
ANNUAL REPORT

RECORDATI S.p.A.

ANNUAL REPORT RECORDATI S.p.A.

Review of operations

To Our Shareholders,

The Annual Report of the Parent Company for the year ended 31 December 2008, which we submit to you for your approval, reports net income of €52,944,954, an increase of 5.1% compared to the previous year.

The strategy to internationalise our operations continued in 2008, with the objective of gaining direct access to markets with attractive growth potential.

The French companies FIC and FIC Médical, whose operations consist of the registration and the promotion of pharmaceutical products on behalf of third party companies in Russia and other Commonwealth of Independent States (C.I.S.) countries, were acquired in March by the French subsidiary Bouchara Recordati which already performed sales on those markets.

In December our Group finalized the acquisition of Yeni İlaç, a Turkish pharmaceuticals company with headquarters in Istanbul.

The Group's strategy is to continue to focus on developing activities in Europe, the second largest pharmaceuticals market in the world, and especially on growing markets in central and eastern Europe. In addition to geographical expansion, a strong boost will be given to broadening the product portfolio both through the development and subsequent launch of pipeline pharmaceuticals and through the acquisition of new products.

Pharmaceutical operations in Italy continued to be affected by reductions in the price of prescription pharmaceuticals and by the reduction in the price of Peptazol[®] (pantoprazole) in particular, which occurred in October 2007 following the progressive introduction of generic products for that class of medicines.

The positive growth trend for self-medication products continued in 2008.

In a context of difficulties and uncertainties on the domestic market, a policy of maintaining market share of the most important products was pursued accompanied by a parallel policy of controlling and containing expenses.

Sales of pharmaceutical chemicals, consisting of the active ingredients produced at the Campoverde di Aprilia plant, fell by 8.2% compared to 2007 for two reasons. One was the decision to suspend the production of some active ingredients with lower value added and to make greater use of production capacity for active ingredients destined for use in our own pharmaceutical operations and the other was the negative exchange rate effect on sales denominated in United States dollars.

Research and development activity continued with a total cost of €24,268 thousand, an increase of 13.6% compared to the previous year.

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

No treasury stock was purchased or sold during the year.

The Company held treasury stock consisting of 11,472,355 shares at 31 December accounting for 5.50% of the share capital.

The relative notes to the financial statements may be consulted for quantitative information on relations with parent companies and directly and indirectly controlled subsidiaries with which both financial and commercial transactions were conducted under normal market conditions.

The information required under paragraph 2, point 6-*bis*, of Art. 2428 of the Italian Civil Code concerning the Company's objectives and policies in respect of financial risk management is fully reported in the notes to the financial statements.

The section "Principal risks and uncertainties" in the review of operations in the attached consolidated annual report may be consulted for information on "Risks concerning the external context", "Strategic and operational risks" and "Legal and compliance risks".

The Company, as owner of sensitive data, informs, pursuant to art. 26, attachment B, Legislative Decree 196 of 30 June 2003, that its Security Programme Document has been updated. That document contains exhaustive regulations for data treatment procedures in compliance with Art. 19, attachment B of that decree.

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

The information required by the Issuers' Regulations (Consob Regulations 11971 of 14 May 1999 which implemented Legislative Decree. 58/98) and subsequent amendments concerning shares held by directors, statutory auditors, general managers and executive officers with strategic responsibilities is reported in attachments 8 and 9.

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

In compliance with articles 124 *bis* of Legislative Decree 58/98, 89 *bis* of the Issuers'

Regulations and IA.2.6 of the Instructions to Stock Exchange Regulations, the Corporate Governance Report of the Company may be consulted on its website at www.recordati.it, in the section “Corporate Governance”.

As concerns significant events occurring subsequent to the end of the year, in January 2009 our Group acquired Herbacos-Bofarma, a pharmaceuticals company located in the Czech and Slovak republics.

Operations at the beginning of the current year, the potential of our products, the financial strength of the company and the managerial capacities of our personnel lead us to forecast a positive result again in 2009.

Milan, 3 March 2009

for the Board of Directors

The Chairman

Giovanni Recordati

RECORDATI S.p.A.

INCOME STATEMENTS FOR THE YEARS ENDED

31 DECEMBER 2008 and 31 DECEMBER 2007

Amounts in euro

INCOME STATEMENT			
	Notes	2008	2007
REVENUE	3	247.316.588	255.872.567
Other revenues and income	4	1.555.741	3.872.863
TOTAL REVENUE		248.872.329	259.745.430
Raw materials costs	5	(75.639.855)	(73.208.573)
Labour costs	6	(61.402.100)	(61.186.560)
Depreciation and amortization	7	(8.561.484)	(10.638.667)
Other operating expenses	8	(60.080.660)	(53.910.955)
Changes in inventories	9	1.512.839	(327.650)
OPERATING INCOME		44.701.069	60.473.025
Income from investments	10	30.118.669	19.993.400
Investment write-downs	11	0	(10.779.000)
Financial income (expense), net	12	(7.722.378)	(1.637.308)
PRE-TAX INCOME		67.097.360	68.050.117
Taxes	13	(14.152.406)	(17.674.341)
NET INCOME		52.944.954	50.375.776

EARNINGS PER SHARE (€)

Basic	0,269	0,254
Diluted	0,264	0,248

Earnings per share (EPS) are based on average shares outstanding during each year, 196,667,301 in 2008 and 198,557,743 in 2007, net of average treasury stock which amounted to 11,472,355 shares in 2008 and 8,495,866 shares in 2007. Diluted earnings per share is calculated taking into account new shares authorized but not yet issued.

RECORDATI S.p.A.**BALANCE SHEET**

at 31 DECEMBER 2008 and 31 DECEMBER 2007

Amounts in euro

ASSETS	Notes	31 December 2008	31 December 2007
NON CURRENT ASSETS			
Property plant and equipment	14	33.324.479	31.665.849
Intangible assets	15	10.355.571	12.209.366
Investments	16	302.049.219	246.517.465
Other non current assets	17	114.237	618.587
Deferred tax assets	18	10.210.769	10.021.241
TOTAL NON CURRENT ASSETS		356.054.275	301.032.508
CURRENT ASSETS			
Inventories	19	38.962.829	37.449.989
Trade receivables	20	72.845.643	55.067.726
Other receivables	21	8.760.918	17.210.225
Other current assets	22	295.847	825.841
Other short term loans	23	68.224.791	95.983.818
Short-term financial investments, cash and cash equivalents	24	12.718.598	15.205.032
TOTAL CURRENT ASSETS		201.808.626	221.742.631
TOTAL ASSETS		557.862.901	522.775.139

RECORDATI S.p.A.

BALANCE SHEET

at 31 DECEMBER 2008 and 31 DECEMBER 2007

Amounts in euro

EQUITY AND LIABILITIES	Notes	31 December 2008	31 December 2007
SHAREHOLDERS' EQUITY			
Share capital	25	26.063.457	25.980.582
Additional paid-in capital	25	81.320.308	78.952.226
Treasury stock	25	(59.102.577)	(59.102.577)
Statutory reserve	25	5.219.602	5.219.602
Other reserves	25	164.112.796	157.814.308
Revaluation reserve	25	2.602.229	2.602.229
Earnings for the year	25	52.944.954	50.375.776
EQUITY		273.160.769	261.842.146
NON CURRENT LIABILITIES			
Loans – due after one year	26	80.683.522	76.192.462
Staff leaving indemnities	27	12.263.690	13.462.096
Deferred tax liabilities	28	2.425.271	2.461.492
Other non current liabilities		0	0
TOTAL NON-CURRENT LIABILITIES		95.372.483	92.116.050
CURRENT LIABILITIES			
Trade payables	29	34.378.273	34.085.325
Other payables	30	12.498.823	12.594.022
Tax liabilities	31	1.717.702	2.191.293
Other current liabilities	32	148.653	254.512
Provisions	33	6.509.226	2.997.876
Fair value of hedging derivatives (cash flow hedge)	34	2.532.183	113.442
Fair value of hedging derivatives (fair value hedge)	26	1.505.513	7.555.674
Loans – due within one year	35	1.559.102	1.743.989
Bank overdrafts and short term loans	36	85.487.432	91.850.060
Other short term borrowings	37	42.992.742	15.430.750
TOTAL CURRENT LIABILITIES		189.329.649	168.816.943
TOTAL EQUITY AND LIABILITIES		557.862.901	522.775.139

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€(thousands)

	Share capital	Additional paid in capital	Treasury stock	Statutory reserve	OTHER RESERVES		Revaluation reserves	Net (loss)/ income for the year	Total
					Various reserves	IAS compliance reserves			
Balance at 31 December 2006	25.802	73.165	(30.653)	5.220	56.290	85.891	2.602	50.631	268.948
Allocation of 2006 net income shareholders' resolution of 11.04.2007 to reserves					13.675			(13.675)	0
dividends to shareholders								(36.956)	(36.956)
Increase in share capital	179	5.787							5.966
Share buy-back			(29.862)						(29.862)
Sale of treasury stock			1.412		(87)				1.325
Dividends expired					1				1
Net income for the year								50.376	50.376
Compliance with IAS at 31 December 2006									
Staff leaving indemnity IAS compliance						239			239
Stock options						864			864
Derivatives valuation - IAS 39						941			941
Balance at 31 December 2007	25.981	78.952	(59.103)	5.220	69.879	87.935	2.602	50.376	261.842
Allocation of 2007 net income shareholders' resolution of 11.04.2008 to reserves					8.156			(8.156)	0
dividends to shareholders								(42.220)	(42.220)
Increase in share capital	83	2.368							2.451
Dividends expired					2				2
Net income for the year								52.945	52.945
Compliance with IAS at 31 December 2008									
Staff leaving indemnity IAS compliance						45			45
Stock options						515			515
Derivatives valuation - IAS 39						(2.419)			(2.419)
Balance at 31 December 2008	26.064	81.320	(59.103)	5.220	78.037	86.076	2.602	52.945	273.161

RECORDATI S.p.A.**CASH FLOW STATEMENT AT 31.12.2008 AND AT 31.12.2007**

€(thousands)

	31/12/2008	31/12/2007
OPERATING ACTIVITIES		
Cash flow		
Net income for the period	52.945	50.376
Depreciation of property, plant and equipment	6.260	7.318
Amortization of intangible assets	2.302	3.320
Impairment of assets	0	10.779
Total cash flow	<u>61.507</u>	<u>71.793</u>
(Increase)/decrease in deferred tax liabilities	(226)	(2.303)
Staff leaving indemnities:		
provisions	688	109
payments	(1.887)	(2.862)
Other provisions:		
Provisions	3.981	1.421
Utilization	(469)	(8.493)
	<u>63.594</u>	<u>59.665</u>
Changes in working capital		
Trade and other receivables	(9.329)	(5.483)
Inventories	(1.513)	328
Other current assets	530	(320)
Trade and other payables	198	9.729
Tax liabilities	(473)	(14.817)
Other current liabilities	(106)	(85)
	<u>(10.693)</u>	<u>(10.648)</u>
Net cash from operating activities	<u>52.901</u>	<u>49.017</u>
INVESTING ACTIVITIES		
Net (investments)/disposals in property, plant and equipment	(7.918)	(4.705)
Net (investments)/disposals in intangible assets	(449)	(591)
Net (increase)/decrease in equity investments	(55.532)	(135.000)
Net (increase)/decrease in other non-current assets	504	261
Net cash used in investing activities	<u>(63.395)</u>	<u>(140.035)</u>
FINANCING ACTIVITIES		
Long term loans	0	0
Issue of share capital	83	179
Additional paid-in capital increase	2.368	5.787
Dividends distributed	(42.220)	(36.956)
Changes in treasury stock	0	(28.537)
Changes in equity in application of IAS/IFRS	562	1.104
Reclassification of current portion of long term loans as current liabilities	(1.559)	(1.744)
Change in loans – due within one year	(185)	(5.366)
Net cash from/(used in) financing activities	<u>(40.951)</u>	<u>(65.533)</u>
CHANGES IN SHORT-TERM FINANCIAL POSITION	<u>(51.445)</u>	<u>(156.551)</u>
Short-term financial position at beginning of year *	3.908	160.459
Short-term financial position at end of period *	<u>(47.537)</u>	<u>3.908</u>

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

RECORDATI S.p.A.**NOTES TO THE SEPARATE COMPANY ANNUAL FINANCIAL STATEMENTS****AS AT AND FOR THE YEAR ENDED 31 December 2008****1. GENERAL**

The separate annual financial statements comprise the income statement, the balance sheet, the statement of changes in shareholders' equity and the cash flow statement. In compliance with Legislative Decree 38 of 28 February 2005, – *exercise of the options provided for by Art. 5 of Regulation (EC) 1606/2002 of the European Parliament and Council of 19 July 2002 concerning International Accounting Standards* – the separate company financial statements have been prepared by applying the international accounting standards (IAS/IFRS) issued or revised by the International Accounting Standards Board and homologated by the European Union, as well as the provisions of Art.9 of the Legislative Decree 38/2005. The "IAS/IFRS" are intended as including all the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"), previously named the Standing Interpretations Committee ("SIC").

The presentation adopted by the Company for the income statement in the separate annual financial statements classifies revenues and expenses by nature. The distinction between the principle of current and non current was adopted for the presentation of assets and liabilities in the balance sheet.

These financial statements are presented in euro (€) and all amounts in the Notes to the statements are rounded to the nearest thousand euro unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The principal accounting policies adopted are set out below.

The balance sheet

Property, plant and equipment - Property, plant and equipment is stated at purchase cost less accumulated depreciation and any recognized impairment loss.

The carrying amount of property, plant and equipment is subject to impairment testing to measure any loss in value either annually or when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on impairment).

Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets:

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

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

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

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

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

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

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

Investments in subsidiaries – Investments in subsidiaries are recognized at cost of acquisition adjusted for impairment.

Positive differences arising at the time of purchase between the acquisition cost and the quota of the equity at present values held in the subsidiary attributable to the Company are therefore included in the carrying amount of the investment.

Investments in subsidiaries are subject to impairment testing annually or more frequently if necessary in order to test for possible loss of value. Where evidence exists that the value of these investments has been impaired, this is recognized in the income statement as an impairment loss. Where an impairment loss subsequently reverses or reduces, this is recognized in the income statement as a reversal of impairment within the limits of the cost of acquisition.

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

Inventories - Inventories are stated at the lower of cost or market value, where the market value of raw materials and subsidiaries is their replacement cost while that related to finished goods and work-in-process is their net realizable value.

Inventories of raw materials, supplies and promotional material are valued at their average

weighted purchase cost including costs incurred in bringing the inventories to their location and condition at year end.

Inventories of work-in-process and finished goods are valued at their average weighted manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production, exclusive of general expenses.

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

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

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

Equity - Equity instruments issued by the Company are recorded at the amount of the proceeds received.

The proposed dividend is recognized as a liability at the time of adoption of the dividend resolution at the annual shareholders' meeting.

The cost and selling prices of treasury shares are recognized directly in equity and therefore gains and losses on sales are not recognized in the income statement.

Loans - Interest-bearing loans are recorded at the proceeds received, net of direct issue costs. Subsequently, loans are measured using the amortized cost method as prescribed by IAS 39. The amortized cost is the amount of the liability on initial recognition net of capital repayments and transaction costs amortized using the effective interest rate method.

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

Staff leaving indemnities - Employee benefits presented in the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liabilities recognized in the balance sheet for post employment benefit plans represent the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method. Until 31 December 2006 the staff leaving indemnities of Italian companies were considered defined benefit plans. The regulations governing those indemnities were amended by Law 296 of 27 December 2006 (2007 Finance Act) and subsequent amendments made in early 2007. In view of those changes and for companies with at least 50 employees in particular, those indemnities are only to be treated as defined benefit plans for the amounts that matured prior to 1st January 2007 (and not yet paid at the balance sheet date), while subsequent to that date they are treated as a defined contribution plan. The effects in the accounts resulting from the application of the new accounting rules are described in the subsequent note 27.

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

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

Bank overdrafts and loans - Bank overdrafts and loans are recorded at the proceeds received,

net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

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

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

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

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

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

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

Income statement

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

Revenues - Revenues are recognized when it is probable that the economic benefits associated with a transaction will flow to the Company and that the amount of revenue can be measured reliably.

Revenue arising from the sale of goods is recognized when the enterprise has transferred the significant risks and rewards of ownership. These are stated net of discounts, rebates and returns.

Revenues include income from royalties due on licensed out products and up-front payments received under licensing agreements.

Research and development expenses - All research costs are expensed in the income statement in the year in which they are incurred in accordance with IAS 38. IAS 38 also

prescribes that development costs must be capitalized if technical and commercial feasibility of the asset for development or sale have been established. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines for capitalisation under IAS 38 are not met so that development costs are expensed as incurred during the year. Research and development costs include amounts due under collaboration agreements with third parties.

Non-reimbursable government grants - Government grants towards investment in plant are recognized as income over the periods necessary to match them with the related costs and are stated in the balance sheet as deferred income. Non-reimbursable government grants, including those for research, are booked to the income statement on an accrual basis within the item “other revenue”.

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

Taxation - Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year and tax rates in force at the date of the balance sheet are applied.

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

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

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

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

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

3. REVENUE

This amounted to €247,317 thousand in 2008 (€255,873 thousand in 2007) and is composed as follows.

€(thousands)	2008		2007		Change
Net sales	246,368		254,102		(7,734)
Royalties and up-front payments	536		748		(212)
Revenue from services	413		1,023		(610)
Total revenue	247,317		255,873		(8,556)

The reduction in revenue is due both to sales of pharmaceuticals to third parties and to pharmaceutical chemical sales. The reduction in pharmaceuticals sales is due to the price effect on prescription pharmaceuticals and on Peptazol[®] (pantoprazole) in particular following the progressive introduction of generic products for that class of medicines.

Pharmaceutical chemical sales fell compared to 2007 for two reasons. One was the decision to suspend production of some active ingredients with lower value added and to make greater use of production capacity for active ingredients destined for use in our own pharmaceutical operations and the other was the negative exchange rate effect on sales denominated in United States dollars.

Sales revenues are composed as follows:

€(thousands)	2008		2007	
	Italy	Abroad	Italy	Abroad
Pharmaceuticals	161,145	54,097	160,786	59,262
Pharmaceutical chemicals	3,201	27,123	2,102	31,481
Other	801	1	348	123
Total	165,147	81,221	163,236	90,866

Sales of goods are net of discounts, withdrawn products and returns amounting to €4,146 thousand (€2,531 thousand in 2007) and of free samples amounting to €104 thousand (€129 thousand in 2007).

The decrease in revenues from abroad is due to lower sales of patented pharmaceuticals, the result of reduced stocks held by foreign subsidiaries.

Sales revenues include € 103,032 thousand (€ 101,744 thousand in 2007) for sales of products to subsidiaries:

€(thousands)	2008	2007	Change
Recordati Ireland Ltd.	52,619	57,952	(5,333)
Innova Pharma S.p.A.	49,350	42,717	6,633
Laboratoires Bouchara Recordati S.a.s.	671	750	(79)
Recordati España S.L.	392	325	67
Total	103,032	101,744	1,288

The increase in sales to Innova Pharma S.p.A. is due to sales distribution contracts for the product Tora-Dol[®] and for all products destined to hospitals, signed in 2007.

All commercial transactions with subsidiaries took place under normal market conditions.

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

€(thousands)	2008	2007	Change
Services to subsidiaries			
Recordati Ireland Ltd.	150	288	(138)
Innova Pharma S.p.A.	263	263	0
Laboratoires Bouchara Recordati S.a.s.	440	920	(480)
Total services to subsidiaries	853	1,471	(618)
Services to others			
Royalties and up-front payments	96	300	(204)
Total services to others	96	300	(204)
Total revenue from services	949	1,771	(822)

Proceeds from Laboratoires Bouchara Recordati S.a.s. are for royalties amounting to €440 thousand (€448 thousand in 2007).

4. OTHER REVENUES AND INCOME

Other revenues and income amount to €1,556 thousand in 2008, as compared to €3,873 thousand in 2007. They include charging employees for the use of hired cars and other indemnities, non recurring revenues, extraordinary gains and capital gains on disposal of fixed assets. Significant items are grants received of €76 thousand, income from property investments of €46 thousand and charges to the controlling company Fimei S.p.A. of €13 thousand for services rendered.

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

€(thousands)	
2004	108
2005	517
2006	89
2007	77
2008	76
Total	867

Income from property investments includes the rent of properties to the subsidiary Fimec S.p.A. amounting to €7 thousand and the rent of premises at the Milan site to Innova Pharma S.p.A. amounting to €10 thousand.

The reduction as compared to the preceding year is due mainly to the booking in 2007 of reversals of tax provisions (€ 1,300 thousand), recovery of non-deductible VAT (€ 521 thousand) and adjustment to fair value of the of the termination indemnity fund (TFR) in compliance with IAS 19 (€384 thousand).

5. RAW MATERIALS COSTS

These are composed as follows:

€(thousands)	2008	2007	Change
Raw materials:			
From licensing-in agreements	43,153	41,489	1,664
From other	16,337	17,332	(995)
	59,490	58,821	669
Goods for resale	5,153	3,612	1,541
Packaging materials	5,416	5,164	252
Other and consumables	5,581	5,612	(31)
Total	75,640	73,209	2,431

The increase in the expense for raw materials, goods and other materials is due to growth in production and sales volumes.

Purchases of raw materials from others includes € 16 thousand for purchases from Laboratoires Bouchara S.a.s.

6. LABOUR COSTS

Labour costs were composed as follows:

€(thousands)	2008	2007	Change
Wages and salaries	43,286	42,875	411
Social security expenses	14,141	14,042	99
Provision charge for leaving indemnities	0	172	(172)
Salary resulting from stock option plans	515	864	(349)
Other costs	3,460	3,233	227
Total labour costs	61,402	61,186	216

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

The disappearance of the leaving indemnity charge and the increase at the same time in other costs is due to the transfer of the leaving indemnity charges for the year to pension funds in accordance with the new legislation introduced by Law 296 of 27 December 2006.

Average labour force figures for the Company are as follows:

	2008	2007	Change
Executives	57	54	3
Office workers	590	598	(8)
Manual workers	282	300	(18)
Total	929	952	(23)

7. DEPRECIATION AND AMORTIZATION

These are composed as follows:

Amortisation of intangible assets

€(thousands)	2008	2007	Change
Patent rights and marketing authorisations	1,096	1,879	(783)
Distribution, license, trademark and similar rights	551	565	(14)
Other	655	876	(221)
Total	2,302	3,320	(1,018)

The reduction in the amortization of intangible assets compared to 2007 included a decrease of €775 thousand due to the completion of the amortization of the Imidazil[®] trademark.

Depreciation amortisation of property, plant and equipment

€(thousands)	2008	2007	Change
Industrial buildings	1,126	1,090	36
Light constructions	86	99	(13)
General plant	1,092	1,107	(15)
Normal depreciation machinery	1,595	1,581	14
Accelerated depreciation machinery	1,540	2,352	(812)
Miscellaneous laboratory equipment	282	446	(164)
Office furnishings and machines	96	111	(15)
Electronic equipment	399	481	(82)
Motor vehicles	27	35	(8)
Vehicles for internal transport	16	16	0
Total	6,259	7,318	(1,059)

The reduction in depreciation for property, plant and equipment compared to 2007 was due mainly to the pharmaceutical chemicals sector.

8. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

€(thousands)	2008	2007	Change
Pay back	3,706	2,898	808
Meetings and scientific publications, market surveys and expenses for medical and scientific communications and advertising	8,057	11,120	(3,063)
Clinical and pharmacological trials and professional advice	8,153	4,666	3,487
Sales commissions to agents and warehouses	3,866	3,886	(20)
Transport and storage	1,847	1,550	297
Utilities and similar (motor fuel, gas, water, etc.)	5,652	4,693	959
Destruction of industrial waste and cleaning	1,661	1,615	46
Maintenance	2,662	2,634	28
Insurance premiums	566	541	25
Directors' fees	683	627	56
Statutory auditors' fees	151	61	90
Sundry labour costs	4,996	4,905	91
Legal, judiciary and notary expenses	886	1,139	(253)
Sundry services	2,553	2,259	294
Postal and telecommunications expenses	506	423	83
External processing	4,268	3,975	293
Royalties payable	67	90	(23)
Car hire expenses	3,107	3,034	73
Rent and condominium expenses	0	1	(1)
Provisions	2,909	112	2,797
Membership fees	472	500	(28)
Exceptional liabilities	72	66	6
Other operating expenses	3,241	3,116	125
Total	60,081	53,911	6,170

The pay back of €3,706 million refers to the amount due to the Italian national healthcare system in substitution for the 5% price reduction on some selected products. That mechanism was initially introduced for the period 1 March 2007 – 29 February 2008 and was subsequently extended to the end of 2008. The amount is based on sales made in 2006 (for the first period of application) and in 2007 (for the renewal period) and is spread over the relative periods on a straight line basis.

Expenses for detailing activities and promotion fell are to be attributed to initiatives to support both prescription and over the counter products. The reduction as compared to 2007 is due to the cost control and containment policy in place in view of the difficulties and uncertainties of the Italian pharmaceutical market.

The increase in expense for clinical and pharmacological trials and professional advice is due, amongst other things, to the development of a new immediate release formulation of lercanidipine, an anti-hypertension drug developed by Recordati, produced in co-operation with the Greek company Pharmaten.

There was a significant increase in utilities costs due primarily to the rise in methane and electricity prices.

Commissions paid to agents included commissions to the Recordati Corporation for sales in the USA of pharmaceutical chemicals.

Expenses for sundry services included the auditors' fees.

Attachment 10 gives details of those fees in compliance with Art. 149-*duodecies* of the Consob Issuers' Regulations.

Details are given of the remuneration of directors, statutory auditors, general managers and executive officers with strategic responsibilities and of the shares held in the company by those persons and of the stock option rights granted to them in attachments 7, 8 and 9 respectively in compliance with the Issuers' Regulations (Consob Regulations 11971 of 14 May 1999 which implemented Legislative Decree. 58/98 as amended).

No use was made of leased assets in 2008.

Provision charges amounted to €2,909 thousand (€112 thousand in 2007) and consisted of a charge for litigation in progress with former employees and risks associated with unsaleable expired pharmaceuticals.

The item "other operating expenses" amounting to €1,211 thousand (€1,826 thousand in 2007) consists of:

€(thousands)	2008	2007	Change
Contribution under Decree Law 269/2003	432	491	(59)
Government license tax	379	933	(554)
Municipal taxes	225	216	9
Stamp duties and similar	8	19	(11)
Non deductible taxes	10	17	(7)
Sundry taxes	157	150	7
Total	1,211	1,826	(615)

In compliance with Decree Law 269 of 30 September converted into Law 326 of 24 November 2003 a provision was made for a contribution amounting to 5% of the expenses incurred in the previous year for advertising activities, self certified by the Company in accordance with the law. That contribution was paid in April.

Taxes for government licenses are attributable to the maintenance and changes to registrations for ethical and self-medication products and to the registrations of new products.

9. CHANGES IN INVENTORIES

Details of changes in inventories are as follows:

€(thousands)	2008	2007	Change
Raw materials	129	1,558	(1,429)
Supplies	227	(33)	260
Intermediates and work-in-process	264	(1,606)	1,870
Finished goods	893	(246)	1,139
Total	1,513	(327)	1,840

10. INCOME FROM INVESTMENTS

Income from investments is composed as follows:

€(thousands)	2008	2007	Change
- in subsidiaries	30,119	19,993	10,124
- in other companies	0	0	0
Total income from investments	30,119	19,993	10,124

Income from subsidiaries consists of dividends declared and received from Recordati S.A. Chemical & Pharmaceutical Company (€ 8,550 thousand), Bouchara Recordati S.a.s. (€ 9,994 thousand) and Innova Pharma S.p.A. (€ 3,024 thousand) and remuneration from the profit participating bond issued by Recordati S.A. Chemical & Pharmaceutical Company amounting to €8,551 thousand.

11. FINANCIAL INCOME (EXPENSE), NET

Net financial income/(expense) was negative by €7,722 thousand in 2008 (€1,637 thousand in 2007). The main items are summarised in the table below.

€(thousands)	2008	2007	Change
Foreign exchange gains (losses)	(30)	(145)	115
Revaluations of personnel leaving indemnity advances	2	10	(8)
Interest income from subsidiaries	2,660	4,105	(1,445)
Interest expense payable to subsidiaries	(5,130)	(4,505)	(625)
Interest expense on loans	(60)	(198)	138
Net interest on short-term financial positions	(4,068)	89	(4,157)
Bank charges	(408)	(344)	(64)
Interest cost in respect of defined benefit plans (IAS 19)	(688)	(649)	(39)
Change in fair value of hedging derivatives	6,050	(3,607)	9,657
Change in fair value of hedged item	(6,050)	3,607	(9,657)
Total financial income (expense), net	(7,722)	(1,637)	(6,085)

The balance on foreign exchange differences represented a cost of € 30 thousand for 2008 compared to a cost of € 145 thousand. in 2007. The cost for the year consists of € 326 thousand for the valuation at 31 December 2008 of credit and debit items in foreign currency. Consequently Art. 2426, point 8-*bis*, which requires a non distributable allocation to reserves of foreign exchange gains arising from the valuation of positions at the end of the year, does not apply.

Interest income from subsidiaries is as follows:

€(thousands)	2008	2007	Change
From subsidiaries:			
Jaba Recordati S.A.	408	424	(16)
Bouchara Recordati S.a.s.	863	260	603
Recordati España S.L.	1,344	3,418	(2,074)
Laboratoires Bouchara Recordati S.a.s.	4	3	1
Recordati S.A. – Luxembourg	25	0	25
Merckle Recordati GmbH	16	0	16
Total	2,660	4,105	(1,445)

Interest income relates principally to loans granted to subsidiaries. At 31 December 2008 these loans amounted to €6,985 thousand granted to Jaba Recordati S.A., €3,380 thousand to Recordati España S.L., €15,000 thousand to Merckle Recordati GmbH, €10,000 thousand to Bouchara Recordati S.a.s. and €22,500 thousand to Recordati S.A. – Luxembourg.

Interest expense paid to subsidiaries is as follows:

€(thousands)	2008	2007	Change
to subsidiaries:			
Recordati España S.L.	53	7	46
Laboratoires Bouchara Recordati Sas	233	60	173
Innova Pharma S.p.A.	340	183	157
Recordati S.A. - Luxembourg	4,098	4,137	(39)
Bouchara Recordati S.a.s.	0	3	(3)
Recofarma S.r.l.	116	115	1
Jaba Recordati S.A.	59	0	59
Recordati Ireland Ltd.	119	0	119
Orphan Drugs	63	0	63
Orphan Europe Holding	14	0	14
Orphan Europe Sarl	35	0	35
Total	5,130	4,505	625

A cash pooling treasury system has been in operation at the Parent Company since 2007. This system involves the companies Recordati España S.L., Bouchara Recordati Sas, Laboratoires Bouchara Recordati Sas and Jaba Recordati S.A..

Interest income and expense is recorded monthly calculated on the daily net balance at market rates.

Interest due to the subsidiary Recordati S.A. relates to an intercompany loan received at the end of 2004 on the basis of an issue of debt performed by our subsidiary with institutional international investors. The loan is structured in a number of tranches and is also in foreign currency at a fixed rate.

Interest due to Innova Pharma S.p.A. and to Recofarma S.r.l. is on the current account held

with them.

Interest expense on short term positions is attributable to credit lines opened to finance operations to acquire new companies.

Interest expense in respect of defined benefit plans relates to the adjustment to the relative provision in compliance with IAS 19.

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

12. TAXES

Taxes recognized in the income statement are composed as follows:

€(thousands)	2008	2007	Change
Current taxation:			
IRES (corporate income tax)	10,258	15,379	(5,121)
IRAP (regional tax on production)	3,262	4,689	(1,427)
Total current taxation	13,520	20,068	(6,548)
Deferred taxation:			
Provision for prepaid taxes	(967)	(5,246)	4,279
Provision for deferred taxes	0	816	(816)
Use of prior year (prepaid)/deferred tax provisions	725	2,591	(1,866)
Change in tax rate	0	(555)	555
Total deferred taxes	(242)	(2,394)	2,152
Substitute tax on non accounting deductions	874	0	874
Total	14,152	17,674	(3,522)

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

The provision for deferred tax (assets)/liabilities of €967 thousand is composed as follows:

	2008		2007	
	Temporary differences	Tax Effect	Temporary differences	Tax Effect
PREPAID TAXES				
- Asset revaluation Law 266/2005	0	0	(14,201)	(4,459)
- Provisions	(2,790)	(767)	(112)	(31)
- Costs relating to future years	(534)	(148)	(1,025)	(282)
- Recordati España write-down	0	0	(1,724)	(474)
TOTAL	(3,324)	(915)	(17,062)	(5,246)
DEFERRED TAXES				
- Statutory and tax basis accounting depreciation/amortization differences	0	0	2,318	637
- IAS personnel leaving indemnity valuation	(194)	(52)	651	179
TOTAL	(194)	(52)	2,969	816
(Deferred) prepaid taxes, net		(967)		(4,430)

Note 17 may be consulted for information on the use of deferred tax asset provisions amounting to €725 thousand.

The substitute tax for non accounting deductions of €874 thousand is due on the elimination of those deductions under Law 244/2007 (2008 Finance Act). This law grants the concession of being able to deduct depreciation and amortization already recognized and deducted for tax purposes in future years, against the payment of a substitute tax.

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

	2008 %	2007 %
Ordinary tax rate applicable	27.5	33.0
Dividends from subsidiaries	(11.7)	(9.2)
Contributions to congresses	0.8	1.7
Effect of Recordati España write-down	0	4.4
Tax credits on research	0	(1.8)
2005 deferred tax revaluation	0	(6.6)
Deferred taxes on depreciation/amortisation elimination (balanced)	(2.2)	0
Other differences, net	0.1	(1.6)
Effective rate of taxation on income	14.6	19.9
Substitute tax on non accounting deductions	1.3	0
IRAP (regional tax on production)	5.2	6.1

Effective tax rate, including IRAP	21.1	26.0
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IRAP as a percentage of pretax profit was 5.2% because the tax is calculated on a different tax basis which also includes the cost of labour, interest and some extraordinary items.

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment net of accumulated depreciation amounted to € 33,324 thousand and €31,666 thousand at 31 December 2008 and 2007 respectively. The table in attachment No. 1 gives details of changes in the item.

The increase of € 8,045 thousand in 2008 relates mainly to investments in the Milan pharmaceutical plant and headquarters of €4,013 thousand and to various investments in the production facilities at the Campoverde di Aprilia plant amounting to €4,032 thousand.

The land and buildings located in Milan, Italy having a carrying amount of €2,034 thousand have been pledged to secure loans granted by Istituto Bancario Intesa Sanpaolo.

Depreciation for the year amounted to €6,260 thousand and was calculated on all depreciable assets using rates which are held to be representative of the estimated useful life of the assets.

14. INTANGIBLE ASSETS

Intangible assets net of accumulated amortization amounted to € 10,356 thousand and € 12,209 thousand at 31 December 2008 and 2007 respectively. The table in attachment No. 2 gives details of changes in the item.

The increase in 2008 amounted to €814 thousand and relates mainly to software licenses and to the installation of the new release of SAP.

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

15. INVESTMENTS

Investments amounted to €302,049 thousand and €246,517 thousand at 31 December 2008 and 2007 respectively, as detailed in the table in attachment No. 3. The percentage of ownership and the number of shares or quotas possessed are reported in attachment No. 4.

A comparison between the carrying amount of investments in subsidiaries and their valuation using the equity method, in accordance with Art. 2426 of the Italian Civil Code, is reported in attachment No. 5

IAS 27 - consolidated and separate financial statements - requires recognition of investments in subsidiaries at cost method or, as an alternative, using the fair value in accordance with IAS 39. Recordati S.p.A. has adopted the cost criterion and therefore, where there are indications that part or all of the cost cannot be recovered, the carrying amount must be reduced to the relative recoverable amount, in compliance with IAS 36 – *Impairment of assets*. Where that impairment subsequently reverses or reduces, the carrying amount is

increased to the amount of the new estimate of the recoverable amount which, however, cannot exceed the original cost. For the calculation of reversals for investments in companies that are not listed and that is where no reliable market value (fair value less costs to sell) can be determined, the recoverable amount has been defined as the value in use, intended as the present value of the estimated cash flows from it based on the expected results of the investments and the estimated amount of a hypothetical “ultimate disposal” in compliance with IAS 28 (section 33). The expected results forecast in the business plans of each investment were taken into consideration in the calculation of the value in used, increased by their “terminal value” appropriately adjusted to take account of risks and uncertainties intrinsic to the assumptions on which the plans were based. Those results and the “terminal value” were discounted to present values by applying the current cost of capital of the companies in compliance with the method recommended in IAS 36.

Details of changes in investments are given in the table contained in attachment No. 3.

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

- Recordati S.A. Chemical and Pharmaceutical Company – Luxembourg – Share Capital €9,962,619. Percentage ownership 100%. The full year 2008 ended with a profit of € 51,775 thousand (€17,101 thousand in 2007). The profit for the year was due mainly to the receipt of dividends of € 49,197 thousand. The shareholders’ equity of the company at 31.12.2008 amounted to € 80,757 thousand. The company declared a dividend in 2008 of €8,550 thousand.

In 2007 Recordati S.p.A. purchased a profit participating bond issued by Recordati S.A. Chemical & Pharmaceutical Co. for €135,000 thousand.

That amount was recognised as an increase in the value of the investment as permitted by IAS/IFRS accounting standards on the grounds of the long term life of the contract which is tacitly renewable and of its remuneration, which is 50% of Recordati S.A. result. In 2008 the Board of Directors of the subsidiary declared remuneration of the bond amounting to €8,551 thousand.

That loan was used by Recordati S.A. to complete its acquisition of Orphan Europe, a European Group specialising in rare diseases, through the formation of the French company Recordati Orphan Drugs S.a.s..

- La Recordati S.A. Chemical and Pharmaceutical Company holds investments in the following companies:
 - Farmarecord Ltda. – San Paolo, Brazil – share capital denominated in Real amounting to 166.00. Percentage ownership of 100%. The company is dormant and holds pharmaceutical marketing rights in Brazil. The company recorded a profit mainly from royalties of 29,604 Real. The shareholders’ equity of the company at 31.12.2008 amounted to 854,035 Real.
 - Recordati España S.L. – Zeneta (Murcia), Spain – Percentage ownership of 10%.
 - Recordati Corporation – Cranford, New Jersey, United States - Share Capital US\$ 11,979,138. Percentage ownership 100%. The company ended 2008 with a profit of US\$ 343,861 and shareholders’ equity of US\$ 21,574,931.

- Recordati Portuguesa Lda. – Lisbon, Portugal – Percentage ownership of 2%.
- Bouchara Recordati S.a.s. – Levallois-Perret, France – Percentage ownership of 0.06%.
- Recordati Ireland Ltd. – Ringaskiddy (Cork) Ireland – Share Capital € 200,000. Percentage ownership of 100%. The company performs development, production, marketing and sales of pharmaceuticals.
Net sales in 2008 amounted to €131,462 thousand (€111,084 thousand in 2007).
The company recorded a profit in 2008 of €42,736 thousand (€29,203 thousand in 2007). The shareholders' equity at 31.12.2008 amounted to €55,116 thousand.
- Recordati S.A. – Chiasso, Switzerland – Share Capital Sw.Fr. 6,000,000. Percentage ownership of 100%.
The company is dormant and holds pharmaceutical marketing rights. The company recorded a loss in 2008 of Sw.Fr. 525,978. The shareholders' equity at 31.12.2008 amounted to Sw.Fr. 6,071,506.
- Recordati Pharmaceuticals Ltd. – United Kingdom – Share Capital GBP 15,000,000 – Percentage ownership of 96.67%. The company performs marketing and sales of pharmaceuticals. The company recorded a loss for the year in 2008 of GBP 1,025,655.
The shareholders' equity at 31.12.2008 amounted to GBP 14,548,144.
- Recordati Hellas Pharmaceuticals S.A. – Greece – Share Capital € 6,000,000 – Percentage ownership of 98.42%. The company performs marketing and sales of pharmaceuticals. The company recorded a loss for the year in 2008 of € 3,237 thousand. The shareholders' equity at 31.12.2008 was negative by €915 thousand.
- Recordati Orphan Drugs S.a.s. – Paris La Defense, France– Share Capital € 57,000,000 – Percentage ownership of 100%. The company holds 100% of Orphan Europe Holding S.A., the parent company of Orphan Europe. The company recorded a profit for the year of € 1,304 thousand. The shareholders' equity at 31.12.2008 amounted to €58,317 thousand.
- Recofarma S.r.l. – Milan - Share Capital €1,258,400. Percentage ownership 100%. The company ceased its marketing operations for pharmaceutical chemicals in 2006. The company recorded a profit in 2008 of € 75 thousand (€ 59 thousand in 2007). The shareholders' equity of the company at 31.12.2008 amounted to €3,412 thousand.
- Innova Pharma S.p.A. - Milan - Share Capital € 1,920,000. Percentage ownership 100%. In 2008 the company continued its marketing operations for pharmaceuticals in Italy. It generated sales during the year of € 83,673 thousand (€ 82,867 thousand in 2007) and recorded a profit of € 2,083 thousand (€ 3,053 thousand in 2007). The shareholders' equity of the company at 31.12.2008 amounted to €12,567 thousand.
- Recordati España S.L. - Zeneta (Murcia), Spain - Share Capital € 94,000,000. Percentage ownership of 90%. The company performs development, production and

sales of pharmaceuticals. With net sales for the year of €28,894 thousand (€21,940 thousand in 2007), the company recorded a profit of €12,876 thousand (a loss of €4,615 thousand in 2007). The shareholders' equity of the company at 31.12.2008 amounted to €106,507 thousand.

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

- Merckle Recordati GmbH - Germany - Share Capital € 268,939.53. Percentage ownership of 100%. The company performs marketing and sales of pharmaceuticals. It generated sales in 2008 of €53,809 thousand (€52,786 in 2007) and recorded a profit of €3,361 thousand (€4,262 thousand in 2007). The shareholders' equity of the company at 31.12.2008 amounted to €11,912 thousand.
- Jaba Recordati S.A. – Portugal – Share Capital €2,000,000. Percentage ownership of 100%. The company performs wholesale marketing of pharmaceuticals. The main areas are ethical (with its own sales network), generic and OTC products. With net sales for the year of €43,178 thousand, the company recorded a profit of €2,216 thousand. The shareholders' equity of the company at 31.12.2008 amounted to €8,105 thousand.
- Jabafarma S.A. – Portugal – Share Capital €50,000. Percentage ownership of 100%. The company performs wholesale marketing of ethical pharmaceutical products through its own distribution network. It ended the year with a profit of €336. The shareholders' equity of the company at 31.12.2008 amounted to €83 thousand.
- Bonafarma S.A. – Portugal – Share Capital € 50,000. Percentage ownership of 100%. The company performs wholesale marketing of generic pharmaceutical products through its own distribution network. It ended the year with a profit of €16 thousand. The shareholders' equity of the company at 31.12.2008 amounted to €174 thousand.
- Yeni Ilaç – Turkey – Share Capital Try 7,086,614. Percentage ownership of 100%. The company performs production and sales of proprietary and licensed pharmaceuticals. Consolidation at 31 December 2008 was limited to assets and liabilities, while the income statement will be consolidated with effect from 1 January 2009.
- Bouchara Recordati S.a.s. – Levallois-Perret, France – Share Capital € 4,600,000. Percentage ownership of 99.94 %. Bouchara Recordati performed development, production and sales of pharmaceuticals in 2008. The full year 2008 ended with a profit of €19,865 thousand (€12,913 thousand in 2007). The shareholders' equity of the company at 31.12.2008 amounted to €28,300 thousand.

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

- Laboratoires Bouchara Recordati S.a.s. – France – Share Capital € 14,000,000 – Percentage ownership of 100%. The company performs production, marketing and sales of pharmaceuticals. It generated sales in 2008 of €183,652 thousand and

recorded a profit of € 11,556 thousand (€ 12,551 thousand in 2007). The shareholders' equity of the company at 31.12.2008 amounted to €27,043 thousand.

- FIC S.a.s. – France – Share Capital €100,000. Percentage ownership of 100%. The company performs marketing and sales of pharmaceuticals. It recorded a profit in 2008 of € 574 thousand. The shareholders' equity of the company at 31.12.2008 amounted to €3,915 thousand.

FIC S.a.s. holds investments in the following companies:

- FIC Medical Sarl. – France – Share Capital € 10,000. Percentage ownership of 100%. The company recorded a profit of €95 thousand with shareholders' equity at 31.12.2008 of €271 thousand.
- Recordati Portuguesa Lda. – Lisbon, Portugal – Share Capital €24,940. Percentage ownership of 98%. The company ceased marketing and sales operations for pharmaceuticals in 2003. The year ended with a loss of €1 thousand (€10 thousand in 2007). The shareholders' equity of the company at 31.12.2008 amounted to €52 thousand.
- Recordati Pharmaceuticals Ltd. – United Kingdom – Share Capital GBP 15,000,000. Percentage ownership of 3.33%.
- Recordati Hellas Pharmaceuticals S.A. – Greece – Share Capital € 4,000,000. Percentage ownership of 1.58%.

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

16. OTHER RECEIVABLES (included within non-current assets)

These amounted to € 114 thousand at 31 December 2008, a decrease of € 504 thousand compared to the previous year. These relate principally to tax advances due from employees on the staff leaving indemnities of the Italian companies (Law 662 of 23 December 1996, as amended).

17. DEFERRED TAX ASSETS

These amounted to € 10,211 thousand at 31 December 2008 (€ 10,021 thousand at 31 December 2007), an increase of €190 thousand.

The main deferred tax assets and changes in 2007 are analyzed in the two tables below.

(€thousand)	2008	2007
Balance at 1 January	10,021	8,456
Additions	915	4,134

Utilization	(725)	(2,569)
Balance at 31 December	10,211	10,021

(€ thousand)	Intangible asset revaluation reversal	Provision	Effect of tax depreciation/ ammortization	Other	Total
Balance at 1 January	11.229	50	(1.429)	171	10.021
Addition	0	767	0	148	915
Utilization	(2.075)	(50)	1.429	(29)	(725)
Balance at 31 Dec.	9.154	767	0	290	10.211

The utilization of €2,075 thousand relates to depreciation instalments of assets revalued in 2005 under Law 226 of 23.12.2005.

The utilization of €1,429 thousand is due to the elimination of increased depreciation for tax purposes in prior years in accordance with Law 244/2007 with the payment of a substitute tax for non accounting deductions reported in note 12.

18. INVENTORIES

Inventories at 31 December 2008 and 2007 amounted to €38,963 thousand and €37,450 thousand respectively, as detailed in the following table:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Inventories			
Raw materials, ancillary materials, consumables and supplies	10,886	10,530	356
Intermediates and work-in-process	10,278	10,014	264
Finished goods	17,799	16,906	893
Total inventories	38,963	37,450	1,513

Inventories are stated net of a provision of €91 thousand (€102 thousand in 2007) considered appropriate to cover the risk of obsolescence resulting from “slow moving” stocks.

19. TRADE RECEIVABLES

Trade receivables amounted to €72,846 thousand and €55,068 thousand at 31 December 2008 and 2007 respectively, as detailed below:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Trade receivables from subsidiaries	43,208	21,065	22,143
Trade receivables from others:			
Italy	26,683	30,594	(3,911)
Abroad	5,142	6,309	(1,167)
	75,033	57,968	17,065
Less:			
Allowance for doubtful accounts	(1,597)	(1,597)	0
Allowance for interest on arrears on doubtful accounts	(590)	(1,303)	713
Total trade receivables	72,846	55,068	17,778

Average days of sales outstanding fell from 80 in 2007 to 72 in 2008. This reduction was due mainly to the transfer of the production and marketing of some products destined to hospitals to Innova Pharma S.p.A.

The adjustment of receivables in non euro currencies resulted in the recognition of negative exchange rate differences of € 189 thousand. The receivables are recognised net of those adjustments.

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

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Jaba Recordati S.A.	46	0	46
Recordati Ireland Ltd.	29,210	8,421	20,789
Innova Pharma S.p.A.	12,822	11,033	1,789
Recordati España S.L.	459	367	92
Laboratoires Bouchara Recordati S.a.s.	671	695	(24)
Recordati Orphan Drugs S.a.s.	0	549	(549)
Total	43,208	21,065	22,143

The increase in receivables from Recordati Ireland is of a temporary nature and does not represent problems with payments.

Changes in the allowance for doubtful accounts are as follows:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Balance at 1 January	1,597	1,644	(47)
Use for losses on receivables	0	(47)	47

Balance at 31 December	1,597	1,597	0
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The allowance is considered appropriate in relation to potential risks of insolvency.

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

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Balance at 1 January	1,303	1,629	(326)
Utilization during the year	(713)	(594)	(119)
Allowances for the year	0	268	(268)
Balance at 31 December	590	1,303	(713)

The balance at 31 December 2008, amounting to € 590 thousand, fully covers the amount for the relative receivables.

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

	2008		2007	
	Foreign currency	€(thousands)	Foreign currency	€(thousands)
Receivables in US\$	3,568,317	2,688	5,277,330	3,638
Receivables in GBP	51,965	67	23,990	33

20. OTHER RECEIVABLES

Other receivables amount to €8,761 thousand (€17,210 thousand at 31 December 2007). The composition is given in the table below.

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Tax receivables	1,946	7,091	(5,145)
From parent companies	16	18	(2)
From subsidiaries	1,951	4,184	(2,233)
Balances due from employees and agents	878	2,111	(1,233)
Other	3,970	3,806	164
Total other receivables	8,761	17,210	(8,449)

Tax receivables amounted to €1,946 thousand at 31 December 2008 (€7,091 thousand in 2007) and are composed as follows:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Receivables from Fimeì S.p.A. for IRES (corporate income tax)	1,233	5,439	(4,206)
Receivables from tax authorities for IRAP (regional tax on production)	0	641	(641)
Refund requested from tax authorities	52	52	0
From tax authorities for VAT	647	956	(309)
Other	14	3	11
Total tax receivables	1,946	7,091	(5,145)

Receivables from the parent company Fimeì S.p.A. for IRES at 31 December 2008 relate to the balance on taxes for the year, transferred by Recordati S.p.A. to its parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003. IRES tax receivables arose because advance taxes paid during the year were greater than the provisions set aside for the year.

The VAT credit consisted of the balance for December 2008 and the VAT refund applied for on 18 October 2007 in relation to VAT on motor vehicles.

Other receivables from parent companies amounted to €16 thousand and relate to sundry charges and to the rent instalment for December from Fimeì S.p.A.

Receivables from Group companies are composed as follows:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Recordati Ireland Ltd.	0	288	(288)
Jaba Recordati S.A.	228	216	12
Innova Pharma S.p.A.	0	47	(47)
Recordati España S.L.	608	3,416	(2,808)
Bouchara Recordati S.a.s.	934	71	323
Laboratoires Bouchara Recordati S.a.s.	139	146	(7)
Merckle Recordati GmbH	16	0	16
Recordati S.A. – Luxembourg	26	0	26
Total	1,951	4,184	(2,233)

Receivables from Recordati España S.L., Jaba Recordati S.A., Merckle Recordati GmbH and Recordati S.A. Luxembourg consisted of interest on loans.

The receivables from Bouchara Recordati relate to interest income for the cash pooling treasury system amounting to €540 thousand and interest on loans of €394 thousand.

The receivables from Laboratoires Bouchara Recordati relate to royalties income.

Balances due from employees and agents amounted to €878 thousand and €2,111 thousand at 31 December 2008 and 2007 respectively. They consisted of advances to employees, expense accounts for medical representatives and loans granted to employees who exercised stock option rights amounting to €538 thousand for the purchase of 140,000 shares resulting from the options granted on 7 April 2004 and 27 October 2004.

Receivables from others amounted to € 3,970 thousand at 31 December 2008 (€ 3,806 thousand at 31 December 2007) and included € 1,564 thousand of receivables under licensing-in agreements to adjust purchase costs in accordance with contracts.

21. OTHER CURRENT ASSETS

Other current assets amounted to €296 thousand (€826 thousand at 31 December 2007) and related mainly to prepaid expenses. They consisted of balances in favour of the company on insurance policies and commissions advanced on the grant of a credit line.

22. OTHER SHORT TERM LOANS

Other short term loans all consist of loans to subsidiaries as follows:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Bouchara Recordati s.a.s.	18,872	12,082	6,790
Recordati España S.L.	3,380	75,274	(71,894)
Jaba Recordati S.A.	8,473	8,628	(155)
Merckle Recordati GmbH	15,000	0	15,000
Recordati S.A. – Luxembourg	22,500	0	22,500
Total	68,225	95,984	(27,759)

Loans to Recordati España S.L. for €3,380 thousand, to Jaba Recordati for €6,985 thousand, to Bouchara Recordati for € 10,000 thousand, to Merckle Recordati for € 15,000 and to Recordati S.A. – Luxembourg for € 22,500 thousand all relate to loans existing at 31 December.

Interest is paid on these loans at market short term rates.

Furthermore, during 2007 a centralised cash pooling treasury system was introduced at the Parent Company. That system generated receivables at the end of the year of € 8,872 thousand from Bouchara Recordati and of €1,488 thousand from Jaba Recordati S.A..

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

These are composed as shown in the following table.

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Short term financial investments	0	1,840	(1,840)
Deposits in bank current accounts	12,715	13,363	(648)
Cash on hand	4	2	2
Total	12,719	15,205	(2,486)

Cash and cash equivalents at 31 December 2008 consisted exclusively of on demand bank deposits.

24. SHAREHOLDERS' EQUITY

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

Share capital- The share capital at 31 December 2008, amounting to €26,063,457.00, is fully paid up and consists of 208,507,656 ordinary shares with a par value of €0,125 each. It increased by €82,875.00 in 2008 following the issue of 663,000 new ordinary shares of which 396,500 at a price of €3,575 each, 125,000 at a price of €3,6775 each and 141,500 at a price of €4,055 each under the 2001-2003 and 2003-2007 stock option plans.

The company has two stock option plans in place, the 2003-2007 and 2006-2009 plans, with two different grants of options for each of them, for selected employees. The strike price of the options is the average of the Company's listed share price during the 30 days prior to the grant date. Stock options are vested over a period of four years. Options not exercised within the fifth year of the date of grant expire. Options may not be exercised if the employee leaves the Company before they are vested. Options granted in 2003 expired on 24 May 2008.

Details of stock options outstanding at 31 December 2008 are given in the following table.

Grant date	Strike Price (€)	Options outstanding at 01.01.2008	Options granted in 2008	Options exercised in 2008	Options cancelled or expired	Options outstanding at 31.12.2008
14 May 2003	3,6775	125.000	0	(125.000)	0	0
7 April 2004	3,5750	493.000	0	(396.500)	(37.000)	59.500
27 October 2004	4,0550	761.000	0	(141.500)	(58.000)	561.500
6 April 2006	6,4975	2.315.000	0	0	(270.000)	2.045.000
29 October 2008	4,0730	0	3.875.000	0	0	3.875.000
		3.694.000	3.875.000	(663.000)	(365.000)	6.541.000

The relative increases in the share capital have already been authorized except for those for options granted under the 2006-2009 plan which may also be exercised by using shares held in treasury stock.

Additional paid-in capital

Additional paid-in capital increased during 2008 from €78,952,226 to €81,320,308 as a result of the following:

- an increase of €1,367,925.00 for the issue of 396,500 new shares at a price of 3,575 each, with additional paid-in capital per share of €3,450;
- an increase of €444,062.50 for the issue of 125,000 new shares at a price of €3,6775 each, with additional paid-in capital per share of €3,5525;
- an increase of €556,095.00 for the issue of 141,500 new shares at a price of €4,055 each, with additional paid-in capital per share of €3,930;

The adoption of international accounting standards resulted in the elimination of revaluation reserves amounting to €68,644 thousand. The tax classification on these (untaxable) were transferred to the additional paid-in capital reserve.

Treasury stock – At 31 December 2008, 11,472,355 shares were held as treasury stock for a cost of €59,103 thousand, of which 3,955,520 were purchased on the market in 2002 for €17.5 million, 843,144 were purchased in 2003 for €2.9 million, 1,856,227 were purchased on the market in 2006 for €10.3 million and 5,060,464 were purchased on the market in 2007 for €29.9 million. In 2007, 243,000 shares were also sold to employees of the Group who exercised option rights under stock option plans already authorized for a total price of €1.4 million. The purchases were made to implement board resolutions passed on 16 September 2002, 6 April 2006 and 11 April 2007.

Statutory reserve – This amounted to €5,220 thousand and was unchanged compared to 2007 because the limit set by Art. 2430 of the Italian Civil Code had been reached.

Other reserves

Other reserves totalled €164,113 thousand. Details are given in the table below.

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Extraordinary reserve	56,598	48,440	8,158
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	99	0
Extraordinary VAT concession reserve	517	517	0
Research and investment grants	17,191	17,191	0
Non-distributable reserve for investments in southern Italy	3,632	3,632	0
International accounting standards reserve	86,076	87,935	(1,859)
Total	164,113	157,814	6,299

Extraordinary reserve - This amounted to €56,598 thousand and €48,440 thousand at 31 December 2008 and 2007 respectively. The increase is the result of the allocation of part of 2008 profit amounting to €8,156 thousand.

The reserve also increased by €2 thousand resulting from the allocation of dividends not paid and expired.

Reserve under Art.13, paragraph 6 of Legislative Decree 124/93 - This amounted to €99 thousand at 31 December 2008 and remained unchanged compared to the previous year.

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

Research and investment grants - These amount to €17,191 thousand and are unchanged compared to the previous year.

The grants are subject to taxation if they are used for purposes other than to cover losses, which is not planned by the Company. The assets corresponding to the grants received from the Ministry of Industry and Commerce (formerly Asmez) have been mainly fully depreciated.

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

International accounting standards reserve

This amounted to €86,076 thousand (€87,935 thousand at 31 December 2007) and is composed as follows:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Reversal of fixed asset revaluations	40,477	40,477	0
Revaluation of investments	43,054	43,054	0
Inventories	463	463	0
Personnel leaving indemnities	2,078	2,033	45
Stock options	2,536	2,021	515
Fair value of hedging derivatives (cash flow hedge)	(2,532)	(113)	(2,419)
Total	86,076	87,935	(1,859)

Changes that occurred in the items in 2008 included the following:

- the valuation of the personnel leaving indemnities provision in accordance with IAS 19 generated a reserve which amounted to €2,078 thousand at 31 December 2008;

- the amount of €2,536 thousand relates to the labour expense for stock options issued and granted after 7 November 2002 and not yet exercised, valued in accordance with IFRS 2;
- in compliance with international accounting standard IAS 39 an amount of €2,532 thousand was recognised as the fair value at 31 December 2008 of interest rate swap transactions qualifying as cash flow hedges.

Revaluation reserve - This amounted to €2,602 thousand (unchanged compared to 2007) and consisted of revaluation balances within the meaning of Law 413/1991.

Untaxed reserves at 31 December 2008 amounted to €87,727 thousand and consisted of €15,964 thousand of reserves for grants received net of the taxed portion, €517 thousand of the VAT concession reserve and €71,246 thousand of the revaluation reserves net of the substitute taxes. Revaluation reserves amounting to €68,644 thousand were eliminated in compliance with international accounting standards and the non taxability was transferred to the additional paid-in capital reserve. No provisions were made for deferred taxes for these reserves because it is not considered that they will be used in a manner that will make them taxable.

25. LOANS

At 31 December 2008 and 2007, medium and long-term loans included the following:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Istituto Bancario Intesa Sanpaolo loans, guaranteed by mortgages on the Milan and Campoverde plants, at an average annual interest rate of 0.99% repayable in semi-annual instalments through 2010	2,034	2,958	(924)
Research loans granted by Istituto Bancario Intesa Sanpaolo, at an average annual interest rate of 2.49%, repayable in semi-annual instalments through 2009.	453	1,155	(702)
Loans granted by the Ministry of Industry and Commerce repayable in annual instalments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0.825% before that.	652	770	(118)
Loan received from Recordati S.A. (Luxembourg) granted on the basis of a long term debt issue concluded by that subsidiary with institutional investors.	80,609	80,609	0
Total amortized cost of loans	83,748	85,492	(1,744)
Portion due within one year	(1,559)	(1,744)	185
Portion due after one year	82,189	83,748	(1,559)
Change in the fair value of loans	(1,506)	(7,556)	6,050
Total	80,683	76,192	4,491

The repayment schedules for the portions of the medium and long-term loans due after 31 December 2009 are as follows:

€(thousands)	
2010	1,176
2011	15,130
2012	135
2013	139
2014	65,609
Total	82,189

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

Original currency	Value in euro	Fixed rate	Year due
€15,000,000	15,000,000.00	4,725	2011
€26,000,000	26,000,000.00	5,705	2014
\$ 40,000,000	32,310,177.75	5,225	2014
GBP 5,000,000	7,299,270.07	6,295	2014

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

That debt, issued at the end of 2004, comprises tranches in various currencies at fixed interest rates. The tranches denominated in currencies other than the euro have been covered with a cross-currency interest rate swap effectively converting the whole debt into euro at a variable interest rate equivalent to the Euribor 6 months rate plus a spread. The tranches denominated in euro have been covered with an interest rate swap effectively converting the interest charges on the debt from fixed to variable at the same above mentioned conditions. The measurement at fair value of the swaps at 31 December 2008 generated a liability of €1,506 thousand, an amount equivalent to the decrease in the fair value of the underlying debt. This amount is recognized in the balance sheet as a decrease of debt and under current liabilities as 'Fair value of hedging derivatives (fair value hedge)'.

A further interest rate swap contract was entered into at the same time, qualifying as a cash flow hedge, to fix a range within which the interest rate can fluctuate in order to optimize the cost of financing for the life of the debt. At 31 December 2008 the lower and upper limits of the range were 3.16% and 4.85% respectively. The €2,532 thousand fair value of the cash flow hedge was recognized directly in equity and stated as a current liability (see Note 33).

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

26. STAFF LEAVING INDEMNITIES

The balance at 31 December 2008 amounted to €12,264 thousand (€13,462 thousand at 31 December 2007). Changes in the item were as follows:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Balance at 1 January	13,462	16,215	(2,753)
Additions for the year	688	821	(133)
Utilization for the year	(1,562)	(2,862)	1,300
Change in fair value of the indemnities (IAS 19)	(324)	(712)	388
Balance at 31 December	12,264	13,462	(1,198)

The valuation of the personnel leaving indemnity fund in accordance with IAS 19 generated a liability at 31 December 2008 of €12,264 thousand. The calculation made, which used actuarial parameters updated at 31 December 2008, generated a lower liability and resulted in the recognition of an adjustment of €324 thousand recognized directly in equity net of tax in accordance with the relative accounting standard.

27. DEFERRED TAX LIABILITIES

Deferred tax liabilities amounted to €2,425 thousand (€2,461 thousand in 2007).

Changes are reported in the table below.

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Balance at 1 January	2,461	3,199	(738)
Additions	16	269	(253)
Utilization	(52)	(1,007)	955
Balance at 31 December	2,425	2,461	(36)

Both additions and utilization relate to the deferred tax liability calculated on the adjustments to the personnel leaving indemnity made according to IAS 19 using actuarial parameters updated at 31 December 2008.

28. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include end of year allocations for invoices to be received, amounted at 31 December 2008 and 2007 to €34,378

thousand and €34,085 thousand respectively.

Balances at 31 December 2008 and 2007 were as follows:

€(thousands)			Change
	31.12.2008	31.12.2007	2008/2007
Suppliers, subsidiaries	301	128	173
Suppliers, Italy	18,254	17,031	1,223
Suppliers, Italy for invoices to be received	6,123	6,144	(21)
Suppliers, abroad	8,096	8,090	6
Suppliers, abroad for invoices to be received	1,604	2,692	(1,088)
Total trade payables	34,378	34,085	293

Details for subsidiaries are as follows:

€(thousands)			Change
	31.12.2008	31.12.2007	2008/2007
Recordati Corporation Inc.	37	63	(26)
Laboratoires Bouchara	16	0	16
Innova Pharma S.p.A.	248	65	183
Total payables to subsidiaries	301	128	(173)

There were no concentrations of large debts to a single or a small number of suppliers. The adjustment of trade payables in non euro currencies resulted in the recognition of net positive exchange rate differences of €325 thousand.

The largest trade payables in foreign currency were as follows:

	2008		2007	
	Foreign currency	€(thousands)	Foreign currency	€(thousands)
Payables in US\$	2,166,822	1,752	1,616,231	1,421
Payables in GBP	127,884	154	155,624	218
Payables in CHF	77,448	54	140,665	84

29. OTHER PAYABLES

Other accounts payable at 31 December 2008 amounted to € 12,499 thousand (€ 12,594 thousand at 31 December 2007). They were composed as follows:

€(thousands)			Change
	31.12.2008	31.12.2007	2008/2007
Employees	5,078	5,784	(706)
Social security	4,599	4,204	395
Commissions to agents	464	389	75
Other	2,358	2,217	141
Total other payables	12,499	12,594	(95)

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

Amounts payable to agents include €171 thousand in commissions for foreign agents.

Other payables include directors' remuneration accruing at 31 December (€399 thousand), credit notes to be issued (€60 thousand) and amounts due to subsidiaries (€815 thousand).

Payables to Group companies are composed as follows:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Recofarma S.r.l.	116	115	1
Innova Pharma S.p.A.	339	263	76
Laboratoires Bouchara Recordati S.a.s.	287	57	230
Recordati España S.L.	53	5	48
Jaba Recordati S.A.	20	0	20
Total	815	440	375

Payables to Recofarma and Innova Pharma relate to interest payable on the current accounts held with them.

Payables to Laboratoires Bouchara Recordati, Recordati España and Jaba Recordati S.A. relate to the centralized cash pooling treasury system set up during the year 2007.

30. TAX LIABILITIES

Tax liabilities at 31 December 2008 amounted to €1,718 thousand (€2,191 thousand at 31 December 2007).

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Liabilities for current taxation	54	0	54
Liabilities for employee withholding taxes	1,582	2,113	(531)
Liabilities for self-employed withholding taxes	44	49	(5)
Other tax liabilities	38	29	9
Total tax liabilities	1,718	2,191	(473)

Liabilities for current taxation consist of the substitute tax on non accounting transactions already mentioned in note 12, net of the IRAP (regional production tax) tax credit resulting

from payment of advance tax during the year that was greater than the provision made for the year.

31. OTHER CURRENT LIABILITIES

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Charges for forward transactions	0	30	(30)
Government grants for investment	149	224	(75)
Total other current liabilities	149	254	(105)

The liabilities for government grants for investment relate to those received between 1998 and 2003 and carried over into subsequent years in relation to the residual useful life of the assets to which they relate.

32. PROVISIONS

These consist of tax and other provisions as follows:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Tax	3,527	2,456	1,071
Other	2,982	542	2,440
Total	6,509	2,998	3,511

The tax provision includes a provision made for a notice of tax assessment received by the Company on 29 September 2006 from the Milan 6 office of the tax authorities with assessment for additional taxation for the fiscal year 2003 as follows: corporate tax of €2.3 million, IRAP of €0.2 million and VAT of €0.1 million and additional tax liabilities of €2.6 million. The Company believes no amount is due and considers the assessment flawed both from a legitimacy as well as a substantive point of view, and is supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first degree judgement before the Provincial Tax Commission dep. 33 was concluded partially in the Company's favour with decision No. 539/33/07 dated 11 October 2007, filed on 16 October 2007. An appeal was filed against that judgment with the Regional Tax Commission of Milan firstly by the Milan office of the Tax Authorities with notice served on 8 November 2008 and secondly by the Company with notice served on 7 January 2009. A tax provision was made on grounds of prudence in the light of the first degree judgement amounting to €3.1 million in addition to the payment of €1.3 million already made following the temporary registration on the tax roll.

Other provisions include amounts set aside for future contingencies which are uncertain as to timing and amount. The reasons for the increase in the provision are reported under note 8.

33. FAIR VALUE OF HEDGING DERIVATIVES

The interest rate swaps to hedge the cash flows related to medium and long-term loans measured at fair value at 31 December 2008 gave rise to a €2,532 thousand liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans.

That liability just mentioned is recognised in shareholders' equity within the "IAS derivatives reserve".

34. LOANS - DUE WITHIN ONE YEAR

The portion of medium and long-term loans due within one year at 31 December 2008 and 2007 were composed as follows:

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Istituto Bancario Intesa Sanpaolo loans, guaranteed by mortgages on the Milan and Campoverde plants, at an average annual interest rate of 0.99% repayable in instalments through 2010	985	923	62
Research loans granted by Istituto Bancario Intesa Sanpaolo, at an average annual interest rate of 2.49%, repayable in semi-annual instalments through 2009	452	703	(251)
Loans granted by the Ministry of Industry and Commerce repayable in annual instalments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0,825% before that.	122	118	4
Total	1,559	1,744	(185)

35. BANK OVERDRAFTS AND ADVANCES

Bank overdrafts and short term borrowings at 31 December 2008 and 2007 amounted to € 85,487 thousand and €91,850 thousand respectively.

€(thousands)	2008	2007	Change 2008/2007
Current account overdrafts	85,471	91,821	(6,350)
Interest on long term loans	16	29	(13)
Total	85,487	91,850	(6,363)

Recordati S.p.A. concluded two loan agreements with major national and international banks in April. The two contracts involve two lines of revolving credit with a life of 24 months for a maximum amount of €50 million each and a spread of 40 basis points on the Euribor for the period of use. The credit lines granted involve compliance with capital and earnings conditions in line with those already applied for existing loans. Those credit lines had been almost fully drawn on at 31 December 2008. These short term funding instruments satisfy the objective of financial flexibility, combining the non revocability of the credit with variability in the use based on specific financial demands.

36. OTHER SHORT TERM BORROWINGS

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

€(thousands)	2008	2007	Change 2008/2007
Recordati S.A. - Luxembourg	236	236	0
Recofarma S.r.l.	3,401	3,323	78
Innova Pharma S.p.A.	13,363	4,334	9,029
Laboratoires Bouchara Recordati S.a.s.	9,692	7,537	2,155
Jaba Recordati S.A.	0	1	(1)
Recordati España S.L.	1,989	0	1,989
Recordati Orphan Drugs	8,263	0	8,263
Orphan Europe Holding	2,014	0	2,014
Orphan Europe Sarl	4,035	0	4,035
Total	42,993	15,431	27,562

The amount due to Recordati S.A. (Luxembourg) relates to interest on a long term loan granted on the basis of a long term debt issue concluded by that subsidiary with institutional investors (see note 26).

Payables to Recofarma and Innova Pharma relate to the current accounts held with them.

Payables to Laboratoires Bouchara Recordati and Recordati España relate to the centralized cash pooling treasury system.

The amounts due to Recordati Orphan Drugs, Orphan Europe Holding and Orphan Europe Sarl relate to short term loans received from them and are inclusive of interest matured.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IAS 32 the balance sheet values and fair values of financial assets and liabilities at 31 December 2008 are stated below:

€(thousands)	Carrying amount	Fair value
<i>Financial assets</i>		
Other short term loans	68.225	68.225
Short-term financial investments, cash and cash equivalents	12.719	12.719
Trade receivables	72.846	72.846
Other receivables	8.761	8.761
<i>Financial liabilities</i>		
Borrowings		
- loans covered with fixed interest rate swaps	-	-
- loans at fixed interest rates	3.139	2.383
- loans at variable interest rates	79.103	79.103
Trade payables	34.378	34.378
Other payables	14.216	14.216
Hedging derivatives (cash flow hedge)	2.532	2.532
Hedging derivatives (fair value hedge)	1.506	1.506
Bank overdrafts and short term loans	85.487	85.487
Other short term borrowings	42.993	42.993

38. DISCLOSURE OF FINANCIAL RISKS

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

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

Liquidity Risk

The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for its ongoing business and for the development of its industrial and commercial activities.

The two main factors which determine the Company's liquidity are, on the one hand, the resources generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions.

At 31 December 2008, the Company had at its disposal liquidity readily available for its operations and plentiful lines of credit readily available granted by a number of leading Italian and international financial institutions.

The terms and conditions of the Company's loans and its financial assets are set out in notes 24, 26. and 36, which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts.

The Company believes that the funds and credit lines currently available, in addition to those

generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts on their natural due dates.

Credit risk

The Company closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. At 31 December 2008, the credit exposure was not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. In particular, at 31 December 2008 total trade receivables of €75,033 thousand include €2,411 thousand of receivables overdue by more than 90 days. Of these, €2,362 thousand are due from public hospital hospitals which, despite their very long payment times, do not represent a significant risk situation.

An allowance for doubtful accounts of €2,187 thousand, which is considered to be sufficient to cover potential losses on collection, is in place.

Interest rate risk

The Company raises funds using debt and invests excess cash in money market funds and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments, which therefore affect the Group's net financial charges.

The Company's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or by using derivative financial instruments to minimize such fluctuations, as described in note 26. As a result of this policy and considering the current amount of net debt, it is believed that changes in current interest rates would not have a significant impact on net financial expenses.

Foreign currency risk

The Company is exposed to foreign currency fluctuations which can affect its operating results.

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

39. SEGMENT REPORTING

The pharmaceutical chemicals operations are considered part of the pharmaceutical segment as they are prevalently dedicated to the production of active ingredients for this business, both from a strategic and organizational point of view.

The following table presents net revenues by geographic area:

€(thousands)	2008	2007	Change
Europe	230,278	235,004	(4,726)
of which Italy	165,506	163,799	1,707
Australasia	6,153	5,904	249
America	10,072	13,732	(3,660)
Africa	814	1,233	(419)
Total	247,317	255,873	(8,556)

40. LITIGATION AND CONTINGENT LIABILITIES

The Company is party to certain legal actions. Management is of the opinion that such legal actions will not result in any significant liability.

In January 2001 certain savings shareholders, who said they owned in total about 1% of savings shares, contested the decision to convert the savings shares into ordinary shares adopted by the special savings shareholders' meeting on 26 October 2000 and by the Extraordinary Shareholders' Meeting on 25 October 2000, questioning the legitimacy of the "automatic" conversion provision. These shareholders also presented a motion to suspend the execution of the said decision, which however was rejected on 13 February 2001 by the competent court. On 13 April 2007 the court filed its decision rejecting the aforesaid shareholders' demands and sentencing them to settle all charges arising from the litigation. On 27 February 2008 the Company was summoned by the aforesaid shareholders who appealed against the judgment passed by the Milan court of first instance. The hearing of 17 June 2008 adjourned the case until 30 March 2010 for final pleadings. The Company is firm in its belief that the conversion operation was perfectly legal as supported, not only by the positive judgment of the court of first instance, but also by the positive reaction of the market and the very high percent of shareholders opting for the conversion.

During 2006 Recordati S.p.A. was party to two lawsuits for tort liability brought by the Bari and by the Milan Attorneys' Offices pursuant to legislative decree 231/2001 in relation to alleged crimes committed by its employees.

In both cases the Company fulfilled all the obligations provided for by article 17 of the aforesaid legislative decree, thus avoiding the possible application of precautionary measures and/or interdiction and paving the way towards the closing of the proceedings through the sole application of a fine as per article 63 of the aforesaid legislative decree.

In particular, regarding the Milan proceedings, in 2006 the Company filed its new compliance programmes with the Prosecutor, which have been further reinforced to prevent illicit conduct by its employees, and it has made available all profits and indemnified the Ministry of Health for the damages that might have arisen out of the alleged illicit conduct of its employees and on 18 February 2009 the action against the Company was officially closed with a judgement which imposed a fine of €90 thousand on request of the parties to the case.

As concerns the proceedings in Bari, following the outcome of the experts report on the appropriateness of the Company's compliance programmes, ordered by the Attorney's Office, on 11 February the proceedings against the Company were officially closed with a

judgement which imposed a fine of €80 thousand (which had already been paid in advance) on request of the parties to the case.

All the costs of those proceedings were already expensed in prior years.

On 29 September 2006 a notice of tax assessment was served on the Company by the Milan office of the tax authorities relating to the fiscal year 2003. It was assessed for additional taxes as follows: corporate tax of €2.3 million, IRAP of €0.2 million and VAT of €0.1 million and additional tax liabilities of €2.6 million. The Company believes no amount is due and considers the assessment flawed both from a legitimacy as well as a substantive point of view, and is supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first degree judgement before the Provincial Tax Commission was concluded partially in the Company's favour with decision No. 539/33/07 dated 11 October 2007, filed on 16 October 2007. An appeal was filed against that judgment with the Regional Tax Commission of Milan firstly by the Milan office of the Tax Authorities with notice served on 8 November 2008 and secondly by the Company with notice served on 7 January 2009.

41. INTERCOMPANY TRANSACTIONS AND RELATED ISSUES

At 31 December 2008, intercompany accounts with Group companies and the parent company Fimei S.p.A. consisted of payables of €123,213 thousand and receivables of €114,632 thousand. The most significant items are as follows:

- loans of €80,609 thousand granted by Recordati S.A. Chemical & Pharmaceutical Company to Recordati S.p.A.;
- loans of €3,380 thousand granted by Recordati S.p.A. to Recordati España S.L.;
- loans of €6,985 thousand granted by Recordati S.p.A. to Jaba Recordati S.A.
- loans of €15,000 thousand granted by Recordati S.p.A. to Merckle Recordati GmbH;
- loans of €10,000 thousand granted by Recordati S.p.A. to Bouchara Recordati S.a.s.;
- loans of €22,500 thousand granted by Recordati S.p.A. to Recordati S.A. – Luxembourg;
- receivables by Recordati S.p.A. from its subsidiaries for the supply of goods and services totalling €43,208 thousand;
- receivables from subsidiaries for the management of the centralized cash pooling treasury system amounting to €10,900 thousand;
- payables to subsidiaries for the management of the centralized cash pooling treasury system amounting to €12,041 thousand;

Sales and services to Group companies in 2008 amounted to €103,914 thousand. Dividends were received during the year as follows: €17,101 thousand from Recordati S.A. Chemical & Pharmaceutical Company, €9,994 thousand from Bouchara S.a.s. and €3,024 thousand from Innova Pharma S.p.A.

Other receivables include those from the parent company Fimei S.p.A. amounting to €1,232 thousand, which relate to the tax credit for the year calculated on the basis of estimated taxable income. That credit was transferred to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986

as amended by Legislative Decree 344/2003.

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

Percentage of transactions with related parties	Related parties		
	Total	Amount	%
Percentage of transactions or positions in the balance sheet with related parties			
Trade receivables and other	81,607	46,407	56.87
Long term financial assets	0	0	0
Short term financial assets	68,225	68,225	100.00
Trade payables and other	47,026	1,116	2.37
Long term financial liabilities	80,684	79,104	98.04
Short term financial liabilities	44,552	42,993	96.50
Percentage of transactions or positions in the income statement with related parties			
Revenue	248,872	103,914	41.75
Income from investments	30,119	30,119	100.00
Costs of purchases and service provision	135,720	100	0.07
Financial income/(expense), net	(7,722)	(2,470)	n.s.

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

42. NET FINANCIAL POSITION

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

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Deposits in bank current accounts and cash on hand	12,718	13,365	(647)
Short term investments to third parties	0	1,840	(1,840)
Short term loans to Group companies	68,225	95,984	(27,759)
Liquid assets	80,943	111,189	(30,246)
Bank overdrafts and short-term loans	(85,487)	(91,850)	6,363
Loans – due within one year	(1,559)	(1,744)	185
Other current financial liabilities	(42,993)	(15,431)	(27,562)
Short term borrowings	(130,039)	(109,025)	(21,014)
Net current financial position	(49,096)	2,164	(51,260)
Loans – due after one year	(80,684)	(76,192)	(4,492)
Non-current loans	(80,684)	(76,192)	(4,492)
Net financial position	(129,780)	(74,028)	(55,752)

43. NON RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

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

€(thousands)	31.12.2008	31.12.2007	Change 2008/2007
Pay back AIFA (Italian Medicines Agency)	(3,708)	(2,898)	(810)
Extraordinary gain on VAT motor vehicle charges	0	520	(520)
Provisions for:			
Assinde returns	(1,750)	0	(1,750)
restructuring charges and related litigation risks	(1,662)	(330)	(1,332)
Total other income (expense), net	(7,120)	(2,708)	(4,412)

44. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In compliance with Consob communication of 28 July 2006, the Company performed no atypical and/or unusual transactions in 2008, as defined in that same communication, according to which atypical and/or unusual transactions are those which because of their significance or importance, the nature of the counterparties, the content of the transaction, the way in which the transfer price is decided and the timing of the event (close to the end of the financial year) might give rise to doubts concerning: the accuracy and completeness of the information in the financial statements, a conflict of interests, the security of the companies assets, the protection of the interests of minority shareholders.

STATEMENT OF CHANGES IN PROPERTY PLANT AND EQUIPMENT AND IN THE RELATIVE ACCUMULATED DEPRECIATION

€(thousands)

	HISTORICAL COST								ACCUMULATED DEPRECIATION							NET ASSETS AT 31 December 2008
	Balance at 01 January	Elimination Reval. IAS compliance	Acquisitions Capitalizations	Revaluation law 2000	Write-downs	Sales	Reclassifications	Balance at 31 December 2008	Balance at 01 January	Elimination Reval. IAS compliance	Depreciations	Utilization	Reclassifications	Recovery Advance Deprec	Balance at 31 December 2008	
2008																
Land and buildings:																
Land	2.004	0	0	0	0	0	0	2.004	0,00	0,00	0,00	0,00	0,00	0,00	0	2.004
Civil buildings	32	0	0	0	0	0	0	32	13,19	0,00	0,00	0,00	0,00	0,00	13	19
Industrial buildings	27.117	0	246	0	0	0	799	28.162	17.246,85	0,00	1.125,74	0,00	0,00	0,00	18.373	9.789
Light constructions	1.572	0	0	0	0	0	0	1.572	1.343,32	0,00	86,62	0,00	0,00	0,00	1.430	142
Total	30.725	0	246	0	0	0	799	31.770	18.603	0	1.212	0	0	0	19.816	11.954
Plant and machinery:																
General plant	33.360	0	418	0	0	(49)	1.409	35.138	30.283,56	0,00	1.091,94	(49,32)	0,00	0,00	31.326	3.812
Normal depreciation machinery	25.867	0	389	0	0	0	143	26.400	19.559,60	0,00	1.540,09	0,00	0,00	0,00	21.100	5.300
Accelerated depreciation machinery	58.418	0	2.000	0	0	(1.453)	616	59.581	53.334,25	0,00	1.595,02	(973,00)	0,00	0,00	53.956	5.625
Total	117.646	0	2.808	0	0	(1.502)	2.168	121.119	103.177	0	4.227	(1.022)	0	0	106.382	14.737
Sundry laboratory equipment:																
Total	15.442	0	699	0	0	(49)	226	16.318	14.866,03	0,00	282,13	(49,12)	0,00	0,00	15.099	1.219
Other assets:																
Office furnishings and machines	2.163	0	2	0	0	0	13	2.178	1.681,71	0,00	96,34	0,00	0,00	0,00	1.778	400
Electronic equipment	7.229	0	145	0	0	(41)	114	7.446	6.393,29	0,00	399,11	(28,14)	0,00	0,00	6.764	682
Motor vehicles	148	0	0	0	0	0	0	148	95,15	0,00	26,53	0,00	0,00	0,00	122	27
Internal transport vehicles	158	0	31	0	0	0	0	190	119,18	0,00	16,15	0,00	0,00	0,00	135	54
Total	9.699	0	177	0	0	(41)	127	9.962	8.289	0	538	(28)	0	0	8.799	1.163
Assets under construction and advances:																
Total	3.090	0	4.115	0	0	0	(2.953)	4.251	0,00	0,00	0,00	0,00	0,00	0,00	0	4.251
Total	176.602	0	8.045	0	0	(1.593)	366	183.421	144.936	0	6.260	(1.100)	0	0	150.096	33.324
2007	171.994	0	4.990	0	0	(106)	(275)	176.602	137.715	0	7.318	(97)	0	0	144.936	31.666

STATEMENT OF CHANGES IN INTANGIBLE ASSETS AND THE RELATIVE ACCUMULATED AMORTIZATION

		€(thousands)													
		HISTORICAL COST						ACCUMULATED AMORTIZATION						NET ASSETS AT 31 December 2008	
	2008	Balance at 01 January	Elimination Reval. IAS compliance	Acquisitions Capitalizations	Revaluation law 2000	Sales Write-downs	Reclassifications	Balance at 31 December 2008	Balance at 01 January	Elimination Reval. IAS compliance	Amortisations	Sales	Reclassifications		Balance at 31 December 2008
Administrative formation and expansion costs		0	0	0	0	0	0	0	0	0	0	0	0	0	0,00
Patent rights and marketing authorisations		30.363	0	1	0	0	32	30.395	21.759	0	1.096	0	0	22.855	7.540
Distribution, license, trademark and similar rights		5.020	0	182	0	0	161	5.364	3.092	0	551	0	0	3.643	1.720
Other		13.332	0	0	0	0	0	13.332	12.561	0	655	0	0	13.216	116
Total		48.715	0	183	0	0	193	49.090	37.413	0	2.302	0	0	39.714	9.376
Assets under construction and advance		908	0	632	0	0	(559)	980	0	0	0	0	0	0	980
Total		49.623	0	814	0	0	(366)	50.071	37.413	0	2.302	0	0	39.714	10.357
	2007	49.098	0	749	0	(500)	275	49.623	34.160	0	3.320	(67)	0	37.413	12.209

STATEMENT OF CHANGES IN INVESTMENTS

€(thousands)

	Balance at 31 Dec. 2007	Sales Share capital reimbursements	Acquisitions Subscriptions	Write-downs (-) Write-backs (+)	Balance at 31 Dec. 2008
Investments in subsidiaries:					
Recordati S.A. - Luxembourg	152.586	-	-	-	152.586
Recordati España S.L. - Spain	35.005	(699)	56.231	-	90.537
Recofarma S.r.l. - Milan	1.852	-	-	-	1.852
Innova Pharma S.p.A. - Milan	1.733	-	-	-	1.733
Recordati Portuguesa LDA - Portugal	78	-	-	-	78
Bouchara-Recordati S.a.s. - France	54.249	-	-	-	54.249
Recordati Pharmaceuticals Ltd - United Kingdom	752	-	-	-	752
Recordati Hellas Pharmaceuticals - Greece	95	-	-	-	95
Total	<u>246.350</u>	<u>(699)</u>	<u>56.231</u>	<u>0</u>	<u>301.882</u>
Investments in other companies:					
Tecnofarmaci S.p.A. - Pomezia (Rome)	87	-	-	-	87
SPA Ricerche ed Education S.r.l. - Milan	0	-	-	-	0
Sifir S.p.A. - Reggio Emilia	0	-	-	-	0
Consorzio Dafne - Reggello (FI)	2	-	-	-	2
Consorzio Nazionale Imballaggi - Rome	0	-	-	-	0
Consorzio C4T - Pomezia (Rome)	78	-	-	-	78
Total	<u>167</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>167</u>
Total	<u>246.517</u>	<u>(699)</u>	<u>56.231</u>	<u>0</u>	<u>302.049</u>

RECORDATI S.p.A.**SUMMARY STATEMENT OF INVESTMENTS**

	Balance at 31 December €(thousands)	Percentage ownership	Number of shares or quotas possessed
2008			
Investments in subsidiaries:			
Recordati S.A. - Luxembourg	152.586	100,00	15.991
Recordati España S.L. - Spain	90.537	90,00	846.000
Recofarma S.r.l. - Milan	1.852	100,00	1
Innova Pharma S.p.A. - Milan	1.733	100,00	960.000
Bouchara-Recordati S.a.s. - France	54.249	99,94	9.994
Recordati Portuguesa LDA - Portugal	78	98,00	1
Recordati Pharmaceuticals Ltd - Great Britain	752	3,33	500.000
Recordati Hellas Pharmaceuticals - Greece	95	1,58	9.500
Total	301.882		
Investments in other companies:			
Tecnofarmaci S.p.A. - Pomezia (Rome)	87	4,18	79.500
Sifir S.p.A. - Reggio Emilia	0	0,04	1.304
Consorzio Dafne - Reggello (FI)	2	1,68	1
Consorzio C4T - Pomezia (Rome)	78	2,29	1.300
Consorzio Nazionale Imballaggi - Rome	0	n.s.	1
Total	167		
Total	302.049		

DETAILS OF ITEMS IN SHAREHOLDERS' EQUITY

€(thousands)

	Amount	Possible utilization	Amount Available	Amount distributable without tax effect	Amount distributable with tax effect	Summary of uses in previous 3 years		Notes
						Replenish losses	Other reasons	
Share capital	26.064							
Additional paid-in capital reserve	81.320	A B C	81.320	12.676	68.644			1
Revaluation reserve	2.602	A B C	2.602	0	2.602			
Statutory reserve	5.220	B						
By-law reserves	0							
Treasury stock reserve	(59.102)							
Other reserves								
Extraordinary reserve	56.597	A B C	56.597	56.597	0			
Reserve for Art 13, Legislative Decree 124/1993	99	A B C	99	0	99			
Research and investment grants	17.191	A B C	17.191	0	15.964			
Extraordinary VAT concession reserve	517	A B C	517	0	517			
Southern Italy investment fund	3.632							
IAS reserve	86.076	A B C	86.076	86.076				
Profit (loss) for the year	52.945	A B C	52.945	52.945	0			
Total shareholders' equity	273.161		297.347	208.294	87.826			

Legend

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

Notes

- 1 The additional paid-in capital reserve may be distributed when the statutory reserve has reached one fifth of the share capital

**Schedule of remuneration paid to directors,
statutory auditors, general managers and executive officers with strategic responsibilities**

Board of Directors	Description of Office			Remuneration			
	<i>Name and Surname</i>	<i>Position occupied</i>	<i>Period in which the position was held</i>	<i>Expiry of term of office</i>	<i>Emoluments for the office</i>	<i>Non monetary benefits</i>	<i>Bonus and other incentives</i>
Giovanni Recordati	Chairman, CEO, General Manager	2008	Approval 2010 Annual Report	130,000.00 (*)	26,910.00		1,152,001.00 (1)
Alberto Recordati	Deputy Chairman	2008	Approval 2010 Annual Report	80,000.00 (**)			288,821.00 (1)
Donna Romilda Bollati di St. Pierre	Director	From 1.1.2008 until 11.4.2008	Approval 2007 Annual Report	4,150.68			
Mario Garraffo	Director	2008	Approval 2010 annual report	37,232.88			
William Gunnarsson	Director	from 11.4.2008	Approval 2010 annual report	28,931.51			
Federico Nazzari	Director	2008	Approval 2010 annual report	218,532.88 (***)			
Carlo Pedersoli	Director	2008	Approval 2010 annual report	37,232.88			
Andrea Recordati	Director	2008	Approval 2010 annual report	30,000.00			178,047.00 (1)
Marco Vitale (**)	Director	2008	Approval 2010 annual report	44,465.75			100,000.00 (2)
Walter Wenninger	Director	from 11.4.2008	Approval 2010 annual report	36,164.38			

Board of Statutory Auditors	Description of office			Remuneration			
	<i>Name and Surname</i>	<i>Position occupied</i>	<i>Period in which the position was held</i>	<i>Expiry of term of office</i>	<i>Emoluments for the office</i>	<i>Non monetary benefits</i>	<i>Bonus and other incentives</i>
Marco Nava	Chairman Board of Stat. Auditors	from 11.4.2008	Approval 2010 annual report	36,164.38			3,300.00 (3)
Alessandro Manusardi	Chairman Board of Stat. Auditors	from 1.1.2008 until 11.4.2008	Approval 2007 Annual Report	25,868.56			4,950.00 (4)
Achille Severgnini	Statutory Auditor	From 11.4.2008	Approval 2010 annual report	25,315.07			
Oreste Severgnini	Statutory Auditor	From 1.1.2008 until 11.4.2008	Approval 2007 Annual Report	17,579.11			

Marco Rigotti	Statutory Auditor	from 1.4.2008	Approval 2010 annual report	25,315.07			
Emilio Aguzzi de Villeneuve	Statutory Auditor	From 1.1.2008 until 11.4.2008	Approval 2007 Annual Report	17,579.11			

	Description of office			Remuneration			
		<i>Period in which the position was held</i>	<i>Expiry of term of office</i>	<i>Emoluments for the office</i>	<i>Non monetary benefits</i>	<i>Bonus and other incentives</i>	<i>Other remuneration</i>
14 executives officers with strategic responsibilities							2,939,525.00 (1)

LEGEND

- (1) Income from employment contract.
- (2) Advisory services.
- (3) Inclusive of €2,650.00 in fees as a member of the Board of Statutory Auditors of Innova Pharma S.p.A and € 650.00 in fees as a member of the Board of Statutory Auditors of Recofarma S.r.l..
- (4) Inclusive of €4,000.00 in fees as Chairman of the Board of Statutory Auditors of Innova Pharma S.p.A and € 950.00 in fees as Chairman of the Board of Statutory Auditors of Recofarma S.r.l..

- (*) Inclusive of €100,000.00 in remuneration for special assignments.
- (**) Inclusive of €50,000.00 in remuneration for special assignments.
- (***) Inclusive of €181,300.00 in remuneration for special assignments.

**Schedule of shares held by directors,
statutory auditors, general managers and executive officers with strategic responsibilities**

Board of Directors	Recordati S.p.A. type of shares	Number of shares held at 31.12.2007	Number of shares purchased in 2008	Number of shares sold in 2008	Number of shares held at 31.12.2008
Giovanni Recordati	Ordinary	1,100,543	586,822	242,190	1,445,175
Alberto Recordati	Ordinary	240,000	340,000	210,286	369,714
Donna Romilda Bollati di Saint Pierre (3)	Ordinary	6,688,496 (1)			6,688,496 (1)
Mario Garraffo		0	0	0	0
William Gunnarsson		0	0	0	0
Federico Nazzari	Ordinary	15,000	5,000	0	20,000
Carlo Pedersoli		0	0	0	0
Andrea Recordati	Ordinary	332,600 (2)	5,000	0	337,600 (2)
Marco Vitale		0	0	0	0
Walter Wenninger		0	0	0	0

Board of Statutory Auditors	Recordati S.p.A. type of shares	Number of shares held at 31.12.2007	Number of shares purchased in 2008	Number of shares sold in 2008	Number of shares held at 31.12.2008
Alessandro Manusardi (3)		0	0	0	0
Emilio Aguzzi de Villeneuve (3)		0	0	0	0
Oreste Severgnini (3)		0	0	0	0
Marco Nava		0	0	0	0
Marco Rigotti		0	0	0	0
Achille Severgnini		0	0	0	0

- (1) Held indirectly through "Torre S.S.", a company in which he is a Director and shareholder with a 33,1966% ownership interest.
(2) Of which 2,400 held by spouse.
(3) Until 11 April 2008.

	Recordati S.p.A. type of shares	Number of shares held at 31.12.2007	Number of shares purchased in 2008	Number of shares sold in 2008	Number of shares held at 31.12.2008
14 executives officers with strategic responsibilities	Ordinary	459,716	228,153	100,000	587,869

STOCK OPTIONS GRANTED TO DIRECTORS, GENERAL MANAGERS AND EXECUTIVE OFFICERS WITH STRATEGIC RESPONSIBILITIES

		Stock options held at 1.1.2008			Stock options granted in 2008			Stock options exercised in 2008			Stock options expired in 2008	Stock options held at 31.12.2008		
Name and Surname	Position occupied	Number of options	Average strike price	Average validity in days	Number of options	Strike price	Validity in days	Number of options	Average strike price	Average market price at time of exercise	Number of options	Number of options	Average strike price	Average validity in days
Giovanni Recordati	Chairman and CEO	500,000	5.4725	1003	300,000	4.073	1792	50,000	3.575	5.1510	0	750,000	5.0392	1133
Alberto Recordati	Vice Chairman	510,000	4.5716	682	150,000	4.073	1792	240,000	3.6263	4.6504	0	420,000	4.9338	1047
Andrea Recordati	Director	110,000	5.7706	1049	100,000	4.073	1792	5,000	3.6775	5.1510	0	205,000	4.9935	1247
14 executives officers with strategic responsibilities		1,240,000	5.6123	1031	1,055,000	4.073	1792	185,000	3.7436	5.0157	330,000 *	1,780,000	4,8808	1378

* The figure relates to two executives with strategic responsibilities who left the Company during the year. According to the regulations for current stock option plans, options granted but not yet matured at the date when employment ceases lose all validity after that date.

DESCRIPTION OF THE MAIN CHARACTERISTICS OF THE STOCK OPTION PLANS CURRENTLY VALID

2003 – 2007 TOP MANAGEMENT STOCK OPTION PLANS

1. **PARTICIPANTS:** top management.
2. **ADMINISTRATION OF THE PLAN:** the plan is administered by the Board of Directors of the company (“Board”), which is advised by the Remuneration Committee appointed by the Board itself.
3. **PURPOSE:** an incentive to top management for the growth and the development of the Group, by granting them an instrument whereby they become direct owners of the share capital and participate in the profits of the Group.
4. **CONTENTS OF THE PLAN:** the grant of options (“Options”) for the subscription/purchase, decided by the Company, of ordinary shares, either newly issued or held in portfolio, with a nominal value of Euro 0,125 each, (“Shares”).
5. **DURATION OF THE PLAN:** five years. More than one grant of options may be made during each year of the validity of the plan.
6. **STRIKE PRICE:** the price at which shares subject to the options are subscribed or purchased is equal to the product of (i) the “Normal Value” of a share times (ii) the number of options exercised (Strike price”) in accordance with the following points 7 and 8. The “Normal Value” is intended as the arithmetic average of the share prices quoted on the stock market in the period running from the grant date and the same date of the previous calendar month. It remains understood that the Board of Directors has the power to adjust the strike price as just determined, in line with possible amendments to current tax legislation.
7. **VESTING PERIOD AND EXERCISE OF OPTIONS**
 - 7.1 25 % of the options granted to a Participant (“First Tranche”) mature and may be exercised from the date set in the resolution with which the Board of Directors granted the Options (“First Vesting Date”).
 - 7.2 A further 25 % of the Options granted to a Participant (“Second Tranche”) mature and may be exercised from the same day of the calendar year following the First Vesting Date (“Second Vesting Date”).
 - 7.3 A further 25 % of the Options granted to a Participant (“Third Tranche”) mature and may be exercised from the same day of the calendar year following the Second Vesting Date (“Third Vesting Date”).
 - 7.3 A further 25 % of the Options granted to a Participant (“Fourth Tranche”) mature and may be exercised from the same day of the calendar year following the Third Vesting Date (“Fourth Vesting Date”).
 - 7.5 A Participant has the right to exercise each of the Tranches mentioned in the preceding sub sections of this point, once the respective Vesting Date has been reached also together with other tranches which have already vested on that date and have not yet been exercised, within one of the periods between (i) 9th and 24th May or (ii) 13th and 28th November (“Exercise Periods”) subsequent to that date or to any subsequent Vesting Dates relating to the same grant of Options.
 - 7.6 Tranches which have vested and have not yet been exercised subsequent to the Fourth Vesting Date may be exercised before and not later than the last day of the current Exercise Period or later than the fifth anniversary of the Grant date (“Expiry Date”).
 - 7.7 Independently of when they are exercised, Options may only be exercised, in relation to each Tranche, for the whole of the Options of which the Tranche is composed. In the case of failure to exercise a Tranche in the proper manner, inclusive of payment of the entire Strike price for it, the exercise shall be considered as not having taken place with regard to the whole of that same Tranche.

8. DIVIDEND ENTITLEMENT OF THE SHARES

The dividend entitlement for the Shares subscribed/purchased by a Participant following the exercise of one or more Tranches commences from the start of the year of exercise in which the subscription/purchase took place, while it is understood that that dividend entitlement extends to include all the prior year profit on which a profit has not yet been declared and distributed on the date of the subscription/purchase of the Shares.

Shares are made available to a Participant, just as quickly as the administrative formalities will allow, in compliance with the instructions given by the Beneficiary when communicating the decision to exercise the Options.

2006 – 2009 STOCK OPTION PLAN

1. **PARTICIPANTS:** top management and middle management
2. **ADMINISTRATION OF THE PLAN:** the plan is administered by the Board of Directors of the company (“Board”), which is advised by the Remuneration Committee appointed by the Board itself.
3. **PURPOSE:** an incentive to top management and middle management for the growth and the development of the Group, by granting them an instrument whereby they become direct owners of the share capital and participate in the profits of the Group.
4. **CONTENTS OF THE PLAN:** the grant of options (“Options”) for the subscription/purchase, decided by the Company, of ordinary shares, either newly issued or held in portfolio, with a nominal value of Euro 0,125 each, (“Shares”).
5. **DURATION OF THE PLAN:** four years. More than one grant of options may be made during each year of the validity of the plan.
6. **STRIKE PRICE:** the price at which shares subject to the options are subscribed or purchased is equal to the product of (i) the “Normal Value” of a share times (ii) the number of options exercised (Strike price”) in accordance with the following points 7 and 8. The “Normal Value” is intended as the arithmetic average of the share prices quoted on the stock market in the period running from the grant date and the same date of the previous calendar month.
It remains understood that the Board of Directors has the power to adjust the strike price as just determined, in line with possible amendments to current tax legislation.
7. **VESTING OF OPTIONS**
 - 7.1 25 % of the options granted to a Participant (“First Tranche”) mature and may be exercised from the date set in the resolution with which the Board of Directors granted the Options (“First Vesting Date”).
 - 7.2 A further 25 % of the Options granted to a Participant (“Second Tranche”) mature and may be exercised from the same day of the calendar year following the First Vesting Date (“Second Vesting Date”).
 - 7.3 A further 25 % of the Options granted to a Participant (“Third Tranche”) mature and may be exercised from the same day of the calendar year following the Second Vesting Date (“Third Vesting Date”).
 - 7.3 The remaining 25 % of the Options granted to a Participant (“Fourth Tranche”) mature and may be exercised from the same day of the calendar year following the Third Vesting Date (“Fourth Vesting Date”).
 - 7.5 A Participant has the right to exercise each of the Tranches mentioned in the preceding sub sections of this point, once the respective Vesting Date has been reached also together with other tranches which have already vested on that date and have not yet been exercised, and in any event within one of the periods between (i) 9th and 24th May or (ii) 13th and 28th November of each year (“Exercise Periods”) subsequent to that date or to any subsequent vesting dates relating to the same grant of Options.
 - 7.6 Tranches which have vested and have not yet been exercised subsequent to the Fourth Vesting Date may be exercised before and not later than the last day of the current Exercise Period or later than the fifth anniversary of the Grant date (“Expiry Date”).
 - 7.7 Independently of when they are exercised, Options may only be exercised, in relation to each Tranche, for the whole of the Options of which the Tranche is composed. In the case of failure to exercise a Tranche in the proper manner, inclusive of payment of the entire Strike price for it, the exercise shall be considered as not having taken place with regard to the whole of that same Tranche.

8. CONDITION FOR THE VESTING AND EXERCISE OF OPTIONS

The vesting of individual tranches of the Options referred to in the preceding point 7, sub sections 1, 2, 3 and 4 and therefore the right to exercise the Options relating to those tranches is subject to the condition that the “net income” resulting from the consolidated financial statements of the Group for each financial year prior to the vesting date for individual tranches of the Options indicated in the preceding point 7 is not less than an amount that the Board shall set when Options are granted, with reference to the result in the medium term business plan forecast for each of the years considered, (“Objective”).

When approving annual budgets the Board may adjust the Objective to comply with any amendments that may be made to company business plans.

Options may only be granted by the Board in the first half of the financial year and the First Vesting Date may only be set for subsequent financial years to that in which the Options are granted.

9. DIVIDEND ENTITLEMENT OF THE SHARES

The dividend entitlement for the Shares subscribed/purchased by a Participant following the exercise of one or more Tranches commences from the start of the year of exercise in which the subscription/purchase took place, while it is understood that that dividend entitlement extends to include all the prior year profit on which a profit has not yet been declared and distributed on the date of the subscription/purchase of the Shares.

Shares are made available to a Beneficiary, just as quickly as the administrative formalities will allow, in compliance with the instructions given by the Participant when communicating the decision to exercise the Options.

Disclosure of auditors' fees for accounting audits and other services

€(thousands)

Type of service	Provider of the service	Recipient	Fees
Accounting audit	Auditor of Parent Company	Parent company	111.400
Accounting audit	Auditor of Parent company	Subsidiaries	42.301
Accounting audit	Network of auditor of Parent company	Subsidiaries	343.980
Due diligence	Network of auditor of Parent company	Subsidiaries	108.000

Attestation in respect of the Financial Statements under Article 154-bis of Legislative Decree 58/98

- The undersigned, Giovanni Recordati, in his capacity as the Chief Executive Officer of the Company, and Fritz Squindo, as the Manager responsible for the preparation of the financial statements of Recordati S.p.A., pursuant to the provisions of Article 154-*bis*, clauses 3 and 4, of Legislative Decree no. 58 of 1998, hereby attest
 - the adequacy with respect to the Company structure,
 - and the effective application,of the administrative and accounting procedures applied in the preparation of the Company's consolidated financial statements at 31 December 2008.
- The undersigned moreover attest that the consolidated financial statements at 31 December 2008:
 - have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19 July 2002, as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;
 - correspond to the amounts shown in the Company's accounts, books and records; and
 - provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries as at 31 December 2008 and for the year then ended.
- the report on operations includes a reliable operating and financial review of the Company as well as a description of the main risks and uncertainties to which they are exposed.

Milan, 3 March 2009

Signed by
Giovanni Recordati
Chief Executive Officer

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