition of Orphan Europe Holding S.A. was made by the newly established French company Recordati Orphan Drugs S.A.S.. The recognition of the newly acquired companies in the accounts, the effect of which is disclosed in the comments to each balance sheet account, is not yet definite and could be subject to change as allowed by IFRS 3. The balance sheets of the new companies are consolidated with effect 31 December 2007 while their income statements will be consolidated as from 1 January 2008.

The income statements of the Portuguese companies acquired at the end of 2006 are consolidated as of 1 January 2007 while their balance sheets were consolidated as of 31 December 2006.

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). The same accounting policies applied in the preparation of the consolidated financial statements at 31 December 2007 were used in the preparation of the financial statements at 31 December 2006.

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 2006.

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

The principal accounting policies adopted are set out below.

BASIS OF CONSOLIDATION

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

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

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

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

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

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

The financial statements of foreign subsidiaries expressed in currencies other than Euro are translated into Euro as follows:
- Assets and liabilities, at year-end exchange rates;
- Shareholders' equity at historical exchange rates;
- Income and expense items at the average exchange rates for the year.

Translation differences arising from this process are booked to equity.

BALANCE SHEET

Property, plant and equipment - Property, plant and equipment is stated at purchase cost less accumulated depreciation and any recognized impairment loss. Reviews are performed annually or

when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on Impairment). Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets:

Industrial buildings	2.5% - 5.5%
Machinery and equipment	10% - 17.5%
Other fixtures and equipment	12% - 40%

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

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

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

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

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

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

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

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

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

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

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

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

Other investments - Other investments are those described by IAS 39 as available-for-sale financial assets. They comprise equity instruments and are measured at fair value. If their market value is not available and their fair value cannot be reasonably determined, these investments are valued at cost.

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 amortized cost method as prescribed by IAS 39. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period.

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

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

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

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

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

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

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

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

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

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

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

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

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

INCOME STATEMENT

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

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

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

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

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

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

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

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

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

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

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

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

3. REVENUE

Net revenue for the years 2007 and 2006 is € 628.4 million and € 576.2 million respectively and can be broken down as follows:

€ (thousands)	2007	2006	Change 2007/2006
Net sales	621,124	570,023	51,101
Royalties	2,774	1,932	842
Up-front payments	2,270	971	1,299
Other revenue	2,267	3,260	(993)
Total revenue	**628,435**	**576,186**	**52,249**

4. OPERATING EXPENSES

Total operating expenses for the years 2007 and 2006 are € 496.9 million and € 455.8 million respectively and are analyzed by function as follows:

€ (thousands)	2007	2006	Change 2007/2006
Cost of sales	206,350	192,011	14,339
Selling expenses	202,043	191,126	10,917
Research and development expenses	49,122	45,395	3,727
General and administrative expenses	33,927	27,167	6,760
Other income (expense), net	5,497	146	5,351
Total operating expenses	**496,939**	**455,845**	**41,094**

Labor cost in 2007 is € 163.4 million, an increase of 10.8% compared to 2006 due to the consolidation of the Portuguese companies. The measurement of employee defined benefit plans as prescribed by IAS 19 gives rise to a service cost charge of € 0.3 million. Labor cost also includes charges of € 0.9 million related to stock option plans determined in accordance with IFRS 2.

Personnel and other human resources data at 31 December 2007 and 2006 are shown in the following table:

	2007	2006
Employees at year-end	**2,220**	**1,930**
Average age	43	43
Average service (years)	7.9	8.6
Labor cost increase (decrease)	**10.8%**	**1.1%**
Labor productivity:		
Labor cost on net sales	26.0%	25.6%
Sales per employee (€ thousands) [(a)]	287.6	306.5
Value added per employee (€ thousands) [(a)]	146.8	154.8

Labor cost includes wages, related charges and additional costs.
[(a)] Data per employee for both years are computed on the average number of personnel, 2,185 in 2007 and 1,880 in 2006.

Depreciation and amortization charges are € 26.0 million. Depreciation of property, plant and equipment is € 13.2 million, up by € 1.4 million over 2006, while amortization of intangibles went from € 11.5 million in 2006 to € 12.8 million in 2007.

The following table summarizes the main components of other income (expense) which comprises non-recurring events, operations and matters which are not often repeated in the ordinary course of business. The overall net effect of such occurrences on the profit and loss, balance sheet and cash flow of the Company is not significant.

€ (thousands)	2007	2006	Change 2007/2006
Pay back AIFA (Italian Medicines Agency)	(3,717)	0	(3,717)
Impairment of intangible assets	(2,866)	0	(2,866)
Transfer of industrial leasehold	1,132	0	1,132
Extraordinary gain on reversal of VAT charges	784	0	784
Valuation adjustment of the personnel leaving indemnity provision	501	0	501
Non-recurring legal expenses	(330)	(628)	298
Provisions for:			
- restructuring charges	(1,195)	(2,383)	1,188
- presumed liability legislative decree 231/2001	0	(2,200)	2,200
- penalties related to tax inspection at the parent company	0	(1,000)	1,000
Capital gain on sale of Confarma	0	4,707	(4,707)
Reversal of a liability *(A.I.C. annual rights)*	0	1,745	(1,745)
Others	194	(387)	581
Total other income (expense), net	**(5,497)**	**(146)**	**(5,351)**

The pay back of € 3.7 million refers to the amount due to the Italian national healthcare system in substitution for the 5% price reduction on selected products for the period 1 March 2007 – 29 February 2008 as allowed by AIFA (the Italian Medicines Agency). The amount is based on the 2006 sales of these products and is spread over the applicable period on a straight line basis.

The impairment loss of € 2.9 million arises from the valuation of the cash generating potential of products under license which is estimated to be less than the carrying amount of the investment made. In particular, the value of the license agreement for Tradorec® (tramadol) for the UK market was written down by € 2.6 million.

The € 1.1 million gain arises from the transfer by Jaba Recordati of its industrial lease agreement for the production site in Loures, Portugal, and the associated pharmaceutical manufacturing business to Clintex Produtos Farmacêuticos.

The European Commission pronounced inapplicable the Italian rule under which VAT associated with the cost for company cars was not deductible. Following this decision an amount of € 0.8 million relative to the VAT not deducted from 1 January 2003 to 14 September 2006 (efficacy date of the European Commission's pronouncement) was booked to other revenue.

In Italy Law 296 dated 27 December 2006 established new rules for the treatment of employees' leaving indemnity (TFR) the application of which generated a gain of € 0.5 million following the valuation of defined benefit plans in accordance with IAS 19. The restructuring charge of € 1.2 million results from the reorganization of our commercial activities.

5. FINANCIAL INCOME AND EXPENSE

In 2007 and 2006 financial items recorded a net expense of € 4.1 million and € 2.2 million respectively which are comprised as follows:

€ (thousands)	2007	2006	Change 2007/2006
Exchange gains (losses)	(380)	(190)	(190)
Interest expense on loans	(5,343)	(5,478)	135
Net interest on short-term financial position	2,458	4,560	(2,102)
Interest cost in respect of defined benefit plans	(734)	(823)	89
Net gains (losses) on valuation of equity investments	(72)	(228)	156
Change in fair value of hedging derivatives	(3,607)	(6,123)	2,516
Change in fair value of hedged item	3,607	6,123	(2,516)
Total financial income (expense), net	**(4,071)**	**(2,159)**	**(1,912)**

Net interest on the short-term financial position decreases as compared to the preceding year due to the strong reduction in the value of investment funds as a result of the recent financial markets' crisis. All investments in funds were disposed of during August and currently liquidity is held in short-term bank deposits and money market funds.

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

6. PROVISION FOR INCOME TAXES

The 2007 provision for income taxes amounts to € 42.6 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 pretax income, as follows:

	2007 %	2006 %
Standard income tax rate on pretax income at the parent company	33.0	33.0
Adjustment of deferred tax assets and liabilities	(0.6)	-
Prudential tax provision following tax inspection	-	2.3
Effect of non-deductible risk provisions	-	0.7
Capital gain on sale of Confarma	-	(1.3)
Dividends from foreign subsidiaries	0.3	0.2
Consolidation effect of foreign subsidiaries	(5.6)	(5.7)
Other differences, net	2.3	3.0
Effective tax rate on income	29.4	32.2
IRAP	4.0	5.2
Effective tax rate, including IRAP	**33.4**	**37.4**

IRAP relates only to the Italian companies and is computed applying a 4.25% rate to a broader taxable base which includes labor cost, interest and certain extraordinary items.

On 29 September 2006 the Company received a notice of tax assessment from the Internal Revenue Service stating certain additional taxes for the fiscal year 2003 in the amount of: corporate tax of € 2.3 million, IRAP of € 0.2 million and VAT of € 0.1 million and additional tax liabilities of € 2.6 million. The Company believes no amount is due and considers the assessment flawed both from a legitimacy as well as a substantive point of view, and is supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first degree judgement before the Provincial Tax Commission was concluded partially in the Company's favour with decision n. 539/33/07 dated 11 October 2007, filed on 16 October 2007. At this time appeals may still be filed by both the administration and by the company. The company is considering appealing the decision also taking into account the positive opinions expressed by the consultants entrusted with the company's legal representation that the grounds set forth in the appeal filed with the Provincial Tax Commission were well-founded. The Company, however, on grounds of prudence has set up a provision to cover the potential liability for additional taxes, penalties and interest.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, amounts to € 68.0 million and € 71.9 million at 31 December 2007 and 2006 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 31.12.06*	56,734	161,480	33,750	1,960	253,924
Additions	163	2,330	950	3,183	6,626
Disposals	(35)	(259)	(665)	(32)	(991)
Changes in reporting entities	0	0	2,572	0	2,572
Other changes	2,669	541	214	(1,485)	1,939
Balance at 31.12.07	**59,531**	**164,092**	**36,821**	**3,626**	**264,070**
Accumulated depreciation					
Balance at 31.12.06*	27,609	125,143	29,256	0	182,008
Additions	2,076	9,162	1,942	0	13,180
Disposals	(3)	(193)	(626)	0	(822)
Changes in reporting entities	0	0	1,711	0	1,711
Other changes	(1)	0	(12)	0	(13)
Balance at 31.12.07	**29,681**	**134,112**	**32,271**	**0**	**196,064**
Carrying amount at					
31 December 2007	**29,850**	**29,980**	**4,550**	**3,626**	**68,006**
31 December 2006	29,125	36,337	4,494	1,960	71,916

** Restated as allowed by IAS 8. The restatement has no impact on carrying amounts.*

The land and buildings located in Milan, Italy having a carrying amount of € 3.0 million have been pledged to secure loans granted by Istituto Bancario Intesa Sanpaolo.

The carrying amount of the Group's land and buildings includes an amount of € 1.3 million (€ 1.5 million in 2006) in respect of assets held under finance leases.

The additions of € 6.6 million in 2007 refer mainly to investments in the Milan pharmaceutical plant and headquarters building of € 1.9 million and to various investments in the production facilities at the Campoverde di Aprilia plant for € 3.1 million.

Other changes under Land and Buildings include the allocation to Jaba Recordati's assets of € 2.2 million as allowed by IFRS 3.

Changes in reporting entities arise from the consolidation of the newly acquired Orphan Europe group of companies. The net book value of their tangible fixed assets is € 0.9 million.

8. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 31 December 2007 and 2006 amount to € 90.5 million and € 92.5 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 31.12.06*	67,713	75,093	14,441	3,983	161,230
Additions	34	5,179	74	3,881	9,168
Impairment	(223)	(2,607)	0	(36)	(2,866)
Disposals	(209)	(195)	0	0	(404)
Changes in reporting entities	6,787	840	226	0	7,853
Other changes	(1)	171	(59)	(485)	(374)
Balance at 31.12.07	**74,101**	**78,481**	**14,682**	**7,343**	**174,607**
Accumulated amortization					
Balance at 31.12.06*	29,733	26,708	12,299	0	68,740
Additions	4,813	6,909	1,067	0	12,789
Disposals	(209)	(88)	0	0	(297)
Changes in reporting entities	1,985	784	216	0	2,985
Other changes	3	(80)	(54)	0	(131)
Balance at 31.12.07	**36,325**	**34,233**	**13,528**	**0**	**84,086**
Carrying amount at					
31 December 2007	**37,776**	**44,248**	**1,154**	**7,343**	**90,521**
31 December 2006	37,980	48,385	2,142	3,983	92,490

** Restated as allowed by IAS 8. The restatement has no impact on carrying amounts.*

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

The additions in 2007 refer mainly to the acquisition of product rights by Bouchara Recordati S.A.S. (€ 3.5 million), Recordati Ireland Ltd (€ 2.5 million) and Merckle Recordati GmbH (€ 1.6 million).

The impairment loss of € 2.9 million arises from the valuation of the cash generating potential of products under license which is estimated to be less than their carrying amount.

Changes in reporting entities arise from the consolidation of the newly acquired Orphan Europe group of companies. The net book value of their intangible fixed assets, most of which are marketing rights for pharmaceutical specialties, is € 4.9 million.

9. GOODWILL

Goodwill, net of accumulated amortization, at 31 December 2007 and 2006 amounts to € 243.9 million and € 129.8 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31.12.06	167,435
Adjustment and allocation of the purchase price of the Portuguese companies	(437)
Changes in reporting entities	114,608
Balance at 31.12.07	**281,606**
Accumulated amortization	
Balance at 31.12.06	37,664
Changes in reporting entities	0
Balance at 31.12.07	**37,664**
Carrying amount at	
31 December 2007	243,942
31 December 2006	129,771

An adjustment in the purchase price of the Jaba group of companies of € 1.2 million and the allocation to Land and Buildings of € 2.2 million net of a € 0.6 million tax effect, determined the € 0.4 million change in the goodwill arising from this acquisition.

The increase of € 114.6 million is to be attributed entirely to the excess of the cost of the acquisition of Orphan Europe after recognition of the net fair value of the identifiable assets, liabilities and contingent liabilities and, as allowed by IFRS 3, could be subject to change.

In compliance with IFRS 3 goodwill is no longer amortized. Instead, it shall be tested, at least annually, for impairment. At 31 December 2007 no loss in the value of goodwill on the balance sheet was identified.

The € 243.9 million residual goodwill at 31 December 2007 is related to the following equity investments:

- € 13.4 million related to the acquisition of Doms-Adrian;
- € 32.4 million related to the Bouchara group of companies;
- € 48.8 million related to Merckle Recordati;
- € 34.7 million related to the Grupo Jaba companies;
- € 114.6 million related to the Orphan Europe companies.

10. OTHER INVESTMENTS

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

€ (thousands)	Value at 31 December		Percentage of equity owened	
	2007	2006	2007	2006
PureTech Ventures LLC	2,629	-	8.8%	-
Technogen Associates L.P., U.S.A.	104	220	n.s.	n.s.
Maxygen Inc., U.S.A.	152	176	n.s.	n.s.
Tecnofarmaci S.p.A., Pomezia (Rome)	87	87	4.2%	4.2%
Consorzio C4T, Pomezia (Rome)	78	78	2.3%	2.3%
Alavita Inc.	63	63	n.s.	n.s.
Quantum Dot Corp., U.S.A.	-	48	-	n.s.
DAFNE, Reggello (Florence)	2	2	2.0%	1.9%
Other	0	22	n.s.	n.s.
Total equity investments	**3,115**	**696**		

During 2007 a holding in PureTech Ventures LLC (U.S.A.), an investment company specialized in start-up companies dedicated to new therapies, medical devices and new research technologies, was acquired.

The Quantum Dot shares held were sold during 2007 and a capital loss of € 0.1 million was recorded.

11. OTHER NON-CURRENT ASSETS

Receivables included in non-current assets at 31 December 2007 are € 1.5 million, in line with the preceding year-end, and include advance payments of taxes due by employees on their leaving indemnity made by the Italian companies, according to Italian law.

The consolidation effect of Orphan Europe is € 0.4 million.

12. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2007 and 2006 amount to € 21.0 million and € 18.8 million respectively, an increase of € 2.2 million. The main deferred tax assets and their change in 2007 are analyzed below.

€ (thousands)	2007	2006
Balance at 1 January	18,798	15,062
Additions	8,420	7,491
Utilization	(7,066)	(3,755)
Changes in reporting entities	892	0
Balance at 31 December	**21,044**	**18,798**

€ (thousands)	Asset revaluation reversed	Tax losses	Write-down equity investments	Profit and loss temporary differences	Other	Total
Balance at 1 January	7,083	3,646	695	1,407	5,967	18,798
Additions	4,459	0	0	1,529	2,432	8,420
Utilization	(313)	(3,646)	(695)	(1,210)	(1,202)	(7,066)
Changes in reporting entities	0	0	0	892	0	892
Balance at 31 December	**11,229**	**0**	**0**	**2,618**	**7,197**	**21,044**

The deferred tax assets arising from the revaluation of assets increase by € 4.5 million due to the full recognition of tax benefits generated by the revaluation in 2005 of certain intangible assets on the Recordati S.p.A. balance sheet as allowed under Italian law, in view of the current probability that the tax benefit resulting from this asset revaluation, expected over a period of seven years from 2008, will be realized.

In line with the Group's policy regarding the recognition of deferred taxes, the deferred tax assets recognized on losses carried forward by Recordati España were reversed in view of the company's losses in 2007 and the uncertainty that it will be able to generate sufficient taxable profits to offset these losses carried forward in the near future.

The deferred tax assets recognized on the write-down of equity investments in 2003 were reversed due to the expiry of the 5 year period over which the benefit was spread.

The increase of "Other" deferred tax assets of € 2.4 million refers mainly to temporary differences arising from the elimination of unrealized gains on intercompany transactions.

13. INVENTORIES

Inventories at 31 December 2007 and 2006 amount to € 74.7 million, net of an obsolescence provision of € 1.1 million and € 1.8 million respectively. Composition of inventories is as follows:

€ (thousands)	31.12.2007	31.12.2006	Change 2007/2006
Raw materials and supplies	19,944	15,970	3,974
Intermediates and work-in-process	11,523	16,053	(4,530)
Finished goods	43,270	42,647	623
Total inventories	**74,737**	**74,670**	**67**

The consolidation effect relative to the acquisition of the Orphan Europe companies is € 4.0 million.

14. TRADE RECEIVABLES

Trade accounts receivable at 31 December 2007 and 2006 amount to € 134.5 million and € 123.4 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2007 is € 6.8 million (€ 6.4 million at 31 December 2006) and is considered to be sufficient to cover potential losses on collection. Average days of sales outstanding are 67 (74 at 31 December 2006). The consolidation of Orphan Europe accounted for an increase in trade receivables of € 8.6 million.

15. OTHER RECEIVABLES

Other receivables amount to € 24.8 million (€ 11.0 million at 31 December 2006) and their breakdown is as follows:

€ (thousands)	31.12.2007	31.12.2006	Change 2007/2006
Tax receivable	14,974	4,245	10,729
Balances due from employees and agents	3,460	1,919	1,541
Other	6,350	4,838	1,512
Total other receivables	**24,784**	**11,002**	**13,782**

Tax receivable comprises value added tax (VAT) receivable 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 refers to advances paid to suppliers and other parties and to computed credits under licensing-in agreements.

The consolidation of Orphan Europe accounted for an increase of € 5.6 million.

16. OTHER CURRENT ASSETS

At 31 December 2007 other current assets amount to € 3.2 million (€ 1.8 million at 31 December 2006) and relate mainly to prepaid expenses. The Orphan Europe consolidation effect is € 0.5 million.

17. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

A breakdown is shown in the following table.

€ (thousands)	31.12.2007	31.12.2006	Change 2007/2006
Short term financial investments	33,574	81,812	(48,238)
Short term time deposits	31,463	24,756	6,707
Deposits in bank current accounts	24,318	38,450	(14,132)
Cash on hand	27	11	16
Total short term financial investments, cash and cash equivalents	**89,382**	**145,029**	**(55,647)**

Short term financial investments are in money market funds denominated in Euro, U.S. dollars and pounds sterling and managed by leading international investment houses.

Short term time deposits have maturities of one month or less and are denominated in Euro and U.S. dollars.

At 31 December 2007 cash and cash equivalents are denominated mainly in Euro (€ 55.8 million) of which € 14.1 million are held by the parent Recordati S.p.A. and € 7.7 million by the subsidiary Recordati Ireland Ltd. Cash deposits in U.S. dollars amount to 28.9 million and are held mostly by Recordati Corporation, while those in pounds sterling are 8.7 million and are held by Recordati Pharmaceuticals Ltd..

The short term financial investments and cash and cash equivalents held by Orphan Europe are € 10.7 million.

18. SHAREHOLDERS' EQUITY

Share capital - At 31 December 2007 the issued and fully paid share capital consists of 207,844,656 ordinary shares with a par value of € 0.125 each for a total of € 25,980,582.

During 2007 share capital increased by € 178,750 following the issue of 1,430,000 new ordinary shares, of which 347,000 at a price of € 3,575 each, 316,000 at a price of € 3,6775 each, 364,000 at a price of € 4.055 each and 403,000 at a price of € 5.18 each, to company managers who exercised stock options under the 2001-2003 and 2003-2007 stock option plans.

The Company has four stock option plans in place in favor of certain group employees. The strike price of the options is the average of the parent company's listed share price during the 30 days prior to the grant date. Stock options are vested over a period of four years. Options not exercised within the fifth year of the date of grant expire. Options may not be exercised if the employee leaves the company before they are vested.

Stock options outstanding at 31 December 2007 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2007	Options granted during 2007	Options exercised during 2007	Options cancelled or expired	Options outstanding 31.12.2007
Date of grant:						
13 November 2001	5.2700	271,000	-	(243,000)	(28,000)	0
30 October 2002	5.1800	445,000	-	(403,000)	(42,000)	0
14 May 2003	3.6775	483,000	-	(316,000)	(42,000)	125,000
7 April 2004	3.5750	936,000	-	(347,000)	(96,000)	493,000
27 October 2004	4.0550	1,229,500	-	(364,000)	(104,500)	761,000
6 April 2006	6.4975	2,610,000	-	0	(295,000)	2,315,000
Total		**5,974,500**	**-**	**(1,673,000)**	**(607,500)**	**3,694,000**

The share capital increase in relation to options outstanding, except those granted on 6 April 2006 which may be served by using shares held in treasury stock, has already been authorized.

Additional paid-in capital - During 2007 additional paid-in capital increased from € 73,164,800.83 to € 78,952,225.83 following the issue of 1,430,000 new shares for a total price in excess of par value of € 5,787,425.00.

Treasury stock - At 31 December 2007, 11,472,355 shares were held as treasury stock for a total cost of € 59.1 million. During 2007, 5,060,464 shares were purchased on the market for an amount of € 29.9 million and 243,000 shares were used to service stock option plans in favor of company employees for an amount of € 1.4 million. Of the remainder, 1,856,227 shares were purchased on the market during 2006 for an amount of € 10.3 million, 843,144 shares were purchased during 2003 for an amount of € 2.9 million and 3,955,520 shares were purchased during 2002 for an amount of € 17.5 million.

Hedging reserve - In accordance with IAS 39 the € 0.1 million liability arising from the measurement at fair value at 31 December 2007 of interest rate swaps qualifying as a cash flow hedge is recognized directly in equity as a hedging reserve.

Other reserves - These amount to € 25.5 million at 31 December 2007 and include the statutory reserve of the parent company in the amount of € 5.2 million, reserves for grants received for a total of € 15.5 million, and reserves arising from the application of IFRS 2 and IAS 19 of € 2.3 million and € 2.5 million respectively.
Retained earnings and net income for the year - These amount to € 237.9 million at 31 December 2007 and increased by € 37.6 million as compared to 31 December 2006. Net income for the year is € 84.9 million, an increase of 14.6% over the € 74.0 million 2006 net income. Following the adoption by the parent company Recordati S.p.A. of IAS/IFRS as from the year ended 31 December 2006, some of its holdings in group companies were revalued generating deferred tax liabilities of € 2.4 million which have been recognized as a reduction of retained earnings at 31 December 2004.

The shareholders' equity of the Italian companies includes untaxed reserves of € 101.0 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.

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 2007 and 2006, medium and long-term loans included:

€ (thousands)	31.12.2007	31.12.2006
Loans granted to Recordati S.p.A.: Istituto Bancario Intesa Sanpaolo loans, guaranteed by mortgages on the Milan and Campoverde plants, at an average annual interest rate of 0.99% repayable in semi-annual installments through 2010	2,958	3,824
Research loans granted by Istituto Bancario Intesa Sanpaolo, at an average annual interest rate of 2.49%, repayable in semi-annual installments through 2009	1,155	2,120
Loans granted by the Ministry of Industry and Commerce repayable in annual installments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0.825% before that	770	884
Istituto Bancario Intesa Sanpaolo loans for financial investments at variable interest rates, converted into a fixed annual interest rate of 5.915% by IRS, repayable in semi-annual installments and entirely paid off in 2007	0	5,165
Loans granted to other Group companies: Loan granted by Istituto Bancario Intesa Sanpaolo to Recordati España S.L. at variable interest rate, converted into a fixed annual interest rate of 4.85% by IRS, repayable in quarterly installments through 2008	601	1,803
Various loans granted to Recordati España S.L. at an average annual interest rate of 2.33%	1,492	1,992
Loan granted by Istituto Bancario Intesa Sanpaolo to Bouchara-Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 5.99% by IRS, repayable in semi-annual installments and entirely paid off in 2007	0	2,064
Loan granted by Banca Popolare di Milano to Bouchara Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.0% by IRS, repayable in semi-annual installments and entirely paid off in 2007	0	2,064
Loan granted by Bank Pekao of Paris to Bouchara Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.01% by IRS, repayable in semi-annual installments and entirely paid off in 2007	0	4,130
Loan granted by Istituto Bancario Intesa Sanpaolo to Bouchara Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.0% by IRS, repayable in semi-annual installments and entirely paid off in 2007	0	3,098
Various loans granted to Bouchara-Recordati S.a.s. at an average annual interest rate of 4.27%	543	784
Guaranteed senior notes issued by Recordati S.A. (Luxembourg) privately placed with international institutional investors: € 15 million at a fixed interest rate of 4.52% due 2011 $ 40 million at a fixed interest rate of 5.50% due 2014 € 26 million at a fixed interest rate of 5.02% due 2014 £ 5 million at a fixed interest rate of 6.09% due 2014	* 80,226	* 80,164
Total amortized cost of loans	**87,745**	**108,092**
Portion due within one year	(2,939)	(20,446)
Portion due after one year	84,806	87,646
Change in the fair value of loans	(7,556)	(3,949)
Total	**77,250**	**83,697**

** Net of direct issue costs of € 0.4 million amortized using the effective interest method.*

The average effective interest rate at 31 December 2007, applying the rates resulting from the interest rate swaps, is 5.54%.

At 31 December 2007, the repayment schedule of long-term debt due after 2008 is as follows:

€ (thousands)	
2009	2,165
2010	1,548
2011	15,341
2012	262
2013 and subsequent years	65,490
Total	**84,806**

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

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

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

The series of guaranteed senior notes, issued at the end of 2004, comprises *tranches* in various currencies at fixed interest rates. The *tranches* denominated in currencies other than the Euro have been covered with a cross-currency interest rate swap effectively converting the whole debt into Euro at a variable interest rate equivalent to the Euribor 6 months rate plus a spread. The *tranches* denominated in Euro have been covered with an interest rate swap effectively converting the interest charges on the debt from fixed to variable at the same abovementioned conditions. The measurement at fair value of the swaps at 31 December 2007 generated a liability of € 7.6 million, an amount equivalent to the decrease in the fair value of the underlying debt. This amount is recognized in the balance sheet as an decrease of debt and under current liabilities as 'Fair value of hedging derivatives *(fair value hedge)*'.

The total amount of the notes was simultaneously covered with a further interest rate swap, qualifying as a cash flow hedge, to fix a range (which at 31 December 2007 is between 3.09% and 4.85%) within which the interest rate can fluctuate in order to optimize the cost of financing for the duration of the notes. The € 0.1 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.

Medium and long-term loans at variable interest rates for a total of € 0.6 million are hedged with interest rate swaps (which qualify as a cash flow hedge) in order to entirely eliminate any interest rate fluctuation risk. The fair value of the cash flow hedge is recognized directly in equity and stated as a current liability. The derivative instruments and the hedged items are linked and the Group does not intend to terminate or modify them independently from each other.

21. STAFF LEAVING INDEMNITIES

This provision at 31 December 2007 and 2006 is € 20.4 million and € 22.6 million respectively and reflects the Group's obligation towards its employees determined in accordance with IAS 19. The roll forward of this fund is as follows:

€ (thousands)	2007	2006
Balance at 1 January	22,.587	22,821
Additions	1,068	3,683
Utilization	(3,238)	(2,789)
Change in fair value of the TFR funds in Italian companies	(388)	(1,128)
Consolidation of Orphan Europe	402	-
Balance at 31 December	**20,431**	**22,587**

The main part of this liability is to be attributed to the staff leaving indemnity fund (TFR, t*rattamento fine rapporto*) in the Italian companies. The valuation of this fund at 31 December 2007 in accordance with IAS 19 generated a liability of € 15.3 million. The fair value calculation made, which takes into account the new rules established by Law 296 dated 27 December 2007, and using actuarial parameters updated at 31 December 2007 generated a lower liability and gave rise to a gain of € 0.5 million which is recognized in other operating revenue, and a positive adjustment of € 0.4 million which is recognized directly in equity as prescribed by IAS 19. The remaining part of this provision comprises employee benefit plans in the French subsidiary Laboratoires Bouchara Recordati (€ 3.5 million), in the German subsidiary Merckle Recordati (€ 1.2 million) and in Orphan Europe (€ 0.4 million).

22. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2007 and 2006 were € 9.6 million and € 9.4 million respectively, and changed as follows:

€ (thousands)	2007	2006
Balance at 1 January	9,402	8,673
Additions	1,090	1,473
Utilization	(891)	(904)
Changes in reporting entities	0	160
Balance at 31 December	**9,601**	**9,402**

At 31 December 2007 no deferred tax liabilities exist in relation to subsidiaries' undistributed earnings because no significant additional tax must be paid by the Group in the event of these dividend distributions as they are essentially exempt from dual income taxation.

The decision in 2007, allowed by IFRS 3, to allocate to Land and Buildings part of the goodwill arising from the acquisition of the companies in Portugal, generated a deferred tax liability of € 0.6 million.

The deferred tax liability generated by the revaluation made in 2006 by the parent company Recordati S.p.A. of some of its holdings in group companies was reduced by € 0.9 million as a consequence of the change in the Italian corporate tax rate from 33% to 27.5% as from 2008.

23. OTHER LIABILITIES (INCLUDED IN NON-CURRENT LIABILITIES)

The balance of € 5.8 million due for the acquisition of Merckle Recordati to be paid in 2008, is recorded as of 31 December 2007 under current liabilities. The balance of other non-current liabilities is therefore zero as of this date.

24. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include allocations for invoices to be received, at 31 December 2007 and 2006 amount to € 80.3 million and € 71.5 million respectively. The consolidation of the Orphan Europe companies determined an increase of € 3.5 million.

25. OTHER PAYABLES

Other accounts payable at 31 December 2007 and 2006 amount to € 40.9 million and € 32.2 million respectively. Their composition is as follows:

€ (thousands)	31.12.2007	31.12.2006	Change 2007/2006
Personnel	17,027	13,997	3,030
Social security	9,850	8,218	1,632
Balance due for the acquisition of Merckle Recordati	5,800	5,900	(100)
Agents	389	380	9
Other	7,802	3,664	4,138
Total other payables	**40,868**	**32,159**	**8,709**

The consolidation of Orphan Europe accounted for € 3.0 million.

26. TAX LIABILITIES

Tax liabilities at 31 December 2007 and 2006 amount to € 15.8 million and € 22.1 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 substantial decrease is due mainly to the change in the parent company's tax provision. Taxes payable at 31 December 2006 by Recordati S.p.A. were € 13.6 million, whereas at 31 December 2007 this situation was reversed to a credit for taxes paid in advance of € 5.4 million.

The consolidation of Orphan Europe accounted for € 2.3 million.

27. PROVISIONS

Tax and other provisions are included as follows:

€ (thousands)	31.12.2007	31.12.2006	Change 2007/2006
Tax	3,620	4,958	(1,338)
Other	6,456	11,521	(5,065)
Total provisions	**10,076**	**16,479**	**(6,403)**

Changes in provisions are as follows:

€ (thousands)	2007	2006
Balance at 1 January	16,479	6,937
Additions	4,702	10,261
Utilization	(11,315)	(2,179)
Changes in consolidation perimeter	210	1,460
Balance at 31 December	**10,076**	**16,479**

The reduction of the tax provision is due mainly to the payment of the amount provisionally registered with the tax roll, following the Parent company's appeal against the notice of the tax audit served by the Internal Revenue Office in Milan related to the fiscal year 2003. At 31 December 2007 the remaining provision is € 2.2 million.

Other provisions include amounts set aside for future contingencies which are uncertain as to timing and value. The substantial decrease is mainly due to the payment of employee settlements and to the payment of the penalties related to the presumed liability of Recordati pursuant to decree-law 231/2001.

The consolidation of Orphan Europe determined an increase of € 0.2 million.

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 2007 give rise to a € 0.1 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 at 31 December 2007 and 2006 amount to € 98.8 million and € 14.6 million respectively and consist of overdraft facilities and short-term loans in Euro and foreign currency. The substantial increase is due to new short-term loans raised to fund the acquisition of Orphan Europe. The exposure in the newly acquired companies is € 6.0 million.

30. ACQUISITION OF SUBSIDIARY

The effect of the acquisition of the companies belonging to the Orphan Europe group, already included in each single note, is analyzed hereunder.

€ (thousands)	Carrying value of assets & liabilities acquired	Adjustments to fair value	Fair value
Property, plant and equipment	861	-	861
Intangible assets	4,868	-	4,868
Non-current receivables	424	-	424
Deferred tax assets	892	-	892
Inventories	3,953	-	3,953
Trade receivables	8,631	-	8,631
Other receivables	5,581	-	5,581
Other current assets	509	-	509
Short-term financial investments, cash and cash equivalents	10,739	-	10,739
		-	
Minority interest	(8)	-	(8)
Staff leaving indemnities	(402)	-	(402)
Trade payables	(3,467)	-	(3,467)
Taxes payable	(2,301)	-	(2,301)
Other payables	(2,982)	-	(2,982)
Other current liabilities	(30)	-	(30)
Provisions	(210)	-	(210)
Short-term loans	(6,029)	-	(6,029)
			21,029
Goodwill			114,608
Price paid			**135,637**

As allowed under IFRS 3 the allocation of the purchase price paid is not yet final.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IAS 32 hereunder are stated the balance sheet values and fair values at 31 December 2007 of financial assets and liabilities:

€ (thousands)	Carrying value	Fair value
Financial assets		
Short-term financial investments, Cash and cash equivalents	89,382	89,382
Trade receivables	134,454	134,454
Equity investments	3,115	3,115
Other receivables	24,784	24,784
Financial liabilities		
Borrowings		
- loans covered with fixed interest rate swaps	72,670	72,670
- loans at fixed interest rates	6,375	5,256
- loans at variable interest rates	1,144	1,144
Trade payables	80,343	80,343
Other payables	56,630	56,630
Hedging derivatives *(cash flow hedge)*	113	113
Hedging derivatives *(fair value hedge)*	7,556	7,556
Bank overdrafts and short-term loans	98,796	98,796

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

Liquidity Risk - The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for 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 resources generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. At 31 December 2007 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.

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 2007 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 2007, total trade receivables of € 141.3 million include € 15.2 million of receivables overdue by more than 90 days. Of these, € 6.4 million are due by public hospital hospitals which, despite their very long payment times, do not represent a significant risk situation. An allowance for doubtful accounts of € 6.8 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 funds 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 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 fluctuations which can affect is operating results and the value of its equity. In particular, the Group is exposed to foreign currency fluctuations on its international sales denominated in currencies other than the Euro, such as U.S. Dollars, Japanese Yen, GB Pounds and Swiss Francs. The net exposure to these currencies is, however, marginal when compared to the Group's business volumes. 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 2007 the net equity values of these companies are denominated mainly in U.S. Dollars (21.2 million), in GB Pounds (15.6 million) and in Swiss Francs (6.9 million). The effect of exchange rate changes on the conversion of these values is recognized in shareholders' equity and at 31 December 2007 is negative by € 3.4 million.

33. SEGMENT REPORTING

The Group is involved exclusively in the pharmaceutical business. Following the restructuring of the pharmaceutical chemicals operations in 2005 these are now part of the pharmaceutical business as they are prevalently dedicated to the production of active ingredients for this business. The following table presents net revenues by geographic area:

€ (thousands)	2007	2006*	Change 2007/2006
Europe	560,198	507,881	52,317
of which Italy	*203,655*	*203,432*	*223*
Australasia	30,196	32,160	(1,964)
America	19,782	21,536	(1,754)
Africa	18,259	14,609	3,650
Total revenue	**628,435**	**576,186**	**52,249**

** Restated for comparison purposes.*

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

34. NET FINANCIAL POSITION

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

€ (thousands)	31.12.2007	31.12.2006	Change 2007/2006
Deposits in bank current accounts and cash on hand	24,345	38,461	(14,116)
Short term time deposits	31,463	24,756	6,707
Short term investments	33,574	81,812	(48,238)
Liquid assets	**89,382**	**145,029**	**(55,647)**
Bank overdrafts and short-term loans	(98,796)	(14,574)	(84,222)
Loans – due within one year	(2,939)	(20,446)	17,507
Short term borrowings	**(101,735)**	**(35,020)**	**(66,715)**
Net current financial position	**(12,353)**	**110,009**	**(122,362)**
Loans – due after one year	(4,580)	(7,482)	2,902
Loan notes issued [1]	(80,226)	(80,164)	(62)
Non-current loans	**(84,806)**	**(87,646)**	**2,840**
Net financial position	**(97,159)**	**22,363**	**(119,522)**

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

35. LITIGATION AND CONTINGENT LIABILITIES

The parent company and some subsidiaries are party to certain legal actions. Management is of the opinion that such legal actions will not result in any significant liability.

In January 2001 certain savings shareholders, who said they owned in total about 1% of savings shares, contested the decision to convert the savings shares into ordinary shares adopted by the Special Savings Shareholders' Meeting on 26 October 2000 and by the Extraordinary Shareholders' Meeting on 25 October 2000, questioning the legitimacy of the "automatic" conversion provision. These shareholders also presented a motion to suspend the execution of the said decision, which however was rejected on 13 February 2001 by the competent court. The Company filed its entry of appearance. On 18 May 2004 and on 10 January 2005 the hearings for the final pleas of the parties took place. On 13 April 2007 the court filed its decision rejecting the aforesaid shareholders' demands and sentencing them to settle all charges arising from the litigation. On 27 February 2008 the Company was summoned by the aforesaid shareholders who appealed against the judgment passed by the Milan court of first instance. The Company is firm in its belief that the conversion operation was perfectly legal as supported, not only by the positive judgment of the court of first instance, but also by the positive reaction of the market and the very high percent of shareholders opting for the conversion.

During 2006 Recordati S.p.A. was party to two lawsuits for tort liability brought by the Bari and by the Milan Attorneys' Offices pursuant to legislative decree 231/2001 in relation to alleged crimes committed by its employees. In both cases the Company fulfilled all the obligations provided for by article 17 of the aforesaid legislative decree, thus avoiding the possible application of precautionary measures and/or interdiction and paving the way towards the closing of the proceedings through the sole application of a fine as per article 63 of the aforesaid legislative decree. In particular, regarding the Milan proceedings, the obligations can be deemed finalized since the Company has already made

available to the legal authorities its new compliance programs, which have been further reinforced to prevent illicit behaviour by its employees, and has made available all profits and indemnified the Ministry of Health for the damages that might have arisen out of the wrongs of its employees. The investigation is now closed and Recordati filed an application for a plea bargaining, without admission of responsibility. Such application was allowed by the Prosecutor and the preliminary hearing will be held in due course. A similar application was filed in connection with the investigation in Bari and - until today - the prosecutor awaits an expert's opinion on Recordati' s compliance programs to allow such an application.

On 29 September 2006 the Company received a notice of tax assessment from the Internal Revenue Service stating certain additional taxes for the fiscal year 2003 in the amount of: corporate tax of € 2.3 million, IRAP of € 0.2 million and VAT of € 0.1 million and additional tax liabilities of € 2.6 million. The Company believes no amount is due and considers the assessment flawed both from a legitimacy as well as a substantive point of view, and is supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first degree judgement before the Provincial Tax Commission was concluded partially in the Company's favour with decision n. 539/33/07 dated 11 October 2007, filed on 16 October 2007. At this time appeals may still be filed by both the administration and by the company. The company is considering appealing the decision also taking into account the positive opinions expressed by the consultants entrusted with the company's legal representation that the grounds set forth in the appeal filed with the Provincial Tax Commission were well-founded. The Company, however, on grounds of prudence has set up a provision to cover the potential liability for additional taxes, penalties and interest.

36. INTERCOMPANY TRANSACTIONS AND RELATED ISSUES

Intragroup sales and services recorded during 2007 are € 151.6 million and are mainly related to the sale of pharmaceuticals. Intragroup interest income accrued during the year is € 8.6 million.

During 2007, Recordati Ireland Ltd. declared a dividend of € 20.0 million, Recordati S.A. Chemical and Pharmaceutical Company declared a dividend of € 21.0 million, Bouchara Recordati S.A.S.. declared a dividend of € 11.0 million, Laboratoires Bouchara Recordati S.a.s. declared a dividend of € 6.0 million, Merckle Recordati GmbH declared a dividend of € 3.0 million and the Swiss company Recordati S.A declared a dividend of CHF 0.2 million. At 31 December 2007 all the dividends declared were paid.

At 31 December 2007, intercompany accounts amount to € 456.9 million, the most significant of which are:

- profit participating bond of € 135 million issued by Recordati S.A. Chemical & Pharmaceutical Company in favor of Recordati S.p.A.;
- loans of € 81.0 million granted by Recordati S.A. Chemical & Pharmaceutical Company to Recordati Orphan Drugs S.A.S..;
- loans of € 80.6 million granted by Recordati S.A. Chemical & Pharmaceutical Company to Recordati S.p.A.;
- loans of € 75.3 million granted by the parent Recordati S.p.A. to the subsidiary Recordati España S.L.;

- receivables by Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 21.1 million;
- loans of € 12.1 million granted by the parent Recordati S.p.A. to Bouchara Recordati S.A.S.;
- loans of € 8.4 million from the parent Recordati S.p.A. to Jaba Recordati S.A.;
- loans of € 7.6 million from Laboratoires Bouchara Recordati S.A.S.. to the parent Recordati S.p.A.;
- loans of € 4.0 million from Recordati S.A. Chemical & Pharmaceutical Company to Merckle Recordati GmbH.

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.

Other receivables include a net amount of € 5.4 million receivable from the controlling company Fimei S.p.A. relative to a tax credit computed by the parent company based on estimated taxable income and transferred to the controlling company following the adhesion to the tax consolidation option in Italy.

37. SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

In January an exclusive license agreement was entered into with a subsidiary of Watson Pharmaceuticals, Inc., a U.S. pharmaceutical company, for the marketing and sale in 29 European countries of Kentera®, a bi-weekly oxybutynin transdermal patch indicated for the symptomatic treatment of urge incontinence and/or increased urinary frequency and urgency as may occur in patients. Kentera® was approved through the centralized procedure by the EMEA in 2004 and has been on the market in a number of countries with current sales of over € 7 million.

In February a semi-exclusive licensing agreement was entered into with Menarini, the leading Italian pharmaceutical group, for the marketing and sale of frovatriptan, a medicine belonging to the triptan group of drugs indicated for the acute treatment of migraine attacks with or without aura, in France and Greece.

Also in February the approval of Zan-Extra®, a fixed combination of lercanidipine and enalapril indicated for the treatment of hypertension, was obtained in Australia. The Therapeutic Goods Administration (TGA) notified licensee Solvay Biosciences of its decision to approve the registration of Zan-Extra® in its two dosage forms containing lercanidipine 10mg/enalapril 10mg and lercanidipine 10mg/enalapril 20mg. The launch in Australia of this new product originated by Recordati is planned to take place in April.

Group sales in the first two months of 2008 are in line with our expectations for the full year which are to increase revenue and operating income by 10% and to improve net income by 14%.

RECORDATI S.P.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2007

ATTACHMENT 1.

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.P.A. *Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals*	Italy	25,980,582.00	Euro	Line-by-line
RECOFARMA S.R.L. *Dormant, holds pharmaceutical marketing rights*	Italy	1,258,400.00	Euro	Line-by-line
INNOVA PHARMA S.P.A. *Marketing and sales of pharmaceuticals*	Italy	1,920,000.00	Euro	Line-by-line
RECORDATI ESPAÑA S.L. *Development, production, marketing and sales of pharmaceuticals*	Spain	42,000,000.00	Euro	Line-by-line
RECORDATI S.A. *Chemical and Pharmaceutical Company Holding company*	Luxembourg	9,962,619.00	Euro	Line-by-line
BOUCHARA RECORDATI S.A.S. *Development, production, marketing and sales of pharmaceuticals*	France	4,600,000.00	Euro	Line-by-line
RECORDATI PORTUGUESA LDA *Dormant*	Portugal	24,940.00	Euro	Line-by-line
FARMARECORD LTDA *Dormant, holds pharmaceutical marketing rights in Brazil*	Brazil	166.00	BRL	Line-by-line
RECORDATI CORPORATION *Sales Agent for pharmaceutical chemicals*	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD *Development, production, marketing and sales of pharmaceuticals*	Ireland	200,000.00	Euro	Line-by-line
RECORDATI S.A. *Dormant, holds pharmaceutical marketing rights*	Switzerland	6,000,000.00	CHF	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. *Development, production, marketing and sales of pharmaceuticals*	France	14,000,000.00	Euro	Line-by-line
MERCKLE RECORDATI GmbH *Marketing and sales of pharmaceuticals*	Germany	268,939.53	Euro	Line-by-line
RECORDATI PHARMACEUTICALS LTD *Marketing and sales of pharmaceuticals*	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. *Marketing and sales of pharmaceuticals*	Greece	4,000,000.00	Euro	Line-by-line
JABA RECORDATI S.A.* *Development, production, marketing and sales of pharmaceuticals*	Portugal	1,600,000.00	Euro	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.* *Development, production, marketing and sales of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.* *Development, production, marketing and sales of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI ORPHAN DRUGS S.A.S.** *Holding company*	France	57,000,000.00	Euro	Line-by-line
ORPHAN EUROPE HOLDING S.A.*** *Holding company*	France	1,701,260.00	Euro	Line-by-line
ORPHAN EUROPE OPERATIONS S.A.S.*** *Marketing and sales of pharmaceuticals*	France	5,112,000.00	Euro	Line-by-line
ORPHAN EUROPE SWITZERLAND GmbH*** *Marketing and sales of pharmaceuticals*	Switzerland	20,000.00	CHF	Line-by-line
ORPHAN EUROPE MIDDLE EAST FZ LLC*** *Marketing and sales of pharmaceuticals*	United Arab Emirates	100,000.00	AED	Line-by-line
ORPHAN EUROPE NORDIC A.B.*** *Marketing and sales of pharmaceuticals*	Sweden	100,000.00	SEK	Line-by-line
ORPHAN EUROPE PORTUGAL LDA*** *Marketing and sales of pharmaceuticals*	Portugal	5,000.00	Euro	Line-by-line
ORPHAN EUROPE S.A.R.L.*** *Marketing and sales of pharmaceuticals*	France	320,000.00	Euro	Line-by-line
ORPHAN EUROPE UNITED KINGDOM LTD*** *Marketing and sales of pharmaceuticals*	United Kingdom	50,000.00	GBP	Line-by-line
ORPHAN EUROPE GERMANY GmbH*** *Marketing and sales of pharmaceuticals*	Germany	25,564.69	Euro	Line-by-line
ORPHAN EUROPE SPAIN S.L.*** *Marketing and sales of pharmaceuticals*	Spain	37,563.27	Euro	Line-by-line
ORPHAN EUROPE ITALY S.R.L. *Marketing and sales of pharmaceuticals*	Italy	40,000.00	Euro	Line-by-line
ORPHAN EUROPE BENELUX BVBA*** *Marketing and sales of pharmaceuticals*	Belgium	18,600.00	Euro	Line-by-line

* *Acquired during 2006 – Balance Sheet consolidated in 2006, P&L consolidated as from 1 January 2007*

** *Established during 2007*

*** *Acquired during 2007 – only Balance Sheet consolidated*

	PERCENTAGE OF OWNERSHIP								
	Recordati S.p.A. (parent)	Recordati S.A. (Luxembourg)	Bouchara Recordati S.A.S.	Recordati España S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe Holding S.A.	Orphan Europe Operations S.A.	Orphan Europe S.A.R.L.	Total
RECOFARMA S.R.L.	100.00%								100.00%
INNOVA PHARMA S.P.A.	100.00%								100.00%
RECORDATI ESPAÑA S.L.	90.70%	9.30%							100.00%
RECORDATI S.A. Chemical and Pharmaceutical Company	100.00%								100.00%
BOUCHARA RECORDATI S.A.S.	99.94%	0.06%							100.00%
RECORDATI PORTUGUESA LDA	98.00%	2.00%							100.00%
FARMARECORD LTDA		100.00%							100.00%
RECORDATI CORPORATION		100.00%							100.00%
RECORDATI IRELAND LTD		100.00%							100.00%
RECORDATI S.A.		100.00%							100.00%
LABORATOIRES BOUCHARA RECORDATI S.A.S.			100.00%						100.00%
MERCKLE RECORDATI GmbH				100.00%					100.00%
RECORDATI PHARMACEUTICALS LTD	3.33%	96.67%							100.00%
RECORDATI HELLAS PHARMACEUTICALS S.A.	2.37%	97.63%							100.00%
JABA RECORDATI S.A.*				100.00%					100.00%
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.*				100.00%			100.00%		
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.*				100.00%			100.00%		
RECORDATI ORPHAN DRUGS S.A.S.**		100.00%							100.00%
ORPHAN EUROPE HOLDING S.A.***					100.00%				100.00%
ORPHAN EUROPE OPERATIONS S.A.S.***						100.00%			100.00%
ORPHAN EUROPE SWITZERLAND GmbH***							100.00%		100.00%
ORPHAN EUROPE MIDDLE EAST FZ LLC***							100.00%		100.00%
ORPHAN EUROPE NORDIC A.B.***							100.00%		100.00%
ORPHAN EUROPE PORTUGAL LDA***							100.00%		100.00%
ORPHAN EUROPE S.A.R.L.***							100.00%		100.00%
ORPHAN EUROPE UNITED KINGDOM LTD***								100.00%	100.00%
ORPHAN EUROPE GERMANY GmbH***								100.00%	100.00%
ORPHAN EUROPE SPAIN S.L.***								100.00%	100.00%
ORPHAN EUROPE ITALY S.R.L.***								99.00%	99.00%
ORPHAN EUROPE BENELUX BVBA***							99.46%	0.54%	100.00%

* *Acquired during 2006 – Balance Sheet consolidated in 2006, P&L consolidated as from 1 January 2007*

** *Established during 2007*

*** *Acquired during 2007 – only Balance Sheet consolidated*

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED

The undersigned, Giovanni Recordati (as Chief Executive Officer), and Fritz Squindo (as the Manager responsible for preparing Recordati S.p.A.'s financial reports), hereby certify, having also taken into consideration the provisions of Article 154-bis, paragraphs 3 and 4 of the Italian Legislative Decree no. 58 of February 24, 1998, that the administrative and accounting procedures for the preparation of the consolidated financial statements for the 2007 fiscal year:

- are adequate with respect to the company structure and
- have been effectively applied.

The undersigned also certify that the consolidated financial statements at December 31, 2007:

- correspond to the results documented in the books, accounting and other records;
- have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (as well as with the provisions issued in implementation of the Italian Legislative Decree no. 38/2005) and to the extent of their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the issuer and of the Group companies included in the scope of consolidation.

Milan, 5 March 2008

Signed by
Giovanni Recordati
Chief Executive Officer

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

AUDITORS' REPORT

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

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

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

1. We have audited the consolidated financial statements of Recordati Industria Chimica e Farmaceutica S.p.A. and subsidiaries (the "Recordati Group"), which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

   For the opinion on the prior year consolidated financial statements, the balances of which are presented for comparative purposes, reference should be made to our auditors' report issued on March 26, 2007.

3. In our opinion, the consolidated financial statements present fairly the financial position of the Recordati Group as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

DELOITTE & TOUCHE S.p.A.

Signed by
Vincenzo Mignone
Partner

Milan, Italy
March 26, 2008

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

CORPORATE GOVERNANCE REPORT

pursuant to article 124 bis of the Consolidated Financial Act, article 89 *bis* of Consob Issuers' Regulations and article IA.2.6 of Borsa Instructions

Approved 5 March 2008 by the Board of Directors

The complete version of the report on corporate governance (which differs from this version in that some tables and attachments have been omitted), which is available at the company's registered offices and at Borsa Italiana, can be downloaded from the company's website at the address: http://www.recordati.com/rec_en/cg/cgr/

DEFINITIONS

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

CC: the Italian Civil Code.

Board: the Board of Directors of the Company.

Year: the financial year that ended 31 December 2007.

Borsa Instructions: instructions for the Borsa Regulations governing the markets organized and managed by Borsa Italiana S.p.A.

Borsa Regulations: regulations governing the markets organized and managed by Borsa Italiana S.p.A.

Consob Issuers' Regulations: regulations governing issuers as established by Consob deliberation no. 11971 of 1999.

Consob Markets Regulations: regulations governing markets as established by Consob deliberation no. 16191 of 2007.

Report: the corporate governance report that companies are obliged to compile pursuant to article 124 bis of the Consolidated Financial Act, article 89 bis of Consob Issuers' Regulations and article IA.2.6 of Borsa Instructions.

Company: Recordati S.p.A., issuer of listed shares.

By-laws: the by-laws of the Company.

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

1. OVERVIEW

The corporate governance structure adopted by the Company consists of a management and control system and the Shareholders' Meeting. The Company has adopted a traditional type of management and control system, consisting of the Board of Directors and the Board of Statutory Auditors. Accounting controls, in accordance with provisions in force, are delegated to a firm of auditors.

As established by 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 its business and to achieve the corporate purposes; it also appoints, after obtaining the opinion of the Board of Statutory Auditors and the Internal Control Committee, the Manager responsible for drawing up the corporate financial documents; some matters indicated in the CG Code, as described in detail below, are reserved to the competence of the Board. The members of the Board were appointed for a three-year period that expires on the date of the Shareholders' Meeting convened to approve the financial statements at 31 December 2007 and they may be re-elected. The election of the Board of Directors, following the deliberation of some amendments to the By-laws at the Shareholders' Meeting held on 11 April 2007, in order to incorporate the modifications to the Financial Act (TUF) by Law no. 262/05, will be conducted by voting slates, to enable minority shareholders to appoint a Director.

The following are appointed by the Board: the Chairman of the Board and the Chief Executive Officer (CEO), responsible for the management of the Company as established in the mandate conferred by the same Board; the Executive Committee, empowered to make decisions about important matters that exceed the mandate conferred on the Chairman and the CEO, that require urgent attention, as well as some matters not included in the aforementioned mandate, even if not urgent; the Deputy Chairman, with powers of representation conferred by the Board if the Chairman is absent or unable to attend; the Internal Audit Committee and the Remuneration Committee, with roles that include consulting and preparation of proposals, as described below.

The Board of Statutory Auditors is responsible, in accordance with currently applicable legal provisions, for monitoring observance of the law and the By-laws, compliance with the principles of sound governance, suitability of the aspects of the company's organisational structure within its scope, of internal control and administrative/accounting systems, and dependability of the latter in correctly representing the management situation, and the provisions for actually applying the rules of corporate governance that the Company declares it respects. The Board of Statutory Auditors is also responsible, in relation to appointment of the auditing firm, for preparing a motivated proposal for the Shareholders' Meeting. Members of the board are appointed for a three-year period that expires on the date of the Shareholders' Meeting convened to approve the financial statements at 31 December 2007 and they may be re-elected. Election of the Board of Statutory Auditors will be conducted by voting slates: minority shareholders are entitled to appoint one standing and one alternate statutory auditor. The Statutory Auditor elected by minority shareholders will hold the office of Chairman.

The Shareholders' Meeting is the corporate body that represents all of the shareholders. At ordinary sessions the Shareholders' Meeting deliberates approval of the financial statements, appointment and dismissal of Board members, appointment of Statutory Auditors and their chairman, determination of the remuneration of Directors and Statutory Auditors, conferral of the auditing mandate, definition of the responsibilities of Directors and Statutory Auditors. At extraordinary sessions the Shareholders' meeting deliberates amendments to the By-laws and other extraordinary operations, such as capital increases, mergers and spin-offs, with the exception of some situations, reserved by the By-laws to the competence of the Board, as consented by CC art. 2365, second paragraph.

A firm of auditors registered in the special roll kept by Consob conducts auditing, in accordance with the law. The mandate of reference, initially conferred on Deloitte & Touche S.p.A. for a three-year period, was extended, by deliberation in the ordinary session of the Shareholders' Meeting held on 11 April 2007, for a period of up to nine years, the maximum term consented by the law, that is until the Shareholders' Meeting convened to approve the financial statements at 31 December 2010.

2. DISTRIBUTION OF SHARES (AT 5 MARCH 2008)

A) STRUCTURE OF SHARE CAPITAL

The subscribed and paid in share capital amounts to Euro 25,980,582.00 and is represented by 207,844,656 ordinary shares. Each share entitles the holder to a proportional part of the profits allocated for distribution; art. 29 of the By-laws provides that the net profits on the balance sheet are to be distributed as follows: (a) 5% (five percent) to the legal reserve fund up to the amount established by the law; (b) the remainder, unless the Shareholders' Meeting, as proposed by the Board, deliberates 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.
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 Company has adopted stock option plans that provide for payments that increase share capital when the options are exercised. For further information, see the document entitled "Information on Recordati S.p.A.'s stock option plans" distributed to the market on 17 September 2007, available on the Company web site at http://www.recordati.it/rec_en/investors/releases/2007/2007-09-17/ and also at page 67 of the draft version of the financial statements of the Company.

B) RESTRICTIONS ON TRANSFER OF SECURITIES

There are no restrictions on transferring securities.

C) SIGNIFICANT HOLDINGS IN SHARE CAPITAL

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 in relation to the holdings of the parent company Fimei - Finanziaria Industriale Mobiliare ed Immobiliare S.p.A., and treasury shares in portfolio.

Fimei S.p.A.: 51.112% of ordinary share capital and voting share capital
Recordati S.p.A.: 5.520% of ordinary share capital and voting share capital
Torre S.S.: 3.355% of ordinary share capital and voting share capital
JP Morgan Asset Management (UK) Limited: 2.001% of ordinary share capital and voting share capital

D) SECURITIES WITH SPECIAL RIGHTS

No securities with special rights of control have been issued.

E) SHARE HOLDING BY EMPLOYEES: EXERCISE OF VOTING RIGHTS

The stock option plans adopted by the Company do not provide for any voting mechanisms other than those established for shareholders in general, as established by the law and the By-laws, with reference to the shares acquired by exercise of the same.

F) RESTRICTIONS ON VOTING RIGHTS

There are no restrictions on voting rights. Shareholders who wish to participate in the Shareholders' Meeting must ensure that the necessary communications from intermediaries who keep the related accounts reach the registered office of the Company at least two days, excluding festivities, prior to the date of convention.

G) SHAREHOLDERS' AGREEMENTS

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

H) APPOINTMENT AND SUBSTITUTION OF DIRECTORS AND AMENDMENTS TO THE BY-LAWS

The provisions that govern the appointment and substitution of Directors are included, respectively, in articles 15 and 16 of the By-laws, and also in art. 18, which are integrally reproduced here below:

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

Art. 16) The Board of Directors shall be appointed from slates of candidates presented by shareholders, according to the procedures as indicated below, in which the candidates are identified by progressive numbers.
The slates, signed by the shareholders who present them, must be deposited at the registered office of the Company at least fifteen days prior to the date of the first convention of the Shareholders' Meeting, available to anyone who requests to see them and they will also be subject to other forms of publicity in accordance with laws and regulations in force at the time.
Every shareholder, shareholders who participate in a significant shareholders' agreement pursuant to TUF art. 122, the parent company, subsidiaries and companies subject to joint control pursuant to TUF art. 93, may not present or contribute to the presentation of more than one slate, not even by means of another person or trustee, nor may they vote for different slates, and each candidate may be listed in only one slate or will be disqualified. The subscriptions and votes expressed in violation of this prohibition will not be attributed to any slate.
Only shareholders or groups of shareholders who singly or jointly hold shares with voting rights representing at least 2.5% of share capital with voting rights at ordinary sessions of the Shareholders' Meeting will be entitled to present a slate of candidates, or a lesser percentage established by compulsory provisions of laws or regulations.
Each slate, deposited in the respective terms as above, must be accompanied by (i) the specific certification demonstrating title to the necessary number of shares for presentation of the slate, issued by a legally authorized intermediary; (ii) the declarations of the individual candidates in which they accept the candidacy and attest, under their own responsibility, the absence of any motives of disqualification or incompatibility, and the existence of any specific qualifications for their respective offices; (iii) a curriculum vitae of the personal and professional characteristics of each candidate.
Slates that are presented but are not in accordance with the provisions as above will be considered as not presented.
The Board of Directors will be elected as follows:

a) all of the Directors to be appointed, except one, will be selected from the list that obtained the greatest number of shareholders' votes, following the progressive order in which they are listed on the slate;
b) the remaining Director will be the candidate listed at no. 1 on the minority list that is not connected in any way, not even indirectly, with the slate as at point a) above, nor with the shareholders who presented or voted the slate as at point a) above, and obtained the second number of shareholders' 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 slates as at the fourth paragraph of this article will not be considered.

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 slate, 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 deliberation of the Shareholders' Meeting by relative majority, after presentation of candidates who possess the qualifications as cited above.
If only one slate is presented, all of the Directors will be selected from the same list. If no slate is presented the Shareholders' Meeting will deliberate by legal majority, without following the procedure as above.
Any diverse or additional compulsory provisions of the law or regulations will form an exception to these provisions.

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

a) the Board of Directors will proceed to select a Director among the candidates of the same slate as the Director to be substituted, without being conditioned by the progressive numbering of the slate, and the Shareholders' Meeting will deliberate the designation by legal majority, following the same criteria;
b) if there are no non-elected candidates on the aforementioned slate or no candidates with the necessary qualifications, or it is not possible to follow the provisions as at letter a) for any reason, the Board of Directors will proceed with the substitution, and successively the Shareholders' Meeting shall do likewise, by legal majority without voting slates.

In any case, the Board and the Shareholders' Meeting will proceed with the appointment in such a way as to ensure the presence of at least the minimum number of independent Directors, as required by the law and regulations in force at the time.

Amendments to the By-laws will be adopted in accordance with the law and regulations in force. The By-laws attribute the power to modify the same to the Board, if it is necessary to adjust them to provisions of the law and regulations.

It is important to note that in applying the CG Code, art. 16 of the By-laws, as reproduced above, specifies that the slates of candidates for the office of Director, presented by the shareholders and signed by those who present them, must be deposited at the registered office of the Company and made available to anyone who so requests for at least fifteen days prior to the date of the first call of the Shareholders' Meeting. It is also important to emphasize that only shareholders or groups of shareholders who singly or jointly hold shares with voting rights representing at least 2.5% of share capital with voting rights at ordinary sessions of the Shareholders' Meeting will be entitled to present a slate of candidates, or a lesser percentage established by compulsory provisions of laws or regulations; currently such a lesser percentage, pursuant to articles 144-quater and 144-septies of the Consob Issuers' Regulations no. 11971 of 14.4.1999, and Consob Deliberation no. 16319 dated 29 January 2008, is 2%. Minority lists are entitled to

appoint one Director. With reference to the election mechanism adopted to select candidates from the various slates presented, art. 16 of the By-laws establishes that all Directors except one are to be selected from the list that obtains the most votes from shareholders; the other Director will be the no. 1 candidate of the minority list that is not connected in any way, not even indirectly, with the slate that obtained the most votes, nor with the shareholders who presented or voted the same, and obtained the second number of shareholders' 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 slates, currently 1%, will not be considered.

I) AUTHORISATION FOR INCREASE OF SHARE CAPITAL AND ACQUISITION OF TREASURY SHARES

The Board was authorized to increase share capital, pursuant to CC art. 2443. In particular, the deliberation of the extraordinary session of the Shareholders' Meeting on 11 April 2007:

a) pursuant to CC art. 2443, authorised Directors to increase share capital in one or more tranches, gratuitously or by payment, for a total maximum nominal amount of Euro 50,000,000 (fifty million) within a period of no more than five years from the date of the deliberation, 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 deliberated by the Shareholders' Meeting (and therefore with the possibility to exclude the option rights to one fourth of the new issue);
b) pursuant to CC art. 2420-ter, authorised Directors to deliberate the issue in one or more tranches, for a total maximum nominal amount of Euro 80,000,000 (eighty million), 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 deliberation, in observance of applicable law and regulations concerning the issuing of bonds, and at the same time, deliberating 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.
In relation to the mandate conferred by the extraordinary session of the Shareholders' Meeting held on 10 April 2002, expired on 10 April 2007, on 14 May 2003, 7 April 2004 and 27 October 2004, the Board partially activated the same by deliberating some capital increases by payment, to date only partially executed and still valid, for the stock option plans adopted by the Company, at the same time as the attribution of the options in relation to the same plans; the details of each deliberation of share capital increase are included at art. 6 of the By-laws.

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

In ordinary session on 11 April 2007 the Shareholders' Meeting deliberated renewal of the authorisation to acquire treasury shares, pursuant to CC articles 2357 and following, until approval of the financial statements at 31 December 2007, scheduled for 11 April 2008. 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 maximum potential outflow of € 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, increased by 5%. Acquisitions were made on regulated markets, in observance of art. 144*bis*, first paragraph, letter b), of the Consob Issuers' Regulations.
Under such authorisation, from 11 April 2007 to date, the Company has acquired no. 5,060,464 treasury shares.

At the closing date of the Year, the Company held no. 11,472,355 treasury shares in portfolio, which represent 5.520% of share capital.

L) CHANGE OF CONTROL CLAUSES

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 resolve the agreement 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.

M) INDEMNITY FOR DIRECTORS IN THE CASE OF RESIGNATION, DISMISSAL OR TERMINATION OF THE RELATION FOLLOWING A TAKEOVER BID

No agreements have been stipulated between the Company and the Directors that provide for payment of indemnities in the event of resignation, dismissal without just cause or interruption of the relation following a public takeover bid.

3. COMPLIANCE

The Company adopted the CG Code by deliberation of the Board on 6 March 2007; on that occasion some other provisions related to best practice were also deliberated for immediate implementation. Successively, after further reflection and study, other provisions were deliberated to implement other suggestions of the CG Code. In matters where the Company has decided not to adopt a principle or criteria, the Report provides the motivations.

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

4. MANAGEMENT AND COORDINATION

Although controlled by Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A., the Company is not subject to management and coordination by the same, pursuant to CC articles 2497 and following. This is due to the fact that Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A. is merely a holding company that has no operational structure at all and does not exercise any influence or activity that might affect management decisions and the organisation of Recordati S.p.A.

5. BOARD OF DIRECTORS

5.1. COMPOSITION

The members of the Board at the closing date of the Year are indicated below. They were elected by the Shareholders' Meeting in ordinary session on 6 April 2005, except for Mr. Federico Nazzari, appointed by the Board on 8 February 2007 and confirmed

by the Shareholders' Meeting in ordinary session on 11 April 2007. The term of the Board will expire at the Shareholders' Meeting convened to approve the financial statements at 31 December 2007, programmed for 11 April 2008.

Name	Office	In office from	List	Executive	Non-executive	Indep.	Indep. TUF	% BoD	Other offices
GIOVANNI RECORDATI	Chairman Man. Dir. and Gen. Manager	6.4.2005	M	X				100%	0
ALBERTO RECORDATI	Deputy Chair.	6.4.2006	M	X				100%	0
ROMILDA BOLLATI DI ST. PIERRE	Director	6.4.2005	M		X		X	50%	1
MARIO GARRAFFO	Director	6.4.2005	M		X	X	X	100%	2
FEDERICO NAZZARI	Director	8.2.2007	M	X				100%	0
CARLO PEDERSOLI	Director	6.4.2005	M		X	X	X	87,5%	1
ANDREA RECORDATI	Director	6.4.2005	M	X				87,5%	0
MARCO VITALE	Director	6.4.2005	M		X	X(*)	X	75%	11

M *= Director elected on the slate voted by the majority.*
Indep. *= Director qualified as independent by the criteria established in the CG Code.*
Indep. TUF *= Director qualified as independent by the criteria established in TUF art. 148, paragraph 3.*
% BoD *= presence at Board meetings calculated as a percentage from the beginning of the year or from the date of entry into office.*
Other offices *= the total number of offices held in other companies listed on regulated markets (even outside of Italy), and in financial, banking, insurance or large scale companies.*

(*) *The Board has qualified Prof. Marco Vitale as independent, even though he has been a Director of the Company for more than nine years during the past twelve, considering that by his specific competence and professional commitment to constant control and stimulation of the Board, he has demonstrated to maintain his characteristics of independence and freedom of judgement in evaluating the operations carried out by management.*

Committee Membership

Name	Office	Executive Committee	% EC	Remuneration Committee	% RC	Internal Control Committee	% ICC
GIOVANNI RECORDATI	Chairman Man. Dir.and Gen.Man.	P	-				
ALBERTO RECORDATI	Deputy Chairman	M	-				
MARIO GARRAFFO	Director	M	-	P	100%	M	100%
FEDERICO NAZZARI	Director	M	-	M	66,6%		
CARLO PEDERSOLI	Director		-			M	100%
ANDREA RECORDATI	Director	M	-				
MARCO VITALE	Director	M	-	M	-	P	100%

P *= Chairman.*
M *= Member.*
% EC *= presence at Executive Committee meetings calculated as a percentage from the beginning of the year or from the date of entry into office.*
% RC *= presence at Remuneration Committee meetings calculated as a percentage from the beginning of the year or from the date of entry into office.*
% CCI *= presence at Internal Audit Committee meetings calculated as a percentage from the beginning of the year or from the date of entry into office.*

The Director indicated below stepped down from office during the Year:

Name	Office	In office from / to	List	Executive	Non executive	Indep.	Indep. TUF	% BoD	Other offices
HEINZ WOLF BULL	Director	From 6.4.2005 to 19.7.2007	M		X	X	X	100 %	0

List M *= Director elected on the slate voted by the majority.*
Indep. *= Director qualified as independent by the criteria established in the CG Code.*
Indep. TUF *= Director qualified as independent by the criteria established in TUF art. 148, paragraph 3.*
% BoD *= presence at Board meetings calculated as a percentage from the beginning of the year or from the date of entry into office.*
Other offices *= the total number of offices held in other companies listed on regulated markets (even outside of Italy), and in financial, banking, insurance or large scale companies.*

Committee membership of the aforementioned Director

Name	Office	Executive Committee	% EC	Remuneration Committee	% RC	Internal Control Committee	% ICC
HEINZ WOLF BULL	Director	M	-	P	50%	M	100%

P *= Chairman.*
M *= Member.*
% EC *= presence at Executive Committee meetings calculated as a percentage from the beginning of the year or from the date of entry into office.*
% RC *= presence at Remuneration Committee meetings calculated as a percentage from the beginning of the year or from the date of entry into office.*
% CCI *= presence at Internal Audit Committee meetings calculated as a percentage from the beginning of the year or from the date of entry into office.*

Maximum number of offices held in other companies

The Board has decided, for the moment, not to implement the suggestion of the CG Code that the Board itself should provide an indication of the maximum number of offices as Director or Statutory Auditor in other companies listed on regulated markets, and in financial, banking, insurance or large scale companies, that may be compatible with optimal conduct of the role of Company Director; this is because it prefers to leave such evaluation of compatibility to the responsibility of each Director.

5.2. ROLE OF THE BOARD OF DIRECTORS

During the Year the Board met eight times, with sessions that lasted an average of approximately two hours, on the following dates: 8 February 2007; 6 March 2007; 11 April 2007; 3 May 2007; 23 July 2007; 26 July 2007; 25 October 2007 e 14 November 2007; for the current year nine meetings are planned, and the Board has already met on 7 February 2008 e 5 March 2008.

As established by 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; during the extraordinary session of the Shareholders' Meeting held on 7 April 2004, competence was delegated to the Board to deliberate on the following matters:

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

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

The Board is also competent in the following matters:
- 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 below 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 deliberated the matter;
- evaluation of business trends, especially in the light of information provided by the delegated bodies and periodic comparison of results with budget previsions;
- study and approval prior to strategic economic or financial operations of the Company and its subsidiaries, with particular attention to situations in which one or more Directors have an interest, whether personal or on behalf of third parties, and in general, to operations with related parties; establish guidelines to identify significant operations;
- conduct, once a year, an evaluation of the size and functionality of the Board and its committees and possibly indicate the type of professional figures whose presence on the Board would be useful;
- communication, in the corporate governance report, of the means of application of the CG Code and in particular, of the number of Board and Executive Committee meetings held during the year and the relative percentage of participation of each Director.

The Board took the following actions in relation to the above:
- it studied and approved the budgets of the Company and the Group;
- it approved the most significant corporate provisions including update of the Organisational, management and control structures pursuant to Legislative Decree 231/2001, which also included the procedures for implementation of Law no. 262/05 comprising "Provisions for the protection of savings and discipline of financial markets" (known as the "Savings Act");
- it identified the subsidiaries with strategic characteristics, based principally on dimensional criteria (revenues) or evaluation of the special characteristics of the market on which the subsidiary operates (such as the orphan drugs market). The following companies are qualified as strategic subsidiaries: Laboratoires Bouchara Recordati S.A.S., Recordati Ireland Ltd, Jaba - Recordati S.A., Merckle Recordati GmbH, Innova Pharma S.p.A and Orphan Europe S.A.R.L.;
- 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;
- when the Board was renewed it attributed mandates to the Chairman and CEO Giovanni Recordati and the Executive Committee, and established the extent and means of exercising their powers;
- it established the remuneration of Chairman and CEO Giovanni Recordati, Deputy Chairman Alberto Recordati and of Mr. Federico Nazzari, in his role as Director with special mandates, after hearing the opinion of the Board of Statutory Auditors and examining the proposal of the Remuneration Committee, and also divided the total allotment for compensation of the Board, as deliberated by the Shareholders' Meeting, for the individual members of the Board;
- it evaluated management trends, with particular attention to the information provided by the Chairman and CEO, at the same time it compared the results with the budget previsions;
- it studied and approved strategic operations of the Company and its subsidiaries in advance, when such operations were strategically significant in relation to the economic and financial welfare of the Company (with particular reference to participation in other undertakings and special drugs). In fact, the Board adopted a "Procedure for significant operations with related parties or when a Director has an interest in the operation", to substitute the "Guidelines for operations with related parties" adopted in 2003 in accordance with the CG Code. Under this procedure, the following types of operations are considered to be strategic economic or financial operations of the Company, and therefore subject to the exclusive competence of the Board, excepting operations with or between other companies of the Recordati Group (unless atypical or unusual and/or to be concluded at other than standard conditions):

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

On the basis of the procedure as above, the Board is also responsible to study and approve particularly significant operations with related parties, and operations in which one or more Directors have an interest, whether personal or on behalf of third parties, as specified at section 13 of this Report.

The Board conducted a preliminary evaluation of the size, composition and functioning of the Board and its committees. This preliminary evaluation was conducted by asking each Director to compile a questionnaire prepared by the Legal Office of the Company. The Board discussed the results of the compilation of this questionnaire. The outcome of this preliminary evaluation was substantially positive.

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

5.3. DELEGATES

Chairman and Chief Executive Office

In addition to his office as Chairman of the Board, entitled to represent the Company in relations with third parties and before the courts, in its deliberation of 6 April 2005 the Board also conferred the office of Chief Executive Officer (CEO) to Giovanni Recordati, with the intention of achieving efficient management of the Company.

In his role as CEO, Giovanni Recordati has been authorised by the Board to exercise the broadest powers to handle ordinary and extraordinary management of the Company, in accordance with art. 25 of the By-laws.
The following powers are excluded from his mandate and are instead at the discretion of the Board:

a) stipulation of medium to long-term mortgages with real guarantees for amounts of more than Euro 15,000,000 for any single operation. No limit has been established for the stipulation of mortgages at preferential interest rates (with or without subsidies) with public institutions and financing institutes constituted in accordance with the law that grant financing to support industrial initiatives or research projects, in relation to which the CEO is authorised to consent the establishment, inscription, reduction and cancellation of mortgages, and may also authorise transcriptions, transfers, corrections, annotations and all other real estate operations in general, for all of which the Land Registry and any other competent offices are exonerated from any responsibility;

b) transfer of real estate properties for amounts greater than Euro 6,000,000, where the industrial operations of the Company are conducted at the time of the transfer;
c) acquisition and transfer of holdings in other companies, as well as acquisition or transfer of special drugs or products in general, for amounts of more than Euro 20,000,000 for any single operation. No limit has been established for increases of holdings in subsidiaries and for exercising options of share capital increases or the issue of new shares or bonds by subsidiaries or related companies;
d) granting of surety bonds or assumption of joint obligations on behalf of third parties for amounts of more than Euro 6,000,000. No limit of authorisation has been established for granting surety bonds or assumption of joint obligations on behalf of subsidiaries.

The Chairman and CEO 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.

Reporting to the Board of Directors and the Board of Statutory Auditors
The Chairman and CEO has reported to the Board of Directors and the Board of Statutory Auditors during their meetings and, in any case, at least quarterly, about the operations conducted in exercising the mandate conferred by the Board.

Executive Committee
The Board, in order to equip itself with a structure capable of making it possible to make collective decisions about significant matters of particular urgency, has constituted an Executive Committee composed of four executive members, that is by the Chairman and CEO Giovanni Recordati, who is also the committee Chairman, by the Deputy Chairman, Alberto Recordati, by Andrea Recordati and Federico Nazzari, as well as two non-executive Directors who are also independent, as detailed below, Marco Vitale and Mario Garraffo.
The Board has conferred ample powers to the Executive Committee to handle ordinary and extraordinary management of the Company, excluding only those that may not be delegated by law, to be exercised when, at the discretion of the Chairman and CEO, motives of urgency do exist. In addition, even in the absence of urgency, the Committee may deliberate on the following matters:
a) granting of surety bonds or assumption of joint obligations on behalf of third parties for amounts of more than Euro 6,000,000;
b) stipulation of medium to long term mortgages with real guarantees for amounts of more than Euro 15,000,000 for any single operation;
c) acquisition and transfer of holdings in other companies, as well as acquisition or transfer of special drugs or products in general, for amounts of more than Euro 20,000,000 for any single operation.

The Executive Committee did not meet during the Year, even in the light of the numerous Board meetings. No meetings have been held during the current year either.

5.4. OTHER EXECUTIVE DIRECTORS
In addition to the Chairman and CEO, the other Directors that qualify as executives are Alberto Recordati, Andrea Recordati and Federico Nazzari. In particular, Alberto Recordati holds the office of Deputy Chairman, with powers of representation conferred by the Board if the Chairman is absent or indisposed, but not is endowed with specific mandates, he executes special assignments from time to time. Mr. Andrea Recordati holds management positions in some of the strategic subsidiaries. The Board has delegated Mr. Nazzari to conduct some institutional operations, which in relation to their nature are not considered strictly executive functions.

5.5. INDEPENDENT DIRECTORS
Three of the four non-executive Directors, that is, Prof. Vitale, Mr. Garraffo and Mr. Pedersoli, qualify as independent Directors, as specified below.

After election on 6 April 2005, the Board evaluated the qualifications of each non-executive director in relation to the qualifications of independence as established by the Corporate Governance Code published in 2002, in force at the time. In a successive evaluation, according to the provisions of the CG Code, Mrs. Bollati di Saint-Pierre was qualified as non-independent, due to her presence on the Board for more than nine years during the past twelve.

The Board did make an exception to the criteria of independence in evaluating the independence of Prof. Vitale, qualifying him as an independent Director even though he has been a Director of the Company for more than nine years during the past twelve, considering that by his specific competence and professional commitment to constant control and stimulation of the Board, he has demonstrated to have maintained his characteristics of independence and freedom of judgement in evaluating the operations carried out by management.

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, during the introductory meetings of the Internal Audit Committee, of which they are members, have verified each time the absence of any specific matters that might be significant in relation to their roles as independent Directors.

5.6. LEAD INDEPENDENT DIRECTOR
Considering the existence of the situation in which the same person holds the offices of Chairman and CEO, the Board has designated independent Director Prof. Vitale to be the lead independent director, to guide the non-executive 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.

6. 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, keeping and updating of a specific register of the persons who have access to the information as above (known as the insiders book). 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; provides for the institution of the Register of persons who have access to confidential information. In implementing these regulations, a procedure for keeping the Register (register of the 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 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 deliberated the adoption of a procedure to discipline communications about 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) and to substitute the internal dealing code previously adopted by the Company in accordance with Borsa Regulations. The purpose of the procedure is: to identify the Company managers who are responsible for issuing such communications; to define the methods of communication that significant persons of the Company must use in relation to the aforementioned operations, as well as the methods that the Company must use to handle communications received by the same significant persons, and fulfilment of the obligation to diffuse the same. The following persons, in addition to the Directors, the Statutory Auditors and the General Managers of the Company, have been identified as significant persons: the Chief Financial Officer of the Group, the Chief Officer of the Pharmaceutical Research and Development Division, the Chief Officer of Corporate Development, the Chief Officer of the Group Industrial Division, the Chief Officer of Human Resources of the Group and, finally, the Chief Officer of the Pharmaceutical Division in Italy.

7. INTERNAL COMMITTEES OF THE BOARD

No committees have been formed to carry out the duties of two or more committees, as established by the CG Code, and no other committees that differ from those foreseen by the CG Code have been formed either.

8. APPOINTMENTS COMMITTEE

The Board has not found it necessary to designate 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.

9. REMUNERATION COMMITTEE

The Board has formed an internal Remuneration Committee. During the year the Remuneration Committee met three times, with sessions on the following dates: 6 March 2007, 3 May 2007, 26 July 2007. During the current year the Committee met once, on 5 March 2008. The percentage of participation of the Committee members at the meetings is indicated in the table at paragraph 5.1 of this Report.

The Committee is composed of three Directors, two of which are non-executive and independent: Mr. Garraffo, Chairman, and Prof. Vitale, together with Mr. Nazzari, an executive Director. The Board appointed Mr. Nazzari to the office of Committee Member, despite his status, because the institutional activities he conducts as delegated by the Board, in relation to their nature, are not considered strictly executive functions.

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

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

ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee has the following functions:

- to present proposals for the remuneration of Directors and Directors endowed with special mandates to the Board and to monitor application of the deliberations adopted by the Board;
- to periodically evaluate the criteria adopted in relation to the remuneration of Managers with strategic responsibilities, to monitor application of the same on the basis of information provided by the CEO and to provide the Board with general guidelines about these matters;
- to execute the functions assigned by the Board in relation to the administration of stock option plans to be offered to employees and/or Directors of the Company and of subsidiaries, for shares of the Company or options on the same, without any exception to the general competence of the Board itself to supervise this matter.

At the meetings as above, the principal activities of the Committee were: preparation of proposals for the Board about the remuneration of the mandate conferred on Dr. Nazzari (in his absence), preparation of proposals for the Board to enable participants in the 2006-2009 Stock Option Plans to satisfy all of the conditions established by tax regulations in force so that the revenues that derive from the sale of shares acquired through exercise of stock options may be taxed as capital gains instead of income from a labour contract; evaluation of the criteria adopted to establish the remuneration of managers with strategic responsibilities and the objectives of the Chairman and CEO; a preliminary evaluation of a new long-term incentive plan.

Minutes of all meetings of the Remuneration Committee have been drawn up regularly. The Committee had access to the information and Company offices that were necessary, and also to make use of external consultants, but did not incur any expenses during the Year to carry out its duties.

10. DIRECTORS' REMUNERATION

A significant part of the remuneration of the Chairman and CEO Giovanni Recordati and of Director Andrea Recordati, both executive directors, depends on the economic results of the Company and the achievement of specific objectives, by means of an MBO (management by objectives) system. The remuneration of Mr. Nazzari has no variable component, even though he is qualified as an executive Director, as a consequence of the particular mandate conferred on him, because the institutional activities he conducts are not considered strictly executive functions. Similarly, the remuneration of executive Director Alberto Recordati does not include a variable component, because he is not endowed with specific mandates but executes special assignments from time to time.
Stock option plans are available to executive Directors (with the exception of Mr. Nazzari for the motives indicated above) and to managers with strategic responsibilities. In addition, stock option plans are also available to Giovanni Recordati (who also holds the office of General Manager), Alberto Recordati and Andrea Recordati, not in

relation to being Directors but rather in their roles as managers with strategic responsibilities.

Remuneration of non-executive Directors is not linked to the profits of the Company, but rather is determined by considering the presence or not in the Committees as above. Non-executive Directors do not have access to the stock option plans.

11. INTERNAL AUDIT COMMITTEE

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

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

During the Year, the Committee met four times: 1 March 2007, 3 May 2007, 26 July 2007 and 25 October 2007. In the current year, the Committee met on 7 February 2008, 20 February 2008 and 5 March 2008. The percentage attendance of Committee members at meetings is shown in the table contained in paragraph 5.1 of this Report.
Two of the three members of the Committee have experience in accounting and financial matters.

The Chairman of the Board of Statutory Auditors or another auditor designated by the latter have constantly participated in the Committee's work.

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

DUTIES ASSIGNED TO THE INTERNAL AUDIT COMMITTEE

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

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

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

The Committee's activities in the aforementioned meetings mainly concerned: an evaluation of the adequacy of the accounting principles; an examination of the reports of the Supervisory Board set up pursuant to Legislative Decree 231/01 and of the Internal Control Officer; an examination of the work plan prepared by the Internal Control Officer; an assessment, at the time of the decision of the Shareholders in the meeting of 11 April 2007 to extend the contract of the audit firm, of the proposal made by that firm; the submission of a proposal to the Board regarding the appointment of the Appointed Manager; the submission of proposals to the Board regarding updates to the Model established pursuant to Legislative Decree 231/01, including procedures for compliance with Law 262/05; the issuance of an opinion on the appointment of the new internal control officer and on the suitability of his remuneration; the submission of a proposal to the Board regarding the formalisation of the guidelines for the internal control system; the issuance of an opinion on the "procedure for significant transactions, with related parties or in which a Director holds an interest". 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 and to make use of external advisors, but during the Year the Committee did not occur any expenses in the performance of its duties.

12. INTERNAL CONTROL SYSTEM

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, and has also determined the criteria to establish whether such risks are compatible with a sound and proper management of the business.

The key components of the Company's Internal Control System are the ethical principles and values embodied in the Company's Code of Ethics, the system of compliance procedures and models, the organisational structures, the current system of powers and delegations, the risk monitoring and reporting system and the information systems.

The Board has positively assessed the adequacy, efficiency and effectiveness of the internal control system, based on the information provided during meetings in the form of reports presented by the Internal Audit Committee (which made its assessments of the internal control system principally on the basis of those expressed by the Internal Control Officer in his reports) and by the Supervisory Board set up pursuant to Legislative Decree 231/2001. The Board has also constantly approved the updates to the Organisational, Management and Control Model established pursuant to Legislative Decree 231/2001, including the procedures for compliance with Law no. 262/05.

12.1. 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.

12.2. 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.

12.3. ORGANISATIONAL MODEL established pursuant to Legislative Decree 231/2001

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

A presentation of the Model adopted by the Company is available on the Company's website at http://www.recordati.it/rec_it/cg/compliance/ For subsidiary companies having strategic importance and based abroad, it is currently being assessed whether to adopt measures having a similar purpose to that of the Organisational Model established pursuant to Legislative Decree 231/01 adopted by the Company.

12.4. AUDIT FIRM

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

12.5. MANAGER APPOINTED TO PREPARE CORPORATE ACCOUNTING DOCUMENTS

On 3 May 2007, the Board of Directors, having noted the favourable opinion of the Board of Statutory Auditors and of the Internal Audit Committee, appointed Fritz Squindo, Group Finance Director, as the Manager appointed to prepare the corporate accounting documents.

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

13. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

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

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

A) related party transactions which, by virtue of their object, consideration, conditions or timeframe, may have an effect on the protection of the Company's assets or on the completeness and correctness of information, including accounting data, relating to the Company and/or to the subsidiaries, for which there exists an obligation of public disclosure in accordance with the terms and conditions identified by Consob regulations (art. 71-bis of the Issuers Regulations).

B)

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

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

The following transactions simply need to be reported to the Board by the Chairman and Chief Executive Officer:

- related party transactions that fall within the types described above, for amounts lower than those indicated above, but which remain significant;
- intragroup transactions which are particularly significant in terms of their amount or type.

In the case of related party transactions falling within the exclusive remit of the Board, the Chairman and Chief Executive Officer will ensure that supporting documents are made available in a timely manner to members of the Board and of the Internal Audit Committee for their assessment.

Where the nature, value or other characteristics of a related party transaction falling within the exclusive remit of the Board so require, in order to prevent the transaction from being carried out under different conditions from those which would probably have been negotiated between unrelated parties, the Board is assisted by independent experts, who express an opinion on the financial conditions and/or legitimacy and/or technical aspects of the transaction, as applicable. The experts chosen must have proven and recognised professionalism and expertise and must be independent from the Company, its subsidiaries and Directors and must have no conflict of interests in relation to the transaction.

Whenever a Director holds a personal or third party interest, including a potential or indirect interest, in relation to a specific transaction or matter referred to the Board of Directors or Executive Committee for examination and approval, that Director must inform the Board, the Executive Committee 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 or, where applicable, the Executive Committee, 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.

14. APPOINTMENT OF AUDITORS

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

"27) The Shareholders' Meeting shall appoint the Board of Statutory Auditors, comprising three statutory auditors and two alternate auditors, who may be re-elected, and shall determine their remuneration. Their powers, duties and term of office shall be as established by law.
Auditors shall satisfy the requirements laid down in current laws and regulations. As regards requirements of professionalism, the matters and sectors of activity strictly connected with that of the company are the

research, production and sale of chemical and pharmaceutical products. The minority shareholders shall elect one Statutory Auditor and one Alternate Auditor.
Unless otherwise provided for in laws or regulations, the Board of Statutory Auditors shall be appointed according to the procedures set out in the following paragraphs on the basis of slates submitted by Shareholders in which candidate are listed by means of a progressive number.
The slate must specify whether each candidate is nominated for the position of Statutory Auditor or for the position of Alternate Auditor.
Only Shareholders who, individually or together with others, own shares with voting rights representing at least 2.5% of the voting capital or representing any lower percentage established or provided for by mandatory laws or regulations shall have the right to submit slates.
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 slate or vote for different slates, including through an intermediary or trust company. Each candidate may only be present on one slate failing which he will be ineligible. Votes cast in violation of the above prohibition shall not be attributed to any slate.
Submitted slates shall be deposited at the Company's registered office at least fifteen days before the date scheduled for the Shareholders' Meeting at first call without prejudice to any further forms of disclosure required by any rules or regulations from time to time in force.
The following documents shall be submitted by the deadline specified above as an annex to the aforementioned slates: a brief note identifying the shareholders submitting the slates (indicating the total percentage of share capital held), a detailed report on the professional and personal characteristics of each candidate, statements by individual candidates accepting their candidacy and certifying, under their own responsibility, 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 offices in question as well as a list of any management and audit positions held in other companies.
Slates not satisfying the requirements specified above shall be considered as not having been submitted.
Auditors shall be elected as follows:
1. from the slate 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 slate;
2. from the second slate which obtained the highest number of votes at the Shareholders' Meeting and which has no connection, not even indirectly, with the shareholders who submitted and voted for the slate 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 slate.
In the event of a tie between slates for the appointment of the Auditors indicated in point 2 of the foregoing paragraph, the slate submitted by shareholders owning the largest shareholding or, alternatively, the slate submitted by the largest number of shareholders shall prevail.
Should a single slate or no slate be submitted, all candidates for the posts of Statutory and Alternate Auditors named on the slate 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 slate 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 slate from which the outgoing auditor was elector, or, alternatively, by the first candidate on the minority slate 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 slate, the replacements shall be appointed by relative majority vote without slate voting; if, however, it is necessary to replace Auditors elected on the basis of the minority slate, the Shareholders' Meeting shall replace them by a relative majority vote by choosing them from the candidates on the slate from which the outgoing auditor was elected or on the slate 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 the minority for whatever reason, the Shareholders Meeting shall hold a relative majority vote. However, votes cast by shareholders who hold the relative majority of voting rights that may be exercised in the Shareholders' Meetings, as identified in disclosures made in accordance with applicable regulations, whether directly, indirectly or jointly with other shareholders who have signed a Shareholders' Agreement pursuant to art. 122 of Legislative Decree no. 58/1998, shall not be considered in establishing the outcome of such vote.
Members of the Board of Statutory Auditors may participate in meetings remotely by means of audio-visual connection, video conferencing or telephone link-up systems.
In the above case:
- the following must always be established:
a) the identity of all members attending at each connection point shall be verified;
b) each member attending shall be permitted to express a personal opinion verbally, to view, receive or send any documentation and to participate simultaneously in the discussion of the points at issue and pass resolutions;
- meetings of the Board of Statutory Auditors shall be considered to be held at the place where both the Chairman and Secretary are located.

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

Note, in particular, that, in accordance with the recommendations of the Code, art. 27 of the By-Laws, as transcribed above, stipulates that slates of candidates for the position of auditor submitted by shareholders and signed by those submitting them, must be deposited at the Company's registered office, available for consultation by any person so requesting, at least fifteen days before the scheduled date of the Shareholders' Meeting at first call. It is also underlined that the right to submit 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 the Ordinary Meeting, or representing any lower percentage established by mandatory laws or regulations. Currently, this lower percentage, pursuant to arts. 144-quater and 144-septies of the Regulations adopted by CONSOB resolution no. 11971 of 14.4.1999 and CONSOB resolution no. 16319 of 29.1.2008, is 2%. The minority slates shall elect one Statutory Auditor and one Alternate Auditor. As regards the appointment mechanism adopted for choosing the candidates on the various slates submitted, note that, again according to the above transcribed art. 27 of the By-Laws, two statutory auditors and one alternate auditor are elected from the slate 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 slate; from the second slate which obtained the highest number of votes after the first slate and which has no connection, not even indirectly, with the shareholders who submitted or voted for the slate 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 slate.

15. 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 6 April 2005 and its term of office will expire at the Shareholders' Meeting approving the financial statements for the year ended 31 December 2007, due to be held on 11 April 2008.

Alessandro Manusardi - Chairman
Emilio Aguzzi De Villeneuve – Statutory Auditor
Oreste Severgnini – Alternate Auditor
Carlo Severgnini – Alternate Auditor
Angelo Gastaldi – Alternate Auditor

During the Year, the Board of Statutory Auditors met eleven times. In particular, the meetings took place on the following dates: 8 February 2007, 1 March 2007, 6 March 2007, 13 March 2007, 11 April 2007, 3 May 2007, 23 July 2007, 26 July 2007, 17 October 2007, 25 October 2007 and 14 November 2007. As regards the current year, the Board of Statutory Auditors met on 7 February 2008 and 5 March 2008. The percentage attendance of Auditors in these meetings is shown in the table above.

At the time of their appointment on 6 April 2005, the auditors assessed their own independence solely in accordance with existing legislation, since, on that date, the Corporate Governance Code published in July 2002 was still in force and this made no reference to specific criteria of independence for Auditors which were different from those laid down in the legislation existing at that time. Following the adherence to the Code by the Company, the Board assessed its independence in accordance with all the criteria laid down in the Code concerning the independence of Directors. As a result of this assessment, the Board observed that it did not satisfy the requirement of independence based on the criterion of not holding office for more than nine years in the last twelve years. Note that this non-conformity with the Code is justified not only by the legislative constraint arising from the system preventing the removal of Auditors but also by the imminent renewal of corporate offices within the company.

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

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

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

16. RELATIONS WITH SHAREHOLDERS

The Company has created a specific section on its website called "Shareholder information", 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.

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

17. SHAREHOLDERS' MEETINGS

On the basis of art. 10 of the By-Laws, Shareholders wishing to attend the Shareholders' Meeting must ensure that notifications from the intermediaries who hold their accounts are received at the registered office at least two working days before the scheduled date of the meeting.
The Board believes that there are no conditions that require the adoption of particular initiatives regarding attendance of Meetings and the exercise of voting rights by shareholders such as, for example, postal voting.

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

The Board of Directors, through the Chairman and Chief Executive Officer, reported, in the Shareholders' Meeting held on 11 April 2007, on activities undertaken and those planned, and responded to questions posed by a number of shareholders. The bundle containing a copy of the draft financial statements and consolidated financial statements, with the accompanying reports and the Directors' reports on the proposals concerning items placed on the agenda was handed out at the entrance and also sent to shareholders who had taken part in recent meetings in order to ensure adequate disclosure of the necessary information so that they could take the decisions for which they are responsible with full knowledge of the facts.

During the Year, there were no significant changes in the market capitalisation of the Company's shares or in the composition of its corporate structure. Therefore, in the Board's opinion, there was no need to assess whether to propose to the Shareholders' Meeting any changes to the By-Laws concerning the percentages established for the exercising of the actions and prerogatives provided for the protection of minorities.

This booklet is a summary of the 2007 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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BOARD OF DIRECTORS
(elected by the Shareholders' Meeting of April 11, 2008)

Giovanni Recordati
Chairman and Chief Executive Officer
Recordati S.p.A.

Alberto Recordati
Vice Chairman
Recordati S.p.A.

Mario Garraffo
Senior Advisor
GE Europe

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

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

Carlo Pedersoli
Partner
Pedersoli e Associati Law Firm

Andrea Recordati
Western European Subsidiaries

Marco Vitale
Economist and Business Consultant

Walter Wenninger
Former Member of the Board of Managment
Bayer AG

AUDIT COMMITTEE

Marco Vitale
President

Mario Garraffo
Carlo Pedersoli

REMUNERATION COMMITTEE

Walter Wenninger
President

William R. Gunnarsson
Federico Nazzari

STATUTORY AUDITORS

Marco Nava
President

Marco Rigotti
Achille G. Severgnini
Auditors

Marcantonio Viganò
Valerio Piacentini
Alternate auditors

AUDITORS

Deloitte & Touche S.p.A.

MANAGEMENT

Giovanni Recordati
Chairman and Chief Executive Officer

Alberto Recordati
Vice Chairman

Walter Bevilacqua
Corporate Development

Luciano Bonacorsi
Human Resources

Celestino Di Rollo
Pharmaceutical Operations, Italy

Andrea Recordati
Western European Subsidiaries

Arnaldo Restelli
International Marketing and Southern European Subsidiaries

Paolo Romagnoli
Pharmaceutical Chemicals

Avi Sartani *(until 31.3.2008)*
Pharmaceuticals, Research and Development

Michele Spelta
Licensing and Business Development

Fritz Squindo
Chief Financial Officer

Franco Tomasini
Logistics and Manufacturing

RECORDATI
Industria Chimica e Farmaceutica S.p.A.

HEADQUARTES
Via Matteo Civitali,1 - 20148 Milano, Italy
Ph. +39 02 48 787.1 - Fax +39 02 40 073 747 - www.recordati.com