

**RECORDATI S.p.A.**

**CORPORATE GOVERNANCE REPORT  
AND OWNERSHIP STRUCTURE**

**FINANCIAL YEAR 2011**

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

Approved 7<sup>th</sup> March 2012 by the Board of Directors

Website: [www.recordati.it](http://www.recordati.it)

## GLOSSARY

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

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

**CC:** the Italian Civil Code.

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

**Issuer:** Recordati S.p.A.

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

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

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

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

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

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

## 1. THE ISSUER

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

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

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

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

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

## 2. OWNERSHIP STRUCTURE (pursuant to Art. 123-bis, paragraph 1 of the TUF) (at 7<sup>th</sup> March 2012)

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

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

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

The document entitled "Information on Recordati S.p.A.'s stock option plans" disclosed to markets on 17<sup>th</sup> September 2007 and the information documents prepared in accordance with Art. 84-bis of the Consob Issuers' Regulations relating to each outstanding stock option plan, available on the Company website at the address [http://www.recordati.it/rec\\_it/investors/regulated\\_information/stock\\_options](http://www.recordati.it/rec_it/investors/regulated_information/stock_options), may be

consulted for information on existing stock option plans and shares issued at the service of those plans.

#### STRUCTURE OF THE SHARE CAPITAL

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

OTHER FINANCIAL INSTRUMENTS (conferring the right to subscribe new share issues)				
	Listed/unlisted	No. of instruments outstanding	Type of shares at the service of the conversion/exercise	No. of shares at the service of the conversion/exercise
Convertible bonds	-	0	-	-
Warrants	-	0	-	-

**b) Restrictions on transfer of securities** (pursuant to Art. 123-*bis*, paragraph 1, letter b) of the TUF)

The shares of the Company are freely transferable.

**c) Significant holdings in share capital** (pursuant to Art. 123-*bis*, paragraph 1, letter c) of the TUF)

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

SIGNIFICANT SHAREHOLDINGS			
Declarant	Shareholder	Percentage (%) of ordinary share capital	Percentage (%) of voting share capital
FIMEI S.p.A.	FIMEI S.p.A.	51.644%	51.644%
TORRE S.S.	TORRE S.S.	3.198%	3.198%
FMR LLC	Fidelity Low Price Stock Fund	2.032%	2.032%
SCHRODER INVESTMENT MANAGEMENT LTD	SCHRODER INVESTMENT MANAGEMENT LTD	2.002%	2.002%

BLACK ROCK INC	BLACKROCK ASSET MANAGEMENT IRELAND LIMITED	0.011%	0.011%
	BLACKROCK INSTITUTIONAL TRUST COMPANY NA	1.248%	1.248%
	BLACKROCK ADVISORS (UK)	0.478%	0.478%
	BLACKROCK INVESTMENT MANAGEMENT LLC	0.053%	0.053%
	BLACKROCK FINANCIAL MANAGEMENT INC	0.005%	0.005%
	BLACKROCK ASSET MANAGEMENT JAPAN LIMITED	0.016%	0.016%
	BLACKROCK ASSET MANAGEMENT AUSTRALIA LTD	0.010%	0.010%
	BLACKROCK FUND ADVISORS	0.185%	0.185%
	BLACKROCK INTERNATIONAL LIMITED	0.007%	0.007%
	<b>TOTAL</b>	<b>2.013%</b>	<b>2.013%</b>

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

**d) Securities with special rights** (pursuant to Art. 123-*bis*, paragraph 1, letter d) of the TUF)

No securities with special rights of control have been issued.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Having considered that the current authorisations pursuant to Art. 2443 of the CC and to Art. 2420-ter of the CC. will expire on 11<sup>th</sup> April 2012, the Board resolved to submit a proposal to the Shareholders' Meeting convened to approve the 2011 annual report to renew those authorisations in order to maintain the necessary operational flexibility over an appropriate time horizon. The Directors Report on the relative items on the agenda, which will be made available within the legal time limits on the Company website and elsewhere, may be consulted for further information.

\*

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

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

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

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

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

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

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

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

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

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

\*\*\*

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

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

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

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

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

## **4. BOARD OF DIRECTORS**

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

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



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

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

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

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

*The following items must be filed for each list within the respective deadlines set out above and as provided by applicable regulations: (i) statements by each candidate to the effect that each accepts candidacy and declares, assuming full responsibility, that there are no reasons preventing the candidate from being elected or rendering him unsuitable for the office, and that the candidate meets any specific requirements for the relevant office; (ii) a curriculum vitae detailing each candidate's personal and professional characteristics and indicating that the candidate may be considered independent.*

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

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

*The Board of Directors will be elected as follows:*

*a) all of the Directors to be appointed, except one, will be selected from the list that obtained the greatest number of votes, following the progressive order in which they are listed on the list;*

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

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

*If the candidates elected by the method as above do not include an adequate number of independent Directors with the characteristics as established for statutory auditors at TUF Art. 148, third paragraph, equal to the minimum number established by the law in relation to the total number of Directors, the last non-independent candidate, according to the progressive numbering, of the list that obtained the greatest number of votes as at letter a) of the*

*paragraph above, will be substituted by the first independent candidate, according to the progressive numbering, of the non-elected candidates on the same list, or if not possible, by the first independent candidate, according to the progressive numbering, of the non-elected candidates of the other lists, according to the number of votes obtained by each. This procedure of substitution will be followed until the board of directors is composed of a number of members who have the qualifications as at TUF Art. 148, third paragraph, equal at least to the minimum legal number. If this procedure does not produce the latter result, the substitution will be effected by resolution of the Shareholders' Meeting by relative majority, after presentation of candidates who possess the qualifications as cited above.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The slate presented by FIMEI S.p.A. consisted of the following candidates to the Board of Directors for the years 2011-2012-2013:

1. *Ing.* Giovanni Recordati
2. *Dr.* Alberto Recordati

- |                                  |             |
|----------------------------------|-------------|
| 3. <i>Sig.</i> Andrea Recordati  |             |
| 4. <i>Prof.</i> Silvano Corbella | Indipendent |
| 5. <i>Dr.</i> Mario Garraffo     | Indipendent |
| 6. <i>Dr.</i> Germano Giuliani   | Indipendent |
| 7. <i>Dr.</i> Umbero Mortari     | Indipendent |
| 8. <i>Avv.</i> Carlo Pedersoli   | Indipendent |
| 9. <i>Prof.</i> Marco Vitale     | Indipendent |
| 10. <i>Dr.</i> Walter Wenninger  | Indipendent |

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

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

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

Board of Directors In office											Internal Control Committee		Remuneration Committee	
Office	Members	In office since	In office until	Slate (M/m) *	Exec.	Non Exec.	Indep. according to CG Code	Indep. according to TUF	% ***	Number of other positions ****	**** *	% ***	*** **	% ***
Chairman and CEO	GIOVANNI RECORDATI	13.4.2011	Approval of 2013 AR	M	X				100	0				
Vice Chairman	ALBERTO RECORDATI	13.4.2011	Approval of 2013 AR	M	X				81,82	0				
Director	SILVANO CORBELLA	13.4.2011	Approval of 2013 AR	M		X	X	X	100	0			X	100
Director	MARIO GARRAFFO	13.4.2011	Approval of 2013 AR	M		X	X (**)	X	72,73	2	X	75		
Director	GERMANO GIULIANI	13.4.2011	Approval of 2013 AR	M		X	X	X	87,50	0			X	100
Director	UMBERTO MORTARI	13.4.2011	Approval of 2013 AR	M		X	X	X	100	0			X	100
Director	CARLO PEDERSOLI	13.4.2011	Approval of 2013 AR	M		X	X (**)	X	100	0	X	100		
Director	ANDREA RECORDATI	13.4.2011	Approval of 2013 AR	M	X				90,91	0				
Director and Lead independent director	MARCO VITALE	13.4.2011	Approval of 2013 AR	M		X	X (**)	X (**)	81,82	0	X	75		
Director	WALTER WENNINGER	13.4.2011	Approval of 2013 AR	M		X	X	X	100	0				
<b>Directors retiring on 13.4.2011</b>														
	FEDERICO NAZZARI	11.4.2008	Approval of 2010 AR	M	X			X	100	0				
	WILLIAM GUNNARSSON	11.4.2008	Approval of 2010 AR	M		X	X	X	66,67	0			X	80

**Membri del Comitato Remunerazione cessati al 13.4.2011**

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

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

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

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

For members of the Remuneration Committee, the percentage for newly appointed members was calculated on four meetings, while the percentage was calculating on five meetings for members retiring on 13<sup>th</sup> April 2011.

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

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

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

<b>NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION</b>	<b>Board meetings: 11</b>	<b>Audit committee: 4</b>	<b>Remuneration committee: 9</b>
--	---------------------------	---------------------------	----------------------------------

### **Maximum number of offices held in other companies**

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

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

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

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

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

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

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

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

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

- examination and approval of strategic, industrial and financial plans of the Company and the Recordati Group, the corporate governance system and the structure of the Group;

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

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

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



set the remuneration of the CEO and the other Directors who occupy particular positions and decided how the total remuneration due to the members of the board was to be distributed.

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

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

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

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

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

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

results of the evaluation were positive and potential improvements were suggested by some Directors.

The Shareholders' Meeting of 13.04.2011 authorised a general and anticipatory exception to the prohibition on competition pursuant to Art. 2390 of the CC. Following their appointment as Directors of the Company, *Dr. Mortari* and *Dr. Giuliani* announced in a Board Meeting, as already mentioned in their *curricula vitae* deposited when slates for election by a Shareholders' Meeting were presented, that they occupied positions in the companies *Visufarma S.p.A.* and *Giuliani S.p.A.* respectively, both operating in the pharmaceuticals sector and therefore potentially in competition with the Company. The Board considered, in accordance with the Corporate Governance Code for listed companies, that at that time no difficulties existed in relation to positions filled by the said Directors in the companies mentioned.

#### 4.4 EXECUTIVE OFFICERS AND BODIES

##### Chairman and Chief Executive Officer

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

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

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

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

- a) assumption of financial liability of more than € 50 million for any single operation;
- b) transfer of real estate for amounts of more than € 25 million, where the industrial operations of the Company or its subsidiaries are conducted at the time of the transfer;

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

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

#### **Executive Committee**

No executive committee has been formed.

#### **Reporting to the Board**

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

### **4.5 OTHER EXECUTIVE DIRECTORS**

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

During the course of meetings of the Board of Directors, the Chairman and Chief Executive Officer gives necessary information on the affairs of the Company and the Group, which includes information on the most important changes in legislation and regulations in the sector and their impact on the Company. During the year detailed information was given on the newly acquired Turkish company *Dr. Frik Illac* and on the project to integrate and merge this with the Turkish subsidiary *Yeni Recordati Illac*. No additional specific initiatives were necessary to increase the Directors’ knowledge of the company and its dynamics, considering,

moreover, that all members of the Board have an in-depth knowledge of Company and the Group, either because of the many years in office or great experience acquired working in the sector.

#### 4.6 INDEPENDENT DIRECTORS

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

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

On that occasion the Board confirmed its previous assessment concerning the relationship between the Company and *Prof. Vitale*, attributable to a professional engagement worth € 50,000.00 annually, considering the relationship cited as not significant for the purposes of independence in consideration of the small quantitative nature of the engagement. Furthermore, the Board of Directors decided not to include the requirement relating to a Director holding office for more than nine of the last twelve years among those pursuant to the CG on the basis of which the assessment of the independence of Directors is performed. This is because, with precise reference to *Prof. Vitale, Dr. Garraffo* and *Avv. Pedersoli*, the Board considered that because of their specific expertise and professionalism and for their constant work in supervising and stimulating the Board they have demonstrated that they have maintained their characteristics of independence and freedom of judgement in assessing the work of management intact. Furthermore, the Board of Directors noted that the continuation of a Director in office for more than nine years should not in itself be considered a negative requirement for qualification as independent if the other requirements of the CG are satisfied. This is because great experience of the specific affairs of the issuer, the stature and professionalism of the persons considered, the absence of interests and significant relations with the Company constitute a value to be considered positively and such as to consider their capacity to judge freely and without bias to be untarnished.

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

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

#### 4.7 LEAD INDEPENDENT DIRECTOR

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

#### 5. CONFIDENTIALITY OF CORPORATE INFORMATION

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

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

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

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

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

Initially some executives holding management positions, insofar as they had regular access to confidential information, were considered (together with directors, statutory auditors, the general manager and the parent company FIMEI S.p.A.) “significant persons” for the purposes

of this procedure, even if they did not hold the power to make management decisions which might affect the future development and prospects of the Company.

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

## **6. INTERNAL COMMITTEES OF THE BOARD**

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

## **7. APPOINTMENTS COMMITTEE**

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

## **8. REMUNERATION COMMITTEE**

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

## **9. DIRECTORS' REMUNERATION**

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

## **10. INTERNAL AUDIT COMMITTEE**

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

This Committee is responsible for analysing problems and defining important policies for the auditing of company activities, providing consultancy and making proposals to the Board of

Directors with regard to the preparation, analysis and functioning of the internal control system.

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

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

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

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

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

#### **Duties assigned to the Internal Audit Committee**

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

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

The Internal Audit Committee also:

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



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

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

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

Meetings of the Internal Audit Committee were properly minuted.

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

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

## **11. INTERNAL AUDIT SYSTEM**

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



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

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

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

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

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

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

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

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

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

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

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

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

The 262 Control Model consists of

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

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

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

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

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

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

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

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

the administrative and accounting internal audit system. These tables are constantly updated by the Internal Audit Function.

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

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

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

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

The roles involved with specific reference to financial reporting processes are: the Board of Directors, CEO, Internal Control Officer (who fills the role of the officer responsible for the Internal Audit Function), Internal Audit Function, Internal Audit Committee and the Financial Reporting Officer.

The Financial Reporting Officer in conjunction with the CEO is responsible for putting adequate administrative and accounting procedures in place for the preparation of the separate Parent Company and consolidated financial statements.

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

### 11.1 EXECUTIVE DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL SYSTEM

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

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

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

### 11.2 INTERNAL CONTROL OFFICER

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

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

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

The Officer's duties are as follows:

- a) explain the proposed annual work programme to the Internal Audit Committee so that the Internal Audit Committee can make any suggestions;
- b) help the Executive Director responsible for monitoring the functionality of the Internal Control System with the design, management and monitoring of the Internal Control System and with the identification of the various risk factors;
- c) plan and carry out, in a manner consistent with the annual work plan, any direct and specific auditing tasks within Recordati S.p.A. and within all the subsidiaries, particularly in relation to companies having strategic importance, in order to identify any shortcomings in the Internal Control System in the various areas of risk;
- d) check that the rules and procedures for auditing processes are observed and that all individuals involved act in accordance with the predetermined objectives;
- e) carry out checks at his own initiative or at the request of the Board of Directors, the Internal Audit Committee, the Executive Director responsible for monitoring the

- functionality of the Internal Control System or the Board of Statutory Auditors;
- f) report on the results of his auditing activities to the Executive Director responsible for monitoring the functionality of the Internal Control System;
  - g) prepare a half-yearly summary report on the activities undertaken during the period for the Internal Audit Committee and for the Board of Statutory Auditors;
  - h) where critical aspects emerge requiring urgent intervention, immediately inform the Executive Director responsible for monitoring the functionality of the Internal Control System, the Internal Audit Committee and the Board of Statutory Auditors in order to update them on the results of his actions.

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

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

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

### **11.3 ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001.**

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

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

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

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

A presentation of the Model adopted by the Company is available on the Company's website at [http://www.recordati.it/rec\\_it/cg/compliance\\_programs/](http://www.recordati.it/rec_it/cg/compliance_programs/)

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

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

#### **11.4 AUDIT FIRM**

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

#### **11.5 THE FINANCIAL REPORTING OFFICER**

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

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

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

#### **11.6 Regulations for controlled foreign companies located in non-EU countries**

In relation to the provisions of articles 36 and 39 of the Markets Regulations concerning the conditions for the listing of the parent companies of companies formed and regulated under the laws of countries that do not belong to the EU and which are of significant importance for the purposes of consolidated financial statements, since 31<sup>st</sup> December 2011 the regulatory provisions of Art. 36 of the Markets Regulations have applied to the Turkish subsidiaries Yeni Recordati Ilaç Sanayi Ve Ticaret Anonim Şirketi and Dr. F. Frik Ilaç Sanayi Ve Ticaret Anonim Şirketi.

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



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

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

## 12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

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

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

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

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



(ii) holds an interest in the share capital of Recordati such that it is able to exert Significant Influence over it;

(c) an associate company of Recordati;

(d) a joint venture in which Recordati SpA is a venturer;

(e) an executive with strategic responsibilities of Recordati or its parent;

(f) a close member of the family of one of the parties referred to in letters (a), (b) or (e);

(g) an entity in which one of the parties referred to in letters (e) or (f) exercises Control, Joint Control or Significant Influence or holds, either directly or indirectly, a significant proportion, and in any case not less than 20%, of the voting rights;

(h) a collective or individual, Italian or foreign, supplementary pension fund, formed for the benefit of Recordati employees, or any other entity related to it, to the extent by which that fund has been formed or promoted by Recordati, or in the circumstance that Recordati may influence its decision-making processes.

- Executives with Strategic Responsibilities are defined as those persons who have power over and responsibility, either directly or indirectly, for the planning, management and control of the activities of the Company, including the directors (executive and non executive) of the company itself, full members of the Board of Statutory Auditors, the general managers, the manager appointed to prepare corporate accounting documents (the “Financial Reporting Officer”) and all those additional persons identified from time to time such by the Board of Directors, and proposed by the Chief Executive of the Company;
- Transactions of Major Importance are defined as those related-party transactions for which at least one of the relevance indicators contained in the aforementioned Attachment No. 3 of the Consob Regulations and which are applicable according to the characteristics of each related-party transaction (i.e. value of the transaction in relation to shareholders’ equity or, if greater, to capitalisation; total assets of the entity involved in the transaction compared to the total assets of the Company; total liabilities of the entity acquired compared to the total assets of the Company) exceeds 5%;
- Transactions of Minor Importance are defined as those related-party transactions which are not transactions of major importance and not transactions of negligible amount i.e. transactions for an individual amount of less than 150,000 euro.

The Regulations do not apply to:

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

- shareholders' resolutions pursuant to Art. 2389, paragraph one of the Italian Civil Code, concerning the remuneration due to members of the Board of Directors and resolutions concerning the remuneration of Directors appointed to special positions which forms part of the total amount determined in advance by shareholders in accordance with Art. 2389, paragraph three of the Italian Civil Code;
- shareholders' resolutions pursuant to Art. 2402 of the Italian Civil Code, concerning the remuneration due to members of the Board of Statutory Auditors;
- remuneration schemes based on financial instruments approved by shareholders in accordance with Art. 114-*bis* of the TUF and the relative transactions to implement them;
- decisions (other than those referred to under the preceding letter c) concerning the remuneration of Directors, Directors appointed to special positions and other executives with strategic responsibilities, when (i) the Company has adopted a remuneration policy (the formulation of which involved a committee formed exclusively of non executive directors, the majority of which are independent) (ii) the Company has submitted a report which illustrates the remuneration policy to a Shareholders' Meeting for approval or a consultative vote, and (iii) the remuneration actually assigned is consistent with that policy;
- decisions, to be taken when a professional arrangement is established with Recordati, concerning the remuneration of executives with strategic responsibilities, other than Directors and members of the Board of Statutory Auditors;
- transactions which fall within the ordinary performance of operating activities and the related financial activities concluded under conditions equivalent to market conditions or standards (i.e. conditions similar to those normally practiced with non related parties for transactions of an analogous nature, magnitude and risk or based on regulated tariffs or on compulsory prices or those practised for parties with which the Company is obliged by law to negotiate a determined consideration). The "ordinary performance" is identified by considering the contents, recurrence, function or purpose and timing of the transaction and also the nature of the counterparty, even if it is a related party. Operating Activities are defined as the main revenue generating activities and all other normal activities of the Company that are not classifiable as investment or financial activities pursuant to International Financial Reporting standard seven adopted by EC Regulation No. 1126 of 2008, as subsequently amended from time to time. Should the exemption contained in this point apply, the Company is nevertheless required, without prejudice to Art. 114, paragraph 1 of the TUF, to comply with the provisions of Art. 13, paragraph 3, letter c), points i) and ii) of the Consob Regulation No. 17221 of 12<sup>th</sup> March 2010;
- demerger transactions in the strict sense of the proportional type, share issues with option rights reserved to shareholders and to any holders of financial instruments (therefore issuances which are performed without excluding their option rights) and transactions for the purchase/sale of treasury stock if performed, other conditions remaining the same, to the benefit of both related parties and all others holding rights;
- transactions to be performed on the basis of instructions for the purposes of stability issued by the supervisory authority, without prejudice to disclosure obligations under Consob Regulations.

The regulations for significant transactions or where a Director holds an interest regulate transactions in which a director holds an interest either on his own behalf or on behalf of third parties, even potential or indirect, and it expressly reserves them to the approval of the Board

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

### 13. APPOINTMENT OF AUDITORS

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

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

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

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

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

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

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

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

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

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

*a) information on the identity of the shareholders who have submitted the lists, indicating the total percentage of capital stock held;*

b) a declaration by shareholders other than those who hold, including jointly, a controlling interest or relative majority, attesting to the absence of any forms of association with such shareholders, as provided by applicable regulations;

c) a thorough report of the personal characteristics of candidates and a declaration from the said candidates attesting that they possess the requirements established by law, together with their acceptance of the candidature.

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

*Auditors shall be elected as follows:*

1. *from the list which obtained the highest number of votes at the Shareholders' Meeting, two statutory auditors and one alternate auditor shall be elected, based on the progressive order with which they are listed in the sections of the list;*

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

*In the event of a tie between lists for the appointment of the Auditors indicated in point 2 of the foregoing paragraph, the list submitted by shareholders owning the largest shareholding or, alternatively, the list submitted by the largest number of shareholders shall prevail.*

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

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

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

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

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

*Should the application of the above procedures not result in the replacement of the auditors designated by minority shareholders for whatever reason, the Shareholders' Meeting shall hold a relative majority vote, following the presentation of candidatures by shareholders that, individually or together with others, possess shareholdings with voting rights that represent at least the percentage indicated above in relation to the procedure for the presentation of lists. However, votes registered by shareholders who hold the relative majority of voting rights that may be exercised in the meeting as identified in disclosures made in accordance with applicable regulations, whether directly, indirectly, or jointly with other shareholders who have signed a*

*shareholders' agreement as indicated in article 122 of Italian Legislative Decree No. 58/1998, shall not be considered in establishing the outcome of said vote.*

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

*In the above case:*

*- the following must always be established:*

*a) the identity of all members attending at each connection point shall be verified;*

*b) each member attending shall be permitted to express a personal opinion verbally, to view, receive or send any documentation and to participate simultaneously in the discussion of the points at issue and pass resolutions;*

*- meetings of the Board of Statutory Auditors shall be considered to be held at the place where both the Chairman and Secretary are located.*

*The legal audit of the Company's accounts shall be performed by the Audit Firm on the basis of applicable regulations".*

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

The minority lists shall elect one Statutory Auditor and one Alternate Auditor. As regards the appointment mechanism adopted for choosing the candidates on the various lists submitted, note that, again according to the above transcribed Art. 26 of the By-Laws, two statutory auditors and one alternate auditor are elected from the list which obtained the highest number of votes in the Shareholders' Meeting, based on the progressive order with which they are listed in the sections of the list; from the second list which obtained the highest number of votes after the first list and which has no connection, not even indirectly, with the shareholders who submitted or voted for the list which obtained the highest number of votes, one statutory auditor, who will chair the Board of Statutory Auditors, and one alternate auditor are elected, based on the progressive order with which they are listed in the list.

## 14. AUDITORS

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

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

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

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

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

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

<b>Board of Statutory Auditors</b>									
<b>Office</b>	<b>Members</b>	<b>In office since</b>	<b>In Office until</b>	<b>(M /m)</b>	<b>Indep. according to CG Code</b>	<b>Indep. according to TUF</b>	<b>** (%)</b>	<b>Number of other offices ***</b>	
Chairman	MARCO NAVA	13.4.2011	Approval of 2013 AR	M	X	X	100	29	
Statutory Auditor	MARCO RIGOTTI	13.4.2011	Approval of 2013 AR	M	X	X	87,5	5	
Statutory Auditor	ACHILLE SEVERGNINI	13.4.2011	Approval of 2013 AR	M	X	X	100	14	
Alternate Auditor	ANTONIO MELE	13.4.2011	Approval of 2013 AR	M	X	X	-	6	
Alternate Auditor	MARCO ANTONIO VIGANO'	13.4.2011	Approval of 2013 AR	M	X	X	-	21	
<b>Statutory Auditors retiring on 13.4.2011</b>									
Alternate Auditor	VALERIO PIACENTINI	11.4.2008	Approval of 2010 AR	M	X	X	-	5	

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

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



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

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

Number of meetings held during 2011: 9

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

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

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

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

The Board of Statutory Auditors has checked the independence of the audit firm KPMG S.p.A., checking both compliance with legislative provisions and the nature and extent of services other than financial auditing provided to a number of subsidiaries by the same audit firm and by the entities belonging to the latter's network. For information concerning services other than those of auditing the accounts provided by the audit firm to the Company and its subsidiaries, reference may be made to the relative attachment "Disclosure of auditors' fees for accounting audits and other services" to the consolidated financial statements at 31<sup>st</sup> December 2011 and the draft separate financial statements of Recordati S.p.A. at 31<sup>st</sup> December 2011.

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

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

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

## 15. RELATIONS WITH SHAREHOLDERS

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

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

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

## 16. SHAREHOLDERS' MEETINGS

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

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

In accordance with Art. 9 of the Corporate By-Laws in force (in the version last amended by a Shareholders' Meeting of 13<sup>th</sup> April 2011), Shareholders' Meetings are convened in the manner and within the legal time limits on the Company website and, where necessary due to



mandatory provisions or decided by the directors, in the Official Gazette and in at least one of the following national newspapers: “*Il Corriere della Sera*”, “*La Repubblica*”, “*La Stampa*”, “*Il Giornale*”, “*Milano Finanza*”, as well as according to other procedures provided for by the legislation and regulations currently in force.

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

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

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

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

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

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

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

In the case of a single call: an Ordinary Shareholders’ Meeting passes resolutions with an absolute majority, whatever the percentage of the capital stock represented and an Extraordinary Shareholders’ Meeting is validly constituted when at least one fifth of the capital stock is represented and it passes resolutions with the vote in favour of at least two thirds of the share capital represented in the Shareholders’ Meeting.

Following amendments made to regulations concerning the right to participate in Shareholders’ Meetings and voting rights, on the basis of Art. 83-*sexies* of the TUF, legitimate authorisation to participate in Shareholders’ Meetings and to exercise voting rights is certified by a communication to the issuer, performed by the intermediary, in compliance with its

accounting entries, certifying the party entitled to vote on the basis of information relating to the end of the accounting day of the seventh trading day prior to the date set for the Shareholders' Meeting in first call or second call. Nevertheless the legitimate right to participate and vote remains, should the communications be received by the Company later than the aforementioned time limit, provided they are received before the commencement of the proceedings of each single session of the Shareholders' Meetings.

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

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

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

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

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

The Board of Directors, through the Chairman and Chief Executive Officer, reported, in the Shareholders' Meeting held on 13<sup>th</sup> April 2010, on activities undertaken and those planned, and responded to questions posed by a number of shareholders. The volume containing a copy of the draft separate financial statements and consolidated financial statements, with the accompanying reports and the Directors' Reports on the proposals concerning items placed on the agenda was handed out at the entrance and also sent to shareholders who had taken part in recent meetings in order to ensure adequate disclosure of the necessary information so that they could take the decisions for which they are responsible with full knowledge of the facts. The above documentation has been made available and it may be consulted on the Company website [www.recordati.it](http://www.recordati.it).

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

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

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

### **18. CHANGES OCCURRING SINCE THE END OF THE YEAR**

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

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

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

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

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

Milan, 7<sup>th</sup> March 2012

On behalf of the Board of Directors

The Chairman

Ing. Giovanni Recordati

## ATTACHMENT 1

### PROFESSIONAL OVERVIEW OF THE DIRECTORS

#### **GIOVANNI RECORDATI**

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

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

#### **ALBERTO RECORDATI**

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

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

#### **SILVANO CORBELLA**

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

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

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

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

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

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

### **MARIO GARRAFFO**

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

*Dr.* Garraffo holds the following additional positions:

- Chairman IVG SGR SpA
- Director of GE INTERBANCA SpA

### **MARIO GERMANO GIULIANI**

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

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

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

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

### **UMBERTO MORTARI**

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

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

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

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

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

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

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

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

### **CARLO PEDERSOLI**

Carlo Pedersoli was admitted to the Milan bar in 1980.

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

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

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

### **ANDREA RECORDATI**

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

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

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



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

### **MARCO VITALE**

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

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

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

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

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

He has been appointed to several important public tasks.

He contributes to important leading newspapers and business magazines.

He published several books including:

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

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

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

Prof. Vitale holds the following additional positions:

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

### **WALTER WENNINGER**

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

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

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

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

The Dr. Wenninger holds positions in the following companies:

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



## **CURRICULA VITAE OF THE MEMBERS OF THE BOARD OF STATUTORY AUDITORS**

### **STATUTORY AUDITORS**

#### **MARCO NAVA**

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

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

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

Marco Nava holds positions in the following companies:

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

#### **MARCO RIGOTTI**

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

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

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

Marco Rigotti holds positions in the following companies:

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

### **ACHILLE SEVERGNINI**

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

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

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

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

## **ALTERNATE AUDITORS**

### **Antonio Mele**

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

Antonio started his career in Consob as supervisory inspector.

After leaving Consob in 1999, he joined Sanpaolo IMI Group (now Intesa Sanpaolo), working in various roles in Banca IMI, the Group investment bank; in 2002 he became CFO and in 2005 he

was appointed Head of the Operations (including all the support functions: finance and administration, middle office, back office, legal, etc...).

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

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

Antonio currently serves as:

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

#### **MARCO ANTONIO VIGANO'**

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

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

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

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

This auditor holds positions in the following companies:

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

- Statutory Auditor Immobiliare Parabiago SpA.
- Statutory Auditor Immobiliare Risanamento SpA.
- Statutory Auditor Pompetravaini SpA.
- Statutory Auditor Vi.Ma. SpA.