

# INTERIM REPORT

FIRST QUARTER  
2007



*Recordati, established in 1926,  
is a European pharmaceutical group,  
listed on the Italian Stock Exchange  
(Reuters RECI.MI, Bloomberg REC IM,  
ISIN IT 0003828271),  
dedicated to the research, development,  
manufacturing and marketing of pharmaceuticals  
and pharmaceutical chemicals,  
with headquarters in Milan, Italy  
and operations in the main European countries.*

# HIGHLIGHTS

## FIRST QUARTER 2007

- » RECORD QUARTERLY RESULTS, REVENUE € 163.4 MILLION, EBIT € 37.1 MILLION, NET INCOME € 23.5 MILLION
- » LERCANIDIPINE SALES UP 7.3%
- » DIRECT MARKETING OF ZANIDIP<sup>®</sup> IN IRELAND BY RECORDATI IRELAND
- » MEDA TO CO-MARKET LERCANIDIPINE/ENALAPRIL FIXED COMBINATION IN GERMANY

### KEY CONSOLIDATED DATA

€ (thousands)	First Quarter 2007	% of Revenue	First Quarter 2006	% of Revenue	Change	Change %
Revenue	163,428	100.0	161,721	100.0	1,707	1.1
EBITDA <sup>(1)</sup>	43,682	26.7	40,409	25.0	3,273	8.1
Operating income	37,087	22.7	34,476	21.3	2,611	7.6
Net income	23,520	14.4	21,310	13.2	2,210	10.4
	31 March 2007		31 December 2006			
Net financial position	42,454		22,363		20,091	89.8
Shareholders' equity	390,328		366,802		23,526	6.4

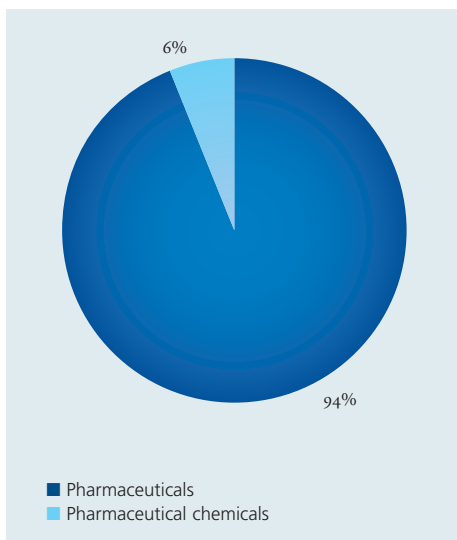
<sup>(1)</sup> Earnings before interest, taxes depreciation and amortization

## INTERNATIONAL REVENUES DRIVE GROWTH

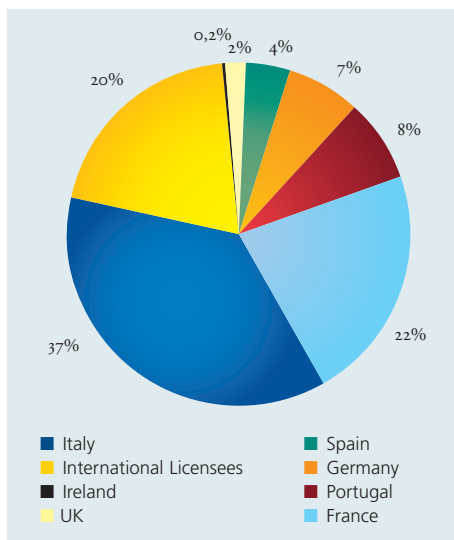
In the first quarter 2007 consolidated revenue is € 163.4 million, an increase of 1.1% over the same period of the preceding year. Pharmaceutical sales are € 153.7 million, an increase of 0.7% over the first quarter of last year thanks to the consolidation of the newly acquired Portuguese business which records sales of € 12.1 million. On a like-for-like basis pharmaceutical sales are down by 7.2% due to a negative price effect mainly in Italy resulting from price cuts imposed in the second half 2006, and to a reduction in volumes mainly in Spain due to the termination of the Ulcotenal® (pantoprazole) license. Pharmaceutical chemicals sales are € 9.7 million, an increase of 6.3% over the same period of the preceding year driven by a 12.9% increase in volumes.

International sales went from € 98,2 million to € 106.3 million, an increase of 8.2%, in the first quarter 2007 and now represent 65% of total revenue.

### SALES BY BUSINESS:



### PHARMACEUTICAL SALES:



## SOURCES OF GROWTH

<i>(Change as % of revenue, first quarter 2007 over first quarter 2006)</i>	Volume Effect	Price Effect	Currency Effect	Total Change
Pharmaceuticals	4.7	(3.9)	(0.1)	0.7
Pharmaceutical chemicals	12.9	(1.7)	(4.9)	6.3
<b>Total change</b>	<b>5.2</b>	<b>(3.7)</b>	<b>(0.4)</b>	<b>1.1</b>

## COMPOSITION OF SALES

€ (thousands)	First Quarter 2007	First Quarter 2006	Change	Change %
Pharmaceuticals Italy	56,274	62,834	(6,560)	(10.4)
Pharmaceuticals France	33,570	34,938	(1,368)	(3.9)
Pharmaceuticals Portugal	12,062	-	12,062	n.s.
Pharmaceuticals Germany	11,222	11,862	(640)	(5.4)
Pharmaceuticals Spain	5,608	10,652	(5,044)	(47.4)
Pharmaceuticals United Kingdom	3,140	3,101	39	1.3
Pharmaceuticals Ireland	286	-	286	n.s.
International Licensees	31,525	29,167	2,358	8.1
<b>Total Pharmaceuticals</b>	<b>153,687</b>	<b>152,554</b>	<b>1,133</b>	<b>0.7</b>
Pharmaceutical Chemicals	9,741	9,167	574	6.3
<b>TOTAL SALES</b>	<b>163,428</b>	<b>161,721</b>	<b>1,707</b>	<b>1.1</b>

*Includes other income related to license agreements*

Zanidip® (lercanidipine), Recordati's proprietary calcium channel blocker, continued to perform well during the first quarter of 2007 in those countries where it is sold directly through our own marketing organizations as well as in the other markets where it is marketed by licensees.

## LERCANIDIPINE SALES

€ (thousands)	First Quarter 2007	First Quarter 2006	Change	Change %
Italy	12,068	12,427	(359)	(2.9)
France	9,970	8,124	1,846	22.7
United Kingdom	3,015	3,101	(86)	(2.8)
Spain	1,878	1,813	65	3.6
Germany	1,200	-	1,200	n.s.
Others*	815	439	376	n.s.
Direct Sales	28,946	25,904	3,042	11.7
Sales to Licensees	17,998	17,836	162	0.9
<b>Total Sales</b>	<b>46,944</b>	<b>43,740</b>	<b>3,204</b>	<b>7.3</b>

*\*Includes Bouchara Recordati's foreign sales of € 0.5 million in 2007 and € 0.4 million in 2006 and sales in Ireland of € 0.3 million starting 1 January 2007.*

Direct sales in Italy of Zanedip® and Lercadip® are down by 2.9% over last year's first quarter due to price cuts imposed during 2006. Zanidip® in France continues to be a very successful product with sales increasing by 22.7%. In the United Kingdom sales of Zanidip® are € 3.0 million, substantially in line with the first quarter of the preceding year which, however, included an initial pipeline to the distribution. On the Spanish market Zanidip® shows slight sales growth compared to the first quarter of last year as a result of the good performance of the 20mg dosage form. In Germany Corifeo®, which is sold directly by Merckle Recordati as from May 2006, records sales of € 1.2 million in the first quarter 2007. As from January lercanidipine is also sold directly to the market in Ireland where it is being promoted by our own marketing organization.

Growth of sales to licensees is lower as a result of the repurchase of our selling rights in some countries where the product is now sold directly, and of price reductions in Germany. Lercanidipine is now being sold on 84 markets and to date the new 20mg formulation has been launched in 22 of these.

Sales of pharmaceuticals in Italy are down by 10.4% as compared to the first quarter of 2006, mainly due to a negative price effect worth € 4.8 million resulting from the cost containment measures introduced in July and October of 2006. Of our main Italian products Entact® (escitalopram), an antidepressant under license from Lundbeck, continues to grow. On the other hand, sales of Peptazol® (pantoprazole) are affected by an overall weakness of the PPI market.

Pharmaceutical sales in France are down by 3.9% mainly due to the delisting of Exomuc® and the Hexa line of products as from March 2006. All the other main products in the portfolio are growing.

Sales in Portugal realized by our new subsidiaries are € 12.1 million with all major products performing well.

First quarter 2007 sales in Germany recorded by Merckle Recordati are € 11.2 million, slightly down as compared to the same period of the preceding year due to the extra discount which must be recognized to the *Krankenkassen* as from April 2006.

Sales in Spain are down by 47.4% due to the loss of Ulcotenal® (pantoprazole) as from April 2006 following the termination of the Altana license.

In the United Kingdom, Recordati Pharmaceuticals generated sales of € 3.1 million related mainly to Zanidip® (lercanidipine). In January Tradorec XL®, a new formulation of tramadol, was launched.

Sales in Ireland are € 0.3 million and are related exclusively to Zanidip which is marketed directly by our own sales organization as from January following the termination of the agreement with the previous licensee.

Sales to international licensees grow by 8.1% due to the continuing success of lercanidipine in markets abroad and to the good performance of Bouchara Recordati's export sales.

## COMPANY DEVELOPMENT NEWS

In January Recordati Ireland Ltd. initiated commercial operations in the Irish pharmaceutical market where Zanidip® (lercanidipine) is now promoted directly by this subsidiary following the termination of the agreement with the previous licensee.

In February a non-exclusive agreement was signed with Meda, an international pharmaceutical company, for the marketing and sale in Germany of our new antihypertensive drug which combines lercanidipine and enalapril. The product was launched in April by our subsidiary Merckle Recordati under the brand Zanipress® and by Meda as Zaneril®.

## FURTHER MARGIN IMPROVEMENT

The income statement for the first quarter 2007 is included below.

### P & L

€ (thousands)	First Quarter 2007	% of Revenue	First Quarter 2006	% of Revenue	Change	Change %
<b>Revenue</b>	<b>163,428</b>	<b>100.0</b>	<b>161,721</b>	<b>100.0</b>	<b>1,707</b>	<b>1.1</b>
Cost of sales	(54,418)	(33.3)	(53,362)	(33.0)	(1,056)	2.0
<b>Gross profit</b>	<b>109,010</b>	<b>66.7</b>	<b>108,359</b>	<b>67.0</b>	<b>651</b>	<b>0.6</b>
Selling expenses	(50,486)	(30.9)	(55,426)	(34.3)	4,940	(8.9)
R&D expenses	(12,968)	(7.9)	(11,734)	(7.3)	(1,234)	10.5
G&A expenses	(8,357)	(5.1)	(7,063)	(4.4)	(1,294)	18.3
Other income (expense), net	(112)	(0.1)	340	0.2	(452)	n.s.
<b>Operating income</b>	<b>37,087</b>	<b>22.7</b>	<b>34,476</b>	<b>21.3</b>	<b>2,611</b>	<b>7.6</b>
Financial income (expense), net	(308)	(0.2)	(497)	(0.3)	189	(38.0)
<b>Pretax income</b>	<b>36,779</b>	<b>22.5</b>	<b>33,979</b>	<b>21.0</b>	<b>2,800</b>	<b>8.2</b>
Provision for income taxes	(13,259)	(8.1)	(12,669)	(7.8)	(590)	4.7
<b>Net Income</b>	<b>23,520</b>	<b>14.4</b>	<b>21,310</b>	<b>13.2</b>	<b>2,210</b>	<b>10.4</b>

Gross profit is € 109.0 million with a margin on sales of 66.7%, slightly below that of the same period of last year due to the price cuts and the consolidation of the Portuguese business which has a higher cost of goods than the group's average.

Selling expenses at 30.9% of sales decreased significantly (-8.9%) as compared to the same period of the preceding year. This reduction is to be attributed in part to the suspension of sponsorship of medical congresses in Italy as directed by the industry association Farmindustria. The stop will be lifted in the second quarter. Furthermore, the rationalization of the group's commercial organization which was implemented in the second half of 2006 is being completed. R&D expenses at € 13.0 million increase by 10.5% due to the clinical development of pipeline products. G&A expenses are above those of the same period of the preceding year due to a different classification of the management cost of some subsidiaries which was previously recognized in selling expenses.



Operating income, at 22.7% of sales, is € 37.1 million, an increase of 7.6% over the first quarter of the preceding year. The operating margin improvement is mainly due to the reduction in selling expenses.

Net financial charges during the first quarter are down to € 0.3 million (€ 0.5 million in the first quarter 2006) due to an increase in interest income rates and the reimbursement of the relatively higher fixed interest rate loans. The effective tax rate during the period was 36.1%, an improvement over that for the full year 2006.

Net income at 14.4% of sales goes from € 21.3 million in the first quarter of 2006 to € 23.5 million, an increase of 10.4%.

## GOOD CASH GENERATION

### NET FINANCIAL POSITION

€ (thousands)	31 March 2007	31 December 2006	Change	Change %
Cash and short-term financial investments	155,245	145,029	10,216	7.0
Bank overdrafts	(14,385)	(14,574)	189	(1.3)
Loans – due within one year	(12,034)	(20,446)	8,412	(41.1)
<b>Net liquid assets</b>	<b>128,826</b>	<b>110,009</b>	<b>18,817</b>	<b>17.1</b>
Loans – due after one year <sup>(1)</sup>	(86,372)	(87,646)	1,274	(1.5)
<b>Net financial position</b>	<b>42,454</b>	<b>22,363</b>	<b>20,091</b>	<b>89.8</b>

<sup>(1)</sup> Does not include change in fair value (fair value hedge)

The € 20.1 million increase is to be attributed to cash flow generated by operations. € 1.1 million were invested during the period in new property, plant and equipment and € 0.5 million in intangible assets. Net working capital for operations increased by € 3.0 million in line with increased business volumes. Further details are provided in the Consolidated Financial Statements and in the Notes to the Financial Statements.

# CONSOLIDATED FINANCIAL STATEMENTS

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENT FOR THE PERIOD  
ENDED 31 MARCH 2007

## INCOME STATEMENT

€ (thousands)	First Quarter 2007	First Quarter 2006
<b>Revenue</b>	<b>163,428</b>	<b>161,721</b>
Cost of sales	(54,418)	(53,362)
<b>Gross profit</b>	<b>109,010</b>	<b>108,359</b>
Selling expenses	(50,486)	(55,426)
R&D expenses	(12,968)	(11,734)
G&A expenses	(8,357)	(7,063)
Other income (expense), net	(112)	340
<b>Operating income</b>	<b>37,087</b>	<b>34,476</b>
Financial income (expense), net	(308)	(497)
<b>Pretax income</b>	<b>36,779</b>	<b>33,979</b>
Provision for income taxes	(13,259)	(12,669)
Minority interest	0	0
<b>Net income</b>	<b>23,520</b>	<b>21,310</b>
<b>Earnings per share</b>		
Basic	€ 0.118	€ 0.106
Diluted	€ 0.114	€ 0.104

*Earnings per share (EPS) are based on average shares outstanding during each year, 199,759,765 in 2007 and 200,250,592 in 2006, net of average treasury stock which amounted to 6,654,891 in 2007 and 4,798,664 in 2006. Diluted earnings per share is calculated taking into account new shares authorized but not yet issued.*

RECORDATI S.P.A. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET AT 31 MARCH 2007

**ASSETS**

€ (thousands)	31 March 2007	31 December 2006
<b>Non-current assets</b>		
Property, plant and equipment	69,599	71,916
Intangible assets	89,830	92,490
Goodwill	129,771	129,771
Other investments	580	696
Other non-current assets	1,184	1,268
Deferred tax assets	18,434	18,798
<b>Total non-current assets</b>	<b>309,398</b>	<b>314,939</b>
<b>Current assets</b>		
Inventories	77,778	74,670
Trade receivables	132,096	123,418
Other receivables	9,309	11,002
Other current assets	6,791	1,789
Short-term financial investments, cash and cash equivalents	155,245	145,029
<b>Total current assets</b>	<b>381,219</b>	<b>355,908</b>
<b>Total assets</b>	<b>690,617</b>	<b>670,847</b>

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET AT 31 MARCH 2007

**EQUITY AND LIABILITIES**

€ (thousands)	31 March 2007	31 December 2006
<b>Shareholders' equity</b>		
Share capital	25,802	25,802
Additional paid-in capital	73,165	73,165
Treasury stock	(30,653)	(30,653)
Hedging reserve ( <i>cash flow hedge</i> )	(875)	(1,081)
Translation reserve	(156)	336
Other reserves	25,231	24,926
Retained earnings	274,294	200,276
Net income for the year	23,520	74,031
<b>Group shareholders' equity</b>	<b>390,328</b>	<b>366,802</b>
Minority interest	0	0
<b>Shareholders' equity</b>	<b>390,328</b>	<b>366,802</b>
<b>Non-current liabilities</b>		
Loans – due after one year	81,660	83,697
Staff leaving indemnities	22,120	22,587
Deferred tax liabilities	9,774	9,402
Other non-current liabilities	0	5,645
<b>Total non-current liabilities</b>	<b>113,554</b>	<b>121,331</b>
<b>Current liabilities</b>		
Trade payables	73,991	71,537
Other payables	36,204	32,159
Tax liabilities	31,019	22,076
Other current liabilities	462	413
Provisions	13,053	16,479
Fair value of hedging derivatives ( <i>cash flow hedge</i> )	875	1,081
Fair value of hedging derivatives ( <i>fair value hedge</i> )	4,712	3,949
Loans – due within one year	12,034	20,446
Bank overdrafts	14,385	14,574
<b>Total current liabilities</b>	<b>186,735</b>	<b>182,714</b>
<b>Total equity and liabilities</b>	<b>690,617</b>	<b>670,847</b>

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 31 MARCH 2007

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Total
<b>Balance at 31 December 2005</b>	25,631	67,664	(20,410)	(3,158)	1,824	23,485	162,718*	64,543	322,297
Allocation of 2005 net income:									
- Retained earnings							64,543	(64,543)	
Net income for the period								21,310	21,310
Changes in fair value of hedging derivatives				1,352					1,352
Effect of application of IAS/IFRS						190			190
Translation Adjustment					(833)				(833)
<b>Balance at 31 March 2006</b>	25,631	67,664	(20,410)	(1,806)	991	23,675	227,261*	21,310	344,316
<b>Balance at 31 December 2006</b>	25,802	73,165	(30,653)	(1,081)	336	24,926	200,276	74,031	366,802
Allocation of 2006 net income:									
- Retained earnings							74,031	(74,031)	
Net income for the period								23,520	23,520
Changes in fair value of hedging derivatives				206					206
Effect of application of IAS/IFRS						305			305
Other changes							(13)		(13)
Translation Adjustment					(492)				(492)
<b>Balance at 31 March 2007</b>	25,802	73,165	(30,653)	(875)	(156)	25,231	274,294	23,520	390,328

\* Restated following the adoption of IAS/IFRS by the parent company.

RECORDATI S.P.A. AND SUBSIDIARIES  
 CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD  
 ENDED 31 MARCH 2007

€ (thousands)	First Quarter 2007	First Quarter 2006
<b>Operating activities</b>		
<b>Cash flow</b>		
Net Income	23,520	21,310
Depreciation of property, plant and equipment	3,430	3,041
Amortization of intangible assets	3,165	2,892
<b>Total cash flow</b>	<b>30,115</b>	<b>27,243</b>
(Increase)/decrease in deferred tax assets	364	(274)
Staff leaving indemnities:		
Provision	438	755
Payment	(905)	(855)
Increase/(decrease) in other non-current liabilities	(5,273)	(6,116)
	<b>24,739</b>	<b>20,753</b>
<b>Changes in working capital</b>		
Trade and other receivables	(6,985)	(2,142)
Inventories	(3,108)	(298)
Other current assets	(5,002)	(1,442)
Trade and other payables	6,499	(13,103)
Tax liabilities	8,943	9,757
Other current liabilities	49	438
Provisions	(3,426)	(64)
<b>Changes in working capital</b>	<b>(3,030)</b>	<b>(6,854)</b>
<b>Net cash from operating activities</b>	<b>21,709</b>	<b>13,899</b>
<b>Investing activities</b>		
Net (investments)/disposals in property, plant and equipment	(1,113)	(1,636)
Net (investments)/disposals in intangible assets	(505)	(639)
Net (increase)/decrease in equity investments	116	0
Net (increase)/decrease in other non-current receivables	84	76
<b>Net cash used in investing activities</b>	<b>(1,418)</b>	<b>(2,199)</b>
<b>Financing activities</b>		
New bank loans raised	5	0
Effect of application of IAS/IFRS	305	190
Other changes in equity	(13)	0
Transfer of current portion of medium and long-term debt to current liabilities	(1,279)	(9,687)
Changes in current portion of medium and long-term debt	(8,412)	(1,574)
Proceeds on sale of pharmaceutical chemicals plant	-	12,634
Change in translation reserve	(492)	(833)
<b>Net cash from/(used in) financing activities</b>	<b>(9,886)</b>	<b>730</b>
<b>Changes in short-term financial position</b>	<b>10,405</b>	<b>12,430</b>
Short-term financial position at beginning of year *	130,455	156,765
Short-term financial position at end of period *	140,860	169,195
* Includes cash and cash equivalents net of bank overdrafts		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2007

## 1. GENERAL

The consolidated financial statements at 31 March 2007 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in attachment 1. The consolidation perimeter has not changed as compared to that at 31 December 2006 which included the balance sheets of the Portuguese companies acquired at the end of the year. As from 1 January 2007 the income statements of the Portuguese companies were consolidated for the first time. The newly acquired companies are recognized in the accounts in accordance with IFRS 3 and their effect is not yet considered definite and could be subject to change as allowed by IFRS 3.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and in particular as per IAS 34 requirements for interim reporting. The same accounting policies applied in the preparation of the consolidated financial statements at 31 March 2006 and at 31 December 2006 were used in the preparation of the financial statements for the period ended 31 March 2007.



### 3. REVENUE

Net revenue for the first quarter 2007 is € 163.4 million (€ 161.7 million in the same period of the preceding year) and can be broken down as follows:

€ (thousands)	First Quarter 2007	First Quarter 2006	Change 2007/2006
Net sales	161,423	159,353	2,070
Royalties	297	513	(216)
Up-front payments	920	818	102
Other revenue	788	1,037	(249)
<b>Total revenue</b>	<b>163,428</b>	<b>161,721</b>	<b>1,707</b>

### 4. OPERATING EXPENSES

Overall operating expenses in the first quarter 2007 are € 126.3 million, compared to € 127.2 million in the same period of the preceding year and are analyzed by function. Staff costs in the first quarter 2007 are € 42.7 million and include a cost for stock options of € 0.3 million. Total depreciation and amortization charges are € 6.6 million, an increase of € 0.7 million over the first quarter 2006.

### 5. FINANCIAL INCOME AND EXPENSE

In the first quarter 2007 and in the same period of 2006 financial items record a net expense of € 0.3 million and € 0.5 million respectively which are comprised as follows:

€ (thousands)	First Quarter 2007	First Quarter 2006	Change 2007/2006
Exchange gains/(losses)	(28)	(209)	181
Interest expense on loans	(1,289)	(1,407)	118
Net interest on short-term financial position	1,207	1,325	(118)
Interest cost in respect of defined benefit plans	(198)	(206)	8
Change in fair value of hedging derivatives	(763)	(3,170)	2,407
Change in fair value of hedged item	763	3,170	(2,407)
<b>Total financial income (expense), net</b>	<b>(308)</b>	<b>(497)</b>	<b>189</b>

The change in fair value of hedging derivatives refers to the measurement of the cross-currency interest rate swap covering the series of long term senior

unsecured notes privately placed in 2004 with the objective of eliminating the exchange risk linked to the *tranches* denominated in U.S. dollars and in pounds sterling. This amount is equivalent to the reduction in the fair value of the underlying debt as compared to its nominal value with a combined zero effect on the income statement as the transaction is perfectly hedged.

## 6. PROPERTY, PLANT AND EQUIPMENT

The composition and variation of property, plant and equipment are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
<b>Cost</b>					
Balance at 31.12.06	56,741	161,456	33,788	1,960	253,945
Additions	7	171	173	765	1,116
Disposals	0	(49)	(243)	0	(292)
Changes in reporting entities	0	0	0	0	0
Other changes	328	286	84	(698)	0
<b>Balance at 31.03.07</b>	<b>57,076</b>	<b>161,864</b>	<b>33,802</b>	<b>2,027</b>	<b>254,769</b>
<b>Accumulated depreciation</b>					
Balance at 31.12.06	27,616	125,119	29,294	0	182,029
Additions	530	2,312	588	0	3,430
Disposals	0	(49)	(237)	0	(286)
Changes in reporting entities	0	0	0	0	0
Other changes	0	0	(3)	0	(3)
<b>Balance at 31.03.07</b>	<b>28,146</b>	<b>127,382</b>	<b>29,642</b>	<b>0</b>	<b>185,170</b>
<b>Carrying amount at</b>					
<b>31 March 2007</b>	<b>28,930</b>	<b>34,482</b>	<b>4,160</b>	<b>2,027</b>	<b>69,599</b>
31 December 2006	29,125	36,337	4,494	1,960	71,916

## 7. INTANGIBLE ASSETS

The composition and variation of intangible assets are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
<b>Cost</b>					
Balance at 31.12.06	67,713	76,077	14,228	3,983	162,001
Additions	0	650	23	23	696
Disposals	0	0	0	(107)	(107)
Changes in reporting entities	0	0	0	0	0
Other changes	0	(87)	(3)	(4)	(94)
<b>Balance at 31.03.07</b>	<b>67,713</b>	<b>76,640</b>	<b>14,248</b>	<b>3,895</b>	<b>162,496</b>
<b>Accumulated amortization</b>					
Balance at 31.12.06	29,733	27,692	12,086	0	69,511
Additions	1,195	1,670	300	0	3,165
Disposals	0	0	0	0	0
Changes in reporting entities	0	0	0	0	0
Other changes	0	(10)	0	0	(10)
<b>Balance at 31.03.07</b>	<b>30,928</b>	<b>29,352</b>	<b>12,386</b>	<b>0</b>	<b>72,666</b>
<b>Carrying amount at</b>					
<b>31 March 2007</b>	<b>36,785</b>	<b>47,288</b>	<b>1,862</b>	<b>3,895</b>	<b>89,830</b>
31 December 2006	37,980	48,385	2,142	3,983	92,490

## 8. GOODWILL

Goodwill at 31 March 2007 is € 129.8 million, unchanged as compared to the end of 2006. The excess of the cost of the acquisitions in Portugal after recognition of the net fair value of the identifiable assets, liabilities and contingent liabilities of € 35.2 million recognized in the balance sheet at 31 December 2006 could still be subject to change as allowed by IFRS 3.

In compliance with IFRS 3, as from 2005 goodwill is no longer amortized. Instead, it shall be tested, at least annually, for impairment. At 31 March 2007 no loss in the value of goodwill on the balance sheet was identified.

€ (thousands)	Goodwill
<b>Cost</b>	
Balance at 31.12.06	167,435
Changes in reporting entities	0
<b>Balance at 31.03.07</b>	<b>167,435</b>
<b>Accumulated amortization</b>	
Balance at 31.12.06	37,664
Changes	0
<b>Balance at 31.03.07</b>	<b>37,664</b>
<b>Carrying amount at</b>	
<b>31 March 2007</b>	<b>129,771</b>
31 December 2006	129,771

## 9. DEFERRED TAX ASSETS AND LIABILITIES

At 31 March 2007 deferred tax assets decrease by € 0.4 million as compared to those at 31 December 2006 while deferred tax liabilities increase by € 0.4 million.

## 10. SHAREHOLDERS' EQUITY

Shareholders' Equity at 31 March 2007 is € 390.3 million, an increase of € 23.5 million compared that at 31 December 2006 for the following reasons:

- net income for the first quarter 2007 (increase of € 23.5 million)
- cost of stock option plans set-off directly in equity (increase of € 0.3 million)
- change in the fair value of hedging derivatives (increase of € 0.2 million)
- translation adjustments (decrease of € 0.5 million)

The Company has six stock option plans in place in favor of certain group employees. The strike price of the options is the average of the parent company's listed share price during the 30 days prior to the grant date. Stock options are vested over a period of four years. Options not exercised within the fifth year of the date of grant expire. Options may not be exercised if the employee leaves the company before they are vested.

Stock options outstanding at 31 March 2007 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2007	Options granted during 2007	Options exercised during 2007	Options cancelled or expired	Options outstanding at 31.03.2007
<b>Date of grant:</b>						
13 November 2001	5.2700	271,000	-	-	0	271,000
30 October 2002	5.1800	445,000	-	-	0	445,000
14 May 2003	3.6775	483,000	-	-	(38,500)	444,500
7 April 2004	3.5750	936,000	-	-	(77,000)	859,000
27 October 2004	4.0550	1,229,500	-	-	(77,000)	1,152,500
6 April 2006	6.4975	2,610,000	-	-	(210,000)	2,400,000
<b>Total</b>		<b>5,974,500</b>	<b>-</b>	<b>-</b>	<b>(402,500)</b>	<b>5,572,000</b>

The share capital increase in relation to options outstanding, except those granted in 2006 which might be served by using shares held in treasury stock, has already been authorized.

## 11. LOANS

Overall, medium and long-term loans decrease by € 10.4 million compared to those at 31 December 2006, including the measurement at fair value of the guaranteed senior notes issued and privately placed in 2004. € 9.7 million were reimbursed during the period and no significant new loans were raised.

The note and guarantee agreement covering the guaranteed senior notes issued by Recordati S.A. (Luxembourg) includes covenants which require the maintenance of the following financial conditions by the Company:

- consolidated net worth at any time must not be less than the sum of € 170,0 million plus 25% of consolidated net earnings for each fiscal year;
- the ratio of consolidated net debt as of the last day of any fiscal quarter to EBITDA for the period of four fiscal quarters then ended must be less than 3.00 to 1.00;
- the ratio of EBIT to consolidated net interest expense for any period of four fiscal quarters must exceed 3.00 to 1.00.

At each quarter end starting 31 December 2004 the above conditions were amply fulfilled.

The series of guaranteed senior notes, issued at the end of 2004, comprises *tranches* in various currencies at fixed interest rates. The *tranches* denominated in currencies other than the Euro have been covered with a cross-currency interest rate swap effectively converting the whole debt into Euro at a variable interest rate equivalent to the Euribor 6 months rate plus a spread. The *tranches* denominated in Euro have been covered with an interest rate swap effectively converting the interest charges on the debt from fixed to variable at the same abovementioned conditions. The measurement at fair value of the swaps at 31 March 2007 generated a liability of € 4.7 million, an amount equivalent to the decrease in the fair value of the underlying debt. This amount is recognized in the balance sheet as an decrease of debt and under current liabilities as 'Fair value of hedging derivatives (*fair value hedge*)'.

The total amount of the notes was simultaneously covered with a further interest rate swap, qualifying as a cash flow hedge, to fix a range (which at 31 March 2007 is between 2.66% and 4.85%) within which the interest rate can fluctuate in order to optimize the cost of financing for the duration of the notes. The € 0.9 million fair value of the cash flow hedge is recognized directly in equity and stated as a current liability (see Note 16).

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

Medium and long-term loans at variable interest rates for a total of € 9.8 million are hedged with interest rate swaps (which qualify as a cash flow hedge) in order to entirely eliminate any interest rate fluctuation risk. The fair value of the cash flow hedge is recognized directly in equity and stated as a current liability (see Note 16). The derivative instruments and the hedged items are linked and the Group does not intend to terminate or modify them independently from each other.

## **12. STAFF LEAVING INDEMNITIES**

The staff leaving indemnity fund at 31 March 2007 is of € 22.1 million, substantially unchanged as compared to that at 31 December 2006.

## **13. OTHER LIABILITIES (INCLUDED IN NON-CURRENT LIABILITIES)**

The installment due in 2008 for the acquisition of Merckle Recordati, which at 31 December 2006 was stated under this heading, is stated under current liabilities at 31 March 2007.

## **14. CURRENT ASSETS**

Inventories increase by € 3.1 million over those stated at 31 December 2006 in line with business volumes. Trade receivables increase by € 8.7 million and average days sales outstanding are 71, down from 74 at 31 December 2006. Other receivables decrease by € 1.7 million mainly due to the reduction in amounts due from employees of € 0.4 million and the reduction of tax receivable of € 0.4 million.

Other current assets are mainly prepaid expenses. The significant increase of € 5.0 million compared to the balance at 31 December 2006 is to be attributed mainly to the pay-back due by the Italian companies to the healthcare authorities in exchange for a suspension of the 5% price cut on selected reimbursable specialties. AIFA (the Italian Medicines Agency) offered pharmaceutical companies the option of suspending the 5% price reduction applied on 1 October 2006 for the period 1 March 2007 to 29 February 2008 in exchange for the payment of 5% of sales realized in 2006. The € 4.5 million amount to be paid back is to be spread over the application period and the prepaid amount at 31 March 2007 is € 4.1 million.

## 15. CURRENT LIABILITIES

Trade payables, which include invoices to be received, increase by € 2.5 million. Other payables increase by € 4.0 million mainly due to higher payables to personnel (€ 1.7 million) and the pay-back agreed with AIFA (the Italian Medicines Agency) (see Note 14) for a total amount of € 4.5 million to be paid in three equal installments, the first of which was paid in February 2007 while the other two are due in June and September 2007.

Also included under current liabilities is the third installment of the residual liability related to the acquisition of Merckle Recordati due early in 2008 for an amount of € 5.7 million which includes a present value adjustment of € 0.1 million as required by IAS/IFRS.

Tax liabilities increased by € 8.9 million due to the provision for income tax for the period.

Tax and other provisions decreased mainly due to the payment of personnel leaving indemnities (€ 2.3 million) and the payment of € 1.0 million of the amount provided for to cover the risks related to the presumed liability of Recordati pursuant to decree-law 231/2001.

## 16. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGE)

The measurement at fair value of the interest rate swaps covering the cash flows related to medium and long-term loans gave rise to a € 0.9 million liability at 31 March 2007. This amount represents the unrealized benefit of paying the current expected future rates instead of the rates agreed. This amount refers almost entirely to the interest rate swap defining a collar which limits the fluctuation of the interest rates payable on the guaranteed senior notes issued by Recordati S.A. Chemical & Pharmaceutical Company.

## 17. SEGMENT REPORTING

The Group is involved exclusively in the pharmaceutical business. Following the restructuring of the pharmaceutical chemicals operations in 2005 these are now part of the pharmaceutical business as they are prevalently dedicated to the production of active ingredients for this business. The following table presents net revenues by geographic area:



€ (thousands)	First Quarter 2007	First Quarter 2006*	Change 2007/2006
Europe	143,931	141,808	2,123
<i>of which Italy</i>	57,121	63,489	4,179
Australasia	8,422	10,549	(2,127)
America	6,066	5,662	404
Africa	5,009	3,702	1,307
<b>Total revenue</b>	<b>163,428</b>	<b>161,721</b>	<b>1,707</b>
<i>* Restated for comparison purposes</i>			

The Group's production facilities are located in Europe and therefore non-current assets and Group investments are located exclusively in this area.

## 18. LITIGATION AND CONTINGENT LIABILITIES

The parent company and some subsidiaries are party to certain legal actions. Management is of the opinion that such legal actions will not result in any significant liability.

In January 2001 certain savings shareholders, who said they owned in total about 1% of savings shares, contested the decision to convert the savings shares into ordinary shares adopted by the Special Savings Shareholders' Meeting on 26 October 2000 and by the Extraordinary Shareholders' Meeting on 25 October 2000, questioning the legitimacy of the "automatic" conversion provision. These shareholders also presented a motion to suspend the execution of the said decision, which however was rejected on 13 February 2001 by the competent court. The Company filed its entry of appearance. On 18 May 2004 and on 10 January 2005 the hearings for the final pleas of the parties took place. On 13 April 2007 the court filed its decision rejecting the aforesaid shareholders' demands and sentencing them to settle all charges arising from the litigation. This sentence confirms the Company's position that the conversion operation was perfectly legal as well as very advantageous for the savings shareholders, which was supported by the positive reaction of the market and the very high percent of shareholders opting for the conversion.

During 2006 Recordati S.p.A. was party to two lawsuits for tort liability brought by the Bari and by the Milan Attorneys' Offices pursuant to legislative decree 231/2001 in relation to alleged crimes committed by its employees. In both cases the Company fulfilled all the obligations provided for by article 17 of the aforesaid legislative decree, thus avoiding the possible application of

precautionary measures and/or interdiction and paving the way towards the closing of the proceedings through the sole application of a fine as per article 63 of the aforesaid legislative decree. In particular, regarding the Milan proceedings, the obligations can be deemed finalized since the Company has already made available to the legal authorities its new compliance programs, which have been further reinforced to prevent illicit behaviour by its employees, and has made available all profits and indemnified the Ministry of Health for the damages that might have arisen out of the wrongs of its employees. The enquiries are now closed and the preliminary hearing to lodge the petition to close the proceeding as per the aforementioned article 63 of legislative decree 231/2001 has been fixed. The petition relating to the Bari proceedings has already been formalized and the Company is awaiting for the Attorney's Office to fix the next hearing so as to close the proceeding. It is likely that the proceedings will be definitely concluded within 2007. To comply with the request for compensatory damages and pecuniary penalties connected with these proceedings, an amount of € 2.9 million has been provided for, which is presumed to be sufficient to cover the expected liabilities.

On 29 September 2006 the Company received a notice of tax assessment from the Internal Revenue Service stating that the additional taxes for the fiscal year 2003 would amount to: corporate tax of € 2.3 million, IRAP of € 0.2 million and VAT of € 0.1 million and additional tax liabilities of € 2.6 million. The Company believes no amount is due and considers the assessment flawed both from a legitimacy as well as a substantial point of view, and is supported in its position by professional opinion. In February 2007 the Company filed an appeal with the competent Provincial Tax Commission. The Company however, has taken a prudent stance and decided to provide an amount of € 3.8 million to cover the potential liability which may arise from the litigation.

## **19. INTERCOMPANY TRANSACTIONS AND RELATED ISSUES**

Intragroup sales and services recorded during the first quarter 2007 are € 35.3 million and relate mainly to sales of pharmaceutical products. Intragroup interest income accrued during the period is € 1.5 million.

During the period, Recordati Ireland Ltd. declared a dividend of € 20.0 million, Bouchara Recordati S.a.s. declared a dividend of € 11.0 million, Laboratoires Bouchara Recordati S.a.s. declared a dividend of € 6.0 million, Merckle Recordati GmbH declared a dividend of € 3.0 million and the Swiss company Recordati S.A declared a dividend of CHF 0.2 million.

At 31 March 2007, intercompany accounts amount to € 269.7 million, the most significant of which are:

- loans from Recordati S.A. Chemical & Pharmaceutical Company to Recordati S.p.A. of € 80.6 million;
- loans from the parent Recordati S.p.A. to the subsidiary Recordati España S.L. of € 72.1 million;
- receivables by Recordati S.A. Chemical and Pharmaceutical Company from Recordati Ireland Ltd. and from Recordati S.A. in respect of dividends declared of € 20.0 million and CHF 0.2 million respectively;
- receivables by Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 17.3 million;
- receivables by Recordati S.p.A. from Bouchara Recordati S.a.s. in respect of dividends declared of € 11.0 million;
- loans from the parent Recordati S.p.A. to Jaba Farmacêutica S.A. of € 8.4 million;
- loans from the parent Recordati S.p.A. to Bouchara Recordati S.a.s. of € 7.0 million;
- receivables by Bouchara Recordati S.a.s. from its subsidiary Laboratoires Bouchara Recordati S.a.s. in respect of dividends declared of € 6.0 million;
- loans from Recordati S.A. Chemical & Pharmaceutical Company to Merckle Recordati GmbH of € 4.0 million.
- receivables by Recordati España S.L. from its subsidiary Merckle Recordati GmbH in respect of dividends declared of € 3.0 million;

To our knowledge, no transactions or contracts have been entered into with related parties that can be considered significant, in value or conditions, or which could in any way materially affect the accounts.

Tax liabilities include an estimated net tax due amount of € 19.7 million payable to the controlling company Fimei S.p.A. as a consequence of participation in a tax consolidation grouping under tax laws in Italy.

## 20. SUBSEQUENT EVENTS

Our new antihypertensive medicine based on a fixed combination of lercanidipine and enalapril was launched in Germany during April. Merckle Recordati is marketing the product under the brand name Zanipress® while co-marketer Meda's brand is Zaneril®.

Also during April, our subsidiary Recordati Hellas initiated sales of Lercadip® (lercanidipine) in Greece in both its 10 and 20mg dosage forms.

RECORDATI S.P.A. AND SUBSIDIARIES  
 SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS  
 AT 31 MARCH 2007

**ATTACHMENT 1.**

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
<b>RECORDATI S.P.A.</b> <i>Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals</i>	Italy	25,801,832.00	Euro	Line-by-line
<b>RECOFARMA S.R.L.</b> <i>Sales of pharmaceutical chemicals</i>	Italy	1,258,400.00	Euro	Line-by-line
<b>INNOVA PHARMA S.P.A.</b> <i>Marketing and sales of pharmaceuticals</i>	Italy	1,920,000.00	Euro	Line-by-line
<b>RECORDATI ESPAÑA S.L.</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Spain	42,000,000.00	Euro	Line-by-line
<b>RECORDATI S.A.</b> <b>Chemical and Pharmaceutical Company</b> <i>Holding company</i>	Luxembourg	9,962,619.00	Euro	Line-by-line
<b>BOUCHARA RECORDATI S.A.S.</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	France	4,600,000.00	Euro	Line-by-line
<b>RECORDATI PORTUGUESA LDA</b> <i>Marketing and sales of pharmaceuticals</i>	Portugal	24,940.00	Euro	Line-by-line
<b>FARMARECORD LTDA</b> <i>Dormant, holds pharmaceutical marketing rights in Brazil</i>	Brazil	166.00	BRL	Line-by-line
<b>RECORDATI CORPORATION</b> <i>Sales Agent for pharmaceutical chemicals</i>	U.S.A.	11,979,138.00	USD	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
<b>RECORDATI IRELAND LTD</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Ireland	200,000.00	Euro	Line-by-line
<b>RECORDATI S.A.</b> <i>Marketing and sales of pharmaceuticals and pharmaceutical chemicals</i>	Switzerland	6,000,000.00	CHF	Line-by-line
<b>LABORATOIRES BOUCHARA RECORDATI S.A.S.</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	France	14,000,000.00	Euro	Line-by-line
<b>MERCKLE RECORDATI GmbH</b> <i>Marketing and sales of pharmaceuticals</i>	Germany	268,939.53	Euro	Line-by-line
<b>RECORDATI PHARMACEUTICALS LTD</b> <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	15,000,000.00	GBP	Line-by-line
<b>RECORDATI HELLAS PHARMACEUTICALS S.A.</b> <i>Marketing and sales of pharmaceuticals</i>	Greece	2,000,000.00	Euro	Line-by-line
<b>JABA FARMACÊUTICA S.A.*</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Portugal	1,600,000.00	Euro	Line-by-line
<b>JABAFARMA PRODUTOS FARMACÊUTICOS S.A.*</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Portugal	50,000.00	Euro	Line-by-line
<b>BONAFARMA PRODUTOS FARMACÊUTICOS S.A.*</b> <i>Development, production, marketing and sales of pharmaceuticals</i>	Portugal	50,000.00	Euro	Line-by-line
* Acquired during 2006 – Balance Sheet consolidated in 2006, P&L consolidated as from 1 January 2007				

	PERCENTAGE OF OWNERSHIP				Total
	Recordati S.p.A. (parent)	Recordati S.A. (Luxembourg)	Bouchara Recordati S.a.s.	Recordati España S.L.	
RECOFARMA S.R.L.	100.00%				100.00%
INNOVA PHARMA S.P.A.	100.00%				100.00%
RECORDATI ESPAÑA S.L.	90.70%	9.30%			100.00%
RECORDATI S.A. Chemical and Pharmaceutical Company	100.00%				100.00%
BOUCHARA RECORDATI S.A.S.	99.94%	0.06%			100.00%
RECORDATI PORTUGUESA LDA	98.00%	2.00%			100.00%
FARMARECORD LTDA		100.00%			100.00%
RECORDATI CORPORATION		100.00%			100.00%
RECORDATI IRELAND LTD		100.00%			100.00%
RECORDATI S.A.		100.00%			100.00%
LABORATOIRES BOUCHARA RECORDATI S.A.S.			100.00%		100.00%
MERCKLE RECORDATI GmbH				100.00%	100.00%
RECORDATI PHARMACEUTICALS LTD	3.33%	96.67%			100.00%
RECORDATI HELLAS PHARMACEUTICALS S.A.	4.75%	95.25%			100.00%
JABA FARMACÉUTICA S.A.*				100.00%	100.00%
JABAFARMA PRODUTOS FARMACÉUTICOS S.A.*				100.00%	100.00%
BONAFARMA PRODUTOS FARMACÉUTICOS S.A.*				100.00%	100.00%

\* Acquired during 2006 – Balance Sheet consolidated in 2006, P&L consolidated as from 1 January 2007

Statements contained in this report, other than historical facts, are "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements are based on currently available information, on current best estimates, and on assumptions believed to be reasonable. This information, these estimates and assumptions may prove to be incomplete or erroneous, and involve numerous risks and uncertainties, beyond the Company's control. Hence, actual results may differ materially from those expressed or implied by such forward-looking statements. All mentions and descriptions of Recordati products are intended solely as information on the general nature of the company's activities and are not intended to indicate the advisability of administering any product in any particular instance.

# RECORDATI

## HEADQUARTERS

Via Matteo Civitali, 1 - 20148 Milano, Italy  
Ph +39 02 48787.1 - Fax +39 02 40 073 747

[www.recordati.com](http://www.recordati.com)

For further information  
please contact:

### **Investor Relations**

Phone +39 02 48787.393

Fax +39 02 40090173

e-mail: [inver@recordati.it](mailto:inver@recordati.it)