

**Report of the Board of Statutory Auditors to the General Meeting of the  
Shareholders  
of Recordati S.p.A. pursuant to Art. 153 of Legislative Decree No. 58/1998**

To Our Shareholders,

With this report, prepared in accordance with Art 153 of Legislative Decree No. 58/1998 (“Consolidated Finance Act”) and based on the Consob (stock exchange authority) recommendations that apply, the Board of Statutory Auditors of Recordati S.P.A. (the “Company”) reports to you on the supervisory activity it has performed and on the relative results.

**1. Supervision performed and information received.**

During the course of the year ended 31<sup>st</sup> December 2009, the Board of Statutory Auditors performed its supervisory duties as required by law and also on the basis of Consob recommendations concerning corporate controls and the standards of conduct recommended by the National Councils of Auditors and Accountants.

To achieve this the board performed the following during the year:

- held eight meetings of the Board of Statutory Auditors always attended by all members in office with one exception;
- participated in eight meetings of the Board of Directors;
- participated in four meetings of Internal Audit Committee;
- participated in the Shareholders’ Meeting;
- maintained constant contacts with the external auditors and held regular meetings with them in order to allow prompt exchange of data and information relating to the performance of their respective duties;
- regularly met with the head of the internal audit function who also filled the role of head of the internal control system;
- acquired documents and information considered significant by the executive directors and other corporate functions;
- exchanged information with the boards of statutory auditors of the subsidiaries concerning the systems of administration and control and the general performance of corporate activities.

The members of this Board of Statutory Auditors normally officially attended the meetings of the Internal Audit Committee.

During meetings of the Board of Directors, the statutory auditors were informed by the directors of the activities performed and the most significant operations with regard to profits, finance and capital performed by the company.

No irregularities emerged during the course of meetings and contacts with the external auditors.

Moreover, also in the meetings held with the external auditors, the statutory auditors viewed the work plan adopted, received information on the accounting policies pursued and on the accounting treatment of the most significant transactions that were performed during the financial year in question.

In this respect the statutory auditors also received detailed information on impairment tests performed by the Company which confirmed the values for goodwill and some non current financial assets for significant amounts recognised in the balance sheet. The relative details have been provided by the directors in the financial statements in compliance with international accounting standards and Consob recommendations.

During the course of the statutory auditors' activities:

- no reports were received pursuant to Art. 2408 of the Italian Civil Code;
- no official complaints were received.

The Company is the parent of a group of companies over which it exercises management and co-ordination and for which it prepares consolidated financial statements. The Italian subsidiaries have complied with disclosure requirements concerning management and co-ordination.

The Company is officially controlled by Fimei S.P.A. The parent does not exercise management and co-ordination activities over the Company because, as illustrated by the directors in the Corporate Governance and Ownership Structure Report and in the Review of Operations in the separate annual report, the parent "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."

## **2. Transactions and events with a significant impact on profitability, financial position and assets and liabilities**

In relation to transactions with a significant impact on profitability, financial position and assets and liabilities performed by the Company and the Group during the financial year and more generally to the more significant events, the Board of Statutory Auditors reports the following:

- in January 2009, the Czech company Herbacos-Bofarma, which operates on the Czech and Slovakian markets was acquired. It represents the first direct investment in Eastern European markets and sits alongside the French investments FIC and FIC Médical which operate on the Russian market and in other CIS (Commonwealth of Independent States) countries;
- activity continued during the whole of 2009 to consolidate the product portfolio with the acquisition of licenses and the development of new pharmaceuticals, partly to offset the impact of the expiry (January 2010) of the product patent to protect the active ingredient lercanidipine in the major European countries, which has made it possible for generic versions of the molecule produced by other manufacturers to be marketed.

Greater details are furnished in the Review of Operations which gives a detailed description of the most significant events.

#### Opinion of the Board of Statutory Auditors

Generally the Board of Statutory Auditors considers that the law, the by-laws and the principles of proper management have been complied with.

More specifically, the transactions and events just mentioned are adequately described in the Review of Operations and in the Notes to the Financial Statements, which may be consulted for further details on these matters.

The statutory auditors have neither learned nor received news from the external auditors or the chief of the internal control system of any “atypical and/or unusual transactions” as defined by the Consob communication of the 6<sup>th</sup> April 2001, performed by third parties, or intragroup or related parties.

The directors have given an account in the Review of Operations and in the Notes to the Consolidated Financial Statements and the Separate Financial Statements of transactions of an ordinary nature performed with related parties, giving details of the nature and magnitude of those transactions. The information given is adequate also with regard to the dimension of the transactions, the dimension of the Group and the Company. The transactions in question consisted almost exclusively of intragroup transactions of a commercial or financial nature, performed under market conditions.

On its part the Board of Statutory Auditors has found that the provisions of the law and the by-laws have been complied with and that the transactions performed by directors were not manifestly imprudent or risky, in potential conflict-of-interest, or in contrast with resolutions passed by Shareholders’ Meetings or such as to compromise the integrity of the assets of the Company and that to the best of the knowledge of the statutory auditors, they were based on rational economic criteria, while, however, that does not constitute a judgement of the merits of the management decisions of the directors.

### **3. Performance during the year and the operating and financial position.**

The year 2009 ended with a consolidated net profit of €110.560 thousand compared to €100.429 thousand to 31.12.2008.

The consolidated net financial position as at 31.12.2009 was (€19.743 thousand) compared to (€81.008 thousand) as at 31.12.2008, an improvement of €61.265 thousand.

Consolidated shareholders’ equity as at 31.12.2009 was €508.960 thousand compared to €445.742 thousand at 31.12.2008, an increase of €63.231 thousand.

On the basis of the information just reported and in consideration of the more general situation of the Company and the Group and the directors’ forecasts for 2010 and the business plan for subsequent years in particular, the statutory

auditors have found no evidence of events or circumstances that might produce significant doubts over the assumption that the Company is a going concern.

#### **4. The organisational structure, the administrative and accounting system and the internal control system.**

The statutory auditors supervised to ensure that the organisational structure was adequate in relation to the size of the company, its structure and the objectives pursued and also that it was appropriate to allow compliance with regulations and legislation, including that applicable to the Company which concerns its specific sector.

In particular, the statutory auditors, with the assistance of the function responsible for monitoring the internal control system, verified the existence of systems, roles and procedures consistent with the achievement of the objectives just mentioned and also the presence of a system of empowerment and authorisations consistent with the responsibilities assigned.

More specifically, the organisational model adopted by the Company was found to comply with the provisions of Legislative Decree No. 231/2001 and it is subject to periodic update. This model, which concerns the activities of the Company as a whole from a procedural, organisational and control viewpoint, appears to be particularly incisive and compliance is ensured by the supervision of a specially appointed and properly functioning body, consisting of an internal officer (the chief of the internal audit function) and by two external and independent experts.

Partly on the suggestion of the Board of Statutory Auditors, the Company is performing appropriate assessments concerning the adoption of supervisory and organisational measures by strategic subsidiaries, consistent with those adopted by the Company in relation to Legislative Decree No. 231/2001.

The Company has also adopted an ethics code. The Company is committed on issues of health, safety and the environment, which is adequately reported in the Review of Operations. The statutory auditors have found that the constant attention is given to the matter, which is regularly placed on the agenda of the meetings of those bodies responsible.

The internal audit function is actively committed to identifying problems in the internal control system. The chief of that function, who has no links with operational functions, reports and is answerable to the Chairman and Chief Executive Officer and he also frequently reports to the internal audit committee, to which he presents the annual programme of work and periodically reports on the activities performed. The statutory auditors maintain a constant dialogue with that function, verifying the effectiveness of the work done.

In compliance with Art 123-*bis* of the Consolidated Finance Act, the corporate governance and ownership structure report provides detailed information on the characteristics of the existing risk management and internal control systems in relation to financial reporting processes.

The principal risk factors to which the Group is exposed are described in the Review of Operations:

- risks attaching to the external context: these are risks linked to changes in legislation and regulations in the pharmaceutical sector, characterised by a high level of local, national and international regulation, which affects activities at all levels, including those linked to expansion in emerging countries and to the pressure of competition;
- strategic and operational risks: these are risks attaching to the internationalisation of the Group, risks attaching to expiring patents, to investments in research & development, risks connected with the launch of new products, risks relating to pharmacovigilance and those relating to production processes;
- financial risks: these are credit risk, interest rate risk, currency and liquidity risk;
- legal and compliance risks: these are risks attaching to product liability and compliance and those relating to court proceedings.

All risks and the measures taken by the Company to mitigate them are fully described in the Review of Operations.

As concerns the administrative area, the Company complies with the measures introduced by Law No. 262/2005 and it has appointed a manager to prepare corporate accounting documents ("Financial Reporting Officer"), based on a proposal made by the Internal Control Committee and approved by the Board of Statutory Auditors. The Board of Directors has adopted operational guidelines for the Financial Reporting Officer which, amongst other things, provide: i) that the power to remove him lies solely with the Board of Directors, and this can be performed for just cause stated in the relative resolution; iii) for direct and specific reporting (at least six monthly) by the Financial Reporting Officer to the Board of Directors on, amongst other things, any difficulties that have emerged in the period and any inappropriateness of the means available to him; iv) that in cases of necessity and urgency, the Financial Reporting Officer reports at any time to the Board of Directors on any event considered important for the performance of his activities; v) for periodic meetings between the Financial Reporting Officer and the Internal Audit Committee; vi) for the co-operation of the internal audit function vii) for direct reporting by the Financial Reporting Officer to the Supervisory Committee pursuant to Legislative Decree No. 231/2001.

More specifically the reporting system was found to be complete, integrated and consistent at Group level, both in terms of information and procedures and instructions. Also it was found that procedures were in place (which were implemented) for the Financial Reporting Officer to send guidelines to subsidiaries included in the consolidation on bookkeeping, the preparation of annual financial reports and any interim financial reports and also the Financial Reporting Officer has the power to request information, copies of documents and to perform audits to verify proper compliance by subsidiaries with the contents of the guidelines and operational instructions they have received.

A group accounting manual has also been adopted together with administrative and accounting procedures and protocols for closing accounts at the end of accounting periods and for preparing financial statements and reporting packages by subsidiaries.

It follows that the Company maintains strict control over reporting by subsidiaries in order to fulfil periodic reporting obligations. More specifically, periodic accounting and financial data is sent by subsidiaries which is accompanied by a specific attestation by the CFO.

The Financial Reporting Officer performs an assessment of the administrative and accounting internal control system, by making use of testing activity performed independently by the internal audit function.

All group companies are subject to accounting audit (to different degrees according to the specifics of the individual company) by external auditors belonging to the Deloitte & Touche network or by major international auditors, which for the purposes of the consolidated financial statements, co-ordinate with Deloitte & Touche.

Furthermore, with reference to continuous reporting obligations pursuant to Art 114, paragraph 1 of the Consolidated Finance Act, the Company has given adequate instructions to subsidiaries to comply with reporting obligations pursuant to Art. 114, paragraph 2 of the Consolidated Finance Act concerning internal regulations on insider information.

From the viewpoint of the compliance with laws and regulations, the statutory auditors have verified that the provisions contained in articles 36 *et seq* of the Consob regulations on markets do not apply to the Company.

In particular, as already mentioned, the Company is not subject to management and co-ordination by its parent. Furthermore, the subsidiaries formed and governed by the law of states not belonging to the European Union, are not of significant importance with regard to the applicable regulations. Moreover, in consideration of the large number of subsidiaries and investments held, the Company takes care to monitor changes that may occur and the statutory auditors also monitor these matters.

#### External auditors

From the information received, it was found that during the year the Company and other group member companies appointed the external auditors Deloitte & Touche or others linked to its network to provide services other than the official audit of the Company, details of which are given below (amounts in thousands of euro, net of expenses):

Accounting audits of subsidiaries	406.546
Due diligence activities performed by members of its network of auditors and certifications	180.005
Certification activities	13.000

Total	<b>599.551</b>
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We report this information in accordance with the law, the information having been reported by the Company in an attachment to its separate annual financial statements pursuant to Art. 149-*duodecies* of the Issuers' Regulations.

The statutory auditors report that no irregularities were found with regard to the independence of the external auditors.

## **5. Corporate governance**

Detailed information on the procedures by which the principles of corporate governance approved by Borsa Italiana (contained in the relative Corporate Governance Code, hereinafter the "Code") are implemented has been furnished by directors in the Annual Corporate Governance and Ownership Structure Report attached to the financial reports.

This report was found to comply with Art. 123-*bis* of the Consolidated Finance Act and with regard to the relative information mentioned in paragraph 4 of that provision, the external auditors expressed an opinion of compliance pursuant to Art. 156, paragraph 4-*bis*, letter *d*) of the Consolidated Finance Act

The statutory auditors make the following observations with regard to the report just mentioned.

As concerns the role of the Board of Directors, it is characterised by the fullness of the powers assigned to the Chairman, who also holds the office of executive director. In this respect the Board has reserved exclusive authority not only over matters reserved to it by law or by the by-laws, but also over specific matters and transactions of significant strategic, operating, capital and financial importance, for which specific criteria have been adopted to identify them.

In this respect, the statutory auditors confirm general compliance, during the year, with the principles and criteria laid down in the Code.

As concerns the composition of the Board of Directors, the majority of the directors are independent (five out of nine, the remaining four being executive officers). In the Annual Report on Corporate Governance, the Board has correctly reported the reasons which led it, in assessing the requirements for independence of three directors, not to apply some criteria (not compulsory) dictated by the Code.

An Internal Audit Committee and a Remuneration Committee have also been created to support the Board of Directors.

As concerns the composition of the Board of Statutory Auditors, it has verified, with a positive outcome, compliance by its members with the criteria of independence dictated by the Code.

## **6. Concluding considerations concerning the supervisory activities performed and the financial statements**

In their report issued pursuant to Art. 156 of the Consolidated Finance Act, the external auditors expressed a positive opinion on the separate and consolidated financial statements for 2009, having found no irregularities. Attestations by the Financial Reporting Officer and the CEO pursuant to Art. 154-*bis* of the Consolidated Finance Act are attached to the separate and consolidated financial statements,

The proposal of the directors on the declaration of a dividend is in line, in relation to the net profit, with that concerning the net profit for 2008 and it involved the distribution of a dividend of €0,275 per share (€0,250 per share in 2008).

On the basis of its activities performed during the year, the Board of Statutory Auditors has found no impediment to approval of the financial statements as at 31<sup>st</sup> December 2009 and of the relative proposals formulated by the Board of Directors.

Milano, 26<sup>th</sup> March 2010

The Board of Statutory Auditors of

Recordati S.p.A.

Marco Nava

Marco Rigotti

Achille Severgnini