EURAND N.V.
AMSTERDAM, THE NETHERLANDS
Statutory Annual Report 2007

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ERNST & YOUNG Accountants
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CONTENTS

MANAGING DIRECTOR'S REPORT

Review of Financial Results under Dutch GAAP for the year

Our net sales were €84.8 million in the year ended December 31, 2007, compared to €82.8 million for the year ended December 31, 2006. This represented a 2% increase compared to the revenues gained in the year ended December 31, 2006. The increase included revenue of €238,000 from SourceCF, which was acquired on November 30, 2007.
Product sales €71.1 million in the year ended December 31, 2007 and up 2% from the year ended December 31, 2006. The increase was due to growth from a number of products.
Royalties were €4.4 million in the year ended December 31, 2007 and up 12% from the year ended December 31, 2006. Royalties included SourceCF which had approximately €166 thousand of royalty income in December 2007.
Development fees, which were €9.2 million in the year ended December 31, 2006 increased to €9.4 million.

For the year ended December 31, 2007, cost of goods sold was €49.3 million or 69% of product sales. This is in line with 68% of product sales in the year ended December 31, 2006. Cost of goods sold included €636,000 of costs related to the initial lots of our EUR-1008 (Zentase®) product candidate which are not expected to be sold until commercial launch. In accordance with our accounting policy, EUR-1008 costs were expensed because the process for its regulatory approval has not progressed far enough to determine with sufficient certainty that the costs will be recovered.

Selling expenses of €7.8 million for the year ended December 31, 2007 were higher than for the year ended December 31, 2006 of €3.8 million. The increase was primarily due to the build out of our EUR-1008 marketing and sales organization including new hires and pre-launch initiatives.

General and administrative expenses totaled €33.5 million for the year ended December 31, 2007, compared to €30.2 million for the year ended December 31, 2006, representing an increase of €3.3 million. This increase is primarily due to the higher legal costs, primarily related to ongoing litigation between the company and UCB and costs associated with being a public company, including legal advisory and costs related to the Sarbanes-Oxley Act. As a percentage of revenues, general and administrative expenses were 39% in the year ended December 31, 2007 compared to 36% in the year ended December 31, 2006.
General and administrative expenses included research and development expenses of €17.3 million for the year ended December 31, 2007 compared to €16.6 million for the year ended December 31, 2006. As a percentage of revenues, research and development expenses amounted to 20% both for the years ended December 31, 2007 and 2006. The increase in research and development was primarily due to other research and development expenses not attributable to development fees.

For the year ended December 31, 2007, we recorded a charge for amortization of goodwill of €2.2 million, or 3% of revenues, which was by €0.1 lower than for the year ended December 31, 2006.
As a result of the items above, we recorded an operating loss of €5.7 million for the year ended December 31, 2007. For the year ended December 31, 2006, we recorded an operating income of €1.2 million.
We incurred a net financial expense of €1.4 million in the year ended December 31, 2007, compared to €7.2 million in the year ended December 31, 2006, representing a decrease of €5.8 million. This decrease resulted primarily from:

- reduced interest on long term notes payable to shareholders after €23.0 million of these notes were converted to equity on November 30, 2006;
- further reduced interest expenses, after all the remaining notes payable to shareholders and almost all bank debt was repaid on May 30, 2007, using proceeds from our IPO; and
- repayment of bank debt which allowed us to terminate an interest rate swap, realizing a gain because interest rates had risen since the inception of the swap.

We recorded an income tax charge in 2007 of €1.1 million on a pre-tax loss of €7.3 million. In 2006 an income tax charge of €1.6 million was recorded on a pre-tax loss of €5.7 million.

Reconciliation of Differences in Net Assets and Net Income under U.S. GAAP and Dutch GAAP

This statutory annual report complies with the laws of the Netherlands, where our holding company Eurand N.V. is incorporated. Our annual report and complies with the disclosure requirements of the Securities and Exchange Commission of the United States and follows the format specified for form 20-F. Our shares are publically trade on the NASDAQ stock market.
In general the requirements of the two jurisdictions are similar, however financial statements complying with Generally Accepted Accounting Principals in the Netherlands (Dutch GAAP) differ from the those under U.S. GAAP.
The reconciliation of net assets as of December 31, 2007 and 2006, and net income for the year ended December 31, 2007 and 2006, as reported in accordance with U.S. GAAP and Dutch GAAP is as follows:

	Net assets as of December 31, 2007 €000	Net assets as of December 31, 2006 €000	Net income for the year ended December 31, 2007 €000	Net income for the year ended December 31, 2006 €000
U.S. GAAP	81,067	(37,111)	(6,674)	(4,997)
Preference shares Series A and C[(1)]	-	49,844	-	-
Goodwill[(2)]	(13,052)	(11,164)	(2,203)	(2,265)
Employees severance indemnities[(3)]	487	-	487	-
Dutch GAAP	68,502	1,569	(8,390)	(7,262)

(1) Under U.S. GAAP Series A and C preference shares amounting to €49,844 were not included in shareholders' equity as of December 31, 2006 as they were convertible at the behest of the shareholders. Whereas under Dutch GAAP these shares were presented as a part of the shareholders equity.

(2) Under U.S. GAAP goodwill is not amortized whereas under Dutch GAAP goodwill is being amortized. The accumulated amortization of goodwill under Dutch GAAP amounted to €13,052 and €11,164 as of December 31, 2007 and 2006, respectively. The goodwill amortization expense amounted to €2,203 and €2,265 for the year ended December 31, 2007 and 2006, respectively.

(3) The Company is liable for certain employee severance indemnities for its Italian subsidiaries. Under U.S. GAAP these severance indemnity liabilities are calculated on the amount due at the balance sheet date according to the applicable labour laws. Under Dutch GAAP this liability is determined by qualified actuary using the projected unit credit method. As of December 31, 2007 the liability determined under U.S. GAAP was by €487 higher than the respective liability recorded under Dutch GAAP.

Strategy and Objectives

Our objective is to be a leader in the development, manufacturing and commercialization of innovative specialty pharmaceutical and biopharmaceutical products. The primary components of our strategy include the following:

- Establish a U.S. specialty sales and marketing organization for EUR-1008. We are establishing a specialty sales and marketing organization to market our lead product candidate, EUR-1008, in the United States. This sales force will target the approximately 120 Cystic Fibrosis Treatment Centers and selected gastroenterologists

and pulmonologists. We believe this focused sales force will be able to effectively market EUR-1008 and our other CF products to this group of prescribers. As our product pipeline advances to commercialization, we expect to build and leverage our sales infrastructure with these prescribers and prescribers in other therapeutics areas.

- Continue to build and develop our product pipeline. Through the application of our proprietary technologies, development expertise, and research infrastructure, we intend to continue to develop and expand our product pipeline. We expect to continue to identify many product development opportunities since we believe a large number of marketed and development-stage pharmaceuticals have less than optimal safety and efficacy profiles. For example, through the application of our formulation technologies and development and manufacturing expertise, we believe EUR-1008 will overcome a number of the challenges facing current EPI therapeutics and satisfy the requirements of the FDA for such products.

- Enter into additional collaboration partnerships. We intend to continue to seek collaboration partnerships with other pharmaceutical and biopharmaceutical companies. These relationships provide us with a diversified revenue stream and facilitate expansion of our product pipeline and potential for future revenue growth. For example, we currently are collaborating with GSK to develop and manufacture formulations of some of their products. We believe we are an attractive collaborator for larger pharmaceutical companies due to our broad portfolio of proprietary technologies, our development track record and our multinational infrastructure and manufacturing capabilities.

- Acquire additional businesses, products and technologies. In the past, we have been successful in identifying, acquiring and integrating businesses and technologies based upon our regulatory, manufacturing and development expertise. Examples of our past successes include: the recent acquisition of the SourceCF family of companies in 2007; the acquisition of certain assets from Polytech, a drug formulation company specializing in polymer-based drug conjugation, in 2002; the acquisition of Pharmatec in 2000; and, the execution of an agreement with Kyowa Hakko under which we have a worldwide license to patents related to AdvaTab® ODT technology. We intend to continue pursuing assets that would further our research and development capabilities, expand our product pipeline, and accelerate the expansion of our specialty sales and marketing organization.

Activities in the Field of Research and Development

Our lead product candidate, EUR-1008 (Zentase®), is a porcine-derived proprietary enzyme replacement product developed for the treatment of EPI. We evaluated EUR-1008 in two Phase III trials in the United States to support the approval of the product for the treatment of EPI in the United States. EUR-1008 received a fast track designation from the FDA in January 2007, we completed the rolling submission of our NDA for EUR-1008 on December 14, 2007 and the NDA filing was accepted and granted priority review as of February 15, 2008. If approved by the FDA, we expect to launch EUR-1008 in 2008.

We are also developing a pipeline of novel products both for our collaboration partners and for our proprietary portfolio. Currently, the most advanced of our co-development products include:

- EUR-1048, a tastemasked orally disintegrating tablet developed using our AdvaTab® and Microcaps® technologies, which was the subject of an NDA filing by GlaxoSmithKline in December 2007 and is anticipated to launch in late 2008; and
- EUR-1000, a generic to Inderal LA, which is a sustained release formulation of propranolol for the treatment of hypertension and migraines, developed with Reliant Pharmaceuticals, but acquired by GSK in December 2007. The ANDA for EUR-1000 was filed with the FDA in December 2006.

The most advanced of our proprietary product candidates is EUR-1025, a once-per-day oral formulation of ondansetron, an anti-emetic currently prescribed to prevent nausea and vomiting in cancer patients undergoing chemotherapy or radiotherapy.

We also have several other co-development and proprietary products that are in various earlier stages of research and development.

Directors

Our current directors are:

	Age	Positions	Expiration of Term of Office	Gender	Nationality
Gearóid M. Faherty	48	Chief Executive Officer, Executive Director	2011 Annual General Meeting	Male	Irish
Rolf A. Classon[(1)(2)]	62	Non-Executive Director	2010 Annual General Meeting	Male	Swedish
William J. Jenkins[(1)(3)]	60	Non-Executive Director	2011 Annual General Meeting	Male	British
Nicholas J. Lowcock[(2)(3)]	44	Non-Executive Director	2011 Annual General Meeting	Male	British
Angelo C. Malahias[(1)(2)]	46	Non-Executive Director	2010 Annual General Meeting	Male	U.S.

(1) Member of the audit committee.
(2) Member of the compensation committee.
(3) Member of the nominating and corporate governance committee.

No director was frequently absent from meetings of the board of directors during 2007.

Certain biographical information about each of these individuals is set forth below.

Gearóid M. Faherty has been our Chief Executive Officer since April 1999, and he directed the Eurand business while it was owned by American Home Products Corporation, now Wyeth, since 1994. Previously, Mr. Faherty was the General Manager of the American Home Products Corporation subsidiary, Fort Dodge Animal Health, and has held positions at subsidiaries of Sterling Drug and Pfizer. Mr. Faherty completed his bachelor of science degree at University College Galway, Ireland, and has a masters degree in chemical engineering and biotechnology from the National University of Ireland.

Rolf A. Classon has been a non-executive director since August 2007. Mr. Classon served as Interim President and Chief Executive Officer of Hillenbrand Industries, a US publicly traded holding company with healthcare operations, from May 2005 until March 2006, when he was appointed non-executive chairman of the board of directors. From November 2002 until his retirement in July 2004, he was Chairman of the Executive Committee of Bayer HealthCare. Previously, he had been President of Bayer's Diagnostics Division from 1995, having joined the division in 1991 as Executive Vice President, Worldwide Sales and Service. Prior to joining Bayer, Mr. Classon had a long career at Pharmacia, most recently acting as President and Chief Operating officer of Pharmacia Biosystems AB from 1990 to 1991. Previously, he had been President of Pharmacia Development Company, Inc. Prior to relocating to the USA in 1984, he had served as President of the Hospital Products Division of Pharmacia AB. He began his career as Director, Organisation Development of Pharmacia in 1969, assuming increasing responsibility before moving into the area of management consulting from 1974 to 1978. He is also currently a member of the board of directors of PharmaNet Development Group, Inc., Hill-Rom Corporation, Millipore Corporation, Auxilium Pharmaceuticals, and Enzon Pharmaceuticals.

William J. Jenkins has been a non-executive director since July 2000. Until March 1999, Dr. Jenkins was the Head of Clinical Development and Regulatory Affairs Worldwide and a member of the Executive Committee at Novartis Pharma AG in Switzerland. Dr. Jenkins is a consultant to the pharmaceutical industry and to private equity and venture capital firms and a non-executive director of BTG plc, Monogram Biosciences, Inc. and Evotec, AG and a member of the Scientific Advisory Boards of BBBiotech Ventures II and Nicholas Piramal India Ltd. Dr. Jenkins holds a B.A., M.D., and other advanced degrees from Cambridge University in England, as well as advanced degrees from the Royal College of Physicians, United Kingdom and from London University.

Nicholas J. Lowcock has been a non-executive director since March 1999. Mr. Lowcock, currently senior advisor to Warburg Pincus International LLC, was a managing director at Warburg Pincus from January 2000 until December 2007, where he was responsible for the firm's European healthcare investment activities. Prior to joining Warburg Pincus, Mr. Lowcock was a consultant at the Boston Consulting Group. Mr. Lowcock is a director of a number of private companies. Mr. Lowcock received a B.A. from Oxford University and an M.B.A. from The Wharton School at the University of Pennsylvania.

Angelo C. Malahias has been a non-executive director since August 2007. Mr. Malahias served as President of Andrx Corporation from February 2004 until November 2006 when Andrx Corporation was acquired by Watson Pharmaceuticals, Inc. Prior to his appointment as President, he also served as Chief Financial Officer of Andrx Corporation from January 1996 and was part of the executive team that took Andrx public in June 1996. In 2005, Mr. Malahias re-assumed the role of CFO ad interim in addition to his responsibilities as President through the close of the acquisition process with Watson. Previously, Mr. Malahias served as Vice President and CFO of Circa Pharmaceuticals, Inc. from January 1995 to January 1996 and Corporate Controller from July 1994 to January 1995. Mr. Malahias graduated from NYU-Stern with a BS in Accounting & Economics in 1983 and received his New York State CPA designation in 1985.

Executive Director's Assessment of Internal Controls

The executive director (who is the sole managing director) has evaluated the effectiveness of the Company's disclosure controls and procedures over financial reporting. Effectiveness was assessed based on the number of control deficiencies reported by operating units during operation, and the performance of high level review procedures for financial reporting (including those related to the board and audit committee). Based on this evaluation, the executive director believes the financial statements for 2007 are free from material misstatement.

The Company is well advanced in preparations to document its internal control procedures and prepare for the audit of its internal controls by the external auditor during 2008 as required by the Sarbanes Oxley Act of the United States. There have been no indications that the system of internal controls will not work effectively during 2008.

Outlook

Although we believe these factors to be relevant to your understanding of our companies outlook and the risks to our business (including sales and profitability) it does not constitute and exhaustive list of factors affecting the Company's outlook. To understand more about the business and its risks, investors can seek information elsewhere including the shareholder information provided through the Company website and filings with regulatory agencies.

- Personnel

During the year 2007 the Company has not made significant changes to its number of personnel.

- Financing

The Company's financial requirements are considered to be adequate.

- Events affecting sales and profitability

Our business, including its sales and profitability is primarily affected by the following:

- the expected timing, progress or success of our preclinical and clinical development programs;
- the timing, costs and other limitations involved in obtaining regulatory approval for any of our product candidates;
- our ability to market, commercialize and achieve market acceptance for any of the product candidates that we are developing or may develop in the future, including the establishment or acquisition of specialty sales, marketing and distribution capabilities in the United States to commercialize EUR-1008 (also known as Zentase®), if approved;
- delays in obtaining, or a failure to obtain and maintain, regulatory approval for our product candidates, including our lead product candidate, EUR-1008 (also known as Zentase®);
- the possibility the FDA may continue to extend the deadline for seeking or receiving a new drug application, or NDA, and/or not withdraw existing pancreatic enzyme products, or PEPs, from the U.S. market that do not receive approval for NDAs by the applicable deadline;
- our ability to continue to successfully manufacture our existing products;
- the potential advantages of our products or product candidates over other existing or potential products;
- our ability to enter into any new co-development or licensing agreements or to maintain any existing co-development or licensing agreements with respect to our product candidates and products;
- our ability to effectively maintain existing licensing relationships and establish new licensing relationships;

- the expense, time and uncertainty involved in the development of our product candidates, some or all of which may never reach the regulatory approval stage;
- our reliance on collaboration partners and licensees, whose actions we cannot control, to obtain and maintain regulatory approval for our products and product candidates, and to commercialize such products;
- our ability to compete in the pharmaceutical industry;
- our ability to protect our intellectual property and know-how and operate our business without infringing the intellectual property rights or regulatory exclusivity of others;
- the continuation of product sales by our collaborators and licensees;
- a loss of rights to develop and commercialize our products under our license and sublicense agreements;
- a loss of any of our key scientists or management personnel;

Our planning relies on certain estimates and assumptions which may be inaccurate or even incorrect, including:
- our estimates of market sizes and anticipated uses of our product candidates;
- our estimates of future performance; and

our estimates regarding anticipated operating losses, future revenue, expenses, capital requirements and our needs for additional financing.

NON-EXECUTIVE DIRECTOR'S REPORT

The Non-executive directors have concluded that they are each independent of the managing board and senior executives of the company and, with the exception of Mr. Lowcock who is a senior advisor of Warburg Pincus (see "share ownership" below), that they are independent of the major shareholders of Eurand. The non-executive directors unanimously support the strategy pursued by the Managing director as set forth in the Managing Director's Report above.

Remuneration Policy of the Directors

The general policy for the remuneration of our Board of Directors will be determined by our Compensation Committee. The remuneration of directors will be set by our Board of Directors in accordance with our compensation policy and the recommendation of the Compensation Committee.

The Company's employee directors shall not receive additional compensation for their service as directors. The form and amount of non-employee director compensation will be determined by the Compensation Committee of the Board and the Compensation Committee will conduct a periodic review of director compensation. Notwithstanding the foregoing, compensation of directors shall be approved by shareholders.

As part of the remuneration the following non-executive directors receive share options: Angelo Malahias, William Jenkins, and Rolf Classon. This is a deviation from Best Practice Provision III.7.1. of the Code, which provides that a non-executive director shall not be granted any shares and/or rights to shares by way of remuneration. It is customary for international businesses to grant non-executive directors shares or options by way of remuneration. This is necessary to attract non-executive directors with the required level of expertise in the pharmaceutical industry and with excellent international reputations. Therefore the Board of Directors deems it necessary to offer to certain (potential) non-executive directors share options as part of their remuneration.

Given the fact that the Company has only been listed since May 2007, the non-executive directors have not yet prepared a remuneration report in accordance with Best Practice Provision II.2.9 of the Code and consequently no such report has been posted on the Company's website. A remuneration report will be drawn up in accordance with the Code with respect to the financial year 2008. For the year ended December 31, 2007, the non-executive members and former non-executive members of our Board received fees in the aggregate amount of €78,833 (based on the convenience rate of 1.4603 U.S. dollars per euro) as set forth in the table below.

Non-Executive Directors of our Board	Directors' Fees
Rolf A. Classon	10,750
Aleksandar Erdeljan	19,750
William J. Jenkins	31,250
Nicholas J. Lowcock	—
Angelo C. Malahias	17,083
Total	78,833

The executive director received no compensation for his services as director. However, 25% of Gearoid M. Faherty's compensation is allocated to his duties as Chief Executive Officer of Eurand N.V. We anticipate that cash compensation in the future will not materially increase. We do not have any service contracts with any of our directors, other than the employment agreement with Gearóid M. Faherty who is also our Chief Executive Officer, as described below under "— Employment Agreements."

During the year ended December 31, 2007, we paid our executive officers, including Mr. Faherty, the sole executive member of our Board and our Chief Executive Officer, an aggregate amount of €793,386. Our executive officers are also eligible to receive awards under our equity compensation plan described below under "— Equity Compensation Plan."

Within such amount, the remuneration of our current sole executive member of our Board and President and CEO in 2007 was:

Sole Executive Director of Our Board and CEO	Salary(1)	Bonus(2)	Non-cash Benefits(3)	Total
Gearóid M. Faherty	€530,000	€250,000	€ 13,386	€793,386

(1) The non-executive members of our Board, upon the recommendation of our Compensation Committee, approved an annual salary for 2007 for our CEO of €530,000.
(2) The bonus paid to the sole executive member of our Board and CEO during the 2007 financial year was approved by the Compensation Committee, and approved by the non-executive members of our Board in respect of the 2007 financial year, based on fulfillment of a number of pre-defined objectives for 2007.
(3) Includes use of a company car and additional medical coverage.

The criteria for setting the amount of variable and non-variable compensations are based on the pay level of other companies, selected by the compensation committee, in the specialty pharmaceutical and biopharmaceutical sector. The performance objectives are agreed between the non-executive board members and the board members on an annual basis.

Future compensation levels will be determined by the compensation committee in compliance with the company's remuneration policy and applicable laws in the Netherlands and of Companies Registered with the U.S. Securities and Exchange Commission and NASDAQ, if any.

Retirement of Board members
No director may stand of election to the Board after his or her 75th birthday. The Board may, however, make exception to this standard, based on the recommendation of the Nominating and Corporate Governance Committee, as it deems appropriate in the interests of Eurand's stockholders. Eurand has not implemented a retirement schedule at this juncture as the ages of the various directors does not currently warrant such a policy. This is a deviation from Best Practice Provision III.3.6 of the Code which provides that a retirement schedule needs to be public and, in any event, made available at Eurand's website. Given the relative ages of the current non-executive directors, Eurand has not yet implemented a retirement schedule.

Share Ownership
Eurand believes that senior executives should be stockholders and have a financial stake in Eurand in order to attract and incentize appropriate personnel. The Board may from time to time determine appropriate levels of ownership for the Chief Executive Officer, functional and business unit leaders and other employees in accordance with Eurand's Equity Compensation Plan. The ordinary shares beneficially owned by our directors and senior managers and/or companies affiliated with these individuals, within 60 days of March 26, 2008 are disclosed below.

Name of Beneficial Owner	Number	Percentage
Directors		
Rolf A. Classon	—	*
Gearóid M. Faherty(1)	3,040,017	6.8 %
William J. Jenkins(2)	18,332	*
Nicholas J. Lowcock(3)	33,982,452	76.6 %
Angelo C. Malahias	—	*
Executive Officers		
Mario P. Crovetto(4)	571,563	1.3 %
Manya S. Deehr(5)	33,382	*
Konstantinos Efthymiopoulos(6)	21,550	*
John J. Fraher(7)	571,563	1.3 %
Michael Walters	50	*
All Directors and Executive Officers as a group (10 persons)	38,238,909	86.2 %

*Represents beneficial ownership of less than one percent of our outstanding ordinary shares.
(1) Includes options which are fully vested to purchase 500,000 ordinary shares under our equity compensation plan.
(2) Includes options which are fully vested to purchase 18,332 ordinary shares under our equity compensation plan.

(3) Mr. Lowcock, one of our directors, is a senior advisor to Warburg Pincus International LLC. All shares indicated as owned by Mr. Lowcock are included because of his affiliation with the Warburg Pincus entities. Mr. Lowcock disclaims beneficial ownership of all shares owned by the Warburg Pincus entities.
(4) Includes options which are fully vested to purchase 571,513 ordinary shares under our equity compensation plan.
(5) Includes options which are fully vested to purchase 33,332 ordinary shares under our equity compensation plan.
(6) Konstantinos Efthymiopoulos resigned as Chief Scientific Officer on January 10, 2008. Includes options which are fully vested to purchase 21,500 ordinary shares under our equity compensation plan.
(7) Includes options which are fully vested to purchase 571,513 ordinary shares under our equity compensation plan.

Committees of the Board of Directors
In order to more efficiently fulfil its role, and in compliance with the Code, the Board has created the following committees: Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee.

Audit Committee

Our Audit Committee consists of Rolf A. Classon, William J. Jenkins and Angelo C. Malahias. The Audit Committee is governed by a written charter, which is approved and annually adopted by the Board. The Board has determined that the members of the Audit Committee meet the applicable independence requirements of the SEC, the NASDAQ Stock Market and the Netherlands Corporate Governance Code, that all members of the Audit Committee fulfill the requirement of being financially literate and that Angelo C. Malahias, the committee chair, is an Audit Committee financial expert as defined under current SEC regulations and the Code.

The Audit Committee is appointed by the Board and is responsible for, among other matters, overseeing the:

- integrity of Eurand's financial statements, including its system of internal controls;
- Eurand's compliance with legal and regulatory requirements;
- the independent auditor's qualifications and independence; and
- the performance of Eurand's independent audit function and independent auditors,

as well preparing an Audit Committee Report as required by the SEC and the Code.
Our Audit Committee met four time(s) during 2007. The audit committee discussed the financial results for interim periods, policies on risk management and internal control.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee consists of William J. Jenkins and Nicholas J. Lowcock. The Nominating and Corporate Governance Committee is appointed by the Board and is responsible for, among other matters:

- reviewing the Board structure, size and composition and making recommendations to the Board with regard to any adjustments that are deemed necessary;
- identifying candidates for the approval of the Board to fill Board vacancies as and when they arise as well as developing plans for succession, in particular, of the chairman and executive officers;
- overseeing the Board's annual evaluation of its own performance and the performance of other Board committees; and
- developing and recommending to the Board for adoption a set of Corporate Governance Guidelines applicable to Eurand and to periodically review the same.

Our Nominating and Corporate Governance Committee did not meet in 2007 as Board structure, size and composition was addressed at the Board level.

Compensation Committee

Our Compensation Committee consists of Rolf A. Classon, Nicholas J. Lowcock and Angelo C. Malahias. The Compensation Committee is appointed by the Board and is responsible for, among other matters:

- establishing and periodically reviewing Eurand's compensation programs;
- reviewing the performance of directors, officers and employees of Eurand who are eligible for awards and benefits under any plan or program and adjust compensation arrangements as appropriate based on performance;
- reviewing and monitoring management development and succession plans and activities; and
- reporting on compensation arrangements and incentive grants to the Board.

Our Compensation Committee met four time(s) during 2007 primarily to review bonuses, equity compensation and other compensation arrangements.

The compensation committee considered and adopted the Company's remuneration policy which was effective during 2007.

Assessment of Effectiveness of Internal Controls
The Audit Committee requested information from the executives of the Company on internal controls and met independently with Eurand's auditors. The audit committee reviewed the information which included reports on the company's preparation for the audit of its internal controls under the Sarbanes Oxley Act of the United States in 2008. Based on that evidence their assessment concluded that system of internal controls does not suffer from material weaknesses.

Conflicts of Interest
As per Best Practice Provision II.3.2 of the Code each director shall immediately report any potential conflict of interest concerning a Director to the Chairman. The Director with such conflict of interests shall in such case provide the Chairman of the Board with all information relevant to the conflict. Decisions to enter into transactions in which there are conflicts of interest with board members require the approval of the Audit Committee. It follows from the Best Practice Provision II.3.4. that, in the event of conflicts of interests, the approval is required of the non-executives. However, the Audit Committee charter provides that the approval of the Audit Committee is required. Since not all non-executive directors are member of the Audit Committee, the approval by the Audit Committee is a deviation of the Code. The Board of Directors is of the opinion that since all independent non-executive directors are a member of the Audit Committee, this committee is the most appropriate forum to decide upon conflicts of interest within the meaning of the Code. During the year no conflicts of interest were reported.
Only one shareholder, Warburg Pincus, owns more than 10% of the shares of the Company. In 2007 certain shareholder loans were repaid by the Company to Warburg Pincus and the Company and Warburg Pincus and the Company entered into an Investor Rights Agreement which provides Warburg Pincus the opportunity to a certain level of participation at the Board level depending upon its share ownership. These transactions were approved by the non-executive directors of the Company. No conflicts of interest arose between members of the non-executive board and the Company during 2007 and the best practice provision III.6.4 has been observed.

Protective Measures

There are no protective devices specifically designed to deter takeovers in place.

Non-Executive Directors' Self-Assessment of Performance
The non-executive director was not frequently absent from board or committee meetings during 2007. The non-executive director provided his annual self-assessment of his performance to the Compensation Committee in December 2007.

CORPORATE GOVERNANCE

As we are a Netherlands public limited liability company (*naamloze vennootschap*) whose ordinary shares are listed on the NASDAQ Global Market ("NASDAQ"), we are required to comply with the Sarbanes-Oxley Act and certain corporate governance requirements and best practices set out by the NASDAQ, the U.S. Securities and Exchange Commission ("SEC") and the Netherlands Corporate Governance Code (the "Code").

At Eurand, we are committed to upholding the highest standards in corporate governance and ethics practices. We believe our numerous internal policies and procedures provide structure for the operation of Eurand that is consistent with the best interests of our stockholders and customers as well as the requirements of the law and modern standards of corporate governance. We endeavour to ensure that our policies and procedures comply with both U.S. and Netherlands corporate governance requirements, to the extent possible and desirable. In this report, we discuss our corporate governance structure.

The Code contains principles and best practices for Dutch companies with listed shares. The Code requires companies to either comply with the best practice provisions of the Code or to explain why they deviate from these best practice provisions. Our corporate governance policies with respect to the implementation of the Code will be discussed with our shareholders at the 2007 Annual General Meeting of Shareholders (to be held in May 2008), including those best practice provisions we did not comply with.

In the future, we will discuss any material changes in our corporate governance structure in the Annual General Meeting of Shareholders. Corporate governance related documents are available on our website, including the applicable Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Whistleblowing Policy, Compensation Policy, Code of Business Conduct and Ethics and Insider Trading Policy.

Below we discuss our corporate governance, to the extent not already addressed elsewhere in this report:

Board of Directors

Responsibilities

Under our Articles of Association, the Board Rules, the Corporate Governance Guidelines, the various Committee Charters and Netherlands corporate law, the members of the Board are collectively responsible for the management, general and financial affairs and policy and strategy of Eurand.

Our Board currently consists of five members existing of one executive director and four non-executive directors. Eurand has no independent Supervisory Board. The non-executive directors fulfill the same role as supervisory board members. The executive director is our Chief Executive Officer and our Chairman. He is primarily responsible for managing our day-to-day affairs. In addition, he has other responsibilities that have been delegated to the executive director in accordance with our Articles of Association, the Board Rules, the Corporate Governance Guidelines and the various Committee Charters. The non-executive directors supervise the Chief Executive Officer and our general affairs and provide general advice to our Chief Executive Officer. In performing their duties the non-executive directors are guided by the interest of the company and shall, within the boundaries set by relevant Netherlands law, take into account the relevant interests of our shareholders. The internal affairs of the Board are governed by our Board Rules.

Each director is expected to spend the time and effort necessary to properly discharge his responsibilities. These include:

- overseeing the conduct of Eurand's business, to evaluate whether the business is being properly managed;
- reviewing and, where appropriate, approving Eurand's major financial objectives, plans and actions;
- reviewing and, where appropriate, approving major changes in, and determinations of other major issues respecting, the appropriate auditing and accounting principles and practices to be used in the preparation of Eurand's financial statements;

- reviewing and, where appropriate, approving major changes in, and determinations under the Guidelines, Code of Ethics and other Company policies;
- reviewing and, where appropriate, approving actions to be undertaken by Eurand that would result in a material change in the financial structure or control of Eurand, the acquisition or disposition of any business or asset(s) material to Eurand or the entry of Eurand into any major new line of business;
- regularly reviewing and evaluating the performance of the Chief Executive Officer and other members of senior management based on reports from the Compensation Committee;
- providing advice and counsel to the Chief Executive Officer and principal senior executives;
- planning for succession with respect to the position of Chief Executive Officer and monitoring management's succession planning for other key executives;
- ensuring that Eurand's business is conducted with the highest standards of ethical conduct and in conformity with applicable laws and regulations; and
- performing such other functions as the Board believes appropriate or necessary, or as otherwise prescribed by rules or regulations.

Further responsibilities of each of the directors are described in the Board Rules.

As per Best Practice Provision III.8 of the Code, the composition and functioning of a management board comprising executives and non-executives directors shall be such that proper and independent supervision by non-executive directors is assured. Gearoid Faherty is both the Chief Executive Officer, as well as the Chairman of the Board, while Best Practice Provision III.8.1. of the Code provides that, the Chairman of the Board shall not be an executive director. Our Board of Directors is of the opinion that due to the fact that Mr. Faherty has directed the Eurand business since 1994, he is the best possible person to safeguard the interest of all of Eurand's stakeholders and should therefore assume the position of Chairman. In order to assure independent supervision of the executives, the non-executive directors meet independently of Mr. Faherty (on at least a bi-annual basis) and such meeting is chaired by Mr. Lowcock.

Of the four non-executive directors, three are independent within the meaning of the Code and one, Nicholas J. Lowcock, is not (Best Practice Provision III.2.2. of the Code). Mr. Lowcock is a senior advisor to Warburg Pincus and a valuable contributor to the Board. As a result of its shareholdings, Warburg Pincus and Eurand are parties to an Investor Rights Agreement which provides Warburg Pincus the opportunity to a certain level of participation at the Board level depending upon its share ownership.

The Chairman of the Board is obligated to insure, among other things, that (i) each director receives all information about matters that he or she may deem useful or necessary in connection with the proper performance of his or her duties., (ii) each director has sufficient time for consultation and decision making, and (iii) the Board and the board committees are properly constituted and functioning.

During the fiscal year ended December 31, 2007, the board of directors held four meetings. To promote open discussion among the non-executive directors, those directors met one time in 2007 in regularly scheduled executive sessions without participation of our company's management and will continue to do so in 2008. Nicholas J. Lowcock has served as the presiding director for purposes of these meetings. During the Board meetings the Board discussed such topics as Eurand's initial public offering, the establishment of Board committees and related specific delegated authorities, the financial results achieved at various times during the year and the outlook for future periods, and reviewed reports on risk management activity for the Audit Committee and the internal risk management and control function.

Conflicts of Interests

As per Best Practice Provision II.3.2 of the Code each director shall immediately report any potential conflict of interest concerning a Director to the Chairman. The Director with such conflict of interests shall in such case provide the Chairman of the Board with all information relevant to the conflict. Decisions to enter into transactions in which there are conflicts of interest with board members require the approval of the Audit Committee. It follows from the Best Practice Provision II.3.4. that in the event of conflicts of interests, the approval is required of the non-executives. However, the Audit Committee charter provides that the approval of the Audit Committee is required. Since not all non-executive directors are member of the Audit Committee, the approval by the Audit Committee is a

deviation of the Code. The Board of Directors is of the opinion that since all independent non-executive directors are a member of the Audit Committee, this committee is the most appropriate forum to decide upon conflicts of interest within the meaning of the Code. During the year no conflicts of interest were reported.

Reporting of Trading in Netherlands Listed Companies
The members of our Board are aware of the limitations under the Netherlands and U.S. law that apply to trading in listed securities when one is in the possession of material non-public information. As per our Insider Trading Policy, prior to directly or indirectly trading any security of Eurand, every officer and key employee is required to contact the Chief Legal Officer and make an initial determination whether Eurand and/ or such officer or key employee is in possession of material, non-public information relating to such security. If after consulting with the Chief Legal Officer it is determined that Eurand and/ or such officer or key employee is in possession of material, non-public information, trading may not occur in such security. During the year there has been no trading in securities with the possession of material, non-public information by Eurand and/ or officer or key employee.

Profile of the Board
Eurand has not yet prepared a profile of the Board as per Best Practice Provision III.3.1 of the Code. It is currently anticipated that A profile will be prepared by the Board during 2008 and shall be submitted to the 2008 Annual General Meeting (to be held in 2009) for approval. Any (re)appointment to the Board shall be based on consistency with such Board profile. On reappointment, account must be taken of the candidate's performance in the past period. A Board member who is available for reappointment must be interviewed by the chairman of the Nominating and Corporate Governance Committee. Any new Board members will serve a four-year term and Board members may be re-elected twice.

Internal Risk Management and Control Framework
Management is responsible for designing, implementing and operating an adequate functioning internal risk management and control framework in the Company. The purpose of this framework is to identify and manage the strategic, operational, financial and compliance risks to which we are exposed, to promote effectiveness and efficiency of our operations, to promote reliable financial reporting and to promote compliance with laws and regulations. Our internal risk management and control framework is based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. Our internal risk management and control framework has the following key components: control environment, risk assessment, control activities, information and communication and monitoring.

Planning and Control Cycle

The planning and control cycle consists of an annual budget and business plan prepared by management and approved by our Board, quarterly forecasts and operational reviews and monthly financial reporting.

Code of Business Conduct and Ethics and Whistleblowing Policy

Eurand's Code of Conduct and Ethics is applicable to all employees, including the Chief Executive Officer, Chief Financial Officer and controllers. It is designed to promote honest and ethical conduct and timely and accurate disclosure in our periodic financial results. Eurand's Whistleblowing Policy provides for the reporting of complaints regarding Eurand's accounting, internal accounting controls, or auditing matters, or questionable financial practices without any fear of reprisal against the individual that reports the complaint.

Risk Management and Internal Controls

The Company has implemented financial policies and procedures, including accounting policies, and nonfinancial policies and procedures to ensure the appropriate execution of control over operations.

Our Auditors
Eurand's external auditor is responsible for auditing the financial statements. Following the recommendation by the Audit Committee and upon proposal by the Board, the General Meeting of Shareholders appoints each year the auditor to audit the financial statements of the current financial year. The external auditor reports to our Audit Committee. The external auditor is present at the meetings of the Audit Committee as often as the Audit Committee

considers necessary, but at least once a year without attendance of the Chief Executive Officer or other officers of Eurand or directors not forming part of the Audit Committee. The Audit Committee pre-approves every engagement of our external auditor. The Audit Committee shall assure the regular rotation of the lead audit partner of the external audit firm. The current responsible partner has been appointed in the 2003 for the first time.

Stock Options

The following table discloses, as of December 31, 2007, stock options held by the members of our Board:

Name	Number Granted		Exercise Price	2007 Exercises	Expiration Date
Gearóid M. Faherty	240,000	€	6.67	—	2/28/2012
	120,000	€	5.00	—	6/23/2013
	120,000	€	5.00	—	10/26/2015
	120,000 (1)	$	16.00	—	5/16/2017
Rolf A. Classon	10,000 (1)	$	12.88	—	8/29/2017
William J. Jenkins	15,000	€	6.67	—	7/5/2010
	10,000 (1)	$	16.00	—	5/16/2017
Nicholas J. Lowcock	—		—	—	—
Angelo C. Malahias	15,000 (1)	$	12.88	—	8/29/2017

(1) Options were granted pursuant to the Eurand N.V. Equity Compensation Plan in 2007.

RISK MANAGEMENT

This section contains certain risks which are explicitly addressed by our risk management procedures. This section is not a comprehensive guide to all risks facing the business as it focuses on those financial risks which can be actively managed.

Exchange Rate Risk

Our European operations use the euro as the functional currency, and our U.S. operations use the U.S. dollar as the functional currency. We express our consolidated financial statements in euros because we generate approximately 51% of our revenues in euros. Our European operations transact business in euros primarily with European customers, with the notable exception of Axcan, our largest customer, and our U.S. operations transact business in U.S. dollars primarily with U.S. customers. We recognize, as a separate component of shareholders' equity, the cumulative effect of foreign currency translations, which to date is principally due to translation of the results of our U.S. operations from dollars to euros.

A hypothetical 10% appreciation in currency exchange rates against the U.S. dollar from the prevailing market rates would have decreased our pre-tax earnings by approximately €868,000 and €731,000 for the years ended December 31, 2007 and 2006, respectively. Conversely, a hypothetical 10% depreciation in currency exchange rates against the U.S. dollar from the prevailing market rates would have increased our pre-tax earnings by approximately €710,000 and €598,000 for the years ended 2007 and 2006, respectively.

Since 2000, we have continued to consistently implement currency hedging strategies to minimize foreign exchange gain and losses in our statement of operations due to exchange rate fluctuation exposure. As a result of this strategy, our net foreign exchange losses or gains have not exceeded €330,000 in any single year during the 2003 to 2007 period.

Interest Rate Risk

Interest payments on our long-term debt are either based on fixed interest rates or, if based on floating rates, are hedged through interest swap contracts. Therefore, our interest payments are effectively fixed, and are generally not affected by fluctuations in base interest rates.

Impact of Inflation

We do not believe that inflation has had a material effect on our business, results of operations or financial condition for any of the periods discussed or that inflation will affect us to a different extent than it affects the general economy.

Derivatives and Hedging Instruments

We use derivatives and hedging instruments for two purposes:
- to fix the interest payments on floating rate long-term debt to a fixed rate by using interest rate swaps,
- to hedge receivables and payables denominated in foreign currency against exchange rate fluctuations by using forward exchange contracts.

Amsterdam, April 28, 2008

Managing Directors
Gearóid Michael Faherty

Non-Executive Directors
Nicholas John Lowcock

Angelo Malahias

William John Jenkins

Rolf Allan Classon

FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES OF THE NETHERLANDS

Consolidated Balance Sheet
December 31, 2007

Assets

	Note	December 31, 2007		December 31, 2006	
		€000	€000	€000	€000
Fixed assets					
Intangible fixed assets	3	22,093		19,768	
Tangible fixed assets	4	35,642		39,882	
Financial fixed assets	5	842		1,458	
Total fixed assets			58,577		61,108
Current assets					
Inventories	6	9,750		7,655	
Receivables	7	15,588		17,209	
Cash		12,541		5,810	
Total current assets			37,879		30,674
Total assets			96,456		91,782

Group equity and liabilities

	Note	December 31, 2007	December 31, 2006
		€000	€000
Group equity			
Shareholders' equity	8	68,502	1,569
Provisions	9	3,882	4,781
Long-term liabilities	10	4,770	60,188
Current liabilities	11	19,302	25,244
Total group equity and liabilities		96,456	91,782

ERNST & YOUNG Accountants
Initialled for identification purposes only

Consolidated Statement of Operations
Year ended December 31, 2007

	Note	2007		2006	
		€000	€000	€000	€000
Net sales	15		84,821		82,849
Cost of sales			(49,263)		(47,663)
Gross margin			35,558		35,186
Selling expenses		(7,789)		(3,772)	
General and administrative expenses	16	(33,498)		(30,188)	
Total expenses			(41,287)		(33,960)
Operating income (loss)			(5,729)		1,226
Other income, net	17		(93)		354
Operating result			(5,822)		1,580
Financial expense, net	18		(1,428)		(7,249)
Loss before taxation			(7,250)		(5,669)
Taxation	19		(1,140)		(1,593)
Net loss			(8,390)		(7,262)

ERNST & YOUNG Accountants
Initialled for identification purposes only

Consolidated Statement of Cash Flows
Year ended December 31, 2007

	2007		2006	
	€000	€000	€000	€000
Cash flows from operating activities				
Net loss for the year		(8,390)		(7,262)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation	7,074		7,881	
Amortization	2,991		2,992	
Disposals of tangible fixed assets	93		(354)	
Non-cash interest expense	201		4,315	
Employees' severance indemnities	(307)		860	
Other non-current assets	987		587	
Other non-current liabilities	(1,335)		(21)	
Unrealized foreign exchange losses	655		643	
Stock compensation	1,309		(65)	
Deferred taxes	146		468	
		11,814		17,306
Changes in operating assets and liabilities:				
Inventories	(2,263)		1,276	
Accounts receivable	(673)		(383)	
Prepaid expenses and other current assets	1,675		(1,747)	
Accounts payable	(36)		(90)	
Accrued expenses, deferred revenues and other current liabilities	101		4,592	
Income taxes	(430)		(344)	
		(766)		3,304
Net cash provided by operating activities (carried forward)		1,798		13,348

	2007		2006	
	€000	€000	€000	€000
Net cash provided by operating Activities (brought forward)		1,798		13,348
Cash flows from investing activities				
Purchases of tangible fixed assets	(4,091)		(2,744)	
Proceeds from sales of tangible fixed assets	–		1,326	
Acquisition of SourceCF, net of cash acquired	(4,643)		–	
Net cash used in investing activities		(8,734)		(1,418)
Cash flows from financing activities				
Borrowings from (repayments to) banks	(31,200)		(6,197)	
Net change in short-term borrowings	179		(3,181)	
Proceeds from the issuance of ordinary shares	73,977		–	
Repayment of borrowings from shareholders	(30,105)		–	
Cash received on termination of interest rate swaps	663		–	
Exercise of stock options	297		1	
Net cash from (used by) financing activities		13,811		(9,377)
Net cash flow		6,875		2,553
Exchange gains on cash in foreign currencies		(144)		(166)
Increase in cash		6,731		2,387

Notes to Consolidated Financial Statements
December 31, 2007

1. General

Eurand N.V. (the "Company") is a specialty pharmaceutical company that develops, manufactures and commercializes enhanced pharmaceutical and biopharmaceutical products based on its proprietary drug formulation technologies. The Company specializes in four areas: bioavailability enhancement of poorly soluble drugs, customized release, taste masking/fast-dissolving formulations, and drug targeting. Eurand is currently developing a pipeline of products based on its proprietary drug delivery technology. The Company also works with pharmaceutical and biotechnology companies to develop enhanced forms of their existing products and development compounds.

Eurand's principal operating offices are in Milan, Italy while Eurand's U.S. business is located in Dayton, Ohio. The Company has research, development and manufacturing facilities in Italy and the United States and an additional manufacturing facility in France. On November 30, 2007, the Company acquired 100% of the common stock and membership interests in the various entities of the SourceCF group. SourceCF is a business focused on serving the needs of Cystic Fibrosis (CF) patients, physicians and care givers. The acquisition provides Eurand with access to the SourceCF product portfolio, including a range of vitamins specifically designed to meet the needs of patients with CF and the eFlow® electronic nebulizer. Eurand intends to integrate the SourceCF team into its U.S. commercial organization to support the planned launch of its lead product candidate, EUR-1008 (Zentase®).

On November 30, 2006, the Company converted from a Dutch B.V. (a private company with limited liability) to a Dutch N.V. (a public company with limited liability).

The financial statements are presented in Euros.

2. Summary of significant accounting policies

General

The financial statements have been prepared under the historical cost convention and in conformity with the requirements of the Netherlands Civil Code. As permitted by Section 402, Book 2 of the Code, a condensed statement of operations is presented for the Company itself.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Consolidation

The consolidated financial statements include the Company and its majority-owned subsidiaries. Reference is made to the Notes to the Company's Financial Statements for information regarding consolidated subsidiaries. Intercompany transactions and balances, and unrealized profits on intercompany transactions, are eliminated on consolidation.

The results of investments acquired are included from the date of acquisition.

Translation of foreign currencies

The Company's reporting currency and functional currency is the Euro.

Transactions arising in foreign currencies are translated into the local currency at the exchange rate at the date of the transaction. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the year-end rates of exchange. The resulting net translation gains or losses are included in the statement of operations.

For the purpose of inclusion in the Company's financial statements, the balance sheets of other foreign entities are translated into Euros at the year-end exchange rates. The statements of operations are translated at the average exchange rates for the year. The resulting net translation adjustments are included in a separate component of shareholders' equity.

Intangible fixed assets
Goodwill arising on acquisitions represents the excess of the purchase price over fair value of the identifiable tangible and intangible assets and liabilities acquired.
Goodwill is amortized on a straight-line basis over a period of 15 years. The length of life represents the average expected life of the customer relationships (normally backed by renewable, binding supply contracts).

The Company assesses goodwill for impairment whenever there is an indication that the carrying amount of the goodwill may not be recoverable.

Purchased patents, licences and other rights, such as exclusive supply rights and selling and marketing rights are carried at cost and amortized on a straight-line basis over the estimated useful lives of 2 to 15 years.

Tangible fixed assets
Tangible fixed assets are stated at cost and depreciated using the straight-line method over the following estimated useful lives: buildings – 18 to 30 years; machinery and equipment – 8 to 12 years; furniture and fittings – 3 to 5 years.

Interest charges incurred during the construction of new facilities are capitalized as one of the elements of cost and are amortized over the assets' estimated useful lives.

Impairment of long-lived assets
The Company assesses its long-lived assets other than goodwill for impairment whenever there is an indication that the carrying amount of the assets may not be recoverable. Recoverability is determined by comparing the fair values of these assets to their respective net carrying values. The amount of impairment loss, if any, is measured as the difference between the net book value of the assets and their estimated fair value.

Financial fixed assets
Deferred taxes are valued using present values taking into account local tax rates. Valuation allowances are provided against deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Financing and professional fees incurred in obtaining loan facilities are capitalized. Loan fees due to the Lender are recorded as a reduction in loan payable, and are being accreted to interest expense over the life of the loans. The remainder of the fees, comprising primarily professional fees, are recorded as deferred financing costs and are being amortized to interest expense over the life of the loans.

Inventories
Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted averaged method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs for sale and distribution. Elements of cost in inventories include raw materials, direct labor and manufacturing overhead. Any write-downs of inventory are recorded as an adjustment to the cost basis.

From time to time the Company manufactures goods which have an uncertain market value because they have not been commercially launched. The decision to capitalize the cost of such pre-launch inventory is dependent upon: whether the regulatory process and regulatory requirements for the product are sufficiently well known that it is likely that the product will be approved; whether the manufactured goods will likely have sufficient remaining commercial shelf life at the time the product will be sold; and whether the manufacturing process used will be in accordance with that specification that are likely to be approved for the product. If these conditions are not met then the costs associated with pre-launch inventory are expensed as incurred in cost of goods sold.

Receivables
Receivables are stated at their estimated net realizable value.

Income taxes
Income taxes are provided by each entity included in the consolidation in accordance with the applicable local laws. Deferred income taxes are accounted for under the liability method, and reflect the tax effects of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements and net operating loss carry-forwards.

Deferred tax assets expected to be utilized within one year are recorded as receivable and deferred tax assets expected to be utilized after one year are recorded as financial fixed assets.

Cash and cash equivalents
Cash equivalents consist of cash in hand and time deposits stated at nominal value. Cash equivalents also comprise other short-term, highly liquid instruments with maturities of three months or less when acquired that are stated at cost, which approximates fair value.

Severance indemnities
The Provision for employee severance indemnities, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is considered deferred compensation and is based, among other things, on the employees' years of service and the compensation earned by the employee during the service period. Qualified actuaries determine the defined benefit obligation annually by using the projected unit credit method. Actuarial gains and losses are taken to the Statement of operations if and to the extent that the net cumulative unrecognised actuarial gains and losses at the beginning of the financial year exceed 10% of the present value of pension entitlements. These gains and losses are spread over the expected remaining working lives of the employees participating in the plan and the resulting amount taken to the Statement of operations for the year under review.
Starting January 1, 2007, the Finance Bill and the relative decrees implementing the bill introduced changes to the employee severance indemnity system including the employee's choice as to the destination of his/her employee severance indemnity that is accruing (either to supplementary pension funds or to the "Treasury fund" managed by INPS).
Consequently, the company's obligation with INPS, the same as contributions for supplementary pension schemes, takes the form of "Defined contribution plans", whereas the amounts recorded in the Provision for employee severance indemnities, pursuant to RJ271, retain the nature of "Defined benefit plans". These legislative changes have also lead to a revision of the actuarial assumptions and the consequent calculations used for the computation of employee severance indemnities.

Accounting for TFR requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the statement of operations. These figures are particularly sensitive to assumptions for discount rates, mortality and inflation rates. Details of assumptions made are given in note 9.

Other assets and liabilities
All other assets and liabilities are stated at the amounts at which they were acquired or incurred.

Revenue recognition
The Company recognizes revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred and title passes to the customer, the price is fixed and determinable, collectibility is reasonably assured, and the Company has no further obligations. This is normally the point at which title transfers, which generally corresponds to the date when products are shipped. The Company's policy is not to accept returned goods without proof that the returned goods are defective and as a result, historically, the value of returned goods has not been material. However, the Company monitors the level of returns and other adjustments related to sales and records a provision when historical rates of return indicate such a provision is necessary.
Royalty revenues are recognized in proportion to the underlying sales to the end user.
The Company also derives revenues from research and development agreements with co-development partners. Such agreements generally provide that development work is compensated at a non-refundable hourly rate for a

projected number of hours. Revenue on such agreements is recognized at the hourly rate for the number of hours worked. Certain agreements contain milestone revenues and where these milestones are paid in advance and are not subject to forfeiture the revenues are deferred and subsequently recognized as income in proportion to the costs incurred for the related development phase and in accordance with the contract terms. Milestone payments based on performance are recognized when the performance criteria are met.
Licensing agreements generally contemplate that one of Eurand's drug delivery technologies will be utilized to commercialize or produce certain pharmaceutical products and that the Company will receive certain fees pursuant to these agreements. Up-front payments related to licensing agreements are deferred and recognized ratably over the life of the agreement.

Other

Other income, costs and expenses are allocated to the year to which they relate.
Losses and risks originating before the end of the financial year are taken into account if they have become known before preparation of the financial statements.

Research and development

Research expenses are charged to expenses when incurred.
Development costs are capitalised if they satisfy the technical, commercial and financial feasibility criteria set for them. A legal reserve equivalent to the carrying value is formed. Development costs are amortised in line with the expected economic useful life of the asset concerned. If these criteria are not satisfied, the development costs are charged to the Statement of operations when incurred.

Accounting for stock based compensation

The Company has a stock-based employee compensation plan. On January 1, 2006, we adopted a policy on which values stock option costs at fair value. We have implemented the prospective application transition method of adoption and, as such, prior-period consolidated financial statements were not been restated. Under this method, the fair value of all stock options granted or modified after adoption must be recognized in the consolidated statement of operations. Whereas, total compensation cost related to awards already granted at the date of adoption continue to be accounted for under the methods of valuation and expensing used prior to adoption, which are described below. The policy also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow.

Prior to January 1, 2006, the excess of the underlying stock price over the exercise price on the measurement date is recognized as compensation expense. Because the exercise price of all our stock options granted after 2000 was set equal to the market price on the date of the grant (which was the measurement date), we did not record any expense to the consolidated statement of operations related to stock options (unless certain original grant date terms were subsequently modified).

The fair value of options granted after the January 1, 2006 is expensed over the relevant graded vesting periods using the straight line recognition method.

Accounting for derivatives

The Company recognizes all derivatives on the balance sheet at fair value. Derivatives that do not qualify for hedge accounting must be adjusted to fair value through income. If the derivative meets hedge accounting, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in the fair value of the underlying assets and liabilities, through income or recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of a derivative's change in fair value is immediately recognized in income.

Statement of cash flows

The cash flow statement is prepared using the indirect method. Short-term borrowings arise primarily under the Company's short-term lines of credit with its banks. These short-term obligations are payable on demand. The cash flows from these items are included under the caption "net change in short-term borrowings" in the consolidated statement of cash flows.

3. Intangible fixed assets

Intangible fixed assets comprise goodwill, patents and licences, exclusive supply rights and selling and marketing rights. The movements during the year are as follows:

	Goodwill	Patents and licences	Exclusive supply rights	Selling and marketing rights	Total
	€000	€000	€000	€000	€000
Net book value at January 1, 2007	15,792	1,484	2,492	-	19,768
Assets acquired with SourceCF group of companies	-	-	-	5,689	5,689
Other increases	-	9	-	-	9
Amortization	(2,203)	(392)	(325)	(71)	(2,991)
Translation adjustments	(390)	(26)	-	34	(382)
Net book value at December 31, 2007	13,199	1,075	2,167	5,652	22,093
Accumulated depreciation at December 31, 2007	(18,901)	(1,994)	(1,083)	(71)	(22,049)

4. Tangible fixed assets

	2007	2006
	€000	€000
Land	1,714	1,739
Buildings	29,955	30,649
Machinery and equipment	57,350	55,556
Furniture and fittings	4,953	4,879
Construction in progress	2,598	1,043
	96,570	93,866
Accumulated depreciation	(60,928)	(53,984)
	35,642	39,882

Interest expense capitalized in property, plant and equipment in the years ended December 31, 2007 and 2006 amounted to €66 and €26, respectively.

The movements during the year are as follows:

	Land and Buildings	Machinery and equipment	Other	Assets under-construction	Total
	€000	€000	€000	€000	€000
Net book value at January 1, 2007	21,389	16,064	1,386	1,043	39,882
Additions	103	1,059	294	3,075	4,531
Assets acquired with SourceCF group of companies	-	-	21	-	21
Constructions completed	275	957	194	(1,426)	–
Depreciation charge for the year	(1,792)	(4,668)	(614)	–	(7,074)
Disposals	(75)	(4)	(14)	–	(93)
Capitalized Interest	3	–	–	63	66
Translation adjustments	(912)	(601)	(22)	(156)	(1,691)
Net book value at December 31, 2007	18,991	12,807	1,245	2,599	35,642
Accumulated depreciation at December 31, 2007	12,679	44,544	3,705	–	60,928

The depreciation charge for the year has been recognized in the statement of operations on the following accounts:

	2007	2006
	€000	€000
Cost of sales	5,020	5,490
Selling expenses	76	83
General and administrative expenses	1,978	2,308
	7,074	7,881

5. Financial fixed assets

	2007	2006
	€000	€000
Deferred income taxes	791	418
Market value of interest rate swaps	-	878
Other non-current assets	51	162
	842	1,458

	Defered income taxes	Market value of interest rate swaps	Other	Total
	€000	€000	€000	€000
Carrying value at January 1, 2007	418	878	162	1,458
Deferred taxes	111	–	–	111
Valuation allowances	585	–	–	585
Reclassifications	(323)	–	–	(323)
Changes in market value	–	(215)	–	(215)
Liquidation	–	(663)	–	(663)
Other	–	–	(111)	(111)
Carrying value at December 31, 2007	791	–	51	842

Deferred tax assets expected to be utilized within one year are recorded as receivables and deferred tax assets expected to be utilized after one year are recorded as financial fixed assets.

6. Inventories

	2007	2006
	€000	€000
Raw materials	4,839	2,849
Work-in-progress	1,732	2,552
Finished goods	3,179	2,254
	9,750	7,655

7. Receivables

	2007	2006
	€000	€000
Trade receivables	13,437	12,587
Deferred income taxes	191	858
Prepaid expenses and other current assets	1,960	3,764
	15,588	17,209

8. Shareholders' equity

Reference is made to Notes to Financial Statements for details of shareholders' equity.

9. Provisions

Provisions comprise a liability for employee severance indemnities that relates primarily to the Company's employees in Italy. The liability for employee severance indemnities of Italian companies ("TFR") is considered a defined benefit plan and is accounted for accordingly.

The amounts recognized in the balance sheet as of December 31, 2007, as regards to employee severance indemnities are determined as follows:

	2007 €000
Present value of funded obligations	-
Fair value of plan assets	-
	-
Present value of unfunded obligations	3,882
Unrecognized actuarial gains/losses	-
Unrecognized past service costs	-
Liability in the balance sheet	3,882

The costs calculated under the actuarial valuation for the year ended December 31, 2007, as regards to employee severance indemnities are determined as follows:

	2007 €000
Current service costs	84
Interest costs	149
Total costs	233

The primary assumptions to determine the defined benefit obligations are as follows:

	2007
	%
Discount rate	5.0
Inflation rate	2.0

10. Long term liabilities

	2007	2006	Due after five years 2007	Due after five years 2006
	€000	€000	€000	€000
Long-term notes payable to shareholders	–	30,105	–	–
Other long-term debt	873	25,751	–	–
Deferred income taxes	1,286	1,939	–	–
Other non-current liabilities	2,611	2,393	–	–
	4,770	60,188	–	–

Other long-term debt consists of €1,375 credit facility denominated in Euros, payable in installments to 2010 carrying interest at 1.75% above Euribor, fully utilized, presented net of €3 deferred costs of raising of finance (amortized over the life of the loan) and €499 relating to the portion of the liabilities payable within one year.

11. Current liabilities

	2007	2006
	€000	€000
Long-term liabilities due within one year	499	7,067
Short-term borrowings from banks	-	221
Overdrafts	179	-
Trade accounts payable	8,103	7,977
Income taxes payable	26	38
Current portion of deferred revenues	1,045	1,373
Accrued expenses	3,298	3,447
Accrued costs for termination of operating lease	150	150
Social security and other contributions	1,259	1,080
Taxes, other than income taxes	810	811
Accrued employee compensation	3,933	3,080
	19,302	25,244

Long-term liabilities due within one year are stated net of €1 deferred costs of raising finance.
At December 31, 2007, the Company had lines of credit amounting to €6,330 of which none were utilized. All lines of credit are from banks, are callable on demand and are unsecured.
At December 31, 2007 and 2006, short-term borrowings from banks included debt of €nil and €221, respectively, carrying interest of 5% per annum.
At December 31, 2007 and 2006, the Company had overdrafts of €179 and €nil.

12. Commitments

The following are the minimum payments that will have to be made in each of the years indicated based on operating leases in effect as of December 31, 2007:

	€000
Year ending December 31,	
2008	507
2009	379
2010	262
2011	193
2012	107
Total minimum lease payments	1,448

The Company had €3,865 of contractual obligations for the purchase of property, plant and equipment at December 31, 2007.

13. Contingent assets and liabilities

On November 30, 2007, the Company acquired 100% of the common stock and membership interests in the various entities of the SourceCF group. The aggregate purchase price was €5,788, of which €4,749, inclusive of direct costs of acquisition, was paid at the date of acquisition, € 18 to be paid in January 2008. The remaining €1,021 will be paid on the second anniversary of the acquisition reduced for any amounts required for any indemnification claims. In addition, a further payment of €1,027 will be made subject to achievement of a certain revenue target in the 2008 fiscal year. This payment will not be made until the second anniversary of the acquisition date and may be reduced for amounts required for any indemnification claims, that could arise before the payment is made. Upon payment, this amount will be recorded as goodwill.

The Company is involved in legal proceedings arising in the normal course of business. Management believes that, based on advice of legal counsel, the outcome of these proceedings will not have any material adverse effect on the Company's financial statements.

Between 1996 and 1999, the Company entered into a series of agreements with Medeva PLC, now known as UCB, Inc. (or "UCB"), and its affiliates, ultimately resulting in the execution of a development, license and supply agreement in June 1999. Pursuant to those agreements, the Company developed a new product that is a sustained release formulation of Methylphenidate Hydrochloride, or MPH, which is an active ingredient used to treat Attention Deficit and Hyperactivity Disorder in children. The Company also agreed to allow Medeva Pharmaceuticals, Inc., or UCB, to package, market and sell that developed product in exchange for the exclusive right to manufacture that product for a minimum period of ten years and UCB's agreement to pay the Company royalties on all sales of the developed product. However, in 2003, UCB ceased both ordering the developed product and paying royalties. As a result, on March 28, 2004, the Company commenced an action for breach of contract and misappropriation of trade secrets against UCB and its affiliates in the Common Pleas Court of Montgomery County, Ohio that was then removed to the United States District Court, Southern District of Ohio. Due to the filing of Defendants' Motion to Dismiss or Transfer, however, the case was effectively stayed for over two years, at which time the Company elected to voluntarily dismiss the action.

On September 1, 2006, the Company recommenced the action against UCB and its affiliates in the United States District Court, Western District of New York, claiming, among other things, breach of contract, tortious interference with contract and misappropriation of trade secrets in relation to our development of the sustained release formulation of MPH. The Company is seeking to enforce our rights under the applicable agreements, including the 1999 development, license and supply agreement, and to obtain both monetary and equitable relief in this litigation. On September 26, 2006, UCB filed a counterclaim claiming, among other things, fraud, negligent misrepresentation, breach of contract and breach of warranties. UCB seeks to deny Eurand's rights under the agreements, and seeks both monetary and equitable relief in its counterclaim. On January 16, 2008, the Company filed a First Amended Complaint with additional claims asserting, among other things, that UCB acted fraudulently and is infringing a patent in which Eurand has equitable ownership rights. On March 4, 2008, UCB filed a motion for dismissal in part.

On April 18, 2008, Eurand filed a response to the motion for dismissal in part. Oral arguments on the motion are currently scheduled for June 26, 2008. The parties are also in the process of conducting discovery and the parties are both taking depositions of potential witnesses. Eurand intends to vigorously pursue this action to enforce its rights and to defend against UCB's counter allegations.

14. Financial instruments

Concentration of credit risks
Financial instruments that potentially subject the Company to concentration of credit risks consist principally of cash investments and trade accounts receivable. The Company maintains cash and cash equivalents and short-term investments with financial institutions located in the various countries in which it operates. The Company selects only financial institutions with high credit standards for use in its investment strategies.
Concentration of credit risks and the risk of accounting loss with respect to trade receivables is generally limited due to the large number of the Company's end customers. The Company generally does not require collateral with respect to goods and services provided, but it may require collateral and bank guarantees for certain customers.

Fair Value of Financial Instruments
The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments.
Cash and cash equivalents—The carrying amounts of cash and cash equivalents reported by the Company approximate their fair value. Present value of the cash inflows and outflows related to the financial instrument is used for the estimation of its fair value.
Trade receivables and accounts payable—The carrying amount of trade receivables and accounts payable approximates their fair values. Present value of the cash inflows and outflows related to the financial instrument is used for the estimation of its fair value.
Short and long-term debt— The carrying amount of the Company's borrowings as December 31, 2007 approximates their fair value. Present value of the cash inflows and outflows related to the financial instrument is used for the estimation of its fair value.

15. Net sales

	2007	2006
	€000	€000
Product sales	71,076	69,771
Development fees	9,372	9,182
Royalties	4,373	3,896
	84,821	82,849

The Company operates in one business segment consisting of the development, manufacture and sale relating to specialty pharmaceutical products.

16. General and administrative expenses

	2007	2006
	€000	€000
Research and development expenses	17,303	16,584
Amortization of goodwill	2,203	2,265
Other general and administrative expenses	13,992	11,339
	33,498	30,188

17. Other income

During 2007, the Company disposed of property plant and equipment and recognized a loss of €93.
During 2006, the Company disposed of an idle industrial property for €1,326 and recognized a gain on disposal of €354.

18. Financial expense, net

	2007	2006
	€000	€000
Interest income	(492)	(140)
Interest expense	2,024	7,401
Foreign exchange gain, net	(104)	(12)
	1,428	7,249

The Company enters into forward exchange contracts to hedge receivables and payables denominated in U.S. dollars. These contracts do not meet the criteria for hedge effectiveness and, accordingly, they are adjusted to fair value through income. Fair value is based on published foreign exchange futures contract prices on the date of valuation. During the years ended December 31, 2007 and 2006, the Company recognized foreign exchange gains of €1,974 and €498, respectively, in the statement of operations, related to these hedging activities.

19. Taxation

The charge for taxation includes Dutch and foreign taxation.

	2007	2006
	€000	€000
Income tax benefit at the Dutch statutory tax rate	1,849	1,679
Effect of Italian IRAP	(665)	(885)
Aggregated effect of different foreign tax rates	440	213
Changes in foreign tax rates	(1,094)	(190)
Permanent differences:		
Non deductible expenses	(120)	(201)
Non-taxable items	53	8
Goodwill amortization	(562)	(671)
Foreign taxes not deductible	(17)	(30)
Deductible IPO expenses	902	-
Deferred tax liability on revaluation reserve	297	-
Stock compensation	(99)	-
Other	(103)	(84)
Change in valuation allowance	(2,021)	(1,432)
Total tax charge	(1,140)	(1,593)
Effective tax rate	(15.7%)	(28.1%)

The Italian "IRAP" tax is a regional tax on productive activities, and has a statutory rate of 4.25%. The IRAP tax is not deductible for corporate tax purposes. The IRAP tax base is similar to the corporate tax base, however does not permit a deduction for the major portion of labor costs or interest.
The applicable income tax rate in Italy has been reduced from 33% to 27.5% effective January 1, 2008. The IRAP tax rate in Italy has been reduced from 4.25% to 3.9% effective January 1, 2008. The deferred tax balances of the Italian subsidiaries have been adjusted accordingly.

Goodwill amortization is not tax deductible.

There were no undistributed earnings of the Company's foreign subsidiaries at December 31, 2007 and 2006 that would be subject to income taxes.

As of December 31, 2007 and 2006, the Company has a history of cumulative losses. Such cumulative losses represent significant negative evidence that would be difficult to overcome in evaluating whether a valuation allowance is needed against the Company's deferred tax assets. Expectations as to future taxable income would rarely be sufficient to overcome the negative evidence of recent cumulative losses and management has determined that other positive evidence (such as availability of tax carry-backs and tax-planning strategies) is not available or insufficient to remove the uncertainty regarding the recoverability of these deferred tax assets. Accordingly, at December 31, 2007 and 2006, the Company has recognized a valuation allowance for deferred tax assets to the extent that these do not offset deferred tax liabilities that are expected to reverse against these deferred tax assets.
At December 31, 2007, the Company had net operating losses ("NOLs") available to offset future taxable income, in Italy amounting to approximately €2,860 of which €2,154 expires in 2010 and the remainder in 2012; in the Netherlands amounting to approximately €4,054, which expire in 2011 through 2016; in the United States amounting to approximately €18,716 ($27,330,291) which expire in 2019 through 2026; and in Switzerland amounting to €305 (SFr 505,236) expiring in 2011 through 2014.

Given the international business structure of the Company and the increasing number and amounts of intercompany transactions, certain tax risks relating hereto may exist.

20. Employee information

	2007	2006
	€000	€000
Wages and salaries	24,964	23,920
Social security costs	945	1,216
Italian state pension and social fund contributions	4,712	4,202
Pensions	294	245
	30,915	29,583

The average number of personnel employed during the year was:

	2007	2006
Production	313	308
Research and development	111	109
Sales	28	26
Administration	48	43
	500	486

21. Geographic information

Revenues based on the country in which the recipient of the product or service is resident, are as follows:

	Total Revenues Year Ended December 31,	
	2007	**2006**
United States	34,188	33,392
Germany	17,782	15,591
United Kingdom	9,731	12,897
Japan	5,839	5,226
Italy	4,044	5,124
Switzerland	3,145	3,057
France	1,997	2,136
Spain	1,778	1,013
Canada	1,134	1,060
South Africa	1,149	1,210
Netherlands	1,041	2
Other	2,993	2,141
	84,821	82,849

Company Balance Sheet
December 31, 2007
(Before appropriation of net loss)

Assets

	Note	December 31, 2007 €000	December 31, 2007 €000	December 31, 2006 €000	December 31, 2006 €000
Fixed assets					
Investments in subsidiaries	2	15,377		16,356	
Receivables from Group companies	2	70,408		39,541	
Total fixed assets			85,785		55,897
Current assets					
Prepaid expense		61		2,072	
Cash		9,221		444	
Total current assets			9,282		2,516
Total assets			95,067		58,413

Shareholders' equity and liabilities

	Note	December 31, 2007 €000	December 31, 2007 €000	December 31, 2006 €000	December 31, 2006 €000
Shareholders' equity					
Share capital		440		348	
Additional paid-in capital		130,858		55,367	
Accumulated deficit		(56,942)		(49,680)	
Cumulative translation adjustment		2,536		2,276	
Revaluation of interest rate swaps		–		520	
Result for the year		(8,390)		(7,262)	
Total shareholders' equity	3		68,502		1,569
Provision for net capital deficiencies of subsidiaries	2		25,865		21,642
Long term liabilities	7		–		30,105
Current liabilities	8		700		5,097
Total shareholders' equity and liabilities			95,067		58,413

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Company Statement of Operations
Year ended December 31, 2007

	2007	2006
	€000	€000
Net loss from investments	(10,856)	(7,326)
Other income, net	2,466	64
Net loss	(8,390)	(7,262)

Notes to Company Financial Statements
December 31, 2007

1. Significant accounting policies

The accounting policies are the same as those described in Notes to Consolidated Financial Statements. Investments in subsidiaries are stated at the Company's share in their net asset value.

As permitted by Section 402, Book 2 of the Code, a condensed statement of operations is presented for the Company itself.

2. Investments in subsidiaries, receivables from group companies and provision for net capital deficiencies of subsidiaries

	2007	2006
	€000	€000
Investments in subsidiaries	15,377	16,356
Receivables from Group companies	70,408	39,541
Provision for net capital deficiencies of subsidiaries	(25,865)	(21,642)
	59,920	34,255

	Investment in subsidiaries	Receivables from Group Companies	Provision for net capital deficiencies of subsidiaries	Total
	€000	€000	€000	€000
Balance at January 1, 2007	16,356	39,541	(21,642)	34,255
Provided for in the year	(840)	(2,837)	(7,179)	(10,856)
Change in fair value of interest rate swaps		(77)		(77)
Reclassification upon termination of interest rate swap		(443)		(443)
Translation adjustment	(139)		2,432	2,293
Stock options			524	524
Loans to subsidiaries		29,837		29,837
Other receivables from subsidiaries		4,387		4,387
Balance at December 31, 2007	15,377	70,408	(25,865)	59,920

The provision for net capital deficiencies of subsidiaries is related to the Company's subsidiaries in the U.S. Additionally a provision for net capital deficiencies of Italian subsidiaries is presented as a reduction of intercompany receivables owned by the Company from those subsidiaries.

A summary of intercompany loans as of December 31, 2007 is as follows:

Borrower	Amount owned as of December 31, 2007, €000	Duration	Interest rate
Eurand Real Estate S.r.l.	29,678	on demand	EURIBOR + 2%
Eurand Real Estate S.r.l.	12,597	on demand	EURIBOR + 3%
Eurand Real Estate S.r.l.	13,485	on demand	EURIBOR + 3%
Eurand S.p.A.	25,896	on demand	USLIBOR + 2%
Total	**81,656**		

3. Shareholders' equity

	Share capital	Additional paid-in capital	Accum-ulated deficit	Translation of sub-sidiaries	Revaluation of interest rate swaps	Result for the year	Total
	€000	€000	€000	€000	€000	€000	€000
Opening balance	348	55,367	(49,680)	2,276	520	(7,262)	1,569
Appropriation of prior year loss	–	–	(7,262)	–	–	7,262	–
Net loss for the year	–	–	–	–	–	(8,390)	(8,390)
Conversion of Series A preference shares in ordinary shares	20	(20)	–	–	–	–	–
Issue of ordinary shares in Initial Public Offering	70	73,907	–	–	–	–	73,977
Stock option exercises	2	295	–	–	–	–	297
Stock option compensation	–	1,028	–	–	–	–	1,028
Share award compensation	–	281	–	–	–	–	281
Change in fair value of interest rate swaps	–	–	–	–	(77)	–	(77)
Reclassification upon termination of interest rate swaps	–	–	–	–	(443)	–	(443)
Translation of subsidiary companies	–	–	–	260	–	–	260
Closing balance	440	130,858	(56,942)	2,536	–	(8,390)	68,502

At December 31, 2007, the Company has authorized 130,000,000 ordinary shares with a nominal value of €0.01 each, of which 44,034,114 are issued and outstanding. Such shares have no pre-emptive rights.

During the year ended December 31, 2007, the Company issued 176,702 in order to satisfy its obligation on the exercise of employee stock options.

Immediately prior to the initial public offering on May 16, 2007, the holders of the Series A preference shares exercised their rights, to convert all of the outstanding Series A preference shares of the Company to ordinary shares on a one-for-one basis. As a result, 32,487,940 Series A preference shares outstanding at that date were converted into 32,487,940 ordinary shares. The ordinary shares have one vote per share and a par value of €0.01 per share. Subsequently, the Series A class of shares was cancelled.

On May 16, 2007, the Company consummated its initial public offering, issuing 7,000,000 ordinary shares, for proceeds of €73,977, net of costs of underwriting, external counsel, professional advisors and similar IPO related costs.

4. Employee options to acquire ordinary shares

Certain of the Company's employees participate in the Eurand N.V. Equity Compensation Plan, as amended ("the Plan") for which a maximum of 7,735,224 ordinary shares have been authorized for grants of options by the Company.

Stock options granted under the Plan generally become exercisable over a four-year annual vesting period and expire 10 years from the date of grant. All employees are eligible to be granted options at the discretion of the Board. Exercise prices of options should be equal to the fair value of underlying shares on the grant date. The Company's policy is to issue new shares upon stock option exercises, hence no cash is used by the Company when options are exercised.

Compensation cost expense and forfeiture (income) of €1,028 and €(65), relating to the aforementioned grants was recognized in the Company's statement of operations for the years ended December 31, 2007 and 2006, respectively. Compensation related to stock options had no effect on income taxes recorded in the income statement.

On May 16, 2007, the date of the IPO, the Company granted 758,000 stock options to senior management and certain other employees at an exercise price equal to the estimated fair market value of the underlying shares of $16.00 per share, which was the IPO price. During the remainder of the year ended December 31, 2007 the Company granted a further 199,000 stock options, mainly to new employees with exercise prices equal to the market value of the underlying shares on the grant date as measured in U.S. dollars. Weighted-average grant date fair value for stock options granted in 2007 was €5.13.

There were no stock options granted in 2006.

A summary of the status of the Company's stock options as of December 31, 2007 is as follows:

	No. Of options outstanding	Weighted average exercise price	Weighted average contractual life of options outstanding	Number of shares issuable on options exercisable
		€	years	€
At January 1, 2007	3,713,992	3.26	4.7	3,406,035
Granted	957,000	10.73		
Exercised	(176,702)	1.40		
Forfeited	(79,861)	6.46		
At December 31, 2007	4,414,429	4.89	4.9	3,507,361

During the year no stock options did expire.

5. Company's subsidiaries

At December 31, 2007, the Company's subsidiaries comprise:

Name	Registered office	% owned
Eurand Microencapsulation S.A.	Switzerland	100
Eurand France S.A.S.	France	100
Eurand Pharmaceuticals Limited	Ireland	100
Eurand S.p.A.	Italy	100
Eurand Real Estate S.r.l.	Italy	100

EA Acquisitions Corp.	U.S.A.	100
Eurand, Incorporated*	U.S.A.	100
Eurand Pharmaceuticals, Inc*	U.S.A	100
SourceCF, Incorporated*	U.S.A.	100
SourceCF Nutritionals LLC*	U.S.A.	100
SourceCF Inhalation Systems LLC*	U.S.A.	100
SourceCF CR&D LLC*	U.S.A.	100

* denotes indirectly owned subsidiaries.

6. Business acquisitions

On November 30, 2007, the Company acquired 100% of the common stock and membership interests in the various entities of the SourceCF group. The results of SourceCF's operations have been included in the consolidated financial statements since that date.

SourceCF is a business focused on serving the needs of Cystic Fibrosis (CF) patients, physicians and care givers. The acquisition provides Eurand with access to the SourceCF product portfolio, including a range of vitamins specifically designed to meet the needs of patients with CF and the eFlow® electronic nebulizer. Eurand intends to integrate the SourceCF team into its U.S. commercial organization to support the planned launch of its lead product candidate, EUR-1008 (Zentase®).

The aggregate purchase price was € 5.8 million, of which € 4.7 million, inclusive of direct costs of acquisition, was paid at the date of acquisition and €18 was paid in January 2008. The remaining € 1,021 will be paid on the second anniversary of the acquisition reduced for any amounts required for any indemnification claims. In addition, a further payment of € 1,027 will be made subject to achievement of a certain revenue target in the 2008 fiscal year. This payment will not be made until the second anniversary of the acquisition date and may be reduced for amounts required for any indemnification claims that may arise before the payment is made. Once payment is required, this amount will be recorded as goodwill.

A summary of the assets acquired and the liabilities assumed as a result of the purchase of 100% interest in SourceCF is as follows:

	€000
Current assets, including cash	790
Property, plant and equipment	20
Intangible assets	5,689
Total Assets Acquired	6,499
Current liabilities	(711)
Net asset acquired	5,788
Less: cash acquired	(104)
Cost of acquisition, net of cash acquired	5,684

In addition, as part of accounting for the business combination, the Company recognized €907 in net deferred tax liabilities relating to the acquired net taxable temporary differences of SourceCF. The availability of these deferred tax liabilities led to a reduction in the Company's valuation allowance.

The €5,689 of acquired intangible assets arose from various selling and marketing agreements with weighted average useful lives of approximately 8 years. These agreements are considered to have no residual value.

7. Long-term liabilities

	2007	2006	Due after five years 2007	Due after five years 2006
	€000	€000	€000	€000
Long-term notes payable to shareholders	–	30,105	–	–
	–	30,105	–	–

8. Current liabilities

	2007	2006
	€000	€000
Accounts payable	200	317
Due to group companies	11	2,829
Other	489	1,951
	700	5,097

9. Employee information

In November 2006 the Company hired one administrative employee who became the Company's first and only employee other than its managing directors. Other than these the Company had no employees in 2007 or in 2006

10. Remuneration of the Board of Directors

Remuneration (including pension costs but excluding the cost of social contributions) of the Board of Directors amounted to:

	2007	2006
	€000	€000
Wages and salaries	609	538
Bonus	250	200
Other benefits	13	12
	872	750

Individual remuneration of the Directors for the year ended December 31, 2007 was as follows:

	2007
	€000
G. Faherty	793
N. Lowcock -	
W. Jenkins	31
A. Erdeljan	20
R. Classon	11
A. Malahias	17
	872

Out of the total remuneration for 2007 of €872 the balance of €183 remained unpaid as of December 31, 2007.

The following table discloses, as of December 31, 2007, stock options held by the members of our Board:

Name	Number Granted	Exercise Price	2007 Exercises	Number Outstanding	Expiration Date
Gearoid M. Faherty	240,000	€ 6.67	—	240,000	2/28/2012
	120,000	€ 5.00	—	120,000	6/23/2013
	120,000	€ 5.00	—	120,000	10/26/2015
	120,000[1]	$ 16.00	—	120,000	5/16/2017
Rolf A. Classon	10,000	$ 12.88	—	10,000	8/29/2017
William J. Jenkins	15,000	€ 6.67	—	15,000	7/5/2010
	10,000[1]	$ 16.00	—	10,000	5/16/2017
Nicholas J. Lowcock					
Angelo C. Malahias	15,000[1]	$ 12.88	—	15,000	8/29/2017

(1) Options were granted pursuant to the Eurand N.V. Equity Compensation Plan in 2007.

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OTHER INFORMATION

Appropriation of net loss
According to the Company's articles of association, the annual meeting of shareholders determines the appropriation of the Company's net result for the year.

The net loss for 2007 will be included in accumulated deficit.

Subsequent events
The Company is not aware of any significant subsequent events.

Amsterdam, April 28, 2008

Managing Directors
Gearóid Michael Faherty

Non-Executive Directors
Nicholas John Lowcock

Angelo Malahias

William John Jenkins

Rolf Allan Classon

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To: board of managing directors and shareholders of Eurand N.V.

AUDITOR'S REPORT

ERNST & YOUNG

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To: board of managing directors and shareholders of Eurand N.V.

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements for 2007 of Eurand N.V., Amsterdam, which comprise the consolidated and company balance sheet as at December 31, 2007, the consolidated and company profit and loss account for the year then ended and the notes.

Management's responsibility
Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the managing directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the managing directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, April 28, 2008

for Ernst & Young Accountants

Signed by C.N.J. Verhart