ANNUAL REPORT 2006

RECORDATI

CONTENT

FINANCIAL HIGHLIGHTS

REVENUE

€ (thousands)	2006	%	2005	%	Change 2006/2005	%
Pharmaceuticals	537,834	93.3	537,445	93.3	389	0.1
Pharmaceutical chemicals [1]	38,352	6.7	38,635	6.7	(283)	(0.7)
TOTAL REVENUE	**576,186**	**100.0**	**576,080**	**100.0**	**106**	**0.0**
Italy	203,432	35.3	221,281	38.4	(17,849)	(8.1)
International	372,754	64.7	354,799	61.6	17,955	5.1

[1] Excludes discontinued operations

KEY CONSOLIDATED DATA

€ (thousands)	2006	% of Revenue	2005	% of Revenue	Change 2006/2005	%
EBITDA[2]	143,648	24.9	132,222	23.0	11,426	8.6
Operating income	120,341	20.9	111,130	19.3	9,211	8.3
Net income	74,031	12.8	64,543	11.2	9,488	14.7
Shareholders' equity	366,802		322,297 *		44,505	13.8
Dividends	36,956 [3]		27,534		9,422	34.2
Dividends/net income	49.9%		42.7%			

[2] Earnings before interest, taxes, depreciation and amortization

[3] Proposed by the Board of Directors and calculated on the number of shares outstanding at year-end net of treasury stock which amounted to 6,654,891 shares

** Restated as prescribed by IAS/IFRS*

PER SHARE

€ per share [4]	2006	2005	Change 2006/2005	%
Net income	0.370	0.326	0.044	13.5
Shareholders equity	1.836	1.609 *	0.227	14.1
Dividend	0.185 [5]	0.1375	0.048	34.5
Shares outstanding:				
- average during the year	200,053,683	198,050,942		
- at December 31	199,759,765	200,250,592		

[4] Net income per share is based on average shares outstanding during the year net of average treasury stock. Average treasury stock amounted to 5,720,085 shares in 2006 and 4,798,664 shares in 2005.

Shareholders' equity per share are based on total shares outstanding at year end net of treasury stock. Treasury stock amounted to 6,654,891 shares at 31 December 2006 and 4,798,664 shares at 31 December 2005.

** Restated as prescribed by IAS/IFRS*

[5] Proposed by the Board of Directors

LETTER FROM THE CHAIRMAN

CONSOLIDATED REVENUE € 576.2 MILLION, OPERATING INCOME € 120.3 MILLION AND NET INCOME € 74.0 MILLION

"Our future development will depend upon the further internationalization of our business and on the search for new products. We intend to strengthen our presence in some markets and plan to further expand our geographical footprint by entering the new markets of Eastern Europe."

To Our Shareholders,

In 2006 thanks to the continuing success of our original antihypertensive drug lercanidipine and to the careful management of company resources the profitability of our business further improved: operating income is up 8.3% and net income is up 14.7% over the 2005 results. Progress was also made within our strategy to expand our activities in the European pharmaceutical market through the acquisition of Grupo Jaba's pharmaceutical operations in Portugal. International revenues, which in 2006 come to 65% of the total, will exceed two thirds of overall revenues with the consolidation of the Portuguese business in 2007. Another very important milestone for the future development of our Group is the approval, obtained at the end of July in Germany, of our new antihypertensive treatment Zanitek®, a fixed combination of lercanidipine and enalapril.

Consolidated revenue is € 576.2 million, in line with that of the preceding year. International sales are € 372.8 million, up 5.1%, and represent 64.7% of total sales. Pharmaceutical sales are € 537.8 million with a 5.4% growth of the international business. In Italy sales are down by 7.8% due to price reductions of reimbursed products and the reorganization of our detailing activities. Lercanidipine, Recordati's original antihypertensive drug, continues to perform very well with global sales growing by 21.2%. Pharmaceutical chemicals sales are € 38.4 million and are substantially in line with those of the preceding year.

Operating income, at 20.9% of sales, is € 120.3 million, an increase of 8.3% over the preceding year. The operating margin improvement is mainly due to gross profit which further improved to a margin on sales of 66.7% thanks to a favorable product mix.

Net income at 12.8% of sales is € 74.0 million, an increase of 14.7% over 2005.

The net financial position at 31 December 2006 remains positive at € 22.4 million (€ 26.2 million at 31 December 2005) despite the acquisition of Grupo Jaba's pharmaceutical operations in Portugal for € 45 million. Shareholders' equity further increased and is € 366.8 million.

During 2006 our strong commitment to the further development of lercanidipine was the focus of our efforts which resulted in various positive achievements.

- First of all, at the beginning of April the 20mg dosage form of Zanidip® (lercanidipine) was launched on the British market by Recordati Pharmaceuticals. With a sales organization of 70 medical representatives our subsidiary is relaunching our main drug in this important market and is ready to effectively launch in the future the new products currently in our pipeline.

- Also during April an agreement was reached with the licensee UCB to buy back the sales and marketing rights in Germany of Corifeo®, one of the two brands under which lercanidipine is sold on the German market, for a price of € 10 million. Corifeo® is now being sold on that market by our subsidiary Merckle Recordati.

- At the end of July we received the approval for our new product Zanitek®, a fixed combination of lercanidipine and enalapril, from the BfArM, the German medicines agency. Germany will therefore act as Reference Member State in the mutual recognition approval process for the rest of Europe which is expected to be completed during 2007. Most hypertensive patients, especially those with other associated risk factors, now require multiple therapies using more than one drug to keep their blood pressure at desired levels. Fixed combinations of more than one antihypertensive agent will therefore play a significant and increasing role in the future hypertension market. The advantages of fixed combinations as opposed to the administration of separate treatments are significant. The reduction of the number of pills a patient must take, especially in the elderly, increases patient compliance – which is extremely important in chronic treatments aimed at reducing and preventing cardiovascular risk.

- At the end of December a non-exclusive agreement was signed with Sigma-Tau, a leading Italian pharmaceutical company, for the marketing and sale in Italy of our new antihypertensive drug. The launch is expected to take place at the beginning of 2008 following approval in 2007. Agreements have already been finalized with other partners in France, Spain, Benelux, the Nordic countries including Finland, Korea, Australia, Taiwan, the Middle East including Israel, and South Africa. Further agreements are near completion.

During 2006 we also further expanded our direct coverage of the European pharmaceutical market. We established a direct presence in Portugal following that in France, Germany, Greece, Italy, Spain and the United Kingdom. On 28 July an agreement was signed for the acquisition of Jaba Farmacêutica and the other pharmaceutical businesses belonging to the Grupo Jaba in Portugal. The purchase price was € 45 million approximately but may be adjusted contingent upon the full year 2006 EBITDA. The closing of the transaction took place at the end of November. Founded in 1927, Jaba, the third largest Portuguese pharmaceutical group, has a significant market share and an extensive product portfolio covering a wide range of therapeutic areas. It includes prescription drugs sold under license as well as proprietary brands, plain generics, and a well-known line of OTC products. The business also includes modern production facilities which offer manufacturing services for third parties. The acquired business, which is headquartered near Sintra, comprises an organization of around 330 employees, including more than 100 medical representatives, and generated revenues in 2006 of approximately € 43 million. The product portfolio of our new subsidiary will be strengthened first of all by launching lercanidipine, our leading product, and over the medium term through the launch of our new pipeline products such as Zanitek®, a fixed combination of lercanidipine and enalapril for the treatment of hypertension, silodosin (a treatment for the symptoms of benign prostatic hyperplasia), Stanate® (indicated for the treatment of neonatal hyperbilirubinemia), Infasurf® (for the prevention and treatment of neonatal Respiratory Distress Syndrome).

The enhancement of our product pipeline is our main objective to ensure the future development of the company. During 2006 a number of projects were evaluated and in June an exclusive license agreement was signed with Ony Inc., a U.S. drug development company, for the marketing and sale

in Europe of Infasurf®, a calf derived surfactant for the prevention and treatment of neonatal respiratory distress syndrome (RDS). Under this agreement Recordati obtains exclusive rights to Infasurf® in the European Union (less Cyprus, Greece and at this time the United Kingdom) and Croatia, Norway, Switzerland and those countries due to enter the Union. Infasurf®, together with Stanate® (stannsoporfin), a drug licensed for Europe from Infacare, USA, shall form the basis for Recordati's new European franchise in the highly specialized area of neonatology.

In connection with our original research the first proof of concept trials conducted to evaluate the therapeutical efficacy of REC 2615 and REC 0545 were completed. A topical formulation of REC 2615, a new chemical entity with potential use for female sexual dysfunction, tested in a pharmacodynamic clinical proof of concept trial, did not reach statistical significance on the main pharmacological end point. It is believed that this may be due to the too slow build up of tissue levels and therefore reformulation work is ongoing. REC 0545 in a proof of concept, crossover clinical trial conducted to test the efficacy of the molecule in the treatment of overactive bladder no statistically significant difference between active treatment and placebo was evidenced. An in depth evaluation is ongoing, including the possibility of pursuing the development of another compound with a mixed mechanism of action, including 5HT1A antagonism.

During 2006 the reorganization of our pharmaceutical chemicals business was completed with the sale in January of the pharmaceutical chemicals plant in Beniel (Murcia, Spain) to Apotecnia S.A., an affiliate of the Spanish pharmaceutical company Asturpharma S.A., for a price of € 13 million. The group's pharmaceutical chemicals business is now therefore focused on a selection of products that will be produced only in our plant at Campoverde di Aprilia in Italy which will be increasingly dedicated to the production of Recordati's original active ingredients.

Our future development will depend upon the further internationalization of our business and on the search for new products, both through our internal research and development activities and through alliances with other pharmaceutical companies. We intend to strengthen our presence, through selective acquisitions, in some of the markets in which we are already established such as Germany, Spain and the United Kingdom. We plan to further expand our geographical footprint by entering the new markets of Eastern Europe which have very interesting development prospects.

In order to achieve the ambitious targets we have given ourselves we count, as always, on the entrepreneurship and determination of our management team, the professional skills of our employees and the trust of our shareholders. We would like to express our gratitude to all of them for their contributions during 2006.

DIVIDENDS

Based on these results, the Board of Directors of the parent company will propose to the shareholders a dividend of € 0.185 per share (€ 0.1375 per share last year) to be paid to all shares outstanding, excluding those in treasury stock, as from 26 April 2007 (trading ex-dividend as of 23 April 2007). This per share dividend includes the accretion deriving from the dividend which would have been due to the shares in treasury stock.

Giovanni Recordati
Chairman and Chief Executive Officer

RESEARCH AND DEVELOPMENT

THE ENHANCEMENT OF OUR PRODUCT PIPELINE IS OUR MAIN OBJECTIVE TO ENSURE THE FUTURE DEVELOPMENT OF THE COMPANY

"Our product pipeline comprises drugs and drug candidates in various development phases in order to ensure a balanced use of resources and a continuous flow of new products for market introduction."

Research and development are fundamental for the future growth strategy of the group and have as their objective the introduction on the market of new products. Our product pipeline comprises drugs and drug candidates in various development phases in order to ensure a balanced use of resources and a continuous flow of new products for market introduction.

PIPELINE

NAME	ORIGINATOR	INDICATION	PHASE
Zanipress® / Zanitek®	Recordati	Hypertension (lercanidipine + enalapril)	Approved in the RMS (Germany)
cyclosporin	Dexcel	Immuno - suppressant	Filed MRP
fentanyl patch	Lavipharm	Moderate to severe chronic pain	Filed in the RMS (UK)
rupatadine	Uriach	Rhinitis, allergic, seasonal / perennial urticaria	Filed
Infasurf®	Ony	Calf derived surfactant	Pre-filing
prulifloxacin	Nippon Shinyaku / Angelini	Infection, respiratory tract, urinary tract	Phase III
silodosin	Kissei	Benign prostatic hyperplasia	Phase III
Stanate®	Rockefeller U. / InfaCare	Neonatal jaundice, hyperbilirubinemia	Phase II / III
pitavastatin	Kowa	Hyperlipidemia, general	Phase III
lercanidipine MR	Different technology platforms	Hypertension, general	Formulation / Phase II
REC 2615	Recordati	Sexual dysfunction, female	Reformulation
REC 0035	Recordati	Benign prostatic hyperplasia	Discovery / Preclinical
REC 0206	Recordati	Overactive bladder and Incontinence	Discovery
3 new projects	Recordati	Overactive bladder and Incontinence	Discovery
Project S	Recordati	Chronic Heart Failure (CHF)	Discovery

RMS – Reference Member State
MRP – Mutual Recognition Process

Recordati conducts research and development activities in the area of cardiovascular disease and in particular as related to hypertension. Hypertension is an asymptomatic condition but is a dangerous risk factor in the development of ischemic, coronary, cerebral and renal disease. The results of clinical studies have shown that blood pressure control reduces the risk of cardiovascular events and associated mortality. Recordati's efforts in this area led to the discovery of lercanidipine, a latest generation drug belonging to the widely used calcium channel blocker class.

Zanipress®/Zanitek® is a new specialty indicated for the treatment of hypertension developed by Recordati. It is a fixed combination of lercanidipine and enalapril, an extensively used drug belonging to the angiotensin conversion enzyme inhibitors class (ACE inhibitors). At the end of July approval was received for this new product from the BfArM, the German medicines agency. Germany will therefore act as Reference Member State in the mutual recognition approval process for the rest of Europe which is expected to be completed during 2007.

Fixed combinations of more than one antihypertensive agent will play a significant and increasing role in the future hypertension market. The international guidelines for the treatment of hypertension establish new aggressive targets for blood pressure control in order to minimize the risk of severe cardiovascular events. Most hypertensive patients, especially those with other associated risk factors, now require multiple therapies using more than one drug to keep their blood pressure at desired levels. Associations of a calcium channel blocker and an ACE inhibitor are frequently prescribed in such conditions. Furthermore, recent large clinical outcome trials show that cardiovascular events are drastically reduced by using modern antihypertensive drug combinations (such as those belonging to the calcium channel blocker and ACE inhibitor classes) as opposed to using older treatments. These findings confirm the usefulness of our new treatment which combines a last generation calcium channel blocker, lercanidipine, with a widely prescribed ACE inhibitor.

The advantages of fixed combinations as opposed to the administration of separate treatments are significant. The combined dosages of the drugs are those broadly used by the physician and their efficacy and tolerability have been clinically proven. Patient compliance – which is extremely important in chronic treatments aimed at reducing and preventing cardiovascular risk – is increased. The cost of treatment is reduced, an advantage which could play an important role in curbing public healthcare spending.

Throughout 2006 Recordati continued to invest in the further development of lercanidipine with an aim to improve its clinical profile through the creation of new formulations. The projects with both LifeCycle Pharma and Osmotica Pharmaceutical Europe, which will apply its Osmodex™ technology to the development of a formulation of lercanidipine with new and improved release properties, have gone ahead. Our in-house projects to the same end have also progressed.

Fentanyl is a centrally acting, potent analgesic. In its transdermal form, designed to deliver fentanyl through the skin for up to three days, it is used to treat moderate to severe chronic pain, such as that experienced in cancer. Recordati has a multi-territorial license from Lavipharm Laboratories (U.S.A.) for the marketing and sale of a new fentanyl transdermal patch in France, Germany, Italy, Spain and the United Kingdom. This product will enhance Recordati's analgesia product portfolio and will help to respond to the increasing demand for more efficacious pain relief, which poses both medical and social problems.

Cyclosporin is an immuno-suppressant drug which is indicated mainly to prevent rejection following organ transplants. Recordati has an exclusive license for the sale in France, Greece, Italy and Spain of a new oral formulation of cyclosporin developed by Dexxon (Israel).

Rupatadine is a latest generation systemic antihistamine drug indicated for the treatment of allergies. Recent epidemiological studies have confirmed an increase in the incidence of allergies. Hay fever in particular now affects 20% of the population (it was 1% at the beginning of the 20th century), as reported by the W.H.O.. Recordati has a license from the Spanish pharmaceutical company Uriach for the marketing and sale of rupatadine in France, Germany, Italy, Spain and in the United Kingdom.

Infasurf® is a calf derived surfactant for the prevention and treatment of neonatal respiratory distress syndrome (RDS). Neonatal RDS is a life-threatening disease which affects mainly premature babies with less than 30 weeks gestational age and surfactants are well established in the treatment of this condition. The market is growing at a rate of 4% to 7% annually, mainly due to premature births

from immigrant mothers not well monitored by health services. In June Recordati entered into an exclusive license agreement with Ony Inc., a U.S. drug development company, for the marketing and sale in Europe of this new surfactant. Under this agreement Recordati obtains exclusive rights to Infasurf® in the European Union (less Cyprus, Greece and at this time the United Kingdom) and Croatia, Norway, Switzerland and those countries due to enter the Union. Infasurf®, together with Stanate® (stannsoporfin), a drug licensed for Europe from Infacare, USA, shall form the basis for Recordati's new European franchise in the highly specialized area of neonatology.

Prulifloxacin is a latest generation anti-bacterial fluorquinolone discovered by the Japanese pharmaceutical company Nippon Shinyaku and developed in Europe by Angelini. It is indicated for the treatment of infections of the urinary tract and certain infections of the respiratory tract. Recordati will market the drug in Spain under license from Angelini.

Silodosin is a new compound indicated for the treatment of symptoms associated with benign prostatic hyperplasia. It is a selective alpha-1A receptor antagonist which relaxes smooth muscles at the prostate and the urethra. Urinary resistance is consequently decreased and thus symptoms associated with benign prostatic hyperplasia are alleviated. This condition is frequently observed in ageing men and its symptoms significantly reduce quality of life. Benign prostatic hyperplasia is increasing in frequency due to the progressive ageing of the population. Recordati obtained a license from the Japanese pharmaceutical company Kissei at the end of 2004 for the development and marketing of silodosin in all European countries and some countries outside Europe. During 2006 enrolment was completed for the final clinical development phase which involves 100 experimental centres in 12 different countries. In Japan Kissei and Daiichi launched this new product with the brand name Urief®.

Stanate® (stannsoporfin, tin-mesoporphyrin) is a compound discovered at Rockefeller University and currently under development by InfaCare for the treatment of neonatal hyperbilirubinemia (jaundice). Jaundice occurs in many newborns, especially if they are premature or as a consequence of congenital diseases which increase its risk and severity. High levels of hyperbilirubinemia, especially if they rise suddenly, may cause irreversible brain damage. In severe cases, infants not responding to phototherapy require exchange transfusion, a complex and risky procedure. Stannsoporfin was demonstrated to be efficacious in the prevention and treatment of neonatal jaundice and the new guidelines released by the American Academy of Pediatrics indicate that, if approved, the compound could find immediate application in infants who are not responding to phototherapy. The drug is currently in clinical development in the U.S.A. and to date more than 800 infants worldwide have been successfully treated.
A license agreement was entered into with InfaCare Pharmaceuticals for the development and marketing of this innovative drug in the whole of Europe (45 countries) and in 19 Middle East and North African countries. Recordati will complete the clinical development of Stanate®, in accordance with the requirements of the European Medicines Evaluation Agency (EMEA).

Pitavastatin is a statin, a class of drugs which is widely used for the treatment of hypercholesterolemia. This compound, which is already on the market in Japan, was developed by the Japanese pharmaceutical company Kowa. It is Kowa's intention to start the phase III development of the drug also in Europe. Pitavastatin has a high capacity for reducing both the cholesterol fraction associated with high cardiovascular risk (LDL) as well as triglyceride levels, and at the same time increasing the "protective" fraction of cholesterol (HDL). Recordati has rights covering the sale of the drug in Italy

where, as in the rest of the industrialized world, hypercholesterolemia is quite a common condition and, ever more frequently, guidelines issued by competent authorities recommend adequate treatment in order to reduce morbidity and mortality resulting from cardiovascular events. Statins represent one of the most significant contributions to cardiovascular therapy.

Recordati's original research is primarily focused on the search for treatments which address micturition disorders. These disorders, the incidence of which is increasing in the industrialized world, are only in part treated pharmacologically and therefore opportunities exist for the development of effective and well tolerated drugs. Over forty years of research have enabled Recordati to acquire specific know-how in this field. Potential biological targets for new drugs to treat micturition disorders have been identified and currently new candidates for further development are being synthesized.

Recordati's know-how in the urogenital field of research led to the synthesis of a topical formulation of REC 2615, a novel molecule that could be useful to treat female sexual dysfunction. Following initial proof of concept studies reformulation activities are currently underway to improve the attainment of adequate tissue levels of the active substance.

A further program in original research involves treatments for the symptoms associated with benign prostatic hyperplasia. Potent antagonists of the ·1-adrenergic receptors which are highly selective for the lower urogenital tract were discovered. The molecule REC 0035 was identified as a candidate for development.

REVIEW OF OPERATIONS

INTERNATIONAL REVENUES CONTINUE TO GROW AND NOW REPRESENT 64.7% OF THE TOTAL. ZANIDIP® (LERCANIDIPINE) SALES UP 21.2% AND ACCOUNT FOR 29.8% OF TOTAL REVENUE.

"Thanks to the continuing success of our original antihypertensive drug lercanidipine and to the careful management of company resources the profitability of our business further improved."

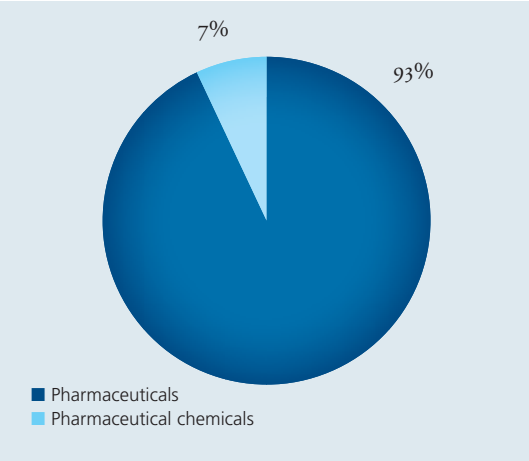
€ (thousands)	2006	2005	Change 2006/2005	%
Italy	200,459	217,351	(16,892)	(7.8)
France	134,036	126,410	7,626	6.0
Germany	51,301	54,343	(3,042)	(5.6)
Spain	30,512	34,787	(4,275)	(12.3)
United Kingdom	10,731	5,056	5,675	n.s.
International licensees	110,795	99,498	11,297	11.4
Total pharmaceutical revenue	537,834	537,445	389	0.1
Pharmaceutical chemical revenue [1]	38,352	38,635	(283)	(0.7)
Total revenue	**576,186**	**576,080**	**106**	**0.0**

Both years include sales as well as income from up-front payments, royalties and miscellaneous items.

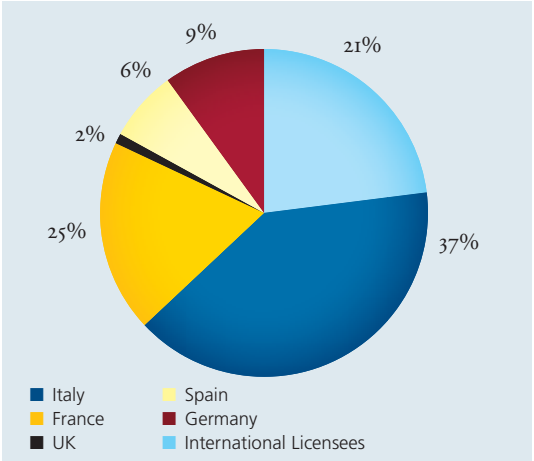
[1] Excludes discontinued operations

Revenues are in line with those of the preceding year. International revenues are up 5.1% at € 372.8 million and now represent 64.7% of total revenue.

REVENUE BY BUSINESS



PHARMACEUTICAL REVENUE



ZANIDIP® (LERCANIDIPINE)

Zanidip® (lercanidipine), a calcium channel blocker entirely discovered and developed by Recordati, performed well in 2006 and is a continuing success both in the countries where it is sold directly to the market by our own marketing organizations as well as in the countries where it is sold through licensees.

In 2006 lercanidipine sales increased by 21.2% and accounted for 29.8% of total sales and 31.9% of pharmaceutical sales. Its sales breakdown is shown in the following table:

LERCANIDIPINE SALES

€ (thousands)	2006	2005	Change 2006/2005	%
Italy	40,463	43,626	(3,163)	(7.3)
France	37,086	28,949	8,137	28.1
Germany	3,754	-	3,754	n.s.
Spain	8,539	5,976	2,563	42.9
United Kingdom	10,637	5,056	5,581	n.s.
Direct sales	100,479	83,607	16,872	20.2
Sales to licensees*	71,090	57,961	13,129	22.7
Total lercanidipine sales	**171,569**	**141,568**	**30,001**	**21.2**

** Includes Bouchara Recordati's export sales of € 1.5 million in 2006 and € 1.1 million in 2005.*

Sales of Zanedip® and Lercadip®, the two brands of lercanidipine sold by Recordati in Italy, are € 40.5 million, down by 7.3% due, among others, to the selective price cut imposed in July and the 5% price reduction applied-across-the board as from 1 October to reimbursed products. The slow down in sales volumes is due mainly to a change in sales policies which includes a different mix of distribution channels. Lercanidipine achieved an 12.5% share of the Italian calcium channel blocker market during the last quarter of 2006, a slight increase over the same period of the preceding year.

Lercanidipine is marketed in France by Bouchara Recordati and Pierre Fabre. Our product is very successful in this market and has reached a market share of 22.6% in the fourth quarter 2006. Sales of Zanidip® by Bouchara Recordati are € 37.1 million, an increase of 28.1% over the preceding year.

In Spain Zanidip® recorded sales of € 8.5 million, up 42.9% over 2005 due to the good performance of the 20mg dosage form. Together with the brands sold by licensees Uriach and Rottapharm, lercanidipine attained a 8.4% share of the Spanish calcium channel blocker market in the fourth quarter 2006.

In Germany, following the repurchase of the Corifeo® marketing rights from licensee UCB, lercanidipine is sold directly by Merckle Recordati as from May 2006 as well as under license by Berlin Chemie. Sales recorded by Merckle Recordati are € 3.8 million. In Germany reference pricing, which is now also applied to the calcium channel blocker class of drugs starting in 2006, provoked a sharp decrease in the price of lercanidipine as well as a reduction in market share which in the fourth quarter stood at 13.8%.

As from July 2005 lercanidipine is sold directly to the market by Recordati also in the United Kingdom. Direct sales in this country are € 10.6 million in 2006 with an increase in market share which stood at 4.7% in the last quarter of the year.

Lercanidipine is also marketed in a further 78 countries. Of these the main ones are the other European markets, Australia and South Korea. Overall, sales to licensees in 2006 are € 71.1 million, up 22.7% over the preceding year.

PHARMACEUTICALS, ITALY

€ (thousands)	2006	2005	Change 2006/2005	%
Prescription pharmaceuticals [a]	179,226	197,797	(18,571)	(9.4)
Self-medication pharmaceuticals [b]	21,233	19,554	1,679	8.6
Pharmaceuticals, Italy	**200,459**	**217,351**	**(16,892)**	**(7.8)**

[a] Prescription pharmaceuticals include both reimbursable and non-reimbursable drugs.
[b] Self-medication pharmaceuticals include OTC products and other pharmaceuticals not requiring a prescription. All self-medication pharmaceuticals are not reimbursable.

Sales in Italy of prescription drugs (including lercanidipine) in 2006 are down by 9.4% as compared to 2005. This reduction in sales is partly due to a negative price effect. New price containment measures became effective on 15 July which include selective price reductions for reimbursed drugs with above average performance in the first quarter. Furthermore as from 1 October an across-the-board price cut of 5% was also introduced. Volumes also decreased following the reorganization of our detailing activities as a consequence of the enquiry under way by the office of the Milan Magistrate which involves some company employees. At the same time promotional activities temporarily slowed down and a change in sales policy was implemented which includes a different use of the distribution channels.

The following table shows sales of the main products in our Italian portfolio:

€ (thousands)	Therapeutic area	2006	2005	Change 2006/2005	%
Zanedip®/Lercadip®	Hypertension	40,463	43,626	(3,163)	(7.3)
Entact®	Depression	28,539	22,958	5,581	24.3
Peptazol®	Gastroenterology	25,932	27,672	(1,740)	(6.3)
Tora-Dol®	Analgesia	18,185	18,684	(499)	(2.7)
Elopram®	Depression	15,340	26,654	(11,314)	(42.4)
Isocef®	Anti-infective	8,302	13,351	(5,049)	(37.8)
Rextat®	Anti-cholesterol	5,851	1,371	4,480	n.s.

The cardiovascular therapeutic area accounts for 33.2% of prescription pharmaceutical sales and is still the largest in our portfolio thanks mainly to the continuing success of lercanidipine and the launch of Rextat® (lovastatin), indicated for the treatment of hypercholesterolemia. Sales of Nitrocor®, a nitroglycerin transdermal patch for the treatment of angina, were € 4.7 million, in line with those recorded in 2005.

In the CNS (Central Nervous System) area (25.3% of sales), Entact® (escitalopram), an SSRI antidepressant which is highly specific and selective and has an excellent tolerability profile, continues to perform well and has increased sales by 24.3%. Sales of Elopram® (citalopram), on the other hand, are decreasing due to competition from generic versions which resulted in a progressive price reduction.

In the gastroenterological area (14.4% of sales), our main product is Peptazol® (pantoprazole), a proton pump inhibitor for the treatment of ulcers. Within the analgesia/anti-inflammatory therapeutic area (11.8% of sales), Tora-Dol® (ketorolac) maintains its position as the market leader in its class. At the end of 2005 the trademark and marketing authorization for this drug in Italy were acquired from the licensee Roche. Regarding the anti-infective area (11.3% of sales) sales of Isocef® (ceftibuten) and Octegra® (moxifloxacine), an antibacterial fluorquinolone, have decreased significantly with respect to 2005 in part due to a weak flu season.

Sales of self-medication products in 2006 are € 21.2 million, up 8.6% over the preceding year. Sales of Imidazyl® and Proctolyn® further increased during the year. Sales of Alovex™, for the treatment of oral cavity aphthas, are up 34.5% to € 3.6 million, consolidating its position as a reference product for this condition. Eumill®, single dose eye drops, recorded increased sales and, together with Imidazyl®, reinforces Recordati's leadership in the eye drops market.

At the beginning of 2006 the Italian pharmaceuticals agency (AIFA), after having reinstated the prices as at December 2004 of those products whose prices had been selectively reduced in 2005, imposed an across-the-board price reduction of 4.4% for reimbursed products as well as a mandatory discount to be applied by the pharmaceutical manufacturers of 1% with the aim to recover the 2005 expenditure which exceeded the established budget. On 21 June AIFA once again modified the list of reimbursable products by introducing selective price cuts for those drugs with above average performance during the first quarter of the year. The maximum price reduction was fixed at 10%. In addition, on 27 September a further 5% price reduction for all products reimbursed by the national healthcare scheme was imposed starting 1 October. All these measures will remain in place for the whole of 2007. However, at the beginning of 2007 AIFA decided to allow companies to chose, for the period 1 March 2007 to 29 February 2008, between maintaining the 5% price reduction or substituting it with an up-front payment of an amount equivalent to 5% of sales recorded in 2006. The option can be applied either to single products or to the whole product portfolio. Recordati opted to take advantage of this opportunity on a selective basis.

PHARMACEUTICALS, FRANCE

In 2006 revenue realized in France by Bouchara Recordati is € 134.0 million, an increase of 6.0% over the preceding year.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2006	2005	Change 2006/2005	%
Zanidip®	Hypertension	37,086	28,949	8,137	28.1
Tenstaten®	Hypertension	12,224	-	12,224	n.s.
Hexa line	Respiratory	11,425	20,428	(9,003)	(44.1)
Methadone	Drug addiction	10,889	9,538	1,351	14.2
Abufene®	Gynecology	8,444	8,666	(222)	(2.6)

The cardiovascular area has become the most significant (44.5% of sales) thanks to the continuing success of Zanidip® and the relaunch in January of Tenstaten® (cicletanine), a diuretic indicated for the treatment of hypertension. Epinitril®, a nitroglycerin transdermal patch for the treatment of angina, generated sales of € 4.6 million, slightly up over 2005.

The respiratory therapeutic area accounts for 18.6% of total sales. Sales of Exomuc® and the Hexa line of products are decreasing as a result of the relatively weak flu season and their exclusion, as from March 2006, from the list of reimbursed products.

Abufene®, a drug indicated for the treatment of menopausal symptoms, consolidated its position in the market reaching sales of € 8.4 million, in line with those of 2005.

In France on 1 March 2006 the expected revision of the list of reimbursed products was implemented with the exclusion of entire product classes. Our Hexa line of products and Exomuc® were impacted by this measure. Self-medication is now the new reference market for these products and in the medium term our well known brands and the possibility of free pricing are expected to partially offset the loss in sales volumes.

PHARMACEUTICALS, GERMANY

Sales generated by our new subsidiary Merckle Recordati are € 51.3 million, slightly down compared to the preceding year, mainly due to the decision to stop selling some unprofitable products.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2006	2005	Change 2006/2005	%
Claversal®	Gastroenterology	16,724	16,679	45	0.3
Suplasyn®	Muscolo-skeletal	9,229	9,598	(369)	(3.8)
Corifeo®	Hypertension	3,754	-	3,754	n.s.

Claversal® (mesalazine), indicated for the treatment of ulcerative colitis, remains the most important product in the portfolio. As from May, Corifeo® (lercanidipine) becomes part of the product portfolio following the repurchase of marketing rights from UCB, the previous licensee for this brand.

In order to curb public healthcare spending the application of reference prices for drug reimbursement, was also extended to calcium channel blockers in 2006. The price of lercanidipine was fixed by taking into consideration a wide class of drugs with no distinction between patented and generic compounds. This mechanism resulted in a very significant price reduction for our product. Furthermore, an extra discount must be recognized to the Krankenkassen on some products as from April.

PHARMACEUTICALS, SPAIN

Revenues in Spain in 2006 recorded by Recordati España were € 30.5 million, a reduction as compared to the preceding year (-12.3%) because Ulcotenal® (pantoprazole) is no longer sold as from April following the termination of the Altana license.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2006	2005	Change 2006/2005	%
Cidine®	Gastroenterology	10,406	9,257	879	9.2
Zanidip®	Hypertension	8,539	5,976	2,563	42.9
Ulcotenal®	Gastroenterology	4,674	15,216	(10,542)	n.s.
Dermatrans®	Cardiovascular	2,314	1,793	521	29.1
Alergoliber®	Respiratory	2,103	1,432	671	46.9

The growth of all the products in the portfolio partially offset the loss of Ulcotenal®. Cidine® (cinitapride), a drug for the treatment of chronic dyspepsia, continues to represent an important growth factor. Zanidip® further sales growth was significant (+42.9%). Dermatrans®, a nitroglycerin transdermal patch for the treatment of angina, and Alergoliber® (rupatadine), an antihistamine under license from Uriach, continue to grow.

In Spain, an overall price cut of 2% was imposed as from 1 February 2006. As from March 2007 a new reference pricing system involving all medicines reimbursed by the public healthcare scheme which have been on the market for at least 10 years and for which a generic version is available, will become effective. The reference price will be the average of the three cheapest products. The system excludes drugs which have been on the market for over 10 years and for which no generic is available in Spain. However, if a generic is available in any other market within the European Union which has a lower price the prices of these products must be reduced by 20%. Our product portfolio in Spain has no products within the abovementioned cases so no mandatory price reductions are expected in 2007.

PHARMACEUTICALS, UNITED KINGDOM

Sales in the United Kingdom are € 10.7 million and are almost exclusively related to Zanidip®. During the first half 2006 the marketing organization of Recordati Pharmaceuticals was built up. The new field force of 70 medical representatives has been successfully promoting Zanidip® since April, and in particular launching the 20 mg dosage form. In December Tradorec XL® (tramadol), a central-acting analgesic indicated for the management of moderate to severe pain under license from Labopharm, was launched. Labopharm, a Canadian based pharmaceutical group, developed this innovative once-

daily tramadol tablet formulation incorporating Contramid®, their advanced controlled-release technology, and it represents an attractive and safe treatment option which provides patients with strong and reliable 24-hour pain relief.

INTERNATIONAL LICENSEES

Sales to international licensees include product sales to, and other income from, the licensees of our proprietary active ingredients, as well as foreign sales by our French subsidiary.

€ (thousands)	2006	2005	Change 2006/2005	%
Lercanidipine*	68,872	55.911	12,961	23.2
Fenticonazole	6,461	5,352	1,109	20.7
Flavoxate	6,176	6,405	(229)	(3.6)
Bouchara Recordati (foreign sales)	26,826	27,527	(701)	(2.5)
Other income	2,460	4,303	(1,843)	(42.8)
International Licensees	**110,795**	**99,498**	**11,297**	**11.4**

** Includes Bouchara Recordati's export sales of € 1.5 million in 2006 and € 1.1 million in 2005*

Sales of lercanidipine to international licensees increased by 23.2%. Sales of fenticonazole, an antimycotic for dermatological and gynecological use, are increasing (+20.7%). Sales of flavoxate, an antispasmodic for the treatment of urinary incontinence, are gradually decreasing as this product has reached maturity. Sales outside France by our French subsidiary Bouchara Recordati are overall in line with those of 2005 with a noteworthy increase in Russia and the Ukraine. Other income includes mainly royalties and up-front payments.

PHARMACEUTICAL CHEMICALS

€ (thousands)	2006	%	2005*	%	Change 2006/2005	%
Italy	2,973	7.8	3,930	10.2	(957)	(24.4)
Europe (Italy excluded)	11,497	30.0	12,764	33.0	(1.267)	(9.9)
America	16,508	43.0	14,864	38.5	1.644	11.1
Australasia	6,410	16.7	5,749	14.9	661	11.5
Africa	964	2.5	1,328	3.4	(364)	(27.4)
International licensees	**38,352**	**100.0**	**38,635**	**100.0**	**(283)**	**(0.7)**

** Restated for comparison purposes.*

The sales of pharmaceutical chemicals which comprise active substances produced exclusively in the Campoverde d'Aprilia (Latina, Italy) plant are substantially in line with the preceding year despite the decision to stop the production of some less profitable products. This result was achieved thanks to increased sales volumes in the strategic areas of North America and Japan and to the acquisition of new and important customers. To remain competitive in the face of growing pressure from the producers in emerging markets industrial efficiency was improved and production flexibility increased thanks to the internal reorganization program which is in it final phase of completion.

FINANCIAL REVIEW

INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2005:

€ (thousands)	2006	%	2005	%	Change 2006/2005	%
Revenue	**576,186**	**100.0**	**576.080**	**100.0**	**106**	**0.0**
Cost of sales	(192,011)	(33.3)	(200,623)	(34.8)	8,612	(4.3)
Gross profit	**384,175**	**66.7**	**375,457**	**65.2**	**8,718**	**2.3**
Selling expenses	(191,126)	(33.2)	(192,342)	(33.4)	1,216	(0.6)
R&D expenses	(45,395)	(7.9)	(44,959)	(7.8)	(436)	1.0
G&A expenses	(27,167)	(4.7)	(25,301)	(4.4)	(1,866)	7.4
Other income (expense), net	(146)	0.0	(1,725)	(0.3)	1,579	(91.5)
Operating income	**120,341**	**20.9**	**111,130**	**19.3**	**9,211**	**8.3**
Financial income (expense), net	(2,159)	(0.4)	(4,132)	(0.7)	1,973	(47.7)
Pretax income	**118,182**	**20.5**	**106,998**	**18.6**	**11,184**	**10.5**
Provision for income taxes	(44,151)	(7.7)	(38,435)	(6.7)	(5,716)	14.9
Net income from continuing operations	**74,031**	**12.8**	**68,563**	**11.9**	**5,468**	**8.0**
Discontinued operations [1]	0	0.0	(4,020)	(0.7)	4,020	(100.0)
Net income	**74,031**	**12.8**	**64,543**	**11.2**	**9,488**	**14.7**

[1] As required by IAS/IFRS, 2005 revenues and costs related to the discontinued plants in Murcia and Opera have been reclassified and recognized on a single line in the income statement defined "discontinued operations".

The volume, price and currency effects on revenue are shown in the following table:

Change as % of revenue	Volume Effect	Price Effect	Currency Effect	Total Change
Pharmaceuticals	3.1	(3.0)	0.0	0.1
Pharmaceutical chemicals	1.5	(2.1)	(0.1)	(0.7)
Total change	3.0	(3.0)	0.0	0.0

Pharmaceutical sales volume growth is positive (+3.1%) despite the termination of the Ulcotenal® license in Spain, the delisting of a number of reimbursed products in France and the reorganization of the detailing activities in Italy, and was able to offset the effects of a particularly tough scenario from a pricing point of view. Pressure on prices remains in the main pharmaceutical markets. In Italy new price containment measures became effective in July which include selective price reductions for reimbursed drugs with above average performance in the first quarter followed by an across-the-board 5% price cut which was imposed effective 1 October. In France the prices of generics were reduced by 15% and in Spain a 2% across-the-board price reduction was introduced in February. In Germany an extra discount must be recognized to the *Krankenkassen* on some products as from April.

International revenues went from € 354.8 million to € 372.8 million, an increase of 5.1%. International sales represent 64.7% of total revenue, an increase over the preceding year. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2006	%	2005*	%
Europe (Italy excluded)	304,525	81.8	291,385	82.1
America	22,151	5.9	18,922	5.3
Australasia	32,160	8.6	28,277	8.0
Africa	13,918	3.7	16,215	4.6
Total international revenue	**372,754**	**100.0**	**354,799**	**100.0**

** Restated for comparison purposes.*

Gross profit is € 384.2 million with a margin of 66.7% on sales, a notable improvement over that of last year thanks to a favorable product mix.

Selling expenses decreased by 0.6% due exclusively to the slowdown of promotional activities in Italy following the reorganization of the sales organization.

R&D expenses, at € 45.4 million, are substantially in line with the preceding year. During 2006 patient enrolment was completed for the phase III clinical trials within the pan-European program for the development of silodosin.

G&A expenses are € 27.2 million and, at 4.7%, show a slight increase over the preceding year resulting from the development of our international organization.

Other income/expense shows a net expense of € 0.1 million which includes, among others, a capital gain of € 4.7 million from the sale of a 3.13% holding in Confarma, a provision of € 3.2 million to cover both the potential risks related to the presumed liability of Recordati pursuant to decree-law 231/2001 and charges arising from a tax inspection at the parent company in addition to a € 2.4 million provision for organizational restructuring in Italy and Germany. Further details are available in the notes to the consolidated financial statements.

Net financial charges are € 2.2 million, down as compared to the preceding year due to higher returns on cash available and the repayment of relatively high interest loans. Both 2006 and 2005 figures include an interest cost of € 0.8 million arising from the valuation of the staff leaving indemnities provision as prescribed by IAS 19.

The effective tax rate for the year is 37.4%, higher than that for the full year 2005 due to the abovementioned provisions which are only partially tax deductible as well as to a tax provision to cover potential additional taxes to be paid as a result of the tax inspection. Further details are provided in the notes to the financial statements.

Group net income is € 74.0 million, an increase of 14.7% over 2005.

FINANCIAL POSITION

During 2006 important investments were made with the aim of expanding our European presence and enhancing our product portfolio.

The pharmaceutical businesses belonging to the Grupo Jaba, third largest Portuguese pharmaceutical group, were acquired. The closing of the transaction took place at the end of November for a purchase price of approximately € 45 million subject to an adjustment which is contingent upon the full year 2006 EBITDA. The balance sheet was consolidated line by line at 31 December 2006 and the effect is shown in detail in the notes to the financial statements.

A further € 14.1 million were invested in intangible assets, the most important of which were:
- the repurchase of our sales and marketing rights to Corifeo®, one of the two lercanidipine brands in Germany, from former licensee UCB for an amount of € 10.0 million;
- the acquisition of marketing rights by Recordati Ireland Ltd. for € 1.9 million.

An amount of € 6.6 million was invested in property, plant and equipment, mostly by the parent company.

Net working capital for operations at 31 December 2006 is € 68.2 million, which includes the consolidation of Jaba, and is thus comprised:

€ (thousands)	31.12.2006	% of Revenue	31.12.2005	% of Revenue	Change 2006/2005	%
Trade receivables, net	123,418	21.4	111,924	19.4	11,494	10.3
Inventories	74,670	13.0	68,621	11.9	6,049	8.8
Other current assets	12,791	2.2	26,099	4.5	(13,308)	(51.0)
Current assets	**210,879**	**36.6**	**206,644**	**35.8**	**4,235**	**2.0**
Trade payables	71,537	12.4	90,095	15.6	(18,558)	(20.6)
Tax payable	22,076	3.8	9,780	1.7	12,296	n.s.
Other current liabilities	49,051	8.6	40,569	7.0	8,482	20.9
Current liabilities	**142,664**	**24.8**	**140,444**	**24.4**	**2,220**	**1.6**
Net working capital for operations	**68,215**	**11.8**	**66,200**	**11.5**	**2,015**	**3.0**
Days of sales outstanding	74		68			
Inventories as % of cost of sales	33.6%		34.2%			

Despite the investments made during the year the net financial position at 31 December 2006 remained positive by € 22.4 million.

€ (thousands)	31.12.2006	31.12.2005	Change 2006/2005	%
Cash and short-term financial investments	145,029	162,756	(17,727)	(10.9)
Bank overdrafts	(14,574)	(5,991)	(8,583)	n.s.
Loans – due within one year	(20,446)	(22,718)	2,272	(10.0)
Net liquid assets	**110,009**	**134,047**	**(24,038)**	**(17.9)**
Loans – due after one year [1]	(87,646)	(107,883)	20,237	(18.8)
Net financial position	**22,363**	**26,164**	**(3,801)**	**(14.5)**

[1] Restated for comparison purposes.

Cash is temporarily invested short term with the intention of keeping it available for future group development investments.

RECONCILIATION BETWEEN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY AND NET INCOME AND CONSOLIDATED SHAREHOLDERS' EQUITY AND NET INCOME

Starting in 2006 the parent company, Recordati S.p.A., adopted IAS/IFRS for the preparation of its financial statements. The reconciliation between the parent company's shareholders' equity and net income and the consolidated shareholders' equity and net income is as follows:

€ (thousands)	Shareholders' equity 31.12.2006	31.12.2005*	Net income for the year 2006	2005*
Recordati S.p.A.	268,948	253,585	50,631	27,768
Consolidation adjustments:				
Margin in inventories	(11,678)	(9,985)	(1,693)	(6,652)
Related deferred tax	3,854	3,313	558	2,197
Revaluation of assets, reversal	0	(28,173)	0	5,134
Other adjustments	(13)	0	(91)	0
Adjustments resulting from different accounting principles:				
Shares held in treasury stock	0	(20,410)	0	0
Valuation of inventories	0	689	0	371
Related deferred tax	0	(227)	0	(122)
Valuation as per IAS 19	0	1,848	0	(160)
Related deferred tax	0	(611)	0	52
Valuation of stock option plans	0	0	0	(1,184)
Change in fair value of hedging derivatives	0	(2,732)	0	0
Retained earnings of consolidated subsidiaries, at beginning of the year, net of amounts already booked by Recordati S.p.A.	63,729	76,437	0	0
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	41,626	49,139	41,626	49,139
Dividends received from consolidated subsidiaries	0	0	(17,000)	(12,000)
Translation adjustments	336	1,824	0	0
Consolidated financial statements	**366,802**	**324,697**	**74,031**	**64,543**

** The effect of the adoption of IAS/IFRS by the parent company is not included*

Further details are provided in the consolidated financial statements and in the notes to the financial statements.

FOURTH QUARTER 2006 RESULTS

INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2005 for the fourth quarter 2006:

€ (thousands)	IV Quarter 2006	%	IV Quarter 2005	%	Change 2006/2005	%
Revenue	**136,620**	**100.0**	**151,680**	**100.0**	**(15,060)**	**(9.9)**
Cost of sales	(47,188)	(34.5)	(52,890)	(34.9)	5,702	(10.8)
Gross profit	**89,432**	**65.5**	**98,790**	**65.1**	**(9,358)**	**(9.5)**
Selling expenses	(43,663)	(32.0)	(48,331)	(31.9)	4,668	(9.7)
R&D expenses	(11,255)	(8.2)	(13,377)	(8.8)	2,122	(15.9)
G&A expenses	(6,911)	(5.1)	(7,307)	(4.8)	396	(5.4)
Other income (expense), net	753	0.6	(2,173)	(1.4)	2,926	n.s.
Operating income	**28,356**	**20.8**	**27,602**	**18.2**	**754**	**2.7**
Financial income (expense), net	(354)	(0.3)	(1,097)	(0.7)	743	(67.7)
Pretax income	28,002	20.5	26,505	17.5	1,497	5.6
Provision for income taxes	(9,893)	(7.2)	(9,205)	(6.1)	(688)	7.5
Net income from continuing operations	**18,109**	**13.3**	**17,300**	**11.4**	**809**	**4.7**
Discontinued operations*	0	0.0	(3,747)	(2.5)	3,747	(100.0)
Net income	**18,109**	**13.3**	**13,553**	**8.9**	**4,556**	**33.6**

** As required by IAS/IFRS, 2005 revenues and costs related to the discontinued plants in Murcia and Opera have been reclassified and recognized on a single line in the income statement defined "discontinued operations".*

Consolidated revenue in the fourth quarter 2006 is € 136.6 million, a decrease of 9.9% compared to that of the preceding year. Pharmaceutical sales are down by 9.3% mainly due to the decrease in Italian sales (-21.8%) following the 5% across-the-board price reduction of reimbursed products and the reorganization of our detailing activities. Pharmaceutical chemicals sales are € 8.8 million, below those of 2005 (-17.8%).

Operating income, on the other hand, is slightly higher than that of the same period of the preceding year (+2.7%) mainly due to gross profit which further improved its margin on sales and the reduction in operating expenses.

Net income from continuing operations is up by 4.7% thanks to the lower net financial expenses, among others.

Net income increases by 33.6% as last year's fourth quarter net income included the negative result of the discontinued pharmaceutical chemical activities at Murcia and Opera.

CONSOLIDATED FINANCIAL STATEMENTS

Recordati S.p.A. and Subsidiaries
Consolidated Financial Statements at and for the year ended 31 December 2006

The consolidated financial statements are presented in accordance with the International Accounting Standards (IAS) and the International Financial reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Interpretation Reporting Committee (IFRIC) previously named Standing Interpretations Committee (SIC). The financial statements comply with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting standards were used in the preparation of the financial statements at 31 December 2005.

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

INCOME STATEMENT

€ (thousands)	Note	2006	2005
Revenue	**3**	**576,186**	**576.080**
Cost of sales	4	(192,011)	(200,623)
Gross profit		**384,175**	**375,457**
Selling expenses	4	(191,126)	(192,342)
R&D expenses	4	(45,395)	(44,959)
G&A expenses	4	(27,167)	(25,301)
Other income (expense), net	4	(146)	(1,725)
Operating income		**120,341**	**111,130**
Financial income (expense), net	5	(2,159)	(4,132)
Pretax income		**118,182**	**106,998**
Provision for income taxes	6	(44,151)	(38,435)
Net income from continuing operations		**74,031**	**68,563**
Discontinued operations	7	0	(4,020)
Minority interest		0	0
Net income		**74,031**	**64,543**
Earnings per share from continuing operations			
Basic		€ 0.370	€ 0.346
Diluted [1]		€ 0.359	€ 0.333
Earnings per share from continuing and discontinued operations			
Basic		€ 0.370	€ 0.326
Diluted [1]		€ 0.359	€ 0.314

[1] Diluted earnings per share is calculated taking into account new shares authorized but not yet issued.

Earnings per share (EPS) are based on average shares outstanding during each year, 200,053,683 in 2006 and 198,050,942 in 2005, net of average treasury stock which amounted to 5,720,085 shares in 2006 and 4,798,664 shares in 2005.

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006

ASSETS

€ (thousands)	Note	31 December 2006	31 December 2005
Non-current assets			
Property, plant and equipment	8	71,916	62,747
Intangible assets	9	92,490	88,650
Goodwill	10	129,771	94,568
Other investments	11	696	911
Other non-current assets	12	1,268	1,253
Deferred tax assets	13	18,798	15,062
Total non-current assets		**314,939**	**263,191**
Current assets			
Inventories	14	74,670	68,621
Trade receivables	15	123,418	111,924
Other receivables	16	11,002	24,030
Other current assets	17	1,789	2,069
Fair value of hedging derivatives *(fair value hedge)*	22	0	2,174
Short-term financial investments, cash and cash equivalents	18	145,029	162,756 *
Total current assets		**355,908**	**371,574**
Non current assets held for sale	**19**	**0**	**12,634**
Total assets		**670,847**	**647,399**

** Restated for comparison purposes*

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006

EQUITY AND LIABILITIES

€ (thousands)	Note	31 December 2006	31 December 2005
Shareholders' equity			
Share capital		25,802	25,631
Additional paid-in capital		73,165	67,664
Treasury stock		(30,653)	(20,410)
Hedging reserve (cash flow hedge)		(1,081)	(3,158)
Translation reserve		336	1,824
Other reserves		24,926	23,485
Retained earnings		200,276	162,718 *
Net income for the year		74,031	64,543
Group shareholders' equity	20	**366,802**	**322,297**
Minority interest	21	0	0
Shareholders' equity		**366,802**	**322,297**
Non-current liabilities			
Loans – due after one year	22	83,697	110,057
Staff leaving indemnities	23	22,587	22,821
Deferred tax liabilities	24	9,402	8,673 *
Other non-current liabilities	25	5,645	11,240
Total non-current liabilities		**121,331**	**152,791**
Current liabilities			
Trade payables	26	71,537	90,095
Other payables	27	32,159	33,151
Tax liabilities	28	22,076	9,780
Other current liabilities		413	481
Provisions	29	16,479	6,937
Fair value of hedging derivatives (cash flow hedge)	30	1,081	3,158
Fair value of hedging derivatives (fair value hedge)	22	3,949	0
Loans – due within one year		20,446	22,718
Bank overdrafts	31	14,574	5,991
Total current liabilities		**182,714**	**172,311**
Total equity and liabilities		**670,847**	**647,399**

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

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Total
Balance at 31 December 2004	**25,219**	**52,882**	**(20,410)**	**(3,185)**	**(421)**	**23,023**	**132,931**	**53,130**	**263,169**
Effect of change in accounting principles							(2,400)		(2,400)
Restated Balance at 31 December 2004	25,219	52,882	(20,410)	(3,185)	(421)	23,023	130,531	53,130	260,769
Allocation of 2004 net income:									
- Dividends distributed								(21,665)	(21,665)
- Retained earnings							31,465	(31,465)	
Increase in share capital	412	14,782							15,194
Net income for the period								64,543*	64,543
Changes in fair value of hedging derivatives				27					27
Effect of application of IAS/IFRS						462	722		1,184
Translation Adjustment					2,245				2,245
Balance at 31 December 2005	**25,631**	**67,664**	**(20,410)**	**(3,158)**	**1,824**	**23,485**	**162,718***	**64,543**	**322,297***
Allocation of 2004 net income:									
- Dividends distributed								(27,534)	(27,534)
- Retained earnings							37,009	(37,009)	
Increase in share capital	171	5,501							5,672
Net income for the period								74,031	74,031
Share buy-back			(10,243)						(10,243)
Changes in fair value of hedging derivatives				2,077					2,077
Effect of application of IAS/IFRS						1,441	549		1,990
Translation Adjustment					(1,488)				(1,488)
Balance at 31 December 2006	**25,802**	**73,165**	**(30,653)**	**(1,081)**	**336**	**24,926**	**200,276**	**74,031**	**366,802**

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

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

€ (thousands)	2006	2005
Operating activities		
Cash flow		
Net Income	74,031	64,543
Depreciation of property, plant and equipment	11,756	12,751
Amortization of intangible assets	11,551	9,307
Write-down of assets [1]	0	2,423
Total cash flow	**97,338**	**89,024**
(Increase)/decrease in deferred tax assets	(3,736)	2,978
Staff leaving indemnities - provision	3,683	3,733
Staff leaving indemnities - payment	(3,917)	(2,612)
Increase/(decrease) in other non-current liabilities	(5,026)	11,700
	88,342	**104,823**
Changes in working capital		
Trade and other receivables	11,616	(21,860)
Inventories	4,180	(3,698)
Other current assets	464	(519)
Trade and other payables	(28,006)	17,991
Tax liabilities	11,984	(13,302)
Other current liabilities	(68)	(1,230)
Provisions	8,082	856
Changes in working capital	**8,252**	**(21,762)**
Net cash from operating activities	**96,594**	**83,061**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(6,640)	(9,977)
Net (investments)/disposals in intangible assets	(13,930)	(53,342)
Net (increase)/decrease in equity investments	(45,603) **	(63,325) ***
Net (increase)/decrease in other equity investments	236	(6)
Net (increase)/decrease in other non-current assets	(15)	658
Net cash used in investing activities	**(65,952)**	**(125,992)**
Financing activities		
New medium and long-term loans	0	16
New short-term loans	(15,474)	0
Share capital increase	171	412
Additional paid-in capital increase	5,501	14,782
Treasury stock (increase) decrease	(10,243)	0
Effect of application of new IAS/IFRS	1,990	1,184
Transfer of current portion of medium and long-term debt to current liabilities	(20,237)	(23,581)
Changes in current portion of medium and long-term debt	(2,272)	(2,448)
Dividends paid	(27,534)	(21,665)
Proceeds on sale of pharmaceutical chemicals plant	12,634	0
Change in translation reserve	(1,488)	2,245
Net cash from/(used in) financing activities	**(56,952)**	**(29,055)**
Changes in short-term financial position	**(26,310)**	**(71,986)**
Short-term financial position at beginning of year *	156,765	228,751
Short-term financial position at end of period *	130,455	156,765

[1] *Includes the extraordinary write-down of pharmaceutical chemicals inventories*

* *Includes cash and cash equivalents net of bank overdrafts.*

** *Acquisition of Jaba companies: Working capital (10,267), Property, plant, equipment and intangible assets (15,767), Goodwill (35,203), Deferred tax liabilities 160 and Loans 15,474*

*** *Acquisition of Merckle Recordati: Working capital (1,331), Property, plant, equipment and intangible assets (18,417), Goodwill (48,793), Deferred tax assets (1,094), Deferred tax liabilities 5,695 and Provisions & other liabilities 615*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1. GENERAL

The consolidated financial statements at 31 December 2006 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, their percentage of ownership and a description of their activity are set out in attachment 1. At the end of November the closing of the acquisition of the pharmaceutical businesses of Grupo Jaba in Portugal was completed. The balance sheets of Jaba Farmacêutica S.A., Jabafarma Produtos Farmacêuticos S.A. and Bonafarma Produtos Farmacêuticos S.A., 100% owned by Recordati España S.L., are consolidated with effect as from 31 December 2006. The income statements of the new companies will be consolidated as from 1 January 2007. The newly acquired companies are recognized in the accounts in accordance with IFRS 3 and their effect, which is not yet considered definite and could be subject to change as allowed by IFRS 3, is disclosed in the comments to each balance sheet account.

In January the chemical synthesis plant in Beniel (Murcia, Spain) was sold. As prescribed by IFRS 5 the 2005 results of this plant, together with those of the discontinued biochemical plant in Opera (Milan, Italy) which was sold in 2005, were presented as a single amount in the income statement and the assets of the Spanish plant, at fair value, were classified as non-current assets held for sale.

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). The same accounting policies applied in the preparation of the consolidated financial statements at 31 December 2006 were used in the preparation of the financial statements at 31 December 2005.

The financial statements of the consolidated companies, prepared by the Board of Directors or the Sole Directors for submission to the respective Shareholders' meetings, have been reclassified and adjusted as required in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS). The criteria applied is consistent with that of the consolidated financial statements at 31 December 2005.

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

The principal accounting policies adopted are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared according to the same accounting policies adopted by the Company. Where necessary, adjustments are made to bring the accounting policies used in line with those used by the Company.

All intercompany transactions and balances between group enterprises, including unrealized gains, are eliminated on consolidation. Intragroup losses are also eliminated unless they indicate an impairment that requires recognition in the consolidated financial statements.

Subsidiaries are included in the consolidated financial statements from the effective date control is acquired up to the effective date control is transferred out of the group. When control is no longer exercised over a consolidated subsidiary, the results of the subsidiary are consolidated proportionally to the time period during which control was maintained.

The line-by-line consolidation method is applied using the following criteria:

a. The book value of investments in consolidated subsidiaries is eliminated against the relevant shareholders' equity while the assets and liabilities are consolidated on a line-by-line basis.
b. Intercompany payables and receivables and transactions, as well as intra-group profits and losses not yet realized, are eliminated.
c. Any excess of the cost of acquisition over the value of equity at the date of acquisition is recognized as goodwill.
d. Minority interests in the equity of consolidated subsidiaries are shown separately under equity, while minority interests in the net income of such companies are shown separately in the consolidated income statement.

The financial statements of foreign subsidiaries expressed in currencies other than Euro are translated into Euro as follows:
- Assets and liabilities, at year-end exchange rates;
- Shareholders' equity at historical exchange rates;
- Income and expense items at the average exchange rates for the year.

Translation differences arising from this process are booked to equity.

BALANCE SHEET

Property, plant and equipment - Property, plant and equipment is stated at purchase cost less accumulated depreciation and any recognized impairment loss. Reviews are performed annually or

when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on Impairment). Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets:

Industrial buildings	2.5%	-	5.5%
Machinery and equipment	10%	-	17.5%
Other fixtures and equipment	12%	-	40%

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

Leasing - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments, and depreciated over their estimated useful life. The corresponding liability to the lessor is included in the balance sheet as a financial liability. Lease payments are apportioned between finance charges and reduction of the financial liability. Finance charges are charged directly in the income statement.

All other leases are classified as operating leases and the rentals payable are charged to income as per the terms of the relevant lease.

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

Goodwill - Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and reviewed annually in order to determine any impairment loss.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of remaining goodwill is included in the determination of the profit or loss on disposal.

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

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

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

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

Investments in associates - An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

Other investments - Other investments are those described by IAS 39 as available-for-sale financial assets. They comprise equity instruments and are measured at fair value. If their market value is not available and their fair value cannot be reasonably determined, these investments are valued at cost.

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

Inventories - Inventories are stated at the lower of cost or market, where the market value of raw materials and subsidiaries is their substitution cost while that related to finished goods and work-in-process is their net realizable value. Inventories of raw materials, supplies and promotional material are valued at their average acquisition cost including costs incurred in bringing the inventories to their location and condition at year end. Inventories of work-in-process and finished goods are valued at their average manufacturing cost which includes the cost of raw materials, consumables, direct labour and indirect costs of production.

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

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

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

Non-current assets held for sale and discontinued operations - Comprise those components of an entity, whose operations and cash flows can be distinguished operationally and for financial reporting purposes, that either have been disposed of or that satisfy the criteria to be classified as held for sale.

A non-current asset (or disposal group) classified as held for sale is measured at the lower of fair value less costs to sell it and its carrying amount.

Non-current assets or disposal groups that are classified as held for sale are not depreciated.

Equity - Equity instruments issued by the Company are recorded at the proceeds received. Proposed dividend is recognized as a liability at the time of adoption of the dividend resolution at the annual shareholders' meeting. The cost and selling prices of treasury shares are recognized directly in equity and therefore gains and losses on sales are not recognized in the income statement.

Loans - Interest-bearing loans are recorded at the proceeds received, net of direct issue costs. Subsequently, loans are measured using the amortized cost method as prescribed by IAS 39. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period.

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

Staff leaving indemnities - Employee benefits presented on the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liability recognized in the balance sheet for post-employment benefit plans is the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method.

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

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

Bank overdrafts and loans - Bank overdrafts and loans are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

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

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

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

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

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

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

On consolidation, the assets and liabilities of the Group's foreign currency operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

INCOME STATEMENT

Revenues - Revenues are recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and that the amount of revenue can be measured reliably. Revenue arising from the sale of goods is recognized when the enterprise has transferred the significant risks and rewards of ownership. These are stated net of discounts, rebates and returns. Revenues include income from royalties due on licensed out products and up-front payments received under licensing agreements.

Cost of Sales - Represents the cost of goods sold and includes the cost of raw materials, supplies and consumables, finished goods, and direct and indirect production expenses.

Selling expenses - Include all expenses incurred in connection with the products sold during the year, such as payroll and other costs for the sales and marketing personnel, promotional expenses and all distribution costs. Promotional expenses for the launch of new products are recognized in the income statement in proportion to the revenues obtained during the launch period.

Research and development expenses - All research costs are expensed in the income statement in the year in which they are incurred in accordance with IAS 38. IAS 38 prescribes that development costs must be capitalized when technical and commercial feasibility is achieved. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines under IAS 38 are not met so that development costs are expensed as incurred. Research and development costs include amounts due under collaboration agreements with third parties.

Non-reimbursable government grants - Government grants towards investment in plant are recognized as income over the periods necessary to match them with the related costs and are stated in the balance sheet as deferred income. Non-reimbursable government grants are booked to the income statement, against depreciation, on an accruals basis and carried forward, as pre-paid income, in relation to the estimated useful life of the assets to which they refer. Research grants are booked on an accrual basis and are recognized in the income statement as other revenue.

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

Taxation - Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year and tax rates in force at the date of the balance sheet are applied.

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

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

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

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

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

RECORDATI S.P.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2006

ATTACHMENT 1.

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.P.A. *Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals*	Italy	25,801,832.00	Euro	Line-by-line
RECOFARMA S.R.L. *Sales of pharmaceutical chemicals*	Italy	1,258,400.00	Euro	Line-by-line
INNOVA PHARMA S.P.A. *Marketing and sales of pharmaceuticals*	Italy	1,920,000.00	Euro	Line-by-line
RECORDATI ESPAÑA S.L. *Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals*	Spain	42,000,000.00	Euro	Line-by-line
VECTORPHARMA INTERNATIONAL CORPORATION*** *Dormant*	U.S.A.	1,638,000.00	USD	Line-by-line
RECORDATI S.A. Chemical and Pharmaceutical Company *Holding company*	Luxembourg	9,962,619.00	Euro	Line-by-line
BOUCHARA RECORDATI S.A.S. *Development, production, marketing and sales of pharmaceuticals*	France	4,600,000.00	Euro	Line-by-line
RECORDATI PORTUGUESA LDA *Marketing and sales of pharmaceuticals*	Portugal	24,940.00	Euro	Line-by-line
FARMARECORD LTDA *Dormant, holds pharmaceutical marketing rights in Brazil*	Brazil	166.00	BRL	Line-by-line
RECORDATI CORPORATION *Sales Agent for pharmaceutical chemicals*	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD *Development, production, marketing and sales of pharmaceuticals*	Ireland	200,000.00	Euro	Line-by-line
RECORDATI S.A. *Marketing and sales of pharmaceuticals and pharmaceutical chemicals*	Switzerland	6,000,000.00	CHF	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. *Development, production, marketing and sales of pharmaceuticals*	France	14,000,000.00	Euro	Line-by-line
MERCKLE RECORDATI GmbH.* *Marketing and sales of pharmaceuticals*	Germany	268,939.53	Euro	Line-by-line
RECORDATI PHARMACEUTICALS LTD** *Marketing and sales of pharmaceuticals*	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A.** *Marketing and sales of pharmaceuticals*	Greece	1,000,000.00	Euro	Line-by-line
JABA FARMACÊUTICA S.A.**** *Development, production, marketing and sales of pharmaceuticals*	Portugal	1,600,000.00	Euro	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.**** *Development, production, marketing and sales of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.**** *Development, production, marketing and sales of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line

* *Acquired during 2005*
** *Established during 2005*
*** *Liquidated during 2005*
**** *Acquired during 2006 – only Balance Sheet consolidated*

	PERCENTAGE OF OWNERSHIP					
	Recordati S.p.A. (parent)	Innova Pharma S.p.A.	Recordati S.A. (Luxembourg)	Bouchara Recordati S.a.s.	Recordati España S.L.	Total
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%
VECTORPHARMA INTERNATIONAL CORPORATION***		100.00%				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.**	9.50%		90.50%			100.00%
JABA FARMACÊUTICA S.A.****					100.00%	100.00%
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.****					100.00%	100.00%
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.****					100.00%	100.00%

* *Acquired during 2005*
** *Established during 2005*
*** *Liquidated during 2005*
**** *Acquired during 2006 – only Balance Sheet consolidated*

3. REVENUE

Net revenue for the years 2006 and 2005 is € 576.2 million and € 576.1 million respectively and can be broken down as follows:

€ (thousands)	2006	2005	Change 2006/2005
Net sales	570,023	567,068	2,955
Royalties	1,932	1,330	602
Up-front payments	971	2,472	(1,501)
Other revenue	3,260	5,210	(1,950)
Total revenue	**576,186**	**576,080**	**106**

The 2005 revenues exclude those produced by operations discontinued during the year which are € 7.0 million and are presented, net of costs incurred, in the income statement on a separate line under "discontinued operations".

4. OPERATING EXPENSES

Total operating expenses for the years 2006 and 2005 are € 455.8 million and € 464.9 million respectively and are analyzed by function as follows:

€ (thousands)	2006	2005	Change 2006/2005
Cost of sales	192,011	200,623	(8,612)
Selling expenses	191,126	192,342	(1,216)
Research and development expenses	45,395	44,959	436
General and administrative expenses	27,167	25,301	1,866
Other income (expense), net	146	1,725	(1,579)
Total operating expenses	**455,845**	**464,950**	**(9,105)**

Labor cost in 2006 is € 147.5 million, an increase of 1.1% compared to 2005 while labor cost increase per employee was 3.2%. Labor cost includes a provision of € 2.0 million in respect of staff leaving indemnities for the Italian companies measured in accordance with IAS 19.

Personnel and other human resources data at 31 December 2006 and 2005 are shown in the following table:

	2006	2005
Employees at year-end	**1,930**	**1,946**
Average age	43	42
Average service (years)	8.6	8.3
Labor cost increase (decrease):		
Total	1.1%	14.8%
Per employee [a]	3.2%	8.4%
Labor productivity:		
Labor cost on net sales	25.6%	25.0%
Sales per employee (€ thousands) [a]	306.5	304.0
Value added per employee (€ thousands) [a]	154.8	143.5

Labor cost includes wages, related charges and additional costs.
[a] Data per employee for both years are computed on the average number of personnel, 1,880 in 2006 and 1,918 in 2005.

Depreciation and amortization charges are € 23.3 million. Depreciation of property, plant and equipment is € 11.8 million, in line with the 2005 charges, while amortization of intangibles went from € 9.3 million in 2005 to € 11.5 million in 2006.

The following table summarizes the main components of other income (expense) which comprises non-recurring events, operations and matters which are not often repeated in the ordinary course of business. The overall net effect of such occurrences on the profit and loss, balance sheet and cash flow of the Company is not significant.

€ (thousands)	2006	2005	Change 2006/2005
Capital gain on sale of Confarma	4,707	-	4,707
Reversal of a liability *(A.I.C. annual rights)*	1,745	-	1,745
Provisions for:			
- presumed liability legislative decree-law 231/2001	(2,200)	(300)	(1,900)
- fine related to tax inspection at the parent company	(1,000)	-	(1,000)
- restructuring charges	(2,383)	-	(2,383)
Non-recurring legal expenses	(628)	-	(628)
Restructuring charges Campoverde plant	0	(1,700)	1,700
Others	(387)	275	(662)
Total other income (expense), net	**(146)**	**(1,725)**	**1,579**

During the year the holding in Confarma was sold to to FF Holding S.p.A., a company controlled by the funds managed by Apax Partners Worldwide Ltd.. A net capital gain of € 4.7 million was realized from the operation.

On 24 May 2004 the Italian Ministry of Health issued a decree which established an annual payment to maintain the commercialization rights for each product on the market. These amounts were accrued as a liability due to be paid to AIFA (the Italian Medicines Agency). A further decree issued by the Ministry of Health on 31 March 2006 annulled the previous requirement thus generating the reversal of the € 1.7 million liability.

The provision of € 2.2 million relates to the lawsuit for tort liability brought against the Company by the Milan Attorney's Office pursuant to legislative decree 231/2001 (see Note 36.). Restructuring charges are the costs estimated for the ongoing reorganization of our detailing activities in Italy and in Germany.

5. FINANCIAL INCOME AND EXPENSE

In 2006 and 2005 financial items recorded a net expense of € 2.2 million and € 4.1 million respectively which are comprised as follows:

€ (thousands)	2006	2005	Change 2006/2005
Exchange gains (losses)	(190)	233	(423)
Interest expense on loans	(5,478)	(5,892)	414
Net interest on short-term financial position	4,560	2,347	2,213
Interest cost in respect of defined benefit plans	(823)	(826)	3
Net gains (losses) on valuation of equity investments	(228)	6	(234)
Change in fair value of hedging derivatives	(6,123)	5,276	(11,399)
Change in fair value of hedged item	6,123	(5,276)	11,399
Total financial income (expense), net	**(2,159)**	**(4,132)**	**1,973**

Net financial expenses decreased compared to the preceding year due to the increase in interest income generated by the short term investment of liquidity.

The loss on valuation of equity investments refers to the write-down of the holding in Technogen Associates L.P..

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. PROVISION FOR INCOME TAXES

The 2006 provision for income taxes amounts to € 44.2 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies.

The current standard corporate income tax rate in Italy can be reconciled with the tax rate effectively incurred on pretax income, as follows:

	2006 %	2005 %
Standard income tax rate on pretax income at the parent company	33.0	33.0
Prudential tax provision following tax inspection	2.3	-
Effect of non-deductible risk provisions	0.7	0.2
Capital gain on sale of Confarma	(1.3)	-
Dividends from foreign subsidiaries	0.2	0.2
Consolidation effect of foreign subsidiaries	(5.7)	(4.8)
Other differences, net	3.0	3.4
Effective tax rate on income	32.2	32.0
IRAP	5.2	5.3
Effective tax rate, including IRAP	**37.4**	**37.3**

IRAP tax accounted for 5.2% of pretax income as this tax is computed applying a 4.25% rate to a broader taxable base which includes labor cost, interest and certain extraordinary items.

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. 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. Of this amount € 2.8 million are accrued for additional taxes, which include the extension of the assessment to the subsequent fiscal years, and € 1.0 million for additional tax liabilities. In February 2007 the Company filed an appeal with the competent Provincial Tax Commission.

On the other hand, deferred tax assets for an amount of € 2.9 million were recognized on a portion of losses carried forward by Recordati España following the sale of the Murcia pharmaceutical chemicals plant and the resulting return to profitability of this subsidiary which is expected to continue in the future.

7. POST-TAX PROFIT AND LOSS FROM DISCONTINUED OPERATIONS

As required by IFRS 5 the results produced by discontinued operations in 2005 relative to the Opera (Milan, Italy) plant which was sold in 2005 and the plant in Murcia (Spain) which was sold in January 2006 are presented as a single amount in the income statement.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at historical purchase or construction cost and, net of accumulated depreciation, amounts to € 71.9 million and € 62.7 million at 31 December 2006 and 2005 respectively. 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
Cost					
Balance at 31.12.05	38,704	136,762	30,014	1,207	206,687
Additions	659	2,552	1,642	1,728	6,581
Disposals	(25)	(88)	(1,480)	(1,007)	(2,600)
Changes in reporting entities	17,053	21,786	3,276	32	42,147
Other changes	350	444	336	0	1,130
Balance at 31.12.06	**56,741**	**161,456**	**33,788**	**1,960**	**253,945**
Accumulated depreciation					
Balance at 31.12.05	19,575	98,711	25,654	0	143,940
Additions	1,684	8,012	2,060	0	11,756
Disposals	(25)	(88)	(1,418)	0	(1,531)
Changes in reporting entities	6,382	18,484	2,996	0	27,862
Other changes	0	0	2	0	2
Balance at 31.12.06	**27,616**	**125,119**	**29,294**	**0**	**182,029**
Carrying amount at					
31 December 2006	29,125	36,337	4,494	1,960	71,916
31 December 2005	19,129	38,051	4,360	1,207	62,747

The land and buildings located in Milan, Italy having a carrying amount of € 3.8 million have been pledged to secure loans granted by Istituto Bancario Intesa Sanpaolo.

The carrying amount of the Group's land and buildings includes an amount of € 1.5 million (€ 1.7 million in 2005) in respect of assets held under finance leases.

The additions of € 6.6 million in 2006 refer mainly to investments in the Milan pharmaceutical plant and headquarters building of € 3.1 million and to various minor investments in the production facilities at the Campoverde di Aprilia plant for € 2.0 million.

Changes in reporting entities arise from the consolidation of the newly acquired Portuguese companies. The net book value of their tangible fixed assets is € 14.3 million most of which, € 10.7 million, are property and plant.

The depreciation charges are € 11.8 million, in line with those in 2005.

9. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 31 December 2006 and 2005 amount to € 92.5 million and € 88.7 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31.12.05	57,675	47,197	13,974	28,198	147,044
Additions	326	12,202	415	1,137	14,080
Disposals	(1,075)	(373)	(71)	(54)	(1,573)
Changes in reporting entities	104	2,532	0	15	2,651
Other changes	10,683	14,519	(90)	(25,313)	(201)
Balance at 31.12.06	**67,713**	**76,077**	**14,228**	**3,983**	**162,001**
Accumulated amortization					
Balance at 31.12.05	25,809	21,477	11,108	0	58,394
Additions	4,787	5,504	1,260	0	11,551
Disposals	(967)	(373)	(71)	0	(1,411)
Changes in reporting entities	104	1,086	0	0	1,190
Other changes	0	(2)	(211)	0	(213)
Balance at 31.12.06	**29,733**	**27,692**	**12,086**	**0**	**69,511**
Carrying amount at					
31 December 2006	37,980	48,385	2,142	3,983	92,490
31 December 2005	31,866	25,720	2,866	28,198	88,650

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

The additions in 2006 refer mainly to the repurchase of the sales and marketing rights to Corifeo®, one of the two lercanidipine brands in Germany, from former licensee UCB for an amount of € 10.0 million and to the acquisition of marketing rights by Recordati Ireland Ltd. for € 1.9 million.

Changes in reporting entities arise from the consolidation of the newly acquired Portuguese companies. The net book value of their intangible fixed assets, most of which are marketing rights for pharmaceutical specialties, is € 1,5 million.

Amortization for the period is € 11.5 million, an increase over 2005 due to the new investments made.

10. GOODWILL

Goodwill, net of accumulated amortization, at 31 December 2006 and 2005 amounts to € 129.8 million and € 94.6 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31.12.05	132,232
Changes in reporting entities	35,203
Balance at 31.12.06	**167,435**
Accumulated amortization	
Balance at 31.12.05	37,664
Changes in reporting entities	0
Balance at 31.12.06	**37,664**
Carrying amount at	
31 December 2006	129,771
31 December 2005	94,568

The increase of € 35.2 million is to be attributed entirely to 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 and, as allowed by IFRS 3, could be subject to change. In compliance with IFRS 3 goodwill is no longer amortized. Instead, it shall be tested, at least annually, for impairment. At 31 December 2006 no loss in the value of goodwill on the balance sheet was identified.

The € 129.8 million residual goodwill at 31 December 2005 is related to the following equity investments:

- € 13.4 million related to the acquisition of Doms-Adrian;
- € 32.4 million related to the Bouchara group of companies;
- € 48.8 million related to Merckle Recordati;
- € 35.2 million related to the Grupo Jaba companies.

11. OTHER INVESTMENTS

Investments in equity instruments of non-consolidated companies are as follows:

€ (thousands)	Value at 31 December		Percentage of equity owened	
	2006	2005	2006	2005
Technogen Associates L.P., U.S.A.	220	449	n.s.	n.s.
Maxygen Inc., U.S.A.	176	176	n.s.	n.s.
Tecnofarmaci S.p.A., Pomezia (Rome)	87	87	4.2%	4.2%
Consorzio C4T, Pomezia (Rome)	78	78	2.3%	2.3%
Alavita Inc.(formerly SurroMed Inc.,U.S.A.)	63	63	n.s.	n.s.
Confarma S.p.A., Novara	-	8	-	3.1%
Quantum Dot Corp., U.S.A.	48	48	n.s.	n.s.
DAFNE, Reggello (Florence)	2	2	2.5%	2.5%
Other	22	-	n.s.	-
Total equity investments	**696**	**911**		

The holding in Technogen Associates L.P., a company investing in developing genomics, biotechnology and pharmaceutical companies, amounts to € 0.2 million and was written down by € 0.2 million to reflect its fair value. During the year the holding in Confarma was sold to to FF Holding S.p.A., a company controlled by the funds managed by Apax Partners Worldwide Ltd. and a net capital gain of € 4.7 million was realized from the operation. The "Other" investments arise from the consolidation of the newly acquired Portuguese companies.

12. OTHER NON-CURRENT ASSETS

Receivables included in non-current assets at 31 December 2006 are € 1.3 million, in line with the preceding year-end, and include advance payments of taxes due by employees on their leaving indemnity made by the Italian companies, according to Italian law.

13. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2006 and 2005 amount to € 18.8 million and € 15.1 million respectively, an increase of € 3.7 million. The main deferred tax assets and their change in 2006 are analyzed below.

€ (thousands)	2006	2005
Balance at 1 January	15,062	16,946
Additions	7,491	7,887
Utilization	(3,755)	(10,865)
Changes in reporting entities	0	1,094
Balance at 31 December	**18,798**	**15,062**

€ (thousands)	Asset revaluation reversed	Tax losses	Write-down equity investments	Profit and loss temporary differences	Other	Total
Balance at 1 January	5,211	700	2,581	2,620	3,950	15,062
Additions	2,040	2,946	0	267	2,238	7,491
Utilization	(168)	0	(1,886)	(1,480)	(221)	(3,755)
Balance at 31 December	**7,083**	**3,646**	**695**	**1,407**	**5,967**	**18,798**

The deferred tax assets arising from the revaluation of assets, which is reversed in the consolidated financial statements, increase by € 2.0 million due to the further recognition of tax benefits generated by the revaluation in 2005 of certain intangible assets on the Recordati S.p.A. balance sheet as allowed under Italian law. The tax benefit resulting from this asset revaluation will be realized in the period from 2008 to 2014. Due to the uncertainty associated with a period this long, the tax assets were calculated using a prudent approach and taking into consideration the probability that the benefit be realized, in line with the group's policy in relation to the recognition of deferred taxes. The calculation of the tax benefit over the full period and applying the current tax rate would have generated tax assets of € 6.4 million.

Deferred tax assets for an amount of € 2.9 million were recognized on a portion of losses carried forward by Recordati España following the sale of the Murcia pharmaceutical chemicals plant and the resulting return to profitability of this subsidiary which is expected to continue in the future.

Following the tax assessment notified by the Internal Revenue Service as a result of their inspection at the parent company during the year it was decided to decrease the deferred tax assets arising from the write-down of equity investments in 2003. It being no longer reasonable to assume the realization of this future tax benefit, the deferred tax assets under discussion for both fiscal years 2006 and 2007 were prudentially reversed.

The increase of "Other" deferred tax assets of € 2.2 million refers mainly to temporary differences arising from the elimination of unrealized gains on intercompany transactions.

14. INVENTORIES

Inventories at 31 December 2006 and 2005 amount respectively to € 74.7 million and € 68.6 million, net of an obsolescence provision of € 1.8 million and € 0.9 million respectively Composition of inventories is as follows:

€ (thousands)	31.12.2006	31.12.2005	Change 2006/2005
Raw materials and supplies	15,970	17,278	(1,308)
Intermediates and work-in-process	16,053	18,337	(2,284)
Finished goods	42,647	33,006	9,641
Total inventories	**74,670**	**68,621**	**6,049**

The consolidation effect relative to the acquisition of the Grupo Jaba companies is € 10.2 million, net of an obsolescence provision of € 0.9 million.

15. TRADE RECEIVABLES

Trade accounts receivable at 31 December 2006 and 2005 amount to € 123.4 million and € 111.9 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2006 is € 6.4 million (€ 6.4 million also at 31 December 2005) and is considered to be sufficient to cover potential losses on collection. Average days sales outstanding are 74 (68 at 31 December 2005). The consolidation of Grupo Jaba accounted for an increase in trade receivables of € 9.2 million.

16. OTHER RECEIVABLES

Other receivables amount to € 11.0 million (€ 24.0 million at 31 December 2005) and their breakdown is as follows:

€ (thousands)	31.12.2006	31.12.2005	Change 2006/2005
Tax receivable	4,245	11,016	(6,771)
Balances due from employees and agents	1,919	7,550	(5,631)
Other	4,838	5,464	(626)
Total other receivables	**11,002**	**24,030**	**(13,028)**

Tax receivable comprises value added tax (VAT) receivable and advance payments of income tax exceeding those required. Receivables from employees and agents comprise advances on expense accounts and other credits. The "other" line refers to advances paid to suppliers and other parties, in addition to computed credits under licensing-in agreements and receivables from the controlling company.

The consolidation of Grupo Jaba accounted for an increase of € 0.9 million.

17. OTHER CURRENT ASSETS

At 31 December 2006 other current assets amount to € 1.8 million (€ 2.1 million at 31 December 2005) and relate mainly to prepaid expenses. The Grupo Jaba consolidation effect is € 0.2 million.

18. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

A breakdown is shown in the following table.

€ (thousands)	31.12.2006	31.12.2005 *	Change 2006/2005
Short term financial investments	81,812	90,171	(8,359)
Short term time deposits	24,756	36,774	(12,018)
Deposits in bank current accounts	38,450	35,796	2,654
Cash on hand	11	15	(4)
Total short term financial investments, cash and cash equivalents	**145.029**	**162,756**	**(17,727)**

** Restated for comparison purposes.*

Short term financial investments include € 52.5 million of investments mainly in bond funds issued by highly rated financial institutions with the objective of beating money-market returns. The funds are diversified in terms of management and strategy, are tightly controlled to minimize risk and can be liquidated on short notice. The remainder is invested in monetary funds denominated in Euro, U.S. dollars and pounds sterling and managed by leading international investment houses.

Short term time deposits have maturities of one month or less and are denominated in Euro and U.S. dollars.

At 31 December 2006 cash and cash equivalents are denominated mainly in Euro (€ 117.3 million) and held for the most part by the parent Recordati S.p.A. (€ 93.3 million) and the subsidiary Recordati Ireland Ltd. (€ 10.4 million). Cash deposits in U.S. dollars amount to 22.7 million and are held mostly by Recordati Corporation, while those in pounds sterling are 6.2 million and are held by Recordati Pharmaceuticals Ltd..

19. NON-CURRENT ASSETS HELD FOR SALE

This line presents assets for a value of € 12.6 million relative to the Murcia plant at 31 December 2005, sold in January 2006, which were classified separately and measured at their expected selling price less cost to sell.

20. SHAREHOLDERS' EQUITY

Share capital - At 31 December 2006 the issued and fully paid share capital consists of 206,414,656 ordinary shares with a par value of € 0.125 each for a total of € 25,801,832.00.

During 2006 share capital increased by € 170,675,00 following the issue of 1,365,400 new ordinary shares, of which 400,500 at a price of € 3,575 each, 373,500 at a price of € 3,6775 each, 193,000 at a price of € 4.055 each, 182,000 at a price of € 5.18 each and 216,400 at a price of € 5.27 each, to company managers who exercised stock options under the 2001-2003 and 2003-2007 stock option plans.

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 December 2006 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2006	Options granted during 2006	Options exercised during 2006	Options cancelled or expired	Options outstanding at 31.12.2006
Date of grant:						
13 November 2001	5.2700	487,400	-	(216,400)	0	271,000
30 October 2002	5.1800	627,000	-	(182,000)	0	445,000
14 May 2003	3.6775	860,000	-	(373,500)	(3,500)	483,000
7 April 2004	3.5750	1,343,500	-	(400,500)	(7,000)	936,000
27 October 2004	4.0550	1,452,500	-	(193,000)	(30,000)	1,229,500
6 April 2006	6.4975	0	2,650,000	0	(40,000)	2,610,000
Total		**4,770,400**	**2,650,000**	**(1,365,400)**	**(80,500)**	**5,974,500**

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.

Additional paid-in capital - During 2006 additional paid-in capital increased from € 67,664,339.08 to € 73,164,800.83 following the issue of 1,365,400 new shares for a total price in excess of par value of € 5,500,461.75.

Treasury stock - At 31 December 2006, 6,654,891 shares were held as treasury stock for a total cost of € 30.7 million. Of these, 3,955,520 shares were purchased on the market during 2002 for an amount of € 17.5 million, 843,144 were purchased during 2003 for an amount of € 2.9 million and 1,856,227 were purchased during 2006 for an amount of € 10.3 million.

Hedging reserve - In accordance with IAS 39 the € 1.1 million liability arising from the measurement at fair value at 31 December 2006 of interest rate swaps qualifying as a cash flow hedge is recognized directly in equity as a hedging reserve.

Other reserves - These amount to € 24.9 million at 31 December 2006 and include the statutory reserve of the parent company in the amount of € 5.2 million, reserves from revaluations and grants for a total of € 15.5 million, and reserves arising from the application of IFRS 2 and IFRS 19 of € 2.0 million and € 2.2 million respectively.

Retained earnings and net income for the year - These amount to € 200.3 million at 31 December 2006 and increased by € 37.6 million as compared to 31 December 2005. Net income for the year is € 74.0 million, an increase of 14.7% over the € 64.5 million 2005 net income. Following the adoption by the parent company Recordati S.p.A. of IAS/IFRS as from the year ended 31 December 2006, some of its holdings in group companies were revalued generating deferred tax liabilities of € 2.4 million which have been recognized as a reduction of retained earnings at 31 December 2004.

Shareholders' Equity includes untaxed reserves of € 87.8 million. In addition, a total of € 6.4 million untaxed reserves are recorded on the balance sheet of Innova Pharma S.p.A. which relate to the revaluation of fixed assets according to Italian law, and which are reversed in the consolidated financial statements. In accordance with IAS 12 deferred taxes are not recognized on these reserves until their distribution is resolved.

21. MINORITY INTEREST

All consolidated companies are 100% owned and therefore no minority interests are recorded.

22. LOANS

At 31 December 2006 and 2005, medium and long-term loans included:

€ (thousands)	31.12.2006	31.12.2005
Loans granted to Recordati S.p.A.:		
Istituto Bancario Intesa Sanpaolo loans, guaranteed by mortgages on the Milan and Campoverde plants, at an average annual interest rate of 0.99% repayable in semi-annual installments through 2010	3,824	4,636
Research loans granted by Istituto Bancario Intesa Sanpaolo, at an average annual interest rate of 2.49%, repayable in semi-annual installments through 2009	2,120	3,173
Loans granted by the Ministry of Industry and Commerce repayable in annual installments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0.825% before that	884	995
Istituto Bancario Intesa Sanpaolo loans for financial investments at variable interest rates, converted into a fixed annual interest rate of 5.915% by IRS, repayable in semi-annual installments through 2007	5,165	10,329
Banca Popolare di Milano, loans for financial investments at an annual interest rate of 3.98%, repayable in semi-annual installments through 2006	0	1,500
Loans granted to other Group companies:		
Loan granted by Istituto Bancario Intesa Sanpaolo to Recordati España S.L. at variable interest rate, converted into a fixed annual interest rate of 4.85% by IRS, repayable in quarterly installments through 2008	1,803	3,005
Various loans granted to Recordati España S.L. at an average annual interest rate of 2.33%	1,992	3,201
Loan granted by Istituto Bancario Intesa Sanpaolo to Bouchara-Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 5.99% by IRS, repayable in semi-annual installments through 2007	2,064	4,128
Loan granted by Banca Popolare di Milano to Bouchara Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.0% by IRS, repayable in semi-annual installments through 2007	2,064	4,128
Loan granted by Bank Pekao of Paris to Bouchara Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.01% by IRS, repayable in semi-annual installments through 2007	4,130	8,260
Loan granted by Istituto Bancario Intesa Sanpaolo to Bouchara Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.0% by IRS, repayable in semi-annual installments through 2007	3,098	6,196
Various loans granted to Bouchara-Recordati S.a.s. at an average annual interest rate of 4.27%	784	948
Guaranteed senior notes issued by Recordati S.A. (Luxembourg) privately placed with international institutional investors: € 15 million at a fixed interest rate of 4.52% due 2011 $ 40 million at a fixed interest rate of 5.50% due 2014 € 26 million at a fixed interest rate of 5.02% due 2014 £ 5 million at a fixed interest rate of 6.09% due 2014	* 80,164	* 80,102
Total amortized cost of loans	**108,092**	**130,601**
Portion due within one year	(20,446)	(22,718)
Portion due after one year	87,646	107,883
Change in the fair value of loans	(3,949)	2,174
Total	**83,697**	**110,057**

** Net of direct issue costs of € 0.4 million amortized using the effective interest method.*

The average effective interest rate at 31 December 2006, applying the rates resulting from the interest rate swaps, is 4.86%.

At 31 December 2006, the repayment schedule of long-term debt due after 2007 is as follows:

€ (thousands)	
2008	2,916
2009	2,154
2010	1,545
2011	15,341
2012 and subsequent years	65,690
Total	**87,646**

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 December 2006 generated a liability of € 3.9 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 December 2006 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 € 1.0 million fair value of the cash flow hedge is recognized directly in equity and stated as a current liability (see Note 30.).

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 € 18.3 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 € 0.1 million fair value of the cash flow hedge is recognized directly in equity and stated as a current liability. The derivative instruments and the hedged items are linked and the Group does not intend to terminate or modify them independently from each other.

23. STAFF LEAVING INDEMNITIES

This provision at 31 December 2006 and 2005 is € 22.6 million and € 22.8 million respectively and reflects the Group's obligation towards its employees determined in accordance with IAS 19. The roll forward of this fund is as follows:

€ (thousands)	2006	2005
Balance at 1 January	22,821	20,320
Additions	3,683	3,733
Utilization	(2,789)	(2,612)
Change in fair value of the TFR funds in Italian companies	(1,128)	0
Consolidation of Merckle Recordati	-	1,380
Balance at 31 December	**22,587**	**22,821**

The main part of this liability is to be attributed to the staff leaving indemnity fund (TFR, *trattamento fine rapporto*) in the Italian companies. The valuation of this fund at 31 December 2006 in accordance with IAS 19 generated a liability of € 18.4 million. The fair value calculation made using actuarial parameters updated at 31 December 2006 generated a reduction of € 1.1 million which is recognized directly in equity as prescribed by IAS 19. The remaining part of this provision comprises employee benefit plans in the French and German subsidiaries of € 3.0 million and € 1.2 million respectively.

24. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2006 and 2005 were € 9.4 million and € 8.7 million respectively, and changed as follows:

€ (thousands)	2006	2005
Balance at 1 January	8,673	3,283*
Additions	1,473	570
Utilization	(904)	(875)
Consolidation of Merckle Recordati	160	5,695
Balance at 31 December	**9,402**	**8,673***

** Following the adoption by the parent company Recordati S.p.A. of IAS/IFRS as from the year ended 31 December 2006, some of its holdings in group companies were revalued generating deferred tax liabilities of € 2.4 million which have been recognized as an increase of the closing balance at 31 December 2004.*

At 31 December 2006 deferred tax liabilities are not recognized on the goodwill amortization related to the Merckle Recordati and Grupo Jaba acquisitions which is tax deductible in Spain in view of the strategic nature of these investments which are long term and which the Company does not intend to sell. The temporary differences generated by the tax deductibility of these amortization charges will therefore not be offset in the foreseeable future.

At 31 December 2006 no deferred tax liabilities exist in relation to subsidiaries' undistributed earnings because no significant additional tax must be paid by the Group in the event of these dividend distributions because they are essentially exempt from dual income taxation.

25. OTHER LIABILITIES (INCLUDED IN NON-CURRENT LIABILITIES)

These include the balance of € 5.6 million due for the acquisition of Merckle Recordati to be paid in 2008, net of € 0.2 million arising from the calculation of the present value of the amount as required by IAS/IFRS.

26. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include allocations for invoices to be received, at 31 December 2006 and 2005 amount to € 71.5 million and € 90.1 million respectively. The consolidation of the Jaba companies determined an increase of € 6.3 million.

27. OTHER PAYABLES

Other accounts payable at 31 December 2006 and 2005 amount to € 32.2 million and € 33.1 million respectively. Their composition is as follows:

€ (thousands)	31.12.2006	31.12.2005	Change 2006/2005
Personnel	13,997	14,542	(545)
Social security	8,218	8,861	(643)
Balance due for the acquisition of Merckle Recordati	5,900	5,800	100
Agents	380	390	(10)
Other	3,664	3,558	106
Total other payables	**32,159**	**33,151**	**(992)**

The consolidation of Grupo Jaba accounted for € 2.1 million.

28. TAX LIABILITIES

Tax liabilities at 31 December 2006 and 2005 amount to € 22.1 million and € 9.8 million respectively and include tax provisions computed by the companies on the basis of estimated taxable income, net of tax advances already paid, and withholding taxes payable. The substantial increase is due mainly to the parent company's high tax payable.

The consolidation of Grupo Jaba accounted for € 0.3 million.

29. PROVISIONS

Tax and other provisions are included as follows:

€ (thousands)	31.12.2006	31.12.2005	Change 2006/2005
Tax	4,958	436	4,522
Other	11,521	6,501	5,020
Total provisions	**16,479**	**6,937**	**9,542**

Changes in provisions are as follows:

€ (thousands)	2006	2005
Balance at 1 January	6,937	5,824
Additions	10,261	3,443
Utilization	(2,179)	(2,587)
Changes in consolidation perimeter	1,460	257
Balance at 31 December	**16,479**	**6,937**

The tax provision increased mainly due to the provision of € 3.8 million made by the parent company following the tax assessment received from the Internal Revenue Service related to the fiscal year 2003, which also includes the extension of the assessment to the subsequent fiscal years, for which the tax benefit under discussion had already been used, and additional tax liabilities (see Note 6).

Other provisions include amounts set aside for future contingencies which are uncertain as to timing and value. The substantial increase is mainly due to a € 2.4 million provision for labour disputes and the € 2.2 million provision to cover potential risks related to the presumed liability of Recordati pursuant to decree-law 231/2001 (see Note 4).

The consolidation of Grupo Jaba determined an increase of € 1.5 million.

30. FAIR VALUE OF HEDGING DERIVATIVES

The interest rate swaps covering the cash flows related to medium and long-term loans measured at fair value at 31 December 2006 give rise to a € 1.1 million liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans.

Of this liability € 0.1 million relate to the interest rate swaps covering the medium and long-term loans at variable interest rates in Recordati S.p.A., Bouchara Recordati S.a.s. and Recordati España S.L.. The remaining € 1.0 million refer to an 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.

31. BANK OVERDRAFTS

Bank overdrafts at 31 December 2006 and 2005 amount to € 14.6 million and € 6.0 million respectively and consist of overdraft facilities in Euro and foreign currency. The main part of this exposure (€ 10.2 million) is in the newly acquired companies in Portugal.

32. ACQUISITION OF SUBSIDIARY

The effect of the acquisition of the Portuguese companies belonging to Grupo Jaba, already included in each single note, is analyzed hereunder.

€ (thousands)	Carrying value of assets & liabilities acquired	Adjustments to fair value	Fair value
Property, plant and equipment	14,284	0	14,284
Intangible assets	1,657	(196)	1,461
Other investments	22	0	22
Inventories	10,229	0	10,229
Trade receivables	9,200	0	9,200
Other receivables	901	0	901
Other current assets	184	0	184
Deferred tax liabilities	(212)	52	(160)
Trade payables	(6,308)	0	(6,308)
Taxes payable	(311)	0	(311)
Other payables	(2,168)	0	(2,168)
Provisions	(1,460)	0	(1,460)
Bank overdrafts	(15,474)	0	(15,474)
			10,400
Goodwill			35,203
Purchase price			**45,603**

As allowed under IFRS 3 the allocation of the purchase price is not yet final.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IAS 32 hereunder are stated the balance sheet values and fair values at 31 December 2006 of financial assets and liabilities:

€ (thousands)	Carrying value	Fair value
Financial assets		
Short-term financial investments, cash and cash equivalents	145,029	145,029
Trade receivables	123,418	123,418
Equity investments	696	696
Other receivables	11,002	11,002
Financial liabilities		
Borrowings		
- loans covered with fixed interest rate swaps	76,215	76,215
- loans at fixed interest rates	8,820	7,904
- loans at variable interest rates	19,108	19,108
Trade payables	71,537	71,537
Other payables	54,235	54,235
Hedging derivatives *(cash flow hedge)*	1,081	1,081
Hedging derivatives *(fair value hedge)*	3,949	3,949
Bank overdrafts	14,574	14,574

34. 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)	2006	2005*	Change 2006/2005
Europe	507,957	512,666	(4,709)
of which Italy	*203,432*	*221,281*	*(17,849)*
Australasia	32,160	28,277	3,883
America	22,151	18,922	3,229
Africa	13,918	16,215	(2,297)
Total revenue	**576,186**	**576,080**	**106**

** Restated for comparison purposes.*

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

35. NET FINANCIAL POSITION

The following table summarizes the Company's net financial position:

€ (thousands)	31.12.2006	31.12.2005	Change 2006/2005
Deposits in bank current accounts and cash on hand	38,461	35,811	2,650
Short term time deposits	24,756	36,774	(12,018)
Short term investments	81,812	90,171	(8,359)
Liquid assets	**145,029**	**162,756**	**(17,727)**
Bank overdrafts	(14,574)	(5,991)	(8,583)
Loans – due within one year	(20,446)	(22,718)	2,272
Short term borrowings	**(35,020)**	**(28,709)**	**(6,311)**
Net current financial position	**110,009**	**134,047**	**(24,038)**
Loans – due after one year	(7,482)	(27,781)	20,299
Loan notes issued [1]	(80,164)	(80,102)	(62)
Non-current loans	**(87,646)**	**(107,883)**	**20,237**
Net financial position	**22,363**	**26,164**	**(3,801)**

[1] Does not include change in fair value (fair value hedge)

36. 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 and the court decision is now expected. The Company maintains that the conversion operation was perfectly legal as well as very advantageous for the savings shareholders, which was confirmed 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 Company awaits the fixing of the preliminary hearing to lodge the petition to close the proceeding as per the aforementioned article 63 of legislative decree 231/2001. 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.

37. INTERCOMPANY TRANSACTIONS AND RELATED ISSUES

At 31 December 2006, intercompany accounts amount to € 199.0 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 € 64.8 million;
- receivables by Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 14.1 million;
- loans from the parent Recordati S.p.A. to the subsidiary Jaba Farmacêutica S.A. of € 5.4 million;
- loans from the parent Recordati S.p.A. to the subsidiary Merckle Recordati GmbH of € 4.0 million;
- loans from the parent Recordati S.p.A. to the subsidiary Bouchara Recordati S.a.s. of € 3.0 million.

Intragroup sales and services recorded during 2006 are € 133.4 million and are mainly related to the sale of pharmaceuticals. Intragroup financial gains recorded during 2006 are € 6.3 million.

During the year, Recordati S.p.A. received dividends of € 17.0 million from Recordati S.A. Chemical and Pharmaceutical Company, Recordati S.A. Chemical and Pharmaceutical Company received dividends of € 20.0 million from Recordati Ireland Ltd. and dividends of CHF 1.2 million from Recordati S.A. (Switzerland). Bouchara Recordati S.a.s. received dividends of € 5.0 million from Laboratoires Bouchara Recordati S.a.s. and Recordati España S.L. received dividends of € 5.0 million from Merckle Recordati GmbH.

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.

Other receivables include an amount of € 13.6 million receivable from the controlling company Fimei S.p.A. mainly relative to a tax credit arising from adhesion to the tax consolidation option in Italy.

38. SUBSEQUENT EVENTS

At the beginning of January 2007 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 January the second instalment of € 5.9 million of the outstanding amount due for the acquisition of Merckle Recordati in Germany was paid.

In February a non-exclusive agreement was signed with Meda, an international pharmaceutical company based in Sweden, for the marketing and sale in Germany of Zaneril®, its new antihypertensive drug which combines lercanidipine and enalapril..

Group sales in the first two months of 2007 are € 110 million, in line with those of the same period of the preceding year.


Jaba

CORPORATE GOVERNANCE

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

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

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

In view of foregoing, the Board of Directors of the company meeting on 6 March 2007, resolved to adhere to the New Code (with the exception of the implementing principle that provides for the adoption of procedural regulations for shareholders' meetings). Furthermore, at the same meeting the necessary resolutions were adopted to partially amend the regulations governing the Remuneration Committee and the Internal Audit Committee in application of the provisions of the New Code. On the proposal of the Internal Audit Committee, the Board then identified the Chairman and Managing Director as the executive director responsible for supervising the functionality of the internal audit system, as required by Article 8 of the New Code. With regard to the application of the other recommendations of the New Code, in particular those that involve significant departures from the 2002 Code, the Board considered it appropriate to conduct further detailed study of the most suitable methods for proceeding with their application, and therefore postponed the adoption of the necessary resolutions to subsequent meetings.

The Board meeting of 6 March 2007 also resolved to avail itself of the option to make reference to the Code published in 2002 in the corporate governance report to be published on the occasion of the approval of the financial statements as at 31 December 2006.

A concise description of the main elements of the corporate governance system is given below, making reference to the provisions of the Code published in 2002 and adopted by the Company at the end of that financial year. Full details of the corporate governance system are contained in a document deposited at the headquarters of the Italian Stock Exchange and are also available from the Recordati website.

BOARD OF DIRECTORS

The Board of Directors of Recordati is vested with the widest powers of administration and ordinary and extraordinary management of the Company and performs a central role in the organization of company activities. While the Chairman and Managing Director has specific powers, the Board exercises an overall power of policy and control over such activities.

The Board is composed of nine Directors and will remain in office until the date of the Shareholders' Meeting convened to approve the financial statements closing on 31.12.2007. Up to the date of 6 March 2007, there were three executive directors: the Chairman and Managing Director Mr Giovanni Recordati, the Vice-Chairman Dr. Alberto Recordati, and Director Mr. Andrea Recordati, who perform management roles within the Company. On 18 December 2006 the independent non-executive director Dr. Francesco Costantini tendered his resignation after taking up the post of Chairman of the Board of Directors of two competing companies. On 8 February 2007 the Board co-opted Dr. Federico Nazzari as a replacement for Dr. Costantini. At the Board meeting held on 6 March 2007, some activities of an institutional character were delegated to Dr. Nazzari, who therefore can now be categorized as an executive director. The five non-executive directors are independent directors of high professional standing.

The Board of Directors met eight times during 2006. The overall rate of attendance at meetings was around 84%.

CHAIRMAN AND MANAGING DIRECTOR

The Chairman has powers of representation of the Company, with sole signing authority. The Board has granted the Chairman and Managing Director the widest powers of ordinary and extraordinary management, with the exception of some powers, such as the entering into of non-facilitated and collateral loans, transfers of immovable property, the purchase and sale of equity interests, proprietary medicinal products and products in general, the granting of guaranties, and assumption of joint obligations in favour of third parties when such transactions exceed predetermined limits.

VICE-CHAIRMAN

The Vice-Chairman has the power of representation of the Company in the event of the absence or incapacity of the Chairman.

EXECUTIVE COMMITTEE

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

Following the appointment of Dr. Nazzari as a member pursuant to the Board resolution of 8 February last, the Executive Committee currently consists of four members: the Chairman and Managing Director Mr. Giovanni Recordati, who acts as Chairman, the Vice-Chairman Dr. Alberto Recordati, Mr. Andrea Recordati, and the aforementioned Dr. Federico Nazzari, plus three non-executive directors: Prof. Marco Vitale, Prof. Heinz Wolf Bull and Dr. Mario Garraffo.

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

GENERAL MANAGERS

The General Manager of the Pharmaceutical Chemicals Division and the General Manager of the Italian Pharmaceuticals Division have been vested with the widest powers for operational management within their respective areas of competence. Both are vested with powers of representation of the company within the scope of their delegated powers.

INTERNAL AUDIT COMMITTEE

The Board of Directors has established an Internal Audit Committee from among its members, which provides advice and formulates proposals for the Board, particularly with regard to preparation, analysis and operation of the internal audit system. The three Board members who comprise the Committee are all non-executive and independent (Prof. Marco Vitale, who acts as Chairman, Mr. Carlo Pedersoli and Dr. Heinz Wolf Bull).

The Committee met seven times during 2006. The overall rate of attendance at meetings was around 92%.

REMUNERATION COMMITTEE

The Board of Directors has established a Remuneration Committee from among its members, which provides advice and formulates proposals for the Board on the remuneration of the Managing Director and those holding particular positions and, on the initiative of the Chairman and Managing Director, also on the determination of remuneration criteria for other top management positions in the Company, and on the administration of stock option plans for the company.

The majority of the committee consists of non-executive and independent directors (Dr. Garraffo, who acts as chairman, and Dr. Heinz Wolf Bull), while the third member (Dr. Federico Nazzari) is an executive director.

The Committee met four times during 2006. The overall rate of attendance at meetings was around 93%.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors supervises compliance with the law and the articles of association, respect for the principles of propriety of management, aspects of the adequacy of the organizational structure of the Company within its remit, the internal audit system and the administrative-accounting system, and on specific methods for implementing the corporate governance rules established in the Corporate Governance Code, which the Company declares that it has adopted in its corporate governance report. The Board is composed of three statutory auditors and two alternates.

During 2006 the statutory auditors attended the meetings of the Board of Directors with an overall rate of attendance of around 72%. During the financial year in question, the Board of Statutory Auditors met twelve times. The Chairman of the Board of Statutory Auditors attended six meetings of the Internal Audit Committee.

PROCESSING OF CONFIDENTIAL AND PRICE SENSITIVE INFORMATION

In response to the new regulations on market abuse, on 6 April 2006 the Board of Directors approved the "Internal Regulations on the Processing of Privileged Information", which govern the internal management and external communication of information relating to Recordati S.p.A. and its subsidiaries, with particular reference to privileged information and significant information (understood as information capable of becoming privileged information, but which has not yet attained the precise character required by applicable legislation), and the establishment, keeping and updating of the register of persons who have access to the said information (the so-called 'register of insiders').

INTERNAL DEALING

In order to comply with the requirements of the legislation on market abuse, on 6 April 2006 the Board of Directors also adopted a procedure for communications regarding shares in Recordati S.p.A. or other related financial instruments made by so-called significant persons which replaced the Code on Internal Dealing previously adopted by the Company in compliance with the provisions of the Regulations for Markets organized and managed by Borsa Italiana S.p.A.

AUDITORS' REPORT

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

AUDITORS' REPORT PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Shareholders of
RECORDATI S.p.A.

1. We have audited the consolidated financial statements of Recordati S.p.A. and subsidiaries (the Recordati Group), which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year consolidated financial statements, the balances of which are presented for comparative purposes, reference should be made to our auditors' report issued on March 13, 2006.

3. In our opinion, the consolidated financial statements present fairly the financial position of the Recordati Group as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree No. 38/2005.

DELOITTE & TOUCHE S.p.A.

Signed by
Vincenzo Mignone
Partner

Milan, Italy,
March 26, 2007

This report has been translated into the English language solely for the convenience of international readers.

This booklet is a summary of the 2006 Report of Board of Directors of Recordati SpA, which has been publicly filed in accordance with Italian law.

All mentions and descriptions of Recordati products are intended solely to inform shareholders of the general nature of the Company's activities and are not intended to indicate the advisability of administering any product in any particular instance.

PRODUCED BY
Recordati S.p.A.

CONCEPT AND GRAPHIC DESIGN BY
Graphicamente srl

PHOTOGRAPHY
Recordati's Image Library

PRINTED IN MILAN (ITALY) IN APRIL 2007 BY
Grafiche Moretti S.p.A.

BOARD OF DIRECTORS
(elected by the Shareholders' Meeting of April 6, 2005)

Giovanni Recordati
Chairman and Chief Executive Officer
Recordati S.p.A.

Alberto Recordati
Vice Chairman
Recordati S.p.A.

Romilda Bollati di St. Pierre
Chairman of the Board
Bollati-Boringhieri Editore S.r.l.

Heinz Wolf Bull
Former Chief Executive Officer
Byk Gulden GmbH
and Member
of the Management Board
Altana AG

Mario Garraffo
Senior Advisor
GE Europe

Federico Nazzari
Former President of Farmindustria
(Italian pharmaceutical industry association)
(coopted by the Board of Directors on 8 February 2007)

Carlo Pedersoli
Partner
Pedersoli e Associati Law Firm

Andrea Recordati
Northern and Central
European Subsidiaries

Marco Vitale
Economist and Business Consultant

EXECUTIVE COMMITEE

Giovanni Recordati
Alberto Recordati
Andrea Recordati
Heinz Wolf Bull
Mario Garraffo
Federico Nazzari
Marco Vitale

AUDIT COMMITTEE

Marco Vitale
Chairman

Heinz Wolf Bull
Carlo Pedersoli

REMUNERATION COMMITTEE

Mario Garraffo
Chairman

Heinz Wolf Bull
Federico Nazzari

STATUTORY AUDITORS

Alessandro Manusardi
President

Emilio Aguzzi de Villeneuve
Oreste Severgnini
Active Members

Angelo Gastaldi
Carlo Severgnini
Substitute Members

AUDITORS

Deloitte & Touche S.p.A.

MANAGEMENT

Giovanni Recordati
Chairman and Chief
Executive Officer

Alberto Recordati
Vice Chairman

Walter Bevilacqua
Corporate Development

Luciano Bonacorsi
Human Resources

Giorgio Oberrauch
Pharmaceutical Chemicals

Andrea Recordati
Northern and Central
European Subsidiaries

Avi Sartani
Pharmaceuticals,
Research and Development

Gianni Soro
Pharmaceuticals, Italy

Fritz Squindo
Chief Financial Officer

Franco Tomasini
Logistics and Manufacturing

RECORDATI

Industria Chimica e Farmaceutica S.p.A.

HEADQUARTES
Via Matteo Civitali,1 - 20148 Milano, Italy
Ph. +39 02 48 787.1 - Fax +39 02 40 073 747 - www.recordati.com