

**REPORT ON CORPORATE GOVERNANCE AND IMPLEMENTATION OF
THE CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES**

**(pursuant to Section IA.2.6 of the Instructions for Regulation of
Markets organized and managed by Borsa Italiana S.p.A.)**

6 March 2007

INTRODUCTION

In March 2006, the new Corporate Governance Code for listed companies (hereinafter the “New Code”) was published. In the introduction, issuers were invited to apply the New Code before the end of the financial year commencing in 2006 and to inform the market by means of a report on corporate governance to be published during 2007.

On the basis of Section I.A.2.6, paragraph 2, of the Instructions for Regulation of Markets organized and managed by Borsa Italiana S.p.A., the report on corporate governance to be published on the occasion of the approval of the financial statement for the financial year commencing in 2006 can make reference to the New Code or alternatively to the Code published in July 2002. In the latter case, the report must however provide information on the application of the New Code before the end of the said financial year.

The joint communication of Borsa Italiana and Assonime dated 16 November 2006 provided clarification on the adaptation to the New Code and the methods of application of the provisions indicated above. Specifically, the communication provided for the possibility that issuers would formalize adherence with the New Code in the first months of the 2007 financial year, giving sufficient time to mention it in the report to be published on the occasion of approval of financial statement for the 2006 financial year. It also specified that issuers that decide to compile corporate governance reports for the 2006 financial year using the 2002 Code must supplement their report with a specific section containing information on the issuer’s progress in adapting to the New Code, describing actions taken or planned for the application of its recommendations. It then emphasized that an issuer’s decision to adhere to the New Code does not preclude it from conforming to its recommendations in a gradual manner, provided that there are legitimate reasons for doing so.

In view of these clarifications, the Board of Directors of the company meeting on 6 March 2007, which had already been thoroughly informed as to the contents of the New Code, resolved to adhere to it (with the exception of the implementing principle that provides for the adoption of procedural regulations for shareholders’ meetings) and to avail itself of the option to make reference to the Code published in 2002 in the corporate governance report to be published on the occasion of the approval of the financial statement at 31 December 2006. Therefore, this report shall illustrate the corporate governance of the company by comparison with the Code published in 2002. Section II provides more detailed information on conformity with the New Code.

SECTION I

1. BOARD OF DIRECTORS

1.1 Role

The Board of Directors:

- is invested by the articles of incorporation with the widest powers of administration and ordinary and extraordinary management of the Company and has the power to take all actions that it considers necessary to implement and achieve company objectives, excluding only those powers that the law strictly reserves for Shareholders' Meetings. By resolution of the Extraordinary Shareholders' Meeting of 7 April 2004, the Board of Directors was also granted powers to adopt resolutions concerning:
 - merger in the cases provided by Articles 2505 and 2505 *bis* of the Civil Code;
 - the opening and closing of secondary offices;
 - indication of which Directors have powers to represent the Company;
 - the reduction of capital in the event of the withdrawal of a Shareholder;
 - the amendment of the articles of incorporation to conform to statutory provisions;
 - the transfer of the registered office to another municipality within Italy;
- meets regularly to examine and deliberate on matters relating to management and organizes itself and operates in such a manner as to guarantee the effective and efficient performance of its functions. During the 2006 financial year, the Board of Directors met eight times on the following dates: 9 February 2006; 2 March 2006, 6 April 2006, 4 May 2006, 28 June 2006, 27 July 2006, 2 October 2006, and 30 October 2006. During the current financial year the Board of Directors met on 8 February 2007 and 6 March 2007. The percentage attendance of Directors at Board meetings is set out in a table at the end of this report;
- performs a central role in the organization of company activities, being the holder, independently of the mandates granted to it, of a primary power of policy-making and supervision of the company's activities. By established practice it approves the company structure of the Group, together with corporate budgets and transactions entailing a significant impact on company profitability, assets and liabilities and financial position, with particular reference to transactions with related parties, unless such parties, having characteristics which will be described further on in this document, have been approved by delegated bodies in the exercise of their powers. As a matter of practice, however, the latter bodies submit

- such transactions to the Board for approval, except in cases of necessity and urgency;
- grants and terminates the mandates of the Managing Director(s) and the Executive Committee, who report on activities undertaken in the exercise of the mandates conferred on them to Board meetings and in any case on a quarterly basis;
 - upon examination of the proposals of the appropriate committee and in consultation with the Board of Statutory Auditors, determines the remuneration of the Managing Director(s) and those who hold specific positions, including, where the Shareholders' Meeting has not already done so, the breakdown of the total remuneration among the individual members of the Board itself and the Executive Committee;
 - supervises general management performance, with particular attention to situations of conflict of interest and the attainment of pre-established targets, taking specific account of information received from the Executive Committee, Managing Director(s) and the Internal Audit Committee;
 - examines and approves transactions entailing a significant impact on profitability, assets and liabilities and financial position;
 - assesses the suitability of the Company's and the Group's general organizational and administrative structure as established by the Chairman and Managing Director;
 - reports to Shareholders' Meetings.

Each Board member:

- acts and takes counsel autonomously in full knowledge of the facts, pursuing the objective of the creation of value for shareholders; accepts the position when they consider that they can dedicate the necessary time to the diligent performance of their duties, taking account of the number of directorships or auditing positions held in other listed finance, banking, insurance, or other substantial companies;
- is specifically notified, when the Chairman or Managing Director considers it beneficial or necessary, and in the manner they consider appropriate, of the main legislative and regulatory provisions relating to the Company and its executive bodies, so that the board member is further acquainted with the tasks and duties inherent in membership of the board.

1.2 Composition of the Board and presence of independent directors

The Company is managed by a Board of Directors, appointed by the Shareholders' Meeting on 6 April 2005, and which shall remain in office until the date of the Shareholders' Meeting convened to approve the financial statement at 31.12.2007. The Board is composed of nine Directors (see the list set out table 1 at the end of this report).

Up to the date of 6 March 2007, there were three executive directors: the Chairman and Managing Director Mr Giovanni Recordati, the Vice-Chairman Dr. Alberto Recordati, and Director Mr. Andrea Recordati, who perform management roles within the Company. On 18 December the independent non-executive director Dr. Francesco Costantini tendered his resignation after taking up the post of Chairman of the Board of Directors of two competing companies. On 8 February 2007 the Board co-opted Dr. Federico Nazzari as a replacement for Dr. Costantini. At the Board meeting held on 6 March 2007, some activities of an institutional character were delegated to Dr. Nazzari, who therefore can now be categorized as an executive director.

The number (currently five) and authority of non-executive directors is sufficient to guarantee that their judgement has a significant influence on the decisions of the Board and that they can bring their specific expertise to deliberations.

The non-executive directors are independent in the sense that:

- a) they do not maintain, nor have they recently maintained, directly, indirectly, or on behalf of third parties, economic relations with the Company, with its subsidiaries, executive directors, or with the Company's controlling shareholder, that are of such significance as to influence their autonomy of judgement;
- b) they are not holders, directly, indirectly, or on behalf of third parties, of shareholdings of sufficient size to allow them to exercise control or substantial influence on the company, nor do they participate in shareholders' agreements;
- c) they are not closely related to executive directors of the company or of parties who are in the situations indicated in subparagraphs a) and b) above.

Compliance with these independence requirements is assessed annually by the Board of Directors, taking account of the information provided by individual directors. Finally, the Board carried out this assessment on 6 March 2007, again with reference to the independence requirements of the 2002 Code.

Furthermore, directorships or auditing positions held by Board members in other listed finance, banking, insurance, or other substantial companies are set out below on the basis of information provided by the said Board members:

Donna Romilda Bollati di Saint Pierre

- Chairman of FINAM S.r.L.

Dr. Heinz Wolf Bull

- Chairman of SUNWAYS AG.
- Directorship of TANOX INC.
- Directorship of ALTANA Innovationsfonds GmbH

Dr. Francesco Costantini (until 18 December 2006)

- Liquidator SIRIO Partecipazioni e Gestioni S.p.A.

Mr. Carlo Pedersoli

- Directorship NEXTAM PARTNER SGR S.p.A.
- Chairman Sistemi Tecnologici Holding S.p.A.

Dr. Mario Garraffo

- Directorship PIRELLI S.p.A.
- Directorship TERNA S.p.A.
- Directorship VIRTUS Holding S.p.A.
- Directorship RCN Finanziaria S.p.A.
- Directorship CIS Holding S.p.A.

Prof. Marco Vitale

- Directorship A.S.M. BRESCIA S.p.A.
- Directorship ETICA SGR S.p.A.
- Vice Chairman BANCA POPOLARE DI MILANO S.p.A.
- Chairman BIPIEMME GESTIONI SGR S.p.A.
- Directorship PICTET INTERNATIONAL CAPITAL MANAGEMENT
- Directorship PICTET & C. SIM S.p.A.
- Member of the Supervisory Board DEUTZ AG. (Cologne)
- Directorship SAME DEUTZ FAHR S.p.A.
- Chairman SAME DEUTZ FAHR ITALIA S.p.A.
- Directorship ERMENEGILDO ZEGNA HOLDITALIA S.p.A.
- Chairman VINCENZO ZUCCHI S.p.A.

1.2 Chairman

The Board of Directors has decided to confer the post of Managing Director on the Chairman (hereinafter the “Chairman and Managing Director”) in addition to his designation as General Manager, for the purposes of effective management of the Company, granting him all the powers of ordinary and extraordinary management that may be delegated by law, with the exception of some powers, such as the entering into of non-facilitated and collateral loans, transfers of immovable property, the purchase and sale of equity interests, proprietary medicinal products and products in general, the granting of guaranties, and assumption of joint obligations in favour of third parties when such transactions exceed predetermined limits.

In the context of the decision to award these wide powers to the Chairman and Managing Director, the Board has also assigned to him the task of preparing the medium-long term strategic plans and budget, to be submitted to the Board for examination.

The Chairman also: (i) convenes Board meetings and ensures that members of the Board and the Board of Statutory Auditors are provided in good time with the necessary documentation and information to allow them to contribute knowledgeably to discussions on items submitted for their deliberation and approval, with the exception of cases of necessity and urgency, and (ii) coordinates Board activity and directs the progress of Board meetings.

1.3 Executive Committee

In order to provide suitable mechanisms to facilitate collective decision-making on key matters that require particular urgency, the Board has established an Executive Committee which, following the appointment of Dr. Nazzari as a member pursuant to the Board resolution of 8 February last, currently consists of four members: the Chairman and Managing Director Mr. Giovanni Recordati, who acts as Chairman, the Vice-Chairman Dr. Alberto Recordati, Mr. Andrea Recordati, and the aforementioned Dr. Federico Nazzari, plus three non-executive (and independent in the sense indicated above) directors: Prof. Marco Vitale, Prof. Heinz Wolf Bull and Dr. Mario Garraffo.

The Executive Committee has been vested by the Board of Directors with all powers of ordinary and extraordinary management, with the exception of those that cannot by law be delegated, to be exercised if, in the opinion of the Chairman and Managing Director, they are of an urgent nature. Furthermore, including in non-urgent cases, the Committee may decide on the granting of guaranties or the assumption of joint obligations in favour of third parties, the drawing up of medium and long term loans, the acquisition and transfer of equity interests in other companies and of proprietary medicinal and general products.

The Executive Committee did not meet during the 2006 financial year, a circumstance that is attributable to the frequency of meetings of the Board of Directors.

2. REPORTS TO THE BOARD OF DIRECTORS

The Chairman and Managing Director reports to the Board of Directors and the Board of Statutory Auditors on activities undertaken in the exercise of the mandate granted by the Board of Directors, including with respect to the activities of the Executive Committee, at each of their respective meetings and in any case at least on a quarterly basis, in particular providing adequate information on atypical or unusual transactions, or transactions for which approval is not reserved to the Board.

3. PROCESSING OF CONFIDENTIAL AND PRIVILEGED INFORMATION

3.1 Internal Regulations on the Processing of Privileged Information

Following the amendments made to Legislative Decree No. 58/1998 (hereinafter the “Consolidated Law on Finance” or “CLF”) by Law No. 62/2005 (Community Act 2004) on market abuse, the Board of Directors, by resolution of 6 April 2006, approved the “Internal Regulations on the Processing of Privileged Information” that replaced the internal procedure for management and external communication of confidential information and documents adopted in 2001 in compliance with the recommendation of the then applicable Corporate Governance Code. The Regulations govern the internal management and external communication of information relating to Recordati S.p.A. and its subsidiaries, with particular reference to privileged information and significant information (understood as information capable of becoming privileged information, but which has not yet attained the precise character required by Article 181 of the CLF), and the establishment, keeping and updating of the register of persons who have access to the said information (the so-called ‘register of insiders’). In particular, the register establishes confidentiality obligations for all persons who have access to privileged or significant information, identifies persons responsible for assessment of the importance of information, establishes the rules for access to the information by external parties; sets out some principles and rules for the management of documents and correspondence containing privileged or significant information and other information concerning the Company, and provides for the establishment of a register of persons who have access to privileged information.

In application of the Regulations, a Register Management Procedure has been adopted for persons who have access to privileged information, setting out the methods for keeping and updating the register. The Company has made provision to keep the register for other companies of the group (Group Register) after receiving a mandate to this effect from subsidiaries and the parent company.

3.2 Procedure for communications concerning Recordati shares

At its meeting of 6 April 2006, the Board of Directors also adopted a procedure for communications regarding shares in Recordati S.p.A. or other related financial instruments made by so-called significant persons, in order to comply with the obligations established by Article 114, paragraph 7, of the CLF (and its relevant implementing provisions), and which replaced the Code on Internal Dealing adopted by the Company in compliance with the provisions of the Regulations for Markets organized and managed by Borsa Italiana S.p.A. The procedure is intended to identify Company managers who are obliged to make such communications; define the method by which significant persons communicate transactions as well as the Company’s methods of managing communications received from significant persons and of discharging its obligation to notify them. It should be noted that, in addition to members of the Board of

Directors, Statutory Auditors, General Managers of the Company, the Director of the Group Financial Division, the Director of the Pharmaceutical Research and Development Division, the Director of Corporate Development, the Director of the Group Industrial Division and the Director of Group Human Resources have been identified as significant persons.

4. APPOINTMENT OF DIRECTORS

With regard to procedures for the appointment of Directors, the Board has heretofore recommended that when shareholders are called to deliberate on the appointment of Board members, they should deposit their proposals for nomination at Company headquarters at least ten days before the shareholders' meeting, together with a description of the candidates' personal and professional particulars, although this procedure remained optional for shareholders. The proposal for appointments to the current Board of Directors, formulated by the majority shareholder, was deposited, in compliance with the provisions of the Code, at company headquarters prior to the Shareholders' Meeting of 6 April 2005 within the aforementioned deadline and accompanied by a description of the personal and professional characteristics of the candidates, all of whom were in any case incumbent directors.

It should be noted that at the Ordinary and Extraordinary Shareholder's Meeting of the Company scheduled for 11 April next, a proposal will be made to shareholders to amend the articles of incorporation to adapt them to Law No. 262/2005 (Law on Savings), introducing, *inter alia*, list voting for the appointment of directors.

Currently the Board does not consider it necessary to appoint a nominations committee for appointment to Directorships, as no difficulties with nomination proposals are apparent, there being a controlling member present.

5. DIRECTORS' REMUNERATION

5.1 Remuneration Committee

The Board has established an internal Remuneration Committee which, until the resignation of Dr. Francesco Costantini on 18 December 2006, was composed of three non-executive and independent (in the sense described above) directors: the aforementioned Dr. Francesco Costantini as Chairman, Dr. Mario Garraffo and Prof. Heinz Wolf Bull. On 8 February 2007, Dr. Federico Nazzari after being co-opted to the Company's Board of Directors, was also appointed to the Committee in question. Dr. Garraffo was appointed as the new Chairman. The majority of the current committee therefore consists of non-executive directors.

The Committee has the tasks of:

- formulating proposals to the Board, in the absence of the persons involved, for remuneration of the Managing Director(s) and those holding particular positions, and, on the initiative of the Chairman and Managing Director, establishing remuneration criteria for other top management positions in the Company;
- performing the functions assigned to it by the Board of Directors in relation to the administration of grants of stock options or stock itself to Company and subsidiary employees and/or directors, subject in any case to oversight and supervision of the Board itself. Currently there are five stock option plans, respectively for top-level management (“Top Management Plan 2003-2007” and “Top Management Plan 2001-2003”), for managers and employees other than top level management who perform significant roles (“Management Plan 2003-2007” and “Management Plan 2001-2003”) and for both top and middle management (“Stock Options Plan 2006-2009”).

During the 2006 financial year, the Remuneration Committee met four times on the following dates: 9 February 2006, 24 February 2006, 6 April 2006 and 30 October 2006. During the current year the Committee met on 6 March 2007. The percentage attendance of members of the Committee is set out in a table at the end of this report.

The Committee’s activity mainly concerned the proposal to the Board on the adoption of the aforementioned Stock Options Plan 2006-2009 and the award of options as part of the Plan. The Committee also reflected on the continuing validity of stock options as an incentive to management in view of the change of the taxation regime which is unfavourable to beneficiaries. On 6 March 2007, the Committee met to formulate proposals for the Board on the remuneration of the new executive director Dr. Nazzari, who was co-opted to the Board on 8 February last.

5.2 Correlation with objectives

Provision is made that part of the remuneration of the Chairman and Managing Director in his capacity as General Manager is correlated both to preset individual objectives and to economic results achieved by the Company and the Group. The Chairman and Managing Director, specifically in his capacity as General Manager, is also one of the beneficiaries of the stock options plan for top level managers.

The Board of Directors is remunerated annually as follows:

- €15,000 for members of the Board who are not members of committees;
- €30,000 for members of the Board who are members of a committee;
- €35,000 for members of the Board who are members of both the Remuneration Committee and the Internal Audit Committee;
- €100,000 for the Chairman and Managing Director;
- €50,000 for the Vice-Chairman.

6. INTERNAL AUDITING

The Board of Directors is responsible for the internal auditing system, understood as all processes dedicated to monitoring the adequacy of the organizational structure, the efficiency of company operations, the reliability of financial information, compliance with law and regulations, and the safeguard of company assets. The Board establishes guidelines for the system and with the assistance of an Internal Auditing Committee created within the board, constantly assesses their functionality and adequacy to ensure that substantial corporate risks are identified and correctly managed.

The Chairman and Managing Director identifies substantial corporate risks, referring them for assessment to the Board, and implements the guidelines established by the Board through design, management, and monitoring of the internal auditing system.

Provision is made in the company's organizational structure for the post of Head of Internal Auditing. This position coincides with that of the Head of Group Auditing, who works without hierarchical links to any heads of business areas and reports on his activities periodically, and in any case every six months, directly to the Chairman and Managing Director, the Internal Auditing Committee and Auditors.

7. INTERNAL AUDIT COMMITTEE

The Board has established an Internal Audit Committee comprising the following non-executive directors or independent directors in the sense described above: Prof. Marco Vitale, Chairman, Prof. Heinz Wolf Bull and Mr. Carlo Pedersoli.

The committee is responsible for analyzing problems and proposing the relevant company audit policies, providing consultancy and formulating proposals for the Board of Directors and the Chairman and Managing Director for the preparation, analysis and operation of the internal audit system.

The Chairman of the Board of Statutory Auditors, or another auditor designated by the latter, and the Chairman and Managing Director usually participate in the committee's work.

The Committee met seven times during 2006, on 9 February 2006, 13 February 2006, 2 March 2006, 6 April 2006, 23 June 2006, 28 June 2006 and 26 July 2006. During the current year, the Committee met on 1 March 2007. Normally the Chairman of the Board of Statutory Auditors and another Statutory Auditor, the Director of the Financial Department, the Head of Internal Auditing and the Head of Corporate and Legal Services all take part in meetings. The percentage attendance of Committee members at meetings is set out in a table at the end of this report.

The Committee undertakes the following specific tasks:

- assisting the Board of Directors in the fulfilment of the tasks assigned to it, as set out in Section 6 above;
- assessing the work plan proposed by the Head of Internal Auditing and receiving his periodic reports;
- assessing, together with the Company's administrative and audit heads, the adequacy of accounting principles employed and their homogeneity for the purposes of the consolidated accounts;
- assessing proposals formulated by audit companies to be awarded the contract for the audit of yearly financial statements, the working plan prepared for the audit, and the results set out in the auditor's report and the Management Letter;
- reporting to the Board at least bi-annually, on the occasion of approval of the financial statement and the bi-annual report on activities undertaken and the adequacy of the internal auditing system;
- performing further tasks assigned by the Board, particularly with regard to relations with the audit company.

During the 2006 financial year, the Committee's activities mainly concerned: evaluation of the accounting principles used by the Company in preparing its financial statement at 31.12.2005 and its uniformity with the consolidated financial statement, the formulation of proposals to the Board on amendment of the Organization, Management and Control Model adopted by the Company pursuant to Legislative Decree 231/2001 on the administrative liability of entities, analysis of internal auditing activities undertaken by the Head of Internal Auditing, evaluation of activities undertaken to assess the adequacy and effectiveness of the said Model, and analysis of the activities of the Supervisory Body appointed pursuant to the aforementioned Legislative Decree 231/2001.

During the current year, the Committee met on the date of issue of this report, mainly to consider the following matters: assessment of the adequacy of the accounting principles used by the Company in preparing the draft financial statement at 31.12.2006 and its uniformity for the purposes of drafting the consolidated financial statement, an evaluation of further activities undertaken with regard to the assessment of the adequacy and effectiveness of the Model pursuant to Legislative Decree 231/2001 and corrective measures adopted to further improve the Model, an analysis of activities undertaken by the Head of Internal Auditing and by the Supervisory Body pursuant to Legislative Decree 231/2001, and an analysis of the plan for internal auditing activities for 2007.

8. TRANSACTIONS WITH RELATED PARTIES

The Board of Directors has adopted guidelines for the correct management of transactions with related parties, according to which transactions that are not typical or standard must be subjected to the prior approval of the Board of Directors. Typical

transactions are those that come within the normal course of the Company's business and those that do not present particular elements of criticality arising from their subject matter or nature, the characteristics of the counterparty, or the time of their execution. Transactions under standard conditions are considered to be those concluded under the same conditions that the Company would have applied to any party that is not a related party. Furthermore, provision is made for the Board to be provided with a detailed report on such operations. Finally, provision is also made for the Board, where circumstances require, to be assisted by independent experts who provide an opinion on the economic terms and/or legitimacy and/or on technical aspects of the transaction, as the case requires.

9. RELATIONS WITH INSTITUTIONAL INVESTORS AND OTHER SHAREHOLDERS

The Chairman and Managing Director, in compliance with Internal Regulations on the Processing of Privileged Information as described in Section 3 above, makes every effort to establish a dialogue with institutional investors and other shareholders. In this regard (i) a person responsible for relations with the latter parties who, *inter alia*, shall supervise periodic meetings with representatives of the financial community and (ii) the financial statement and bi-annual reports, together with the text of press releases, will be made available, in Italian and English, on the company website.

10. SHAREHOLDERS' MEETINGS

The Board:

- favours and encourages the widest shareholder participation at shareholder's meetings, while also taking into account any corporate matters arising;
- recommends that all Directors are normally present except in unalterable circumstances;
- considers shareholders' meetings occasions to communicate information on the Company to shareholders with due respect for regulations on privileged information and the Internal Regulations on the Processing of Privileged Information;
- does not consider it necessary, in current conditions and in consideration of previous meetings, to formulate specific procedures for meetings, as it considers that the powers invested in the chairman of shareholders' meetings by law and by the articles of incorporation are suitable to ensure that proceedings take place in an orderly and functional manner, and to guarantee that each shareholder has an opportunity to participate in discussions arising from the agenda. It shall however review the possibility of a future introduction of procedures for meetings.

11. AUDITORS

11.1 The Board recommends that proposals for appointment of auditors formulated by members pursuant to the articles of incorporation (which already provide, *inter alia*, that candidatures for election to the entire Board of Statutory Auditors be deposited at least ten days before the first session of a shareholders' meeting) be accompanied by a description of the candidate's personal and professional details and deposited at Company Headquarters within the prescribed time limit. The deposit of personal and professional details nevertheless remains optional for shareholders. An express invitation to do so, if considered appropriate, may be inserted into the text of the notice of meetings convened to consider appointments to the Board of Statutory Auditors. The nominations for appointment of members of the current Board of Auditors, formulated by shareholders, were deposited at company headquarters in compliance with the said term prior to the Shareholders' Meeting of 6 April 2006 in accordance with the provisions of the Corporate Governance Code and the articles of incorporation. The nomination was accompanied by a description of the personal and professional details of the candidates, who in any case were incumbent Auditors. The minority, who are entitled to elect a Statutory Auditor and an alternate, did not present a list.

11.2 Auditors act with autonomy and independence, including in respect of the shareholders who have elected them.

11.3 Auditors undertake to maintain the confidentiality of documents and information acquired in the performance of their functions, and to respect the Internal Regulations on the Processing of Privileged Information adopted by the Company.

Directorships or auditing positions held by members of the Board of Statutory Auditors in other companies listed on Italian regulated markets are set out below:

Dr. Oreste Severgnini

- Directorship of Amministrazione Ratti S.p.A.

SECTION II

REPORT ON THE STATE OF ADAPTATION OF COMPANY CORPORATE GOVERNANCE TO THE NEW CODE

As outlined in the introduction, on 6 March 2007 the Board of Directors of the Company, after being thoroughly informed as to the contents of the New Code, resolved to adhere to it (with the exception, for the reasons set out above, of the implementing principle that provides for the adoption of procedural regulations for shareholders' meetings), also resolving to avail itself of the option to make reference to the Code published in 2002 in the corporate governance report to be published on the occasion of the approval of the financial statement at 31 December 2006.

Furthermore, the necessary resolutions were adopted to partially amend the regulations governing the Remuneration Committee and the Internal Audit Committee in application of the provisions of the New Code. On the proposal of the Internal Audit Committee, the Board then identified the Chairman and Managing Director as the executive director responsible for supervising the functionality of the internal audit system, as required by Article 8 of the New Code.

With regard to the application of the other recommendations of the New Code, in particular those that involve significant departures from the 2002 Code, the Board considered it appropriate to conduct further detailed study of the most suitable methods for proceeding with their application, and therefore postponed the adoption of the necessary resolutions to subsequent meetings (such as those relating to, for example, the appointment of the lead independent director, a statement of the Board's position on the maximum number of directorships and audit positions compatible with efficient performance of a directorship in the Company, self assessment by the Board and assessment of the independence of directors, to be carried out according to the new requirements of the Code).

Milan, 6 March 2007

For the Board of Directors
The Chairman
Mr. Giovanni Recordati

TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors							Internal Audit Committee		Remuneration Committee		Executive Committee	
Post	Members	Executive	Non-executive	Independent	****	Number of other posts**	***	****	***	****	***	****
Chairman and Managing Director	Giovanni Recordati	X			100.00	-					X	-
Vice-Chairman	Alberto Recordati (1)	X			83.33	-					X	-
Director	Romilda Bollati di Saint Pierre		X	X	62.50	1						
Director	Heinz Wolf Bull		X	X	100.00	3	X	100	X	80	X	-
Director	Francesco Costantini (2)		X	X	87.50	1			X	100	X	-
Director	Mario Garraffo		X	X	87.50	5			X	100	X	-
Director	Federico Nazzari (3)	X			n.a.	-			X	n.a.	X	-
Director	Carlo Pedersoli		X	X	100.00	2	X	75				
Director	Andrea Recordati	X			87.50	-					X	-
Director	Marco Vitale		X	X	50.00	11	X	100			X	-
Number of meetings held during 2006 financial year				Board of Directors: 8		Internal Audit Committee: 7			Remuneration Committee: 4		Executive Committee: 0	

NOTES

** This column indicates the number of directorships or audit positions held by the person concerned in other finance, banking, insurance, or other substantial companies listed on Italian and other regulated markets. See pages 204 and 205 of the Report for a full list of positions held.

*** An "X" in this column indicates that the Director is a member of the Committee.

**** This column indicates the percentage attendance of Directors at meetings of the Board of Directors and Committees respectively.

(1) Appointed by the Ordinary Shareholders' Meeting of 6.4.2006.

(2) Until 18.12.2006.

(3) Co-opted to the Board of Directors on 8.2.2007.

TABLE 2: BOARD OF STATUTORY AUDITORS

Position	Members	Percentage attendance at meetings of the Board of Statutory Auditors	Number of positions held**
Chairman	Alessandro Manusardi	100.00	-
Statutory Auditor	Oreste Severgnini	50.00	1
Statutory Auditor	Emilio Aguzzi de Villeneuve	66.67	-
Alternate Auditor	Carlo Severgnini	-	-
Alternate Auditor	Angelo Gastaldi	-	-
Number of meetings held during the 2006 financial year: 12			
Indicate the quorum necessary for presentation of the minority lists for the election of one or more statutory members (pursuant to Article 148 CLF): 3% of share capital with voting rights.			

NOTES

** This column indicates the number of directorships or auditing positions held by the person concerned in other companies listed on Italian regulated markets. See page 213 of the Report for a full list of posts held.

TABLE 3: OTHER PROVISIONS OF THE CORPORATE GOVERNANCE CODE

	YES	NO	Summary of the reasons for any deviation from the recommendations of the Code
System of mandates and transactions with related parties			
Has the Board of Directors issued mandates defining:	X		
a) limits	X		
b) method of execution	X		
c) regular reporting?	X		
Has the Board of Directors reserved the right to examine transactions entailing a significant impact on company profitability, assets and liabilities and financial position (including transactions with related parties)?	X		
Has the Board of Directors established guidelines and criteria for the identification of "significant" transactions?	X		
Are these guidelines and criteria described in the report?	X		
Has the Board of Directors established guidelines and criteria for examination and approval of transactions with related parties?	X		
Are the said guidelines and criteria described in the report?	X		
Procedure for the most recent appointment of directors and statutory auditors			
Were candidatures for directorships deposited at least ten days in advance?	X		
Were candidatures for directorships accompanied by complete information?	X		
Were candidatures for directorships accompanied by an indication of their suitability to be categorized as independent?	X		
Were candidatures for audit positions deposited at least ten days in advance?	X		
Were candidatures for audit positions accompanied by complete information?	X		
Shareholders' Meetings			
Has the Company approved Regulations for Shareholders' Meetings?		X	It is considered the powers of the Chairman of the Shareholders' Meeting as recognized by law and the articles of incorporation are sufficient to ensure the orderly conduct of the business of meetings.
Are the Regulations annexed to the Report (or is an indication given of where they can be obtained/downloaded)?			
Internal Auditing			
Has the company appointed persons responsible for Internal Auditing?	X		
Are such persons hierarchically independent of the heads of business areas?	X		
Organizational unit dedicated to internal auditing (pursuant to Article 9.3 of the Code)			Group Audit
Investor Relations			
Has the Company appointed a head of investor relations?	X		
Organizational unit and contact details (address/telephone/fax/email) of the head of investor relations			Investor Relations Officer – tel. 0248787546 – fax 0248787507 Email: