INDEX TO THE FINANCIAL INFORMATION

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MAZARS

MAZARS & GUÉRARD

Review Report

To the Board of Directors of
Cosmo Pharmaceuticals SpA

We have reviewed the accompanying combined balance sheet of Cosmo Pharmaceutical Business ("the Entity") as of December 31, 2005 and 2004, and the related combined statements of income, changes in shareholders' equity and cash flows for the year then ended and the notes thereto, as set out on pages F-4 to F-51 in this Offering Memorandum of Cosmo Pharmaceuticals SpA. These combined financial statements prepared in accordance with the Directive of SWX Swiss Exchange on the "disclosure of supplemental financial figures in the listing prospectus", are the responsibility of Cosmo Pharmaceuticals SpA's management. Our responsibility is to issue a report on these combined financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying combined financial statements as of and for the years ended December 31, 2005 and 2004 do not give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Commission for use in the European Union.

For the purpose mentioned in the first paragraph, the Entity has presented its combined financial statements for the years 2005 and 2004 together with the comparative figures of 2006. We refer to our audit report dated February 16, 2007 on the combined financial statements of the Entity for the year ended December 31, 2006. In addition, in order to have a complete understanding of our review, both reports issued by us should be taken into consideration.

Milan, February 16, 2007

Mazars & Guérard S.p.A.

Giorgio Beretta
(Local Partner)

Carlo Consonni
(Partner)

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MAZARS & GUERARD SPA - CAPITALE SOCIALE € 2.005.000 INT. VERS. - SEDE LEGALE: C.SO DI PORTA VIGENTINA, 35 - 20122 MILANO – REG. IMPRESE DI MILANO N. 196093 - REA N. 1059307
COD. FISC. N. 01507630489 - PART. IVA 05902570158 - AUTORIZZATA AI SENSI DI LEGGE 23/11/1939 N.1966 - ISCRITTA NELL'ALBO SPECIALE DELLE SOCIETÀ DI REVISIONE CON DELIBERA CONSOB N° 10829
UFFICI IN ITALIA: BOLOGNA – FIRENZE - MILANO - NAPOLI - PADOVA - PALERMO - ROMA - TORINO

Independent Auditors' Report

To the Board of Directors of
Cosmo Pharmaceuticals SpA

We have audited the accompanying combined balance sheet of Cosmo Pharmaceutical Business ("the Entity") as of December 31, 2006, and the related combined statements of income, changes in shareholders' equity and cash flows for the year then ended and the notes thereto, as set out on pages F-4 to F-51 in this Offering Memorandum of Cosmo Pharmaceuticals SpA. These combined financial statements prepared in accordance with the Directive of SWX Swiss Exchange on the "disclosure of supplemental financial figures in the listing prospectus" are the responsibility of Cosmo Pharmaceuticals SpA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements give a true and fair view of the financial position of the Entity as of December 31, 2006, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Commission for use in the European Union.

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The accompanying combined financial statements as of December 31, 2005 and 2004 were reviewed by us and our report thereon, dated February 16, 2007, stated that nothing came to our attention that caused us to believe the combined financial statements did not give a true and fair view in accordance with International Financial Reporting Standards. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the combined financial statements taken as a whole. In addition, in order to have a complete understanding of our audit, both reports issued by us should be taken into consideration.

Milan, February 16, 2007

Mazars & Guérard S.p.A.

Giorgio Beretta
(Local Partner)

Carlo Consonni
(Partner)

Cosmo Pharmaceutical Business

Combined Financial Statements
(Pharma operations, pharma patents and licenses)

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Combined Financial Statements as at and for the years ended December 31, 2006, 2005, 2004

Cosmo Pharmaceutical Business

Combined income statements for the years ended December 31, 2006, 2005, 2004

		For the year ended December 31,		
	Notes	**2006**	**2005**	**2004**
		(Thousands of Euros)		
Revenue	1	15,158	15,506	11,030
Other income	2	4,934	1,032	488
Changes in inventories of finished goods and work in progress	3	(110)	163	78
Raw material and consumables used	4	(5,387)	(5,903)	(4,232)
Personnel expenses	5	(4,824)	(4,318)	(4,063)
Depreciation and amortization	6	(1,492)	(902)	(793)
Other operating expenses	7	(6,624)	(3,566)	(3,030)
OPERATING RESULT		***1,655***	***2,012***	***(522)***
Financial income	8	111	101	1
Financial expenses	8	(963)	(802)	(699)
PROFIT (LOSS) BEFORE TAXES		***803***	***1,311***	***(1,220)***
Income tax expenses	9	(940)	(473)	(977)
PROFIT (LOSS) FOR THE YEAR		***(137)***	***838***	***(2,197)***

Cosmo Pharmaceutical Business

Combined balance sheets as at December 31, 2006, 2005, 2004

	Notes	As at December 31, 2006	2005	2004
		(Thousands of Euros)		
ASSETS				
Non-current assets				
Property, plant and equipment	10	7,096	12,952	9,559
Goodwill	11	109	109	109
Other intangible assets	12	3,384	928	950
Investment property	13	-	4,248	4,322
Other investments	14	-	130	130
Deferred tax assets	15	1,131	1,524	664
Intercompany receivables vs Biotech activities	16	-	-	3,554
Other non-current receivables	17	1,906	16	33
Total non-current assets		**13,626**	**19,907**	**19,321**
Current assets				
Inventories	18	966	1,306	1,021
Trade receivables	19	3,168	4,880	2,527
Current tax assets	20	126	322	-
Other receivables	21	4,605	1,114	320
Cash and cash equivalents	22	1,119	683	274
Total current assets		**9,984**	**8,305**	**4,142**
TOTAL ASSETS		***23,610***	***28,212***	***23,463***
EQUITY				
Share capital		2,550	2,550	2,300
Other reserves		7,367	2,737	725
Biotech activity cumulated losses		(8,054)	(8,054)	(6,490)
Retained earnings		3,618	2,560	4,782
Profit/(Loss) for the year		(137)	838	(2,197)
TOTAL EQUITY	23	***5,344***	***631***	***(880)***
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	24	4,783	13,897	15,254
Employee benefits	25	755	774	782
Deferred tax liabilities	26	1,160	700	497
Other non-current liabilities	27	10	63	62
Total non current liabilities		**6,708**	**15,434**	**16,595**
Current liabilities				
Interest-bearing loans, borrowings and bank overdraft	28	3,912	7,662	4,088
Trade payables	29	4,666	3,400	3,113
Provisions	30	-	50	-
Current tax liabilities	31	190	222	175
Other current liabilities	32	2,790	813	372
Total current liabilities		**11,558**	**12,147**	**7,748**
TOTAL LIABILITIES		***18,266***	***27,581***	***24,343***
TOTAL EQUITY AND LIABILITIES		***23,610***	***28,212***	***23,463***

Cosmo Pharmaceutical Business

Combined statements of changes in equity for the years ended December 31, 2006, 2005, 2004

	Share capital	Legal reserve	Extraordinary reserve	IFRS conversion reserve	Capital contribution for loss coverage	Biotech activity cumulated losses	Retained earnings	Profit/(loss) for the year	Total
	(Thousands of Euros)								
Net equity as at January 1st, 2004	**2,300**	**17**	**275**	**433**	**-**	**(4,782)**	**4,782**	**-**	**3,025**
Biotech losses	-	-	-	-	-	(1,708)	-	-	(1,708)
Profit/(loss) for the year	-	-	-	-	-	-	-	(2,197)	(2,197)
Net equity as at December 31, 2004	**2,300**	**17**	**275**	**433**	**-**	**(6,490)**	**4,782**	**(2,197)**	**(880)**
Allocation of previous year profit/(loss)	-	1	24	-	-	-	(2,222)	2,197	-
Biotech losses	-	-	-	-	-	(1,564)	-	-	(1,564)
Incorporation of Cosmo Technologies Ltd	250	-	-	-	-	-	-	-	250
Demerge of Biotech activities	-	-	(13)	-	-	-	-	-	(13)
Capital contribution for loss coverage	-	-	-	-	2,000	-	-	-	2,000
Profit/(loss) for the year	-	-	-	-	-	-	-	838	838
Net equity as at December 31, 2005	**2,550**	**18**	**286**	**433**	**2,000**	**(8,054)**	**2,560**	**838**	**631**
Allocation of previous year profit/(loss)	-	-	(220)	-	-	-	1,058	(838)	-
Capital contribution for loss coverage	-	-	-	-	4,850	-	-	-	4,850
Profit/(loss) for the year	-	-	-	-	-	-	-	(137)	(137)
Net equity as at December 31, 2006	**2,550**	**18**	**66**	**433**	**6,850**	**(8,054)**	**3,618**	**(137)**	**5,344**

Cosmo Pharmaceutical Business

Combined statements of cash flows for the years ended December 31, 2006, 2005, 2004

	Notes	2006	2005	2004
		As at December 31,		
		(Thousands of Euros)		
Profit/(Loss) before taxes		**803**	**1,311**	**(1,220)**
Income taxes paid	*	60	(453)	(424)
Depreciation and amortization		1,492	902	793
Accrual to employee benefits		142	194	192
Provision accruals		-	50	-
		2,497	**2,004**	**(659)**
Change in inventories		340	(285)	(89)
Change in trade receivables		1,712	(2,353)	3,045
Change in trade payables		1,266	287	567
Change in other receivables		(1,520)	(794)	(186)
Change in other current liabilities		1,977	441	(1)
Change in current tax liabilities		(33)	(23)	6
Change in intercompany receivables vs Biotech activities		-	2,625	(2,347)
Payment of employee benefits		(161)	(202)	(75)
Cash flows from operating activities		**6,078**	**1,700**	**261**
Investments/disposals in				
Investments in property, plant and equipment		(6,918)	(4,068)	(1,623)
Investments in other intangibles		(2,780)	(131)	(819)
Disposals of property, plant and equipment		9,696	-	-
Disposals of investment property		4,187	-	-
Disposals of other investments		130	-	-
Cash flows from investing activities		**4,315**	**(4,199)**	**(2,442)**
Change in interest-bearing loans and borrowings		(10,552)	165	3,978
Change in other non current receivables		(1,890)	17	14
Change in other non current liabilities		(53)	1	2
Share capital increase		-	250	-
Capital contribution for loss coverage		4,850	2,000	-
Loss of Biotech activity		-	(1,564)	(1,708)
Demerge of Biotech activity		-	(13)	-
Cash flows from financing activities		**(7,645)**	**856**	**2,286**
Net increase/(decrease) in cash and cash equivalents		***2,748***	***(1,643)***	***105***
Cash and cash equivalents at the beginning of the year		**(3,474)**	**(1,831)**	**(1,936)**
Cash and cash equivalents at the end of the year		**(726)**	**(3,474)**	**(1,831)**
Cash at hand	22	5	6	2
Bank accounts	22	1,114	677	272
Advances on invoices and bank overdraft	28	(1,845)	(4,157)	(2,105)
Total cash and cash equivalents at the end of the year		**(726)**	**(3,474)**	**(1,831)**

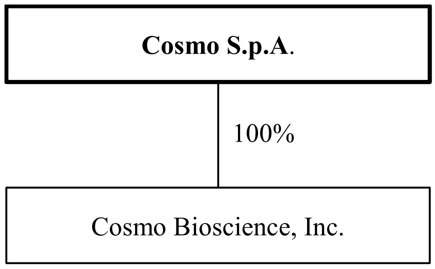
* In 2006 the item includes the amount of €188 thousand related to 2005 tax receivables, offset in 2006 by withholding tax for employees.

Cosmo Pharmaceutical Business - Explanatory notes to the Combined Financial Statements as at and for the years ended

December 31, 2006, 2005, 2004

1. The Group

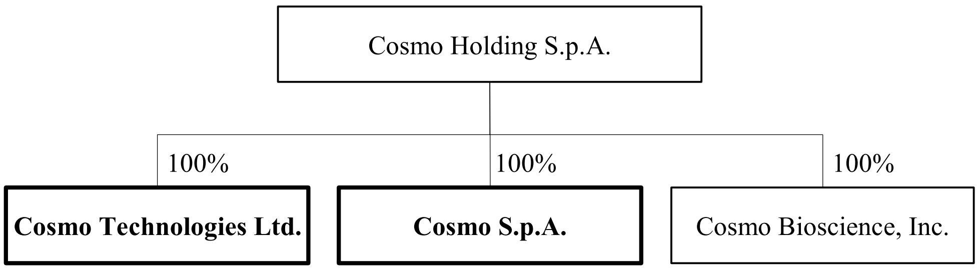
Until December 2004, all activities of the Group were carried out by Cosmo S.p.A. and by its fully owned subsidiary Cosmo Bioscience, Inc. At that time, Cosmo S.p.A. was directly performing the pharmaceutical business, while it was also actively pursuing the development of certain biotechnological products (the biotech business) through its US subsidiary Cosmo Bioscience, Inc.
The structure of the Group in December 2004 was the following:



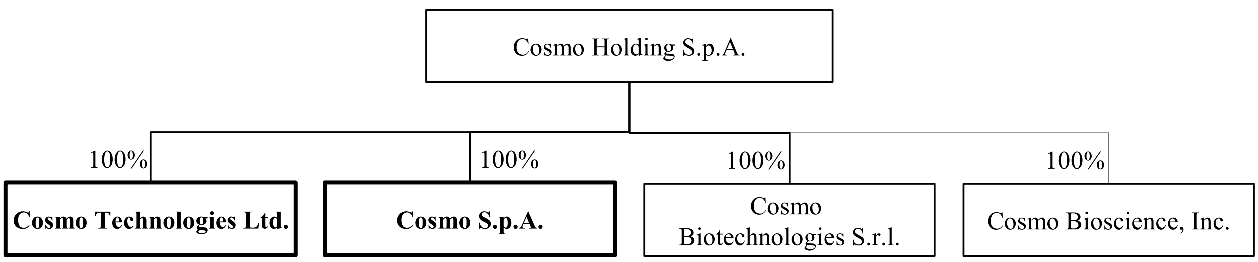
Between December 2004 and February 2005 a new structure was adopted to separate the pharmaceutical from the biotech business. Therefore, the following steps were taken:

1. The shareholders of Cosmo S.p.A. contributed all of their shares to a newly incorporated company, called Cosmo Holding S.r.l. and subsequently transformed into Cosmo Holding S.p.A.
2. Cosmo Holding S.p.A. established a fully owned Irish subsidiary, called Cosmo Technologies Ltd.
3. Cosmo S.p.A. transferred its patents and licenses pertaining to the pharmaceutical business to Cosmo Technologies Ltd. and its 100% shareholding in Cosmo Bioscience Inc. to Cosmo Holding S.p.A.

The structure of the Group on 22 February 2005 was the following:



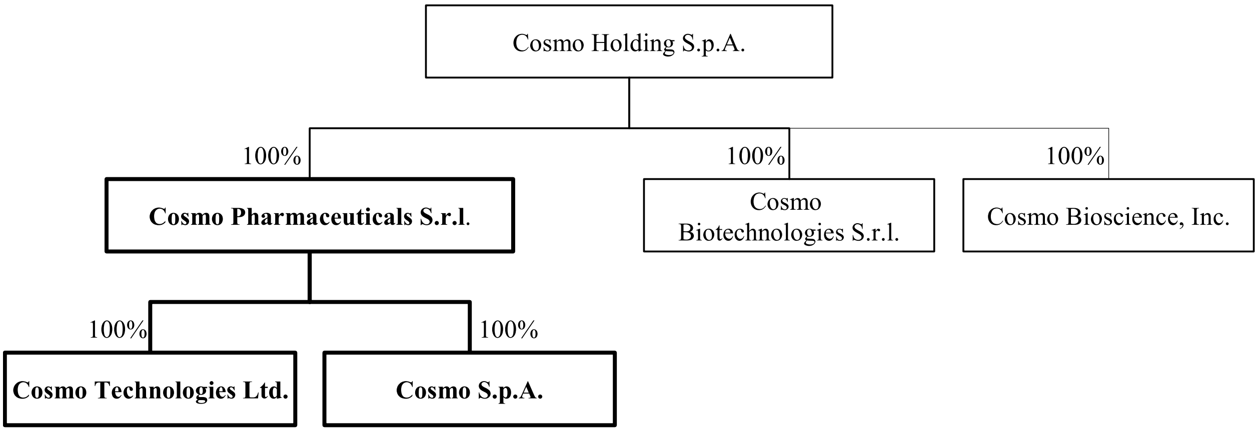
On 22 February 2005 Cosmo Holding S.p.A. resolved, in order to increase available resources, to pursue a private placement of new shares to a previously identified selected number of renown, specialized and individual investors, which took place in two subsequent steps: On 22 February 2005, shareholders' extraordinary meeting resolved for a capital increase of €500 thousand with the contextual issue of 500,000 new registered shares with nominal value of € 1 per share, which were offered to the above-mentioned investors. Immediately after, on 6 March 2005, Cassiopea S.A. – Cosmo Holding S.p.A.'s majority shareholder – offered, in a secondary offering, 115,000 shares to the above-mentioned investors at the same price.
On 30 September 2005 Cosmo S.p.A. spun-off three patent license agreements into a separate fully owned Italian subsidiary Cosmo Bio-technologies S.r.l., so that the structure after 30 September 2005 was the following:



On 27 April 2006, provided that the pharmaceutical business and the biotech business were developing at different speeds and thus required different funding schedules, Cosmo Holding S.p.A. Board of Directors determined to adopt a new Group structure. Therefore, the following three steps were taken:

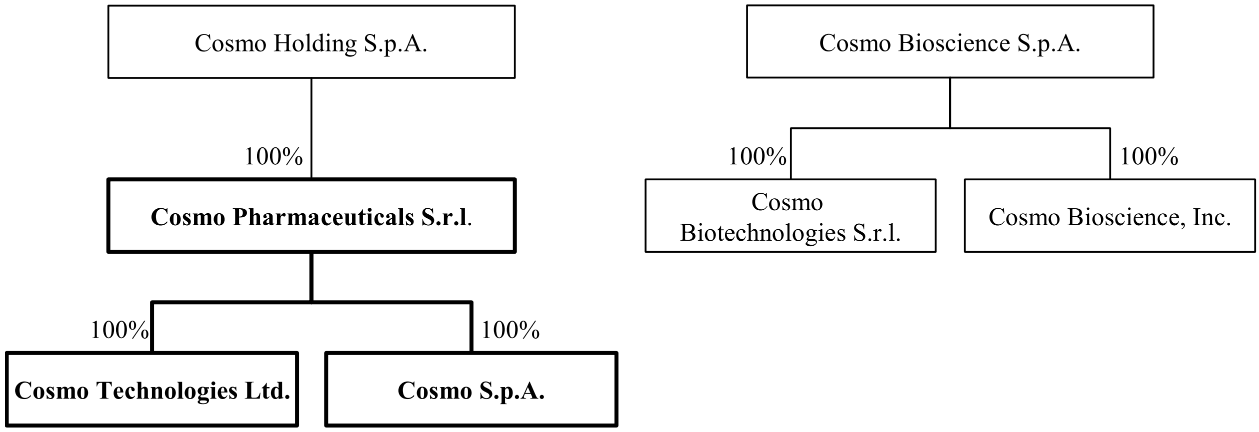
- ***Creation of a sub-holding***

The Board of Directors of Cosmo Holding S.p.A. decided to establish a new corporate entity, entirely dedicated to the pharma business, named Cosmo Pharmaceuticals S.r.l., at the meeting on 14 June 2006. In that meeting it was further resolved that Cosmo Holding S.p.A.'s 100% shareholdings in Cosmo S.p.A. and Cosmo Technologies Ltd should be contributed in kind to this new entity.
Cosmo Pharmaceuticals S.r.l. was therefore incorporated on 29 June 2006 and the contribution of 100% shareholdings in Cosmo S.p.A. and Cosmo Technologies Ltd into Cosmo Pharmaceuticals S.r.l. took place on 2 August 2006. The contribution of the two shareholdings took place at their book value, according to the appraisal of Prof. Roberto Moro Visconti. As a consequence, the stock capital of Cosmo Pharmaceuticals S.r.l. increased to €2,185 thousand. This amount exceeded the maximum capital requirements for S.r.l to remain without Statutory Board of Auditors. Therefore, the ordinary meeting proceeded to appoint Statutory Auditors.
The Group structure on 2 August 2006 was the following:



- ***Demerger of Cosmo Holding S.p.A.***

On 22 August 2006, Cosmo Holding S.p.A. resolved for the proportional demerger of Cosmo Holding S.p.A. into two separate corporate entities: one – the actual Cosmo Holding S.p.A. - holding 100% of Cosmo Pharmaceuticals S.r.l.; the other, named Cosmo Bioscience S.p.A., holding 100% of Cosmo Biotechnologies S.r.l. and Cosmo Bioscience, Inc. The decision to demerge Cosmo Holding S.p.A. in two different holding companies had the aim to transfer to a different holding company participated by the same shareholders, Cosmo Bioscience S.p.A., the whole biotech business carried on by the subsidiaries Cosmo Bioscience, Inc. and Cosmo Biotechnologies S.r.l.
This resolution was taken because of the different maturity of the pharmaceutical and biotech businesses, in order to have two different corporate structures completely focused in the pursuit of two different strategic businesses. This resolution was taken also because the proportional demerger under Italian law entitles to separate businesses without any modification, neither to shareholdings, nor to the corporate governance of both resulting companies.
The project of demerger was published in the Italian Register of Enterprises on 25 August 2006. Cosmo Holding S.p.A.'s shareholders, at the extraordinary meeting on 29 September 2006, approved the demerger. The resolution was published in the Register of Enterprises of Milan on 4 October 2006. On 11 October 2006 the deed of demerger was executed. The demerger became effective on 23 October 2006, upon the publication of said deed in the Register of Enterprises. The outcome of the demerger was the following structure:



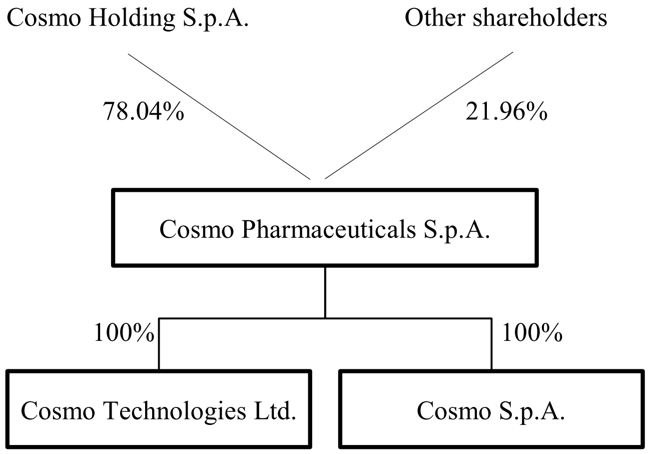
Upon execution of the deed of demerger, investors, who had invested in the Private Placement mentioned above, according to previous agreements transferred their investment from Cosmo Holding S.p.A. to Cosmo Pharmaceuticals S.r.l., in order to be invested in Cosmo Pharmaceuticals S.r.l. which was meant to be listed, receiving a stake equal to the stake they held in Cosmo Holding S.p.A..

▪ ***Transfer of Investors' Investment in Cosmo Pharmaceuticals S.r.l.***

In order to transfer the investor's investments from Cosmo Holding S.p.A. to Cosmo Pharmaceuticals S.r.l., after the execution of the demerger of Cosmo Holding S.p.A., Cassiopea S.A – the majority shareholder of Cosmo Holding S.p.A. – bought, according to existing agreements, the investors' shares in Cosmo Holding S.p.A. at their par value of €1 per share (i.e. €615 thousand) and transferred this amount to the account of an appointed escrow agent.
On 14 December 2006, Cosmo Pharmaceuticals S.r.l.'s shareholders' meeting resolved:

- for the transformation of Cosmo Pharmaceuticals S.r.l. into an S.p.A. (Joint Stock Corporation);
- for the adoption of the current Articles of Association;
- for the share split in the ratio of 1/4 with the adoption of a nominal value of €0.25 per share;
- for the dematerialisation of the shares;
- for a first capital increase of nominal €615 thousand with the issue of n. 2,460,000 new shares reserved for the investors in the Private Placement at a price of nominal €0.25 per share;
- for a second capital increase to a maximum of nominal €983 thousand with the issue of up to 3,932,000 new shares reserved for the purpose of this Offering (including the Over-Allotment Option), granting the Board of Directors all necessary powers and authority required for the implementation of such capital increase including share price determination;
- for a third capital increase to a maximum of nominal €378 thousand with the issue of n. 1,513,200 new shares, at the service of an ESOP to be implemented within the following five years;
- for the appointment of the new Board of Directors of Cosmo Pharmaceuticals S.p.A. and the Auditing Company.

On 27 December 2006 and on 3 January 2007, the Escrow Agent, pursuant to the instructions convened upon in existing agreements, transferred the price to the account of Cosmo Pharmaceuticals S.p.A., as subscription – on behalf of the investors in the Private Placement and in their own name – of the capital increase. As a result of such subscription, the investors in the Private Placement held a stake in Cosmo Pharmaceuticals S.p.A. equal to the stake they held in Cosmo Holding S.p.A. after the demerger.
As of 3 January2007, the Group's structure was the following:



2. *Basis of preparation*

The combined financial statements as at and for the years ended December 31, 2006, 2005, 2004 (the "Combined Financial Statements") are drawn up on a going-concern basis and in line with the measurement criteria laid down by the International Financial Reporting Standards ("IFRS") and related interpretations published by the International Accounting Standards Board (IASB) and endorsed by the European Union with Regulation no. 1725/2003 and subsequent amendments, in compliance with Regulation no. 1606/2002 of the European Parliament. They have been applied for the first time. However, such Standards may differ from those actually in force due to further orientations of the European Commission endorsing the IFRS or the issue of new standards or interpretations by the relevant bodies.

These Combined Financial Statements have been prepared for the purposes of listing the ordinary shares of Cosmo Pharmaceuticals S.p.A. on the SWX Swiss Exchange and for their inclusion in the Offering Memorandum and have been approved for publication by the Board of Directors on January 23, 2007.

The Cosmo Pharmaceutical Business (or the "Entity") comprises the pharmaceutical business of Cosmo S.p.A. and, from December 10, 2004, Cosmo Technologies Ltd..

Cosmo Pharmaceuticals S.p.A., the listing company, received Cosmo S.p.A. and Cosmo Technologies Ltd. by contribution in kind from Cosmo Holding S.p.A. on August 2, 2006. On September 22, 2005, before the contribution in kind took place, the biotech activities, patents and licenses were spun-off from Cosmo S.p.A..

The Combined Financial Statements have been prepared by deducting from the historical financial statements of Cosmo S.p.A., prepared in accordance with Italian Generally accepted accounting principles (Gaap), the biotech business figures and adding the historical financial statements of Cosmo Technologies Ltd. and finally adjusting the accounts applying the IFRS.

Cosmo S.p.A. operated until October 2005 in both the pharmaceutical business and the biotech business. Sales and cost of goods sold were separately identifiable, as well as assets and liabilities and other operating income and expenses. This financial information has been taken from the internal reporting of Cosmo S.p.A.. No allocations were used.

The cumulative financial transfers from the pharmaceutical business to the biotech business represented by the cumulative losses of the biotech business, has been deducted from equity and presented as a negative reserve – "Biotech activity cumulated losses". The cumulative financial transfers from the pharmaceutical business to the biotech business represented by the net invested capital in the biotech business were presented as an intercompany receivable included in the caption "Intercompany receivables vs Biotech activities". This intercompany receivable has been offset at the date of demerge of the biotech business with a financial payable from Cosmo Holding S.p.A. which has been included in the demerged assets.

The tax savings represented by the tax effect of the losses of the biotech business were deducted from the above-mentioned intercompany receivable.

Receivables, payables, revenue and expenses, any unrealized gains and losses, as well as guarantees, commitments and risks arising from transactions between the pharmaceutical business unit of Cosmo S.p.A. and Cosmo Technologies Ltd. are eliminated in preparing the Combined Financial Statements.

The preparation of the Combined Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, as at the balance sheet dates, and the reported amounts of revenues and expenses during the reporting period.

The Combined Financial Statements of Cosmo Pharmaceutical Business may not be indicative of the results that would have been obtained if the Entity had operated as an independent company.

The drawing-up of the Combined Financial Statements and related notes requires the preparation of estimates and assumptions. Such estimates and assumptions are based on accumulated experience and on other factors deemed to be appropriate. They have been made in order to determine the amounts of assets and liabilities which are not otherwise easily deducible from other sources. They are reviewed periodically and the effects of any changes in value are reflected immediately in the income statement. However, being estimates, it should be noted that actual future results could differ from those included in the Combined Financial Statements.

The accounting policies used to draw up the Combined Financial Statements, as well as the contents and changes in each caption, are described below.

3. Accounting policies

These Combined Financial Statements are expressed in thousands of Euros unless stated otherwise, rounding the amounts to the nearest thousand.

Unless stated otherwise in the accounting policies detailed below, these Combined Financial Statements have been prepared on a historic cost basis.

The major accounting policies adopted are detailed below. They have been applied consistently in all years included in these Combined Financial Statements and in the preparation of the opening IFRS balance sheet as at January 1st, 2004.

Property, plant and equipment

Property, plant and equipment are stated at cost included related expenses, less accumulated depreciation (see below) and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Subsequent expenditures are capitalized only if the increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Property, plant and equipment that are being constructed or developed for future use are classified as “assets under construction” and stated at cost until construction is complete, at which time they are reclassified as property, plant and equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are separately identified and depreciated on the basis of their estimated useful lives (“component approach”).

The cost of replacing part of an item is recognized in the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Entity and the cost of the item can be measured reliably. The residual carrying amount of the replaced component is recognized in the income statement as an expense. All other costs are recognized in the income statement as an expense as incurred.

Financial expenses related to the purchase of such assets are recognized in the income statement.

Depreciation is recognized starting from the month in which the asset is available for use or potentially able to provide the economic benefits associated therewith, on a systematic basis, whereby the assets are depreciated over their useful lives or, in the event of disposal, until their final month of use.

For assets disposed of during the year, depreciation is calculated for the period in which the asset was available for use, excluding assets purchased during the year.

Residual amounts, useful lives and the depreciation methods are reviewed at the end of every accounting period. The depreciation rates applied to the items of property, plant and equipment are the following:

Buildings – owned buildings	33 years
Buildings – leasehold improvements	At the lower of the useful life of the improvement and the residual term of the lease
Plant and machinery – general	10 years
Plant and machinery – specific	8 years
Industrial and commercial equipments	3 years
Other tangible assets - office equipments – electronic	5 years
Other tangible assets - office equipments – furniture	8 years
Other tangible assets - means of internal transportation	5 years

Appurtenance land related to own buildings or purchased through finance leases is stated separately and is not depreciated.

Improvements to third party assets are classified under property, plant and equipment depending on the nature of the asset to which it refers. The depreciation period is based on the lower of the asset's remaining useful life and the residual duration of the lease of the principal asset.

If specific events indicate that impairment of an item of property, plant and equipment may have taken place, the item's recoverability is assessed by comparing its carrying amount with its recoverable amount, represented by the higher of fair value net of disposal costs and value in use, as defined in the paragraph "Impairment of property, plant and equipment and intangible assets". Impairments in value are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Assets held under finance leases, which provide the Entity with substantially all the risks and rewards of ownership, are recognized as assets of the Entity at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial statement as financial liabilities. Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases. Operating lease expenditures are expensed on a straight-line basis over the lease terms.

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising upon the acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since January 1st, 2004, goodwill represents the difference between the acquisition cost and the fair value of the net identifiable assets and liabilities acquired, in proportion to the interest acquired.

In respect of acquisitions prior to this date, goodwill has been retained at the previous Italian Gaap amount, subject to being tested for impairment at that date. The classification and accounting treatment of business combinations that occurred prior to January 1st, 2004 has not been reconsidered in preparing the Entity's opening IFRS balance sheet at January 1st, 2004.

Goodwill arising on business combinations is no longer amortized, but is tested annually for impairment, as described in the paragraph "Impairment of property, plant and equipment and intangible assets".

Other intangible assets

Other intangible assets are recognized as assets where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Other intangible assets that are acquired by the Entity are stated at cost less accumulated amortization (see below) and impairment losses, if any.

Subsequent expenditures on capitalized intangible assets are capitalized only when they increase the future economic benefits embodied in the specific assets to which they relates. All other expenditure is expensed as incurred.

Other intangible assets with definite useful lives are amortized on a straight line basis over their useful lives, being the estimated period over which the Entity will use the assets. Other intangible assets are amortized from the date they are available for use.

Residual amounts, useful lives and the amortization methods are reviewed at the end of every accounting period. The estimated useful lives are as follows:

- Patents and rights: are amortized over the useful lives of the patents and rights.
- Trademarks and licenses: trademarks are amortized over 10 years. Licenses are amortized over the duration of the contract to which they relate.

Expenditures on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, are recognized in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the Entity has sufficient resources to complete development. To date, development costs have not been capitalized. Other development expenditure is recognized in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses if any.

If specific events indicate that impairment of an item of intangible asset may have taken place, the item's recoverability is assessed by comparing its carrying amount with its recoverable amount. The recoverable amount is the higher between the fair value net of disposal costs and the value in use, as defined in the paragraph "Impairment of property, plant and equipment and intangible assets".

Impairments in value are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Investment property

Investment property that are not for operations and are held in order to obtain rental income are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is calculated on a straight-line basis over the estimated useful lives of the fixed assets, estimated at 33 years.

Impairment of property, plant and equipment and intangible assets

The carrying amounts of the Entity's tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

The recoverable amount is the higher of an asset's fair value less costs to sell, if there is an active market, and its value in use. If there is no binding sales agreement, the fair value is estimated at the amount expressed by an active market, by recent transactions or on the basis of the best available information indicating the amount that the company would obtain from the asset's sale.

Value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset or cash generating unit and from its disposal at the end of its useful life. The cash flows are determined on the basis of reasonable and documented assumptions representing the best estimate of the future economic conditions that will take place over the residual useful life of the asset, giving greatest weight to external indicators. The discounting rate (pretax) takes into account the risk implicit in the business sector and the financial component based on the timing.

With the exception of losses on goodwill, impairments in value are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Other investments

Investments in other companies are stated at fair value with any resultant gain or loss being recognized in profit and loss. If quotations are not available on an active market and the fair value cannot be accurately determined, they are valued at their purchase price. Annual valuations are carried out to see if there exists evidence that such investments have fallen in value. If objective evidence does exist, a write-down is recorded in the income statement.

Inventories

Inventories are stated at the lower of acquisition or production cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined in accordance with the first-in first-out (FIFO) principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, the cost includes an appropriate share of overheads costs that may reasonably be attributable to the performance of manufacturing activities in normal operating conditions.

A provision for inventories is calculated to take into account obsolete and slow-moving items, considering their possible future use and realizable value. Estimated realizable value represents the estimated sales price in normal business, net of estimated costs to sell.

Foreign currency transactions and translation of financial statements of the foreign controlled companies

Transactions in foreign currency are translated into Euros using the exchange rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euros at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Euros at foreign exchange rates ruling at the dates the fair value was determined.

Trade and other receivables and payables

Trade and other receivables are stated at amortized cost net of impairment losses. The impairment loss is calculated on the basis of recovery assessments by analyzing each receivable considered unlikely to be collected and the overall risk of non-recovery of the receivables. When the payment of the sum due is postponed beyond normal credit terms offered to customers, it is necessary discount the receivable.

Trade and other payables are measured at amortized cost which reflects the effective interest rate in the income statement and represents the rate used to discount the expected future cash flows to the carrying value of the assets to which they relate.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Advances on invoices and bank overdrafts that are repayable on demand and form an integral part of the Entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Dividends

Dividends are recognized on the date that the dividend is declared.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognized at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Employee benefits

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Employee termination benefits

The employee termination benefit is considered as a defined benefit plan under IAS 19. The benefits guaranteed to employees, in the form of the employee termination benefit paid out upon leaving the company, are recognized in the period in which the right matures. The relating liability is calculated on the basis of actuarial assumptions and the benefit vested and not yet paid out at the balance sheet date, applying the criteria required by the Italian law.

The discounting process is based on demographic and financial assumptions, using the "Projected Unit Credit Method" (vested benefit method) applied by professional actuaries.

This method involves calculating the average present value of the vested pension benefit on the basis of the employee's service rendered to the measurement date, based on a projection of the employee's remuneration.

Actuarial gains and losses are taken to income statement on an accruals basis in line with the period of service necessary to earn the benefits. The Entity has decided not to use the so-called "corridor method", which would allow it not to record the cost component calculated in accordance with the method described represented by actuarial profits or losses, where it does not exceed 10 percent.

Not applying the "corridor method", the actuarial gains and losses are taken to the income statement during the year.

In this phase of first time adoption of IFRS, the entity has decided to record all accumulated actuarial profits and losses existing at January 1st, 2004.

Provisions

Provisions are recorded when:

- the Entity has an obligation, legal or constructive, to third parties;
- it is probable that resources will be expensed in order to meet the obligation;
- a reliable estimate of the amounts of the obligation can be made.

An implied obligation is defined as an obligation arising when the Entity has made other parties aware, by way of routine procedure, public company policy or a sufficiently specific announcement, that it accepts the obligation in a way that, as a consequence, it leads the third party to believe that the Entity will honor its obligation.

Provisions for risks and charges are recognized at an amount which represents the best estimate of the amount the Entity will have to pay in order to settle the obligation, or otherwise transfer it to third parties at the end of the year.

When the effect of the time value of money is material and the payment dates for the obligations may be estimated reliably, the provision is calculated by discounting the estimated future financial cash flows using a pretax discount rate in order to reflect the current market assessments of the current value of money and the specific risks connected to the liabilities. Following discounting, the increase in the provision is recognized in the income statement caption "Financial expenses".

The provisions are updated regularly to reflect changes in cost estimates, settlement times and the discount rate. Reviews of the estimate of the provisions are recognized under the same income statement caption where the provision was previously recognized.

Revenue and cost recognition

Revenue, income, costs and charges are recorded net of discounts and allowances.

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods cannot be estimated reliably and there is no continuing management involvement with the goods.

Revenue from licensing contracts is recognized at the moment in which each specific development milestone defined in the license contract is reached.

Research government grants are recognised at their fair value at the moment in which the Entity issuing the grant has confirmed its approval and the proceeds are definite; they are recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Rental income from investment property is recognized in the income statement on a straight- line basis over the term of the lease.

Payments made under operating leases are recognized in income statements on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

New accounting principles

New standards and interpretation not yet adopted

IASB and IFRIC (International Financial Reporting Interpretation Committee) have approved amendments and interpretations to the IFRS which are not effective for the year ended December 31, 2006:

- IFRS 7 “Financial Instruments: Disclosures” and the “Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures”;
- IFRS 8 “Operating Segments”;
- IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies”;
- IFRIC 8 “Scope of IFRS 2 Share-based Payments”;
- IFRIC 9 “Reassessment of Embedded Derivatives”;
- IFRIC 10 “Interim Financial Reporting and Impairment”. This interpretation not yet endorsed by the EU;
- IFRIC 11 “IFRS 2: Group and Treasury Share Transactions”. This interpretation not yet endorsed by the EU;
- IFRIC 12 “Service Concession Arrangements”. This interpretation not yet endorsed by the EU.

The Entity is currently assessing the impact, if any, of the above changes in the accounting principles, which will be required in periods subsequent to December 31, 2006.

Segment reporting

The management has identified only one business segment, that is the pharmaceutical segment. Indeed, they did not identify other segments to which specific and different risks and benefits can be related to. Moreover, they did not believe that costs of investments could be reasonably allocated unless through an arbitrary allocation which would not provide a better disclosure than that provided by the pharmaceutical sector considered as a whole. In particular, under the Entity’s current organizational structure, most of the investments made and costs incurred by the Entity while performing its production activities, cannot be allocated to a specific geographical area or a specific customer segment, or the production to of specific products. Therefore the management believes, that, to date, segment reporting by either geographical area or products or customers would not improve the understanding of the Entity results or the presentation of risks and profitability.

4. Notes to the Combined Financial Statements

Note 1 Revenue

The item comprises the following:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Manufacturing on behalf of third parties:			
Manufacturing of generic products and specialty drugs	11,308	12,266	9,648
Manufacturing of MMX™ products	1,260	-	-
Related services	1,227	1,049	1,127
Other revenues from sale	264	486	234
Licence fees and milestones	1,077	1,691	-
Royalties	22	14	21
Total revenue	**15,158**	**15,506**	**11,030**

The decrease in revenue from “manufacturing of generic products and specialty drugs” in 2006 compared to 2005 is mainly due to a decrease in the production of the generic product “gabapentin” as a consequences of 2006 lower sales of the product by three clients.

In 2006 “manufacturing of MMX™ products” relates to manufacturing of Shire’s Lialda™/Mezavant™, the first product based on the MMX™ technology, whose manufacturing and deliveries started in July 2006.

Revenue from “license fees and milestones” in 2006 comprises €1,000 thousand according to the milestones achieved with respect to the license contracts with Crinos S.p.A. for the non-exclusive rights of commercialization of Budesonide MMX™ (€500 thousand) and Rifamycin SV MMX™ (€500 thousand) in the Italian territory.

The increase in revenue from “manufacturing of generic products and specialty drugs” in 2005 compared to 2004 is mainly due to new contracts for the production of generic products, particularly “gabapentin”, which has been launched in Italy by three customers during 2005, and to a new contract for the production of vials.

Revenue from “license fees and milestones” in 2005 comprises €1,691 thousand for milestone payments from the license contract with Giuliani International Ltd. for Lialda™/Mezavant™ (Mesalamine MMX™), fully paid at the beginning of 2006.

Revenue from “related services” to the third party manufacturing are constant in the three year period.

In the three year period “royalties” refers to the royalties on the generic product containing “simethicone”, a product internally developed and launched in 2003 by an Italian customer.

The table below shows a breakdown of revenue by main geographic area:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Italy			
Manufacturing on behalf of third parties:			
Manufacturing of generic products and specialty drugs	7,213	8,934	8,103
Manufacturing of MMX™ products	-	-	-
Related services	876	644	712
Other revenues from sales	251	442	181
Licence fees and milestones	1,077	-	-
Royalties	22	14	21
Total revenue - Italy	**9,439**	**10,034**	**9,017**

Rest of E.U.			
Manufacturing on behalf of third parties:			
Manufacturing of generic products and specialty drugs	4,095	3,319	1,493
Manufacturing of MMX™ products	1,260	-	-
Related services	92	298	247
Other revenues from sales	11	32	52
Licence fees and milestones	-	1,691	-
Royalties	-	-	-
Total revenue - Rest of E.U.	**5,458**	**5,340**	**1,792**
Non E.U.			
Manufacturing on behalf of third parties:			
Manufacturing of generic products and specialty drugs	-	13	52
Manufacturing of MMX™ products	-	-	-
Related services	259	107	168
Other revenues from sales	2	12	1
Licence fees and milestones	-	-	-
Royalties	-	-	-
Total revenue - Non E.U.	**261**	**132**	**221**
Total revenue	**15,158**	**15,506**	**11,030**

Note 2 Other income

The term "other income" comprises the following:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Lease of offices	218	250	245
Maintenance services provided to tenant	212	212	213
Government grant	1,087	472	-
Gain on sales of real estate	3,249	-	-
Other	168	98	30
Total other income	**4,934**	**1,032**	**488**

The caption "Lease of offices" includes the income arising from the "Investment properties" and specifically the income for the offices leased to Cadbury for the three years' period till the disinvestment, occurred on October 27, 2006, as described below, and for maintenance services and other facilities provided to tenant, classified under "maintenance services provided to tenant".

The item "grant" in 2006 includes €760 thousand and €327 thousand related to two grants: the first filed with the Italian Ministry of University and Research (MIUR) for the pre-clinical activity on the anti-androgen product CB-03-01 and the second filed with the Ministry of Production Activities named "Bando Tematico Lombardia" for the research project for the modified release of the Butyric Acid.

The item "grant" in 2005, amounting to €472 thousand, includes €452 thousand relating to the grant filed with the Ministry of Production Activities named "Bando Tematico Lombardia", for the research project for the modified release of the Butyric Acid.

The grant filed with the Ministry of Production Activities for the research project for the modified release of the Butyric Acid totals €1,948 thousand, of which €779 thousand as contributions *a fonds perdu* to cover the research and development expenses incurred by the Entity and the remaining €1,169 thousand in the form of a subsidized loan. The amount accounted for as of December 31, 2005 relates to the costs incurred by the Entity as of the balance sheet date for which the relevant legal documentation has been filed with the Ministry of Production Activities in order to obtain the payment of a first portion of the grant. With this respect, in May 2006 the Ministry of Production Activities paid the Entity €643 thousand as subsidized loan and in November 2006 €429 thousand as contributions *a fonds perdu*, as advance for the costs incurred in 2005, amounting to €452 thousand. The amount accounted for as of December 31, 2006 relates to the cost incurred in 2006 (the research project was completed on December 31, 2006) and the relevant documentation will be filed by the end of February 2007.

The grant filed with Ministry of University and Research (MIUR) for the pre-clinical activity on the anti-androgen product CB-03-01 totals €1,936 thousand, of which €929 thousand as contributions *a fonds perdu* to cover the research and development expenses incurred by the Entity and the remaining €1,007 thousand in the form of a subsidized loan. The grant was filed in July 2003 and the activites started in January 2004; in January 2006 the research project was officially approved by the relevant bodies and published in the Italian “Gazzetta Ufficiale”. The amount accounted for as of December 31, 2006 relates to the costs incurred from the starting date of the activities to December 31, 2006. The relevant documentation for the costs incurred to July 1,2006 was filed in December 2006. The research project is expected to be completed by the end of 2007.

The item “gain on sales of real estate” in 2006 relates (i) for €3,067 thousand, to the gain on transfer, on October 27, 2006, of the real estate (office building and annexed land, acquired in 2002 and classified as “Investment property”) to Intesa Leasing and (ii) for €182 thousand, to the assignment, on December 1, 2006, of the running leasing agreements relating to plant, equipment and offices to Cristoforo Colombo Real Estate S.r.l. (See “Related parties transactions – Real Estate Spin-off”).

The item “Other” in 2006 includes €72 thousand and €72 thousand related to administrative services, provided to Cosmo Holding S.p.A. and Cosmo Bio-technologies S.r.l. respectively; in 2005 the item includes €72 thousand and €18 thousand, related to administrative services provided to Cosmo Holding S.p.A. and Cosmo Bio-technologies S.r.l. respectively.

Note 3 Changes in inventories of finished goods and work in progress

The item comprises the following:

	For the year ended December 31,		
	2006	2005	2004
	(Thousands of Euros)		
Changes in inventories of finished goods	-	-	(11)
Changes in inventories of work in progress (wip)	(110)	163	89
Total change in inventories of finished goods and wip	**(110)**	**163**	**78**

Note 4 Raw material and consumables used

The item “raw material and consumables used” comprises the following:

	For the year ended December 31,		
	2006	2005	2004
	(Thousands of Euros)		
Purchase of raw materials and packaging	4,659	5,625	3,817
Purchase of consumables	189	170	195
Purchase of laboratory supplies	220	131	150
Purchase of maintenance materials	41	49	37
Purchase of safety materials	38	37	31

Purchase of wrapping and crate	10	13	13
Total purchases	**5,157**	**6,025**	**4,243**
Changes in raw materials inventories	230	(122)	(11)
Total raw material and consumables used	**5,387**	**5,903**	**4,232**

Raw materials in the pharmaceutical industry are mainly referred to the Active Pharmaceutical Ingredient (API) of the product, which is the most significant cost item of material consumption, mainly when the production is related to generic products, while for the production of branded specialty drugs it is generally provided by the commissioning company in account for manufacture, as part of the working contract; other raw materials are the excipients and the packaging materials.

The decrease in 2006 compared to 2005, is due to a different mix of revenues from manufacturing on behalf of third parties. In particular such reduction has been determined by a decrease in the production, for three clients, of the generic drug "gabapentin", whose API is purchased by the Entity.

The increase of cost for raw materials and packaging in 2005 compared to 2004 is mainly related to the increase in the volumes of products manufactured on behalf of third parties.

Laboratory supplies are mainly related to the research and development activities ("R&D") carried on in the laboratories of the Entity.

Note 5 Personnel expenses

The item, which include the cost of the entire staff (employees and external consultants) comprises the following:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Salaries and wages	3,741	3,257	3,066
Social security contributions	900	839	782
Employee benefits	142	194	192
Other costs	41	28	23
Total personnel expenses	**4,824**	**4,318**	**4,063**

The increase shown in the three year period has to be put in relation with the increasing activities in contract manufacturing and R&D.

The average numbers of the entire staff for the years ended December 31, 2006, 2005 and 2004 are the following:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(n. of people)		
Managers	7.0	5.0	5.0
Junior managers	7.5	7.0	6.5
Employees	50.5	47.0	41.5
Workers	50.5	46.5	42.0
Total average number	**115.5**	**105.5**	**95.0**

The numbers by category of the entire staff as at December 31, 2006, 2005 and 2004 are the following:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(n. of people)		
Managers	9	5	5
Junior managers	8	7	7
Employees	54	47	47
Workers	44	44	38
Total number	**115**	**103**	**97**

Compensation of the board of directors and of key management was €649 thousand, €585 thousand and €624 thousand in 2006, 2005 and 2004 respectively.

Note 6 Depreciation and amortization

The item comprises the following:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Depreciation of property, plant and equipment	1,107	675	627
Amortization of other intangible assets	324	153	92
Depreciation of investment property	61	74	74
Total depreciation and amortization	**1,492**	**902**	**793**

Note 7 Other operating expenses

The item “other operating expenses” comprises the following:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Service costs	5,992	3,080	2,626
Operating lease expenses	256	80	82
Other operating costs	376	356	322
Provisions accruals	-	50	-
Total other operating expenses	**6,624**	**3,566**	**3,030**

The item “service costs” mainly comprises costs for professional and consultancy services (i.e scientific, commercial and administrative services), pre-clinical and clinical studies, utilities (gas, electricity, water) and maintenance services, third-party manufacturing and they are detailed as follows:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
External consultancy services	921	344	676
Pre-clinical and clinical trials	1,971	835	305
Patent costs	78	86	49

Maintenance	566	266	209
Technical assistance	25	18	19
Utilities, electrical power	577	350	331
Utilities, gas and heating	212	150	122
Utilities, water	33	24	23
Waste disposal	73	60	56
Premises cleaning	76	52	60
Receptionist and security services	144	147	141
Utilities, telephone, internet	66	39	32
Insurance	102	47	60
Board of statutory auditors	31	21	21
Auditing	58	32	26
Advertising and marketing costs	480	192	5
Freight and customs	63	55	63
Travel expenses	67	51	51
Sub-contracting and other services in relation to the manufacturing	267	158	272
Other costs	182	153	105
Total service costs	**5,992**	**3,080**	**2,626**

The item "operating lease expenses" is detailed as follows:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Rent	144	16	10
Other rentals	112	64	72
Total operating lease expenses	**256**	**80**	**82**

In 2004 and 2005 "Rent" refers to the rent of laboratory of preclinical activities performed in Catania, Italy; in 2006 it also includes €32 thousand for the annual rent of the new Dublin office and €96 thousand for the rent for the industrial plant, laboratories and related offices, started on December 1, 2006 (See "Related parties transactions – Real Estate Spin-off" and "Related parties transactions – Lease agreement for Lainate").

"Other rentals" in 2004 and 2005 mainly refers to the rent of photocopy machines and cars; in 2006 it also includes €26 thousand for the rent agreement for the equipment of the new plant, such as HVAC, electrical and mechanical, purified water equipment, started on December,1, 2006 (See "Related parties transactions – Real Estate Spin-off" and "Related parties transactions – Lease agreement for Lainate").

The items "other operating costs" is detailed as follows:

	For the year ended December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Representation expenses	71	96	100
Promotional expenses	27	27	3
Stationery	52	19	16
Newspapers and magazines	9	9	9
Fuel and Oil	21	14	13
Tax, other than income tax	92	82	79
Club memberships	14	12	10
Postal costs	86	89	89
Other costs	4	8	3
Total other operating costs	**376**	**356**	**322**

The item "tax, other than income tax" includes the cost for the property tax ("ICI"), until the date of sale of Lainate real estate.

"Provisions accruals" in 2005 refers to the accrual of the provision for risk and charges relating the potential additional taxes and penalties due, after a tax review of Cosmo S.p.A., conducted by the Italian Tax Authorities for the fiscal year 2003 and concluded on November 2005. With this respect, in 2006 Cosmo S.p.A. paid a total amount of €43 thousand.

Note 8 Financial income/expenses, net

The item comprises the following:

	For the year ended December 31,		
	2006	2005	2004
	(Thousands of Euros)		
Financial income:			
Dividends from other companies	94	96	-
Other	17	5	1
Total financial income	**111**	**101**	**1**
Financial expenses:			
Interests on bank overdraft/advance on invoices	156	127	121
Interests on medium long term bank loan	324	353	267
Interests on financial lease payables	376	290	241
Other	107	32	70
Total financial expenses	**963**	**802**	**699**
Financial income (expense), net	**(852)**	**(701)**	**(698)**

The item "Dividends from other companies" refers to Cross Research SA's resolutions to distribute a dividend of CHF 300,000, taken from retained earnings, both in September 2006 and in December 2005. The relevant amounts for the Entity, entitled to 50%, corresponded to €94 thousand in 2006 and to €96 thousand in 2005. (See "Related parties transactions – Sale of stake in Cross Research S.A.")

Note 9 Income tax expenses

The item comprise the following:

	For the year ended December 31,		
	2006	2005	2004
	(Thousands of Euros)		
Income tax I.R.E.S. and other corporation taxes	(127)	127	174
Income tax I.R.A.P.	214	74	206
Current income tax	***87***	***201***	***380***
Tax effect on the losses of Biotech activity	-	929	1,015
Prepaid taxes	393	(860)	(607)
Deferred taxes	460	203	189
Total income expenses	**940**	**473**	**977**

For three year period the current income taxes include "I.R.A.P.": it represents an Italian regional tax, currently applied at a rate equal to 4.25% and levied on operating income, plus personnel costs and financial charges, which are not considered tax deductible.

In 2004 they also include €174 thousand related to "I.R.E.S.", which represents the Italian corporate income tax, currently applied at a rate equal to 33%; in 2005 they include €127 thousand related to Irish corporation tax, applied at a rate equal to 12.5% to the taxable income of Cosmo Technologies Ltd. In 2006 the income of €127 thousand refers, according to Irish Corporate Tax Law, to the set off of 2006 loss of the Irish company against the profit of the preceding fiscal year.

Note 10 Property, plant and equipment

"Property, plant and equipment" are stated at purchase or construction cost, net of accumulated depreciation and amount to €9,559 thousand, €12,952 thousand, €7,096 thousand at December 31, 2004, 2005 and 2006 respectively. The composition and variation of property, plant and equipment are shown in the following tables:

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other fixed assets	Assets under construction and payments on account	Total
			(Thousands of Euros)			
Cost						
Balance at January 1st, 2004	**6,380**	**1,947**	**705**	**457**	**811**	**10,300**
Additions	-	298	249	52	1,024	1,623
Disposals	-	-	-	-	-	-
Balance at December 31, 2004	**6,380**	**2,245**	**954**	**509**	**1,835**	**11,923**
Accumulated depreciation						
Balance at January 1st, 2004	**277**	**683**	**462**	**315**	**-**	**1,737**
Depreciation charge for the year	155	234	183	55	-	627
Disposals	-	-	-	-	-	-
Balance at December 31, 2004	**432**	**917**	**645**	**370**	**-**	**2,364**
Net balance as at December 31, 2004	**5,948**	**1,328**	**309**	**139**	**1,835**	**9,559**

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other fixed assets	Assets under construction and payments on account	Total
			(Thousands of Euros)			
Cost						
Balance at January 1st, 2005	**6,380**	**2,245**	**954**	**509**	**1,835**	**11,923**
Additions	-	132	70	26	3,840	4,068
Disposals	-	-	-	-	-	-
Balance at December 31, 2005	**6,380**	**2,377**	**1,024**	**535**	**5,675**	**15,991**
Accumulated depreciation						
Balance at January 1st, 2005	**432**	**917**	**645**	**370**	**-**	**2,364**
Depreciation charge for the year	155	252	223	45	-	675

Disposals	-	-	-	-	-	-
Balance at December 31, 2005	**587**	**1,169**	**868**	**415**	**-**	**3,039**
Net balance as at December 31, 2005	**5,793**	**1,208**	**156**	**120**	**5,675**	**12,952**

	Land and buildings	**Plant and machinery**	**Industrial and commer-cial equipment**	**Other fixed assets**	**Assets under construc-tion and payments on ac-count**	**Total**
			(Thousands of Euros)			
Cost						
Balance at January 1st, 2006	**6,380**	**2,377**	**1,024**	**535**	**5,675**	**15,991**
Additions	1,599	3,894	125	239	1,061	6,918
Construction completed	4,201	2,321	-	214	(6,736)	-
Disposals	(12,180)	(574)	-	(52)	-	(12,806)
Balance at December 31, 2006	**-**	**8,018**	**1,149**	**936**	**-**	**10,103**
Accumulated depreciation						
Balance at January 1st, 2006	**587**	**1,169**	**868**	**415**	**-**	**3,039**
Depreciation charge for the year	229	647	153	78	-	1,107
Disposals	(816)	(271)	-	(52)	-	(1,139)
Balance at December 31, 2006	**-**	**1,545**	**1,021**	**441**	**-**	**3,007**
Net balance as at December 31, 2006	**-**	**6,473**	**128**	**495**	**-**	**7,096**

At December 31, 2004 "Land and buildings" refers to the 2002 acquisition of the real estate premises in Lainate, consisted of industrial plant, laboratories and offices. The acquisition was made through a finance lease. The appurtenance land related to the building, which totals €1,213 thousands, is not subject to depreciation. It is regularly compared to updated professional assessment to check whether it needs to be written down. The increase of the item in 2006 refers to the completion of the new industrial plant and equipment dedicated to the MMX™ product (all the acquisition of the year was made through a finance lease); in the same year the decrease refers to the assignment, on December 1, 2006, of the running leasing agreements relating to plant and equipment, laboratories and offices to Cristoforo Colombo Real Estate S.r.l. (See "Related parties transactions – Real Estate Spin-off").

"Plant and machinery" mainly relates to the cost of acquisition of machinery and production facilities for the manufacturing business of pharmaceutical products; the relevant increase in 2006 mainly refers to the acquisition of the new production machinery and other equipment for the MMX™ product. The total amount includes plant and machinery acquired through finance lease agreements for €4,176 thousand.

"Industrial and commercial equipment" relates to the investment in the modernization of laboratory equipment occurred during the three-year period after their acquisition. Approximately €341 thousand of laboratory equipment were acquired by way of finance lease agreements.

"Other fixed assets" increased mainly in 2006, in relation to the investment (i) in fittings and furniture for the new laboratories, (ii) in computers and servers and (iii) in lift and pallet trucks for plant and warehouse. Approximately €64 thousand of other fixed assets were acquired by way of finance lease agreements.

"Assets under construction and payments on account", mainly refers to the new industrial plant which has been dedicated to the production of MMX™ products. The works started in the second half of 2003 and their completion occurred in the first half of 2006. It also includes the payment on account for the purchase of machinery, industrial and laboratory equipment for the new plant. At completion of plant and laboratories, the relevant amounts have been reclassified to the corresponding asset heading and the depreciation has started.

Note 11 Goodwill

The item "goodwill" is detailed as follows:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Opening carrying amount	109	109	109
Additions/disposals for the year	-	-	-
Write-downs/revaluations for the year	-	-	-
Closing carrying amount	**109**	**109**	**109**

"Goodwill" relates to the acquisition in 1997 from Parke Davis of the manufacturing business of pharmaceutical products.

Goodwill was tested for impairment at December 31, 2006, 2005 and 2004 in accordance with IAS 36. The recoverable amount of goodwill, its value in use, has been estimated on the basis of forecasted cash flows.

Note 12 Other intangible assets

"Other intangible assets" net of accumulated amortization, amounts to €950 thousand, €928 thousand and €3,384 thousand at December 31, 2004, 2005 and 2006 respectively. Their composition and variation is shown in the following table:

	Patent and rights	**Trademarks and licences**	**Total**
	(Thousands of Euros)		
Cost			
Balance at January 1st, 2004	**512**	**45**	**557**
Additions	839	5	844
Disposals	-	(30)	(30)
Balance at December 31, 2004	**1,351**	**20**	**1,371**
Accumulated amortization			
Balance at January 1st, 2004	**322**	**12**	**334**
Amortisation charge for the year	90	2	92
Disposals	-	(5)	(5)
Balance at December 31, 2004	**412**	**9**	**421**
Net balance as at December 31, 2004	**939**	**11**	**950**

	Patent and rights	Trademarks and licences	Total
	(Thousands of Euros)		
Cost			
Balance at January 1st, 2005	**1,351**	**20**	**1,371**
Additions	131	-	131
Disposals	-	-	-
Balance at December 31, 2005	**1,482**	**20**	**1,502**
Accumulated amortization			
Balance at January 1st, 2005	**412**	**9**	**421**
Amortisation charge for the year	151	2	153
Disposals	-	-	-
Balance at December 31, 2005	**563**	**11**	**574**
Net balance as at December 31, 2005	**919**	**9**	**928**

	Patent and rights	Trademarks and licences	Total
	(Thousands of Euros)		
Cost			
Balance at January 1st, 2006	**1,482**	**20**	**1,502**
Additions	2,787	-	2,787
Disposals	(9)	-	(9)
Balance at December 31, 2006	**4,260**	**20**	**4,280**
Accumulated amortization			
Balance at January 1st, 2006	**563**	**11**	**574**
Amortisation charge for the year	323	1	324
Disposals	(2)	-	(2)
Balance at December 31, 2006	**884**	**12**	**896**
Net balance as at December 31, 2006	**3,376**	**8**	**3,384**

"Patents and rights" refers to the costs for filing and extension of patents owned by the Entity. The significant increase in 2006 is related to the investment of €2,500 thousand for the repurchase of Budesonide MMX™ rights; they refer to patent expiring in 2020 and consequently are amortized over a period of 15 years.

The decrease in 2006 refers to the sale to Cosmo Bio-technologies S.r.l., of a patent at its book value of €7 thousand, corresponding to the initial costs for filing, after the subsequent Board's decision to develop the relevant molecule only in some areas more consistent to the biotech activities (see "Related parties transactions – Sale of a patent to Cosmo Bio-technologies S.r.l.").

Note 13 Investment property

Movements in investment property are set out in the following table:

	Investment property
	(Thousands of Euros)
Cost	
Balance at January 1st, 2004	**4,507**
Additions	-
Disposals	-
Balance at December 31, 2004	**4,507**
Accumulated depreciation	
Balance at January 1st, 2004	**111**
Depreciation charge for the year	74
Disposals	-
Balance at December 31, 2004	**185**
Net balance at December 31, 2004	**4,322**

	Investment property
	(Thousands of Euros)
Cost	
Balance at January 1st, 2005	**4,507**
Additions	-
Disposals	-
Balance at December 31, 2005	**4,507**
Accumulated depreciation	
Balance at January 1st, 2005	**185**
Depreciation charge for the year	74
Disposals	-
Balance at December 31, 2005	**259**
Net balance at December 31, 2005	**4,248**

	Investment property
	(Thousands of Euros)
Cost	
Balance at January 1st, 2006	**4,507**
Additions	-
Disposals	(4,507)
Balance at December 31, 2006	**-**
Accumulated depreciation	
Balance at January 1st, 2006	**259**
Depreciation charge for the year	61
Disposals	(320)
Balance at December 31, 2006	**-**
Net balance at December 31, 2006	**-**

"Investment property" refers to the purchase in October 2002 of the office building leased to Cadbury Italia S.p.A. and annexed land, completing the acquisition of the entire real estate complex in Lainate (see note 10). Investment properties were pledged as security for the mortgage loans granted by Credito Artigiano S.p.A. (see note 24).

Land related to owned building, amounting to €2,043 thousand, is not subject to depreciation. It is regularly compared to updated assessments to check whether it needs to be written down.

The decrease in 2006 refers to the sale of the office building and annexed land to Intesa Leasing S.p.A. on October 27, 2006 (See "Related parties transactions – Real Estate Spin-off").

Note 14 Other investments

The item "other investments" is detailed as follows:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Investments in other companies	-	130	130
Other investments	**-**	**130**	**130**

"Other investments" refers to the acquisition in 2001 of 50% of the shares of Cross Research S.A., a Swiss company operating as Contract Research Organization (CRO) to carry out clinical trials on volunteers. This investment is accounted for at cost as the Entity does not have significant influence over Cross Research S.A. due to shareholders' contractual agreements and its fair value can not be reliably measured. Cross Research S.A. distributed a dividend of CHF 300,000, taken from retained earnings, both in September 2006 and in December 2005 (see Note 8).

On July 26, 2006, the Board of Directors of Cosmo Holding S.p.A. resolved that the shareholding in Cross Research S.A. should be spun-off, in order to keep the pharmaceutical business entirely focused on pharma activities. For this reason, on September 22, 2006, Cosmo S.p.A. sold at book value its 50% shareholding in Cross Research S.A. to Cosmo Holding S.p.A. (See "Related parties transactions – Sale of Stake in Cross Research S.A.").

Note 15 Deferred tax assets

The caption changed as follows:

	As at January 1,	Changes in the year		As at December 31,	Changes in the year		As at December 31,	Changes in the year		As at December 31,
	2004	Increase	Decrease	2004	Increase	Decrease	2005	Increase	Decrease	2006
	(Thousands of Euros)									
Maintenance expenses	9	-	(5)	4	-	(3)	1	-	(1)	-
Goodwill depreciation	-	-	-	-	9	-	9	-	(9)	-
Entertaining expenses	17	10	(6)	21	9	(7)	23	7	(9)	21
Losses carried forward	-	-	-	-	900	-	900	60	(385)	575
Patents	-	607	-	607	-	(38)	569	-	(38)	531
Advertising costs	10	-	(3)	7	-	(3)	4	-	(4)	-
Other costs	19	10	(5)	24	-	(6)	18	-	(14)	4
Formation and start-up expenses	2	-	(1)	1	-	(1)	-	-	-	-
Total deferred tax assets	**57**	**627**	**(20)**	**664**	**918**	**(58)**	**1,524**	**67**	**(460)**	**1,131**

The following table sets out the nature of temporary differences determining the caption deferred tax assets.

	Temporary differences as at December 31, 2004	%	Tax effect as at December 31, 2004	Temporary differences as at December 31, 2005	%	Tax effect as at December 31, 2005	Temporary differences as at December 31, 2006	%	Tax effect as at December 31, 2006
	(Thousands of Euros)								
Maintenance expenses	12	37.25	4	4	37.25	1	-	37.25	-
Goodwill depreciation	-		-	24	37.25	9	-	37.25	-
Entertaining expenses	55	37.25	21	61	37.25	23	57	37.25	21
Losses carried forward	-		-	2,726	33.00	900	2,039	28.18	575
Patents	4,858	12.50	607	4,555	12.50	569	4,251	12.50	531
Advertising costs	18	37.25	7	9	37.25	4	1	37.25	-
Other costs	66	37.25	24	49	37.25	18	10	37.25	4
Formation and start-up expenses	3	37.25	1	1	37.25	-	-	37.25	-
Deferred tax assets	**4,945**		**664**	**7,430**		**1,524**	**6,358**		**1,131**

"Deferred tax assets" at December 31, 2006, 2005 and 2004 amounts to €1,131 thousand, to €1,524 thousand and to €664 thousand respectively.

Deferred tax assets on losses carry forward at December 31, 2006 relate for €515 thousand to the future tax benefits in relation to Cosmo S.p.A. tax losses carry forward and for €60 thousand to the future tax benefits in relation to Cosmo Ltd. tax losses carry forward; at December, 31, 2005 relates entirely to the future tax benefits in relation to Cosmo S.p.A. tax losses carry forward.

At December 31, 2006, 2005 and 2004, €531 thousand and €569 and €607 thousand respectively relate to the elimination of the gain on assignment of patents from Cosmo S.p.A. to Cosmo Technologies Ltd., occurred in 2004, net of the deduction for the period.

The deferred tax assets included in the Combined Financial Statements at December 31, 2006 are deemed recoverable on the basis of future economic forecasts as set out in the Business Plan to 2015, approved by the Board of Directors and updated to include the actual results for 2006.

In the analysis of the recoverability of this item, analyses, based on the normal estimation process that the management carries out in the preparation of the Combined Financial Statements, along with and consistent with the impairment testing of goodwill as well as the assumptions regarding growth that form the basis of future results forecasts, have been subjected to sensitivity analysis. At the balance sheet date, these analyses have not highlighted any critical areas such that would require adjustments to the deferred tax asset values.

Note 16 Intercompany receivables vs. Biotech activities

The item is detailed as follows:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Intercompany receivables vs. Biotech activities	-	-	3,554
Total Intercompany receivables vs. Biotech activities	**-**	**-**	**3,554**

As indicated in "Basis of preparation", the caption refers to the financial transfers from the pharmaceutical business to the biotech business and it represents the net invested capital in the biotech business. On September 30, 2005, Cosmo S.p.A. demerged the biotech activities to the new company Cosmo Bio-technologies S.r.l. and the intercompany receivables were offset with the debt for a loan received in 2005 from the Cosmo Holding S.p.A.

Note 17 Other non-current receivables

The item "other non-current receivables" is detailed as follows:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Other receivables	1,906	12	13
Tax receivables	-	4	20
Total other non-current receivables	**1,906**	**16**	**33**

"Other receivables" relates to guarantee deposits: in 2006 it includes the amounts of €1,150 thousand and €740 thousand, associated with the rent of plant, laboratories and related offices and the rent of equipment respectively (See "Related parties transactions – Real Estate Spin-off").

"Tax receivables" relates to state treasury credit due to advance taxes on termination indemnity, paid in the previous year.

Note 18 Inventories

The item "inventories" comprises the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Raw materials, auxiliary materials and consumables	982	1,062	870
Work in progress	204	314	151
Depreciation fund	(220)	(70)	-
Total inventories	**966**	**1,306**	**1,021**

The item "raw materials, auxiliary materials and consumables" covers the raw materials and packaging materials used by the Entity in its manufacturing activity; the item "work in progress" refers to the "bulk" ready to be packaged.

The value of raw materials in 2006 and 2005 includes a depreciation fund, amounting to €220 thousand and to €70 thousand respectively, which specifically refers to a slow moving item.

Note 19 Trade receivables

The item "trade receivables" comprises the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Domestic customers	1,984	2,466	2,168
EU customers	976	2,408	358
Non-EU customers	119	20	23
Domestic customers - invoice to be issued	121	35	27
Bad debt provision	(32)	(49)	(49)
Total trade receivables	**3,168**	**4,880**	**2,527**

In the three year period, the item covers receivables from clients deriving from manufacturing of pharmaceutical products and supply of related services, net of the provision for bad debt; in 2005 it also includes the amount of

€1,691 thousand, related to the milestones due by Giuliani International Ltd. and achieved with respect to the license agreement for Lialda™/Mezavant™ (Mesalazine MMX™), which were recognized in proximity of the end of 2005 and fully paid at the beginning of 2006.

Note 20 Current tax assets

The item "current tax assets" comprises the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Advance payments of income taxes	126	322	-
Total current tax assets	**126**	**322**	**-**

At December 31, 2006 the caption amounts to €126 thousand, relating to the corporation tax credit accounted for in Cosmo Technologies Ltd and raised due to the availability of loss relief.

At December 31, 2005 "Current tax assets" includes the residual amount of the advance payments of income taxes exceeding the amount due for the year. Such amounts have been offset during the first quarter of the fiscal year 2006 with the payment of employer's contributions, withholding tax for employees and the advance payment of I.R.A.P. for 2006.

Note 21 Other receivables

The item "other receivables" comprises the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Government grant	1,110	452	-
Receivables from other companies	2,365	96	-
VAT receivables	111	329	299
Prepaid expenses	893	13	20
Other	126	224	1
Total other receivables	**4,605**	**1,114**	**320**

In 2006 the item "grant" includes €760 thousand and €327 thousand related to two grants: the first filed with the Italian Ministry of University and Research (MIUR) for the pre-clinical activity on the antiandrogen product CB-03-01 and the second filed with the Ministry of Production Activities - "Bando Tematico Lombardia" - for the research project on the modified release of Butyric Acid. The residual amount of €23 thousand refers to the receivable on the 2005 grant portion, still to be collected (see Note 2).

In 2005 the item "grant", amounting to €452 thousand, relates to the grant filed with the Ministry of Production Activities - "Bando Tematico Lombardia" (see Note 2).

In 2006 "Receivables from other companies" refers to the residual receivable relating to the assignment, on December 1, 2006, of the running leasing agreements for plant, equipment and related offices to Cristoforo Colombo Real Estate S.r.l. (See "Related parties transactions – Real Estate Spin-off").

In 2005 "Receivables from other companies" refers to the Cross Research S.A. shareholders' resolution to distribute a dividend for 2005 (See Note 8).

"VAT receivables" as at December 31, 2006 refers to Cosmo Technologies Ltd and was filed for refund in January 2007; the item as at December 31, 2005 and 2004 refers to Cosmo S.p.A and was partially offset, respectively at the beginning of 2006 and 2005, by payables to social security authorities for contributions and to tax authorities for income tax on salaries.

"Prepaid expenses" in 2006 includes advance payments to Cristoforo Colombo Real Estate S.r.l. for (i) the rent of plant, laboratories and related offices for €479 thousand and (ii) the rent of plant equipment for €344 thousand. These amounts represent the 2007 portion – January/May - of the rent paid on December 1, 2006. (See "Related parties transactions – Real Estate Spin-off" and "Related parties transactions – Lease agreement for Lainate").

"Other" refers to advance payments to suppliers of services.

Note 22 Cash and cash equivalents

The item "cash and cash equivalents" comprises the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Cash at hand	5	6	2
Bank accounts	1,114	677	272
Total cash and cash equivalents	**1,119**	**683**	**274**

Note 23 Total shareholder's equity

The term "total shareholder's equity" comprises the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Share capital	2,550	2,550	2,300
Share premium	-	-	-
Other reserves	7,367	2,737	725
Biotech activity cumulated losses	(8,054)	(8,054)	(6,490)
Retained earnings	3,618	2,560	4,782
Profit/(Loss) for the year	(137)	838	(2,197)
Total shareholders' equity	**5,344**	**631**	**(880)**

Share capital

As at December 31, 2004 the Entity's "share capital", fully subscribed and paid up, comprised 2,300,000 ordinary shares of Cosmo S.p.A. at a nominal value of €1.

As at December 31, 2005 "share capital" increases by €250 thousand as a result of the issue of 250,000 ordinary shares of Cosmo Technologies Ltd, at a nominal value of €1, each subscribed and fully paid at par for cash.

Other reserves

"Other reserves" at December 31, 2006 comprises (i) the "legal reserve" (pursuant to Italian regulations, the legal reserve is increased yearly by an amount equal to 5% of the previous year's net profit) of €18 thousand, (ii) the "extraordinary reserve" of €66 thousand, (iii) the "capital contribution for loss coverage" of €6,850 thousand and (iv) the "IFRS conversion reserve" of €433 thousand.

"Other reserves" at December 31, 2005 comprises (i) the "legal reserve" (pursuant to Italian regulations, the legal reserve is increased yearly by an amount equal to 5% of the previous year's net profit) of €18 thousand, (ii) the "extraordinary reserve" of €286 thousand, (iii) the "capital contribution for loss coverage" of €2,000 thousand and (iv) the "IFRS conversion reserve" of €433 thousand.

"Other reserves" at December 31, 2004 comprises (i) the "legal reserve" (pursuant to Italian regulations, the legal reserve is increased yearly by an amount equal to 5% of the previous year's net profit) of €17 thousand, (ii) the "extraordinary reserve" of €275 thousand and (iii) the "IFRS conversion reserve" of €433 thousand.

Biotech activity cumulated losses

Such amount represents the cumulative financial transfer from the pharmaceutical to the biotech business, due to the cumulative losses of the biotech business (See also “Basis of preparation”).

Note 24 Interest-bearing loans and borrowings (non current)

The item “interest-bearing loans and borrowings” comprises the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Bank loans	2,846	7,258	9,372
Total bank loans	**2,846**	**7,258**	**9,372**
Financial lease liabilities	1,937	6,639	5,882
Total financial lease liabilities	**1,937**	**6,639**	**5,882**
Total interest-bearing loans and borrowings	**4,783**	**13,897**	**15,254**

As at December 31, 2006 “bank loans” consists of:

- a subsidized loan of initially €1,463 thousand at a nominal interest rate of 2%, received on October 17, 2001 from San Paolo IMI S.p.A., pursuant to a grant filed with the then named MURST, now MIUR (Italian Ministry for University and Research), due to expire on January 1, 2011;
- a loan of initially €2,200 thousand at a nominal interest rate of Euribor rate plus 1.50%, received on November 24, 2004 from Interbanca S.p.A., due to expire on November 30, 2010;
- a loan of initially €250 thousand at a nominal interest of Euribor rate plus 2%, received on March 29, 2004 from Unicredit Banca S.p.A. due to expire on September 30, 2009;
- a loan of initially €350 thousand at a nominal interest of Euribor rate plus 1.75%, received on June 8, 2004 from Unicredit Banca S.p.A. due to expire on December 31, 2008 ;
- a loan of initially €400 thousand at a nominal interest rate of Euribor rate plus 1.55%, received on October 26, 2006 from Banca Intesa S.p.A., due to expire on March 31, 2008;
- a subsidized loan of initially €643 thousand at a nominal interest rate of 0,816%, received on May 8, 2006 from Centrobanca S.p.A., pursuant to a grant filed with the Ministry of Production Activities - “Bando Tematico Lombardia” - for the research project for the modified release of the Butyric Acid, due to expire on October 6, 2018.

During the year 2006, following the sale on October 27, 2006 to Intesa Leasing S.p.A. of the office building leased to Cadbury Italia S.p.A. and annexed land (See “Related parties transactions – Real Estate Spin-off”) two loans were totally repaid:

- a mortgage loan raised on October 29, 2002 of initially €4,000 thousand received from Credito Artigiano S.p.A. for the purchase of office building at a nominal interest rate of Euribor rate plus 1.40%, (original expiring date: December 31, 2012);
- an integration of the former mortgage loan, raised on July 21, 2004 of initially €1,750 thousand, at a nominal interest rate of Euribor rate plus 1.60%, (original expiring date: September 30, 2010).

As at December 31, 2005 “bank loans” consists of:

- a subsidized loan of initially €1,463 thousand at a nominal interest rate of 2%, received on October 17, 2001 from San Paolo IMI S.p.A., pursuant to a grant filed with the then named MURST, now MIUR (Italian Ministry for University and Research), due to expire on January 1, 2011;

- a loan of initially €2,500 thousand at a nominal interest rate of Euribor rate plus 1.30% received on March 15, 2002 from Banca Mediocredito S.p.A., due to expire on March 1, 2007;
- a mortgage loan raised on October 29, 2002 of initially €4,000 thousand received from Credito Artigiano S.p.A. for the purchase of office building at a nominal interest rate of Euribor rate plus 1.40%, (original expiring date: December 31, 2012);
- an integration of the former mortgage loan, raised on July 21, 2004 of initially €1,750 thousand, at a nominal interest rate of Euribor rate plus 1.60%, (original expiring date: September 30, 2010).
- a loan of initially €2,200 thousand at a nominal interest rate of Euribor rate plus 1.50%, received on November 24, 2004 from Interbanca S.p.A., due to expire on November 30, 2010;
- a loan of initially €250 thousand at a nominal interest of Euribor rate plus 2%, received on March 29, 2004 from Unicredit Banca S.p.A. due to expire on September 30, 2009;
- a loan of initially €350 thousand at a nominal interest of Euribor rate plus 1.75%, received on June 8, 2004 from Unicredit Banca S.p.A. due to expire on December 31, 2008.

As at December 31, 2004 “bank loans” consists of:

- a subsidized loan of initially €1,463 thousand at a nominal interest rate of 2%, received on October 17, 2001 from San Paolo IMI S.p.A., pursuant to a grant filed with the then named MURST, now MIUR (Italian Ministry for University and Research), due to expire on January 1, 2011;
- a loan of initially €2,500 thousand at a nominal interest rate of Euribor rate plus 1.30% received on March 15, 2002 from Banca Mediocredito S.p.A., due to expire on March 1, 2007;
- a mortgage loan raised on October 29, 2002 of initially €4,000 thousand received from Credito Artigiano S.p.A. for the purchase of office building at a nominal interest rate of Euribor rate plus 1.40%, (original expiring date: December 31, 2012);
- an integration of the former mortgage loan, raised on July 21, 2004 of initially €1,750 thousand, at a nominal interest rate of Euribor rate plus 1.60%, (original expiring date: September 30, 2010).
- a loan of initially €2,200 thousand at a nominal interest rate of Euribor rate plus 1.50%, received on November 24, 2004 from Interbanca S.p.A., due to expire on November 30, 2010;
- a loan of initially €250 thousand at a nominal interest of Euribor rate plus 2%, received on March 29, 2004 from Unicredit Banca S.p.A. due to expire on September 30, 2009;
- a loan of initially €350 thousand at a nominal interest of Euribor rate plus 1.75%, received on June 8, 2004 from Unicredit Banca S.p.A. due to expire on December 31, 2008.

A summary of the above description of long-term bank loans is shown below:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
San Paolo IMI	576	761	942
Banca Mediocredito	-	313	938
Credito Artigiano	-	2,656	3,020
Credito Artigiano	-	1,352	1,672
Interbanca	1,320	1,760	2,200
Unicredit Banca	117	233	350
Unicredit Banca	117	183	250
Banca Intesa	73	-	-
Centrobanca	643	-	-
Bank loans	**2,846**	**7,258**	**9,372**

"Financial lease liabilities" as at December, 31, 2006 consists of the long-term portion of leasing payables due to Intesa Leasing S.p.A. and relates to plant and machinery, industrial equipment and other fixed assets (see note 10); as at December 31, 2005 and 2004 it also includes the long term portion of leasing payables due to Locafit S.p.A. and related to the industrial plant and equipment, laboratories and related offices assigned on December 1, 2006 to Cristoforo Colombo Real Estate S.r.l. (See "Related parties transactions – Real Estate Spin-off").

Note 25 Employee benefits

"Employee benefits" amounts to €755 thousand at December 31, 2006, to €774 thousand at December 31, 2005 and to €782 thousand at December 31, 2004 and is measured in accordance with IAS 19. This item is only related to the Italian company Cosmo S.p.A.'s employees.

	As at December 31,		
	2006	2005	2004
	(Thousands of Euros)		
Managers	37	33	28
Junior managers	79	72	59
Employees	342	314	376
Workers	297	355	319
Employee benefits	**755**	**774**	**782**

Movements in the three year period are as follows:

	As at January 1, 2004	Changes in the year In-crease	Changes in the year De-crease	As at December 31, 2004	Changes in the year In-crease	Changes in the year De-crease	As at December 31, 2005	Changes in the year In-crease	Changes in the year De-crease	As at December 31, 2006
	(Thousands of Euros)									
Employee benefits	665	192	(75)	782	194	(202)	774	142	(161)	755
Total Employee benefits	**665**	**192**	**(75)**	**782**	**194**	**(202)**	**774**	**142**	**(161)**	**755**

The key actuarial assumptions applied in estimating the benefits due to employees on leaving the Italian company Cosmo S.p.A. are:

Category	Wages/salaries increases	Probability of early payment	Asked in advance	Promotions: probability of promotion	Promotions: wages/salaries variations	Probability of payment for other reasons
Managers	2,00%	2,50%	50,00%	0,00%	0,00%	SIM-SIF 1999[1] and other
Junior managers	2,00%	2,50%	50,00%	0,50%	15,00%	SIM-SIF 1999[1] and other
Employees	2,00%	2,50%	50,00%	1,50%	5,00%	SIM-SIF 1999[1] and other
Workers	2,00%	2,50%	50,00%			SIM-SIF 1999[1] and other

[1] Italian statistical data

Amounts have been discounted using the swap rate curves at year end.

Note 26 Deferred tax liabilities

The caption changed as follows:

	As at January 1, 2004	Changes in the year In-crease	Changes in the year De-crease	As at December 31, 2004	Changes in the year In-crease	Changes in the year De-crease	As at December 31, 2005	Changes in the year Increase	Changes in the year De-crease	As at December 31, 2006
	(Thousands of Euros)									
Trade receivables	-	-	-	-	(5)	-	(5)	(5)	-	(10)
Gain on sales of investment properties	-	-	-	-	-	-	-	(955)	-	(955)
Amortisation patent and software	-	-	-	-	-	-	-	(13)	-	(13)
Goodwill	-	(20)	-	(20)	(20)	-	(40)	-	-	(40)
Financial lease on property plant and equip.	(300)	(180)	2	(478)	(195)	10	(663)	(315)	844	(134)
Inventories	(2)	(1)	-	(3)	-	1	(2)	-	2	-
Employee benefits	(6)	-	10	4	-	6	10	(18)	-	(8)
Total deferred tax liabilities	**(308)**	**(201)**	**12**	**(497)**	**(220)**	**17**	**(700)**	**(1,306)**	**846**	**(1,160)**

The following table sets out the nature of temporary differences determining the caption "deferred tax liabilities".

	Temporary differences as at December 31, 2004	%	Tax effect as at December 31,, 2004	Temporary differences as at December 31, 2005	%	Tax effect as at December 31, 2005	Temporary differences as at December 31, 2006	%	Tax effect as at December 31, 2006
	(Thousands of Euros)								
Trade receivables	-		-	(15)	33.00	(5)	(31)	33.00	(10)
Gain on sales of investment properties	-		-	-		-	(2,564)	37.25	(955)
Amortisation patent and software	-		-	-		-	(34)	37.25	(13)
Goodwill	(54)	37.25	(20)	(108)	37.25	(40)	(108)	37.25	(40)
Financial lease on property plant and equip.	(1,255)	38.05	(478)	(1,747)	37.90	(663)	(356)	37.25	(134)
Inventories	(9)	37.25	(3)	(6)	37.25	(2)	-	37.25	-
Employee benefits	13	33.00	4	31	33.00	10	(23)	33.00	(8)
Deferred tax liabilities	**(1,305)**		**(497)**	**(1,846)**		**(700)**	**(3,117)**		**(1,160)**

"Deferred tax liabilities" at December 31, 2006, 2005 and 2004 amounts to €1,160 thousand, to €700 thousand and to €497 thousand respectively.

At December 31, 2006 the item includes €955 thousand relating to deferred tax liabilities on the gain, resulting from the sale of the real estate "Investment properties" and taxable in five years (see "Related parties transactions – Real estate spin-off").

At December 31, 2006, 2005 and 2004 the item mainly includes €134 thousand, €663 thousand and €478 thousand relating to temporary differences deriving from the application of IAS 17 in relation to finance leases on property, plant and equipment.

Note 27 Other non-current liabilities

The item "other non-current liabilities" comprises the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Other payables	10	63	62
Total other non-current liabilities	**10**	**63**	**62**

"Other payables" refers to the guarantee deposit and related interests paid by the tenant Cadbury Italia S.p.A. and other minor companies on the lease of some office spaces within the facility in Lainate, Milan. Upon the sale of the relevant office building and annexed land on October 27, 2006, the guarantee deposit and related interests from Cadbury Italia S.p.A. were transferred to the owner (see "Related parties transactions – Real estate spin-off").

Note 28 Interest-bearing loans , borrowings and bank overdraft (current)

The item "interest-bearing loans, borrowings and bank overdraft" comprises the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Advances on invoices and bank overdraft	1,845	4,157	2,105
Bank loans	1,403	2,114	1,225
Total bank loans	**3,248**	**6,271**	**3,330**
Financial lease liabilities	664	1,391	758
Total financial lease liabilities	**664**	**1,391**	**758**
Total interest-bearing loans, borrowings and bank overdraft	**3,912**	**7,662**	**4,088**

The item "bank loans" refers to the short term portion of interest-bearing loans and is detailed as follows (details of the loans in Note 24):

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
San Paolo IMI	184	181	177
Banca Mediocredito	313	625	625
Credito Artigiano	-	364	345
Credito Artigiano	-	320	78
Interbanca	440	440	-
Unicredit Banca	117	117	-
Unicredit Banca	67	67	-
Banca Intesa	282	-	-
Centrobanca	-	-	-
Bank loans	**1,403**	**2,114**	**1,225**

"Financial lease liabilities" as at December, 31, 2006 consists of the short-term portion of leasing payables due to Intesa Leasing S.p.A. and relates to plant and machinery, industrial equipment and other fixed assets (see note 10); as at December 31, 2005 and 2004 it also includes the short term portion of leasing payables due to Locafit S.p.A. and related to the industrial plant and equipment, laboratories and related offices assigned on December 1, 2006 to Cristoforo Colombo Real Estate S.r.l. (See "Related parties transactions – Real Estate Spin-off").

Note 29 Trade payables

The item "trade payables" includes the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Domestic suppliers	3,087	2,716	2,761
EU suppliers	940	407	133
Non-EU suppliers	14	8	13
Domestic suppliers - invoices to be received	828	267	210
EU suppliers - invoices to be received	26	-	2
Non-EU suppliers - invoices to be received	-	3	5
Domestic suppliers - credit notes to be received	(228)	-	(11)
EU suppliers - credit notes to be received	(1)	(1)	-
Total trade payables	**4,666**	**3,400**	**3,113**

Note 30 Provisions

The item "provisions" comprises the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Provisions	-	50	-
Total provisions	**-**	**50**	**-**

The balance at December 31, 2005 refers to a provision for risk arising from the Tax Authorities' inspection, that took place during the year 2005 in respect of the 2003 fiscal year, as already commented above (see Note 7).

Note 31 Current tax liabilities

The item "current tax liabilities" includes the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Withholding tax for employees	110	92	104
Withholding tax for consultants	3	4	15
Tax payables	77	126	56
Total current tax liabilities	**190**	**222**	**175**

Tax payables comprise the amounts due to the authorities in relation to income tax withheld from salaries and the net amount due by the Entity for corporate taxes (I.R.E.S. and I.R.A.P. and other corporation taxes), net of advance payments made during the year.

Note 32 Other current liabilities

The item "other current liabilities" includes the following:

	As at December 31,		
	2006	**2005**	**2004**
	(Thousands of Euros)		
Social security payables	153	143	139
VAT payable	295	173	-
Other liabilities	310	237	178
Advances from customers	2,013	-	-
Payables due to other companies	-	207	-
Accrued expenses and deferred income	19	53	55
Total other current liabilities	**2,790**	**813**	**372**

"Social security payables" comprises both the contributions withheld from salaries and the contributions due in accordance with current laws and regulations.

"VAT payable" refers to the VAT balance payable by the Entity.

"Other liabilities" mainly includes payables to employees related to accruals of deferred pay elements, calculated on the basis of the collective labor agreement currently in force at Cosmo S.p.A. (Contratto Collettivo Nazionale di Lavoro).

"Advances from customers" includes the amount of €1,973 thousand (originally €2,344 thousand) received from Shire Pharmaceuticals plc in November 2006 on the future supply of Lialda™/Mezavant™.

"Payables due to other companies" refers to expenses for clinical studies incurred by the formerly affiliate company Cross Research S.A. (see "Related parties transactions – Sale of stake in Cross research S.A.).

"Accrued expenses and deferred income" refers to interest on the long-term loans and income for rent, to be deferred in compliance with the accruals basis rule.

5. *Contractual Obligations and Commitments*

The following table sets forth the contractual commitments and principal payments the Entity was obliged to make as of December 31, 2006, 2005 and 2004 under debt instrument, financial leases and other agreements.

	Total	**Less then 1 year**	**1-5 years**	**More than 5 years**
		(Thousands of Euros)		
Bank loans	10,597	1,225	7,009	2,363
Financial lease liabilities	6,640	758	3,689	2,193
Employee benefits	782	-	-	782
Operating lease expenses[(1)]	72	39	33	-
Total contractual obligations 31 December 2004	**18,091**	**2,022**	**10,731**	**5,338**
Bank loans	9,372	2,114	6,275	983
Financial lease liabilities	8,030	1,391	4,976	1,663
Employee benefits	774	-	-	774
Operating lease expenses[(1)]	40	31	9	-
Total contractual obligations 31 December 2005	**18,216**	**3,536**	**11,260**	**3,420**
Bank loans	4,249	1,403	2,390	456
Financial lease liabilities	2,601	664	1,937	-
Employee benefits	755	-	-	755
Operating lease expenses[(1)]	9,877	1,971	7,331	575
Total contractual obligations 31 December 2006	**17,482**	**4,038**	**11,658**	**1,786**

[(1)] Not a balance sheet item

Non-current liabilities as of December 31, 2006, 2005 and 2004 include €755 thousand, €774 thousand and €782 thousand respectively, related to required indemnities for termination of employees of Cosmo S.p.A. These obligations are payable to employees upon the termination of employment and, although, in practice, a part of this liability may come within 12 months, this portion is not quantifiable and is conventionally treated as long-term.

As a result of the real-estate spin-off, Cosmo S.p.A.'s plant and offices were transferred to Cristoforo Colombo Real Estate S.r.l., which let them to Cosmo S.p.A.. The lease has a duration of 6 years (renewable for an equal period of time) starting from December 1, 2006, at a rent of €1,150 thousand per year. Starting from the same date of the lease, Cosmo S.p.A. has also rented from Cristoforo Colombo Real Estate S.r.l. the equipment, such as heating vacuum and air conditioning (HVAC), electrical and mechanical, purified water equipment, etc. of the new plant. The annual rent for the equipment amounts to €740 thousand for a duration of 5 years; for the following 7 years, namely until the date of expiration of the lease for plant and offices, the equipment will be gratuitously used by Cosmo S.p.A. in the form of a commodate (See "Related parties transactions – Real Estate Spin-off").

Other guarantees

	As at December 31,		
	2006	**2005**	**2004**
	(Thousand of Euros)		
Guarantees - given	128	106	66
Guarantees - received	1,032	5,169	-
Total	**1,160**	**5,275**	**66**

In the three year period "Gurantees-given" refers bank guarantees released by Banca Intesa S.p.A. and Credito Artigiano S.p.A. in the interest of Cosmo S.p.A. and in favour of the suppliers of gas and electricity and to the Italian Customs.

In 2006 "Guarantees-received" refers for (i) €1,000 thousand to money pledged by Cosmo Holding S.p.A. to Intesa Leasing S.p.A. as a guarantee on the finance lease agreements for the industrial machinery of the new industrial plant and for (ii) €32 thousand to a bank guarantee, released by Credito Artigiano S.p.A. and secured by Cosmo Pharmaceuticals S.p.A., in the interest of Cosmo Technologies Ltd. and in favour of the landlord of the Dublin's office.

In 2005 "Guarantees-received" refers for (i) €3,000 thousand to money deposited and pledged by Cosmo Holding S.p.A. to Credito Artigiano S.p.A. as a guarantee on a bank credit line for the same amount to Cosmo S.p.A., for (ii) €1,500 thousand to a bank guarantee, released by Banca Nazionale del Lavoro S.p.A. and secured by Cosmo Holding S.p.A. in the interest of Cosmo S.p.A. and in favour of Locafit S.p.A. in relation to the finance lease agreements for the new industrial plant in Lainate and for (iii) €669 thousand to money pledged by Cosmo Holding S.p.A. to Intesa Leasing S.p.A. as a guarantee on the finance lease agreements for the industrial machinery of the new industrial plant.

6. Related parties transactions

Related parties transactions are carried out at an arms' length basis.

The Board of Directors is notified of proposed related party transactions and the directors involved must abstain from the related discussion and vote on decisions relating to related parties transactions. Should the nature, value or specific characteristics of a transaction so require, the Board of Directors will draw on the assistance of independent experts.

- ***Real Estate Spin-off***

On March 6, 2002 and on December 5, 2005 Cosmo S.p.A. entered into four financial leasing agreements with Locafit S.p.A. resulting in the purchase of the industrial plant and the offices Cosmo S.p.A. uses (Complex A). The outstanding debt versus Locafit S.p.A. as of the date of November 30, 2006 was €8,848 thousand, with the longest leasing agreement expiring on March 6, 2018. Furthermore, on October 29, 2002 and on July 21, 2004 Cosmo S.p.A. purchased by way of two mortgage financing agreements with Credito Artigiano S.p.A. the office building (currently leased to Cadbury Italia S.p.A.) and the land surrounding the plant (Complex B). The outstanding debt versus Credito Artigiano S.p.A. as of the date of September 30, 2006, was €4,183 thousand, the mortgage financing agreements expiring, respectively, on September 2010 and December 2012.

In order to provide additional cash for the ongoing clinical trials and to enhance the financial parameters of the Group, on June 14, 2006 Cosmo Holding's Management presented to the Board of Directors a plan to restructure the group of companies controlled at the time by Cosmo Holding S.p.A., through the elimination of long term indebtedness with the spin-off of Complex A and Complex B, and of the related debt, to a third party.

In order to comply with its corporate governance code requirements on related parties' transactions, Cosmo Holding S.p.A. hired Colliers International to assess the fair market value of Complex A and Complex B. Collier's estimate of such value was approximately €19,000 thousand.

On June 29, 2006, Cassiopea S.A. incorporated Cristoforo Colombo Real Estate S.r.l. (see "Principal Shareholders").

On August 22, 2006, Cosmo Holding S.p.A.'s Board of Directors resolved to have Cosmo S.p.A. execute the real estate spin-off transaction with Cristoforo Colombo Real Estate S.r.l. The resolution was adopted in compliance with the Cosmo Holding S.p.A.'s corporate governance code requirements for related parties' transactions. Namely, Mr. Mauro Ajani, as President of the Board of Directors of the Cosmo Holding S.p.A. informed the Board of his prospective interest in the spin-off transaction as President of the Board of Directors and majority shareholder of Cassiopea S.A. Thus, he abstained from voting in connection with the spin-off transaction and the transaction was concluded with the assistance of an independent expert.

The spin-off transaction took place as follows:

a) On October 27, 2006, Cosmo S.p.A., sold Complex B at its market value of €7,255 thousand to the leasing company Intesa Leasing S.p.A. Intesa Leasing S.p.A. let the Complex B to Cristoforo Colombo Real Estate S.p.A. Cosmo S.p.A. reimbursed the outstanding debt and retained the excess cash of approximately €3,000 thousand. The current lease agreement between Cosmo S.p.A., as lessor, and Cadbury Italia S.p.A., as lessee, was assigned to Cristoforo Colombo Real Estate S.p.A., as new lessor, with the consent of Intesa Leasing S.p.A.

b) On December 1, 2006, Cosmo S.p.A., with the consent of Locafit S.p.A., assigned its financial leasing agreements relating to Complex A to Cristoforo Colombo Real Estate S.r.l., which thereby became the new lessee. Cristoforo Colombo Real Estate S.r.l. agreed to pay to Cosmo S.p.A. €3,000 thousand, which represents the agreed difference between the market value of Complex A and the outstanding debt assumed by Cristoforo Colombo Real Estate S.r.l.. It is to be noted that Cosmo S.p.A. has not been released from its obligations towards Locafit S.p.A., but remains jointly and severally liable with Cristoforo Colombo Real Estate S.r.l. for the payment of the rents to Locafit.
c) Cristoforo Colombo Real Estate S.r.l.'s obligation to pay €3,000 thousand to Cosmo S.p.A. was undertaken as follows:
   (i) €1,033 thousand was paid at the signature of the assignment agreement as set forth above;
   (ii) €1,967 thousand expected to be paid within June 2007.
d) On December 1, 2006, Cristoforo Colombo Real Estate S.r.l.. let Complex A to Cosmo S.p.A..

Lease agreement for Lainate

As a result of the real-estate spin-off, Cosmo S.p.A.'s plant and offices are now owned by Cristoforo Colombo Real Estate S.r.l. who leases them to Cosmo S.p.A. In details, Cosmo S.p.A. entered into two agreements with Cristoforo Colombo Real Estate S.r.l.:

- a lease agreement for plant and offices: such lease agreement has a duration of six years starting from December 1, 2006, is renewable for an equal period of time and has a yearly overall rent equal to €1,150 thousand;

- a rent agreement for the equipment of the new plant, such as HVAC, electrical and mechanical, purified water equipment: such rent agreement has a duration of five years starting from December 1, 2006 and a yearly overall rent equal to €740 thousand. At the expiration of such rent agreement Cristoforo Colombo shall provide Cosmo with the gratuitous use of the same industrial machinery and equipments for the following seven years.

▪ ***Cosmo Bioscience S.p.A. loan agreement***

Upon execution of the demerger of Cosmo S.p.A., the remaining proceeds of the private placement (see "Pre-Offering Restructuring") have been allocated to Cosmo Bioscience S.p.A., in order to ensure its financial capacity to conclude the ongoing clinical trials. Cosmo Bioscience S.p.A., according to its spending schedule, has therefore found itself with excess cash, of which €2,000 thousand have been lent by Cosmo Bioscience S.p.A. to Cosmo Pharmaceuticals S.p.A. on arm's length terms. The loan expires on May 31, 2007, early repayment is possible and it is bearing an interest rate equal to 6.5% on annual basis.

▪ ***Sale of Stake in Cross Research S.A.***

Cosmo S.p.A. was a 50% shareholder in Cross Research SA, a Swiss clinical research organisation (CRO). The remaining 50% is held by Mr. Alessandro Assandri, a Swiss national. Cosmo had no influence on Cross Research S.A and had no seat on the board. These outsourcing activities have been conducted by Cross Research S.A. together with Cross S.A. and Cross Project SA, two other Swiss companies which are also owned by Mr. Assandri but do not belong to Cross Research S.A. Group. The Entity outsourced to Cross Research SA clinical and pre-clinical activities for a value of €198 thousand, €423 thousand and €190 thousand in 2004, 2005 and 2006 respectively. The financial investment in Cross Research was recorded at its book value of €130 thousand in Cosmo S.p.A.'s 2005 financial statements. For the financial years 2005 and 2006 the investment has produced a return of €96 thousand and €94 thousand respectively.
On July 26, 2006, the Board of Directors of Cosmo Holding S.p.A. resolved that the shareholding in Cross Research S.A. should be sold, in application of the Corporate Governance Code and in order to keep the pharmaceutical business entirely focused on pharma activities. For this reason, on September 22, 2006, Cosmo S.p.A. sold at book value its 50% shareholding in Cross Research S.A. to Cosmo Holding S.p.A.
On September 29, 2006 the Shareholders of Cosmo Holding S.p.A. while undertaking the resolution to demerge the holding company, assigned the shareholding in Cross Research S.A. to the newly created Cosmo Bioscience S.p.A.

▪ ***Sale of a patent to Cosmo Bio-technologies S.r.l.***

Cosmo S.p.A. held a patent named "Uso di 17alfa-ESTERI C3-C10 del 9,11-DEIDROCORTEXOLONE come agenti antigonadotropinici", which refers to a molecule that is currently in pre-clinical development at Cosmo S.p.A. laboratories in Catania, Italy. The patent had been filed on September 14, 2005 for its potential use in treatment of prostate cancer and in Benign Prostatic Hyperplasia (BPI). On July 26, 2006, the Board of Directors of Cosmo Holding S.p.A. resolved for the sale of this patent at its book value of €7 thousand to Cosmo Bio-technologies S.r.l., as a consequence of the appurtenance of this project to the biotech product's pipeline and of the very early stage of development of the patent.

7. Subsequent events

FDA approval for Lialda™

In February 2001, the Entity out-licensed the global development and commercialisation rights for Mesalazine MMX™, now called Lialda™/Mezavant™ to Giuliani S.p.A. and Lehner S.A. To the Entity's knowledge, in May 2002, Giuliani and Lehner granted a sub-license to Shire plc, giving Shire the exclusive rights to develop and market Mesalazine MMX™, in particular, in the US, Canada, and Europe (excluding Italy, San Marino and Vatican City). Giuliani S.p.A retains the development and commercialisation rights in Italy, San Marino, the Vatican State and possibly other geographic areas. On December 22, 2005, Shire filed an NDA with the US FDA for the approval of Lialda™ for the induction and maintenance of clinical and endoscopic remission in patients with mild-to-moderate ulcerative colitis. On February 3, 2006, Shire filed marketing authorisation applications for Mezavant™ with the European Regulatory Agencies for the same indications. Shire also filed a New Drug Submission for Lialda™ with Health Canada.

Lialda™ received FDA approval on January 16, 2007 and the regulatory authorities of 15 EU-countries approved labelling of Mezavant™ on December 14, 2006. It is expected that the European regulatory agencies will announce their approval during the first half of 2007. While the Entity has no influence over the marketing decisions of Shire, Shire has stated publicly it will commence commercialization of Lialda™ in the US in the first Quarter 2007 and in the EU in the first half of 2007.

Upon FDA approval of Lialda™ on January 16, 2007, the Entity is entitled to USD1,000 thousand milestone payment and upon approval of Mezavant™ in at least three European countries, to another milestone payment of USD1,000 thousand. Both payments are due by Giuliani International Ltd.

8. Accounting estimates and judgments

The preparation of the Combined Financial Statements and the related notes requires the use of estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. However, as they are estimates, actual future results could differ from those included in the Combined Financial Statements. Such estimates and assumptions are based on accumulated experience and on other factors deemed to be appropriate in the calculation of the carrying amounts of assets and liabilities that cannot be measured on the basis of other sources. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Accounting estimates that require the more subjective judgment of management in making assumptions or estimates regarding the effects of matters that are inherently uncertain and for which changes in conditions may significantly affect the results reported in the Combined Financial Statements are reported below.

Impairment of property plant and equipment, goodwill and other intangible assets

The Entity's directors reviewed the carrying amount of property, plant and equipment, goodwill and other intangible assets at each balance sheet date in the three year period 2004-2006 to determine whether there was any indication of impairment and determined that such an indication did not exist.

Deferred tax assets

The Entity has a considerable amount of tax losses carry forward and temporary differences between carrying amount of assets and liabilities for financial reporting purposes and for taxation purposes that allow for the recognition of deferred tax assets. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized determined on the basis of future results forecasts.

9. Risks

Interest rate risk

Interest rate exposure is mainly related to interest-bearing net debt in the balance sheet, as the loans and borrowings of the Entity are subject to variable interest rates, any increase in interest rates will entail an increase in the interest expense. The outstanding indebtedness of the Entity has decreased over the last years, the exposure to interest rate risk has been reduced.

Exchange risk

Only a minor portion of total revenue for the years ended 31 December 2006, 2005 and 2004 was denominated in currencies other than Euro and, even to a lesser extent, the Entity has expenses not denominated in Euro. The main exposure is to changes in the exchange rate EUR/USD as milestone payments and royalties to be received pursuant to the license agreements with Giuliani International Ltd. and Lehner S.A. regarding Lialda™ /Mezavant™ (Mesalazine MMX™) are expressed in USD. However, the agreement between Giuliani International Ltd. and Cosmo Technologies Ltd. of 3 December 2001 provides for an adjustment procedure in case the currency fluctuations exceed a certain threshold.

Hedging

As at December 31, 2006 , 2005 and 2004 the Entity had no derivatives or hedging contracts.

Credit risk

The Entity directly handles customer credit risk. It constantly monitors and analyzes credit risk to take the correct actions, to minimize any possible negative impact. Furthermore Entity receivables do not have any significant or particular concentration.

Re-issuance of Report on the pro forma financial information as at and for the year ended December 31, 2006

To the Board of Directors of
Cosmo Pharmaceuticals SpA

We report on the pro forma financial information of Cosmo Pharmaceutical Group (as defined below) based on the combined financial statements as at and for the year ended December 31, 2006, which comprise Cosmo SpA and Cosmo Technologies Ltd., and on the financial statements of Cosmo Pharmaceuticals SpA (together with Cosmo SpA and Cosmo Technologies Ltd., the "Cosmo Pharmanceutical Group") as at and for the year ended December 31, 2006 and the notes thereto ("pro forma financial information"), as set out on pages F-54 to F-59 in this Offering Memorandum of Cosmo Pharmaceutical SpA. The pro forma financial information has been prepared on the basis of the notes for illustrative purposes only.

Such pro forma adjustments are based upon the management's assumptions as described in the notes to the pro forma financial information. It is the responsibility of the Board of Directors to prepare the pro forma financial information in accordance with the Directive of SWX Swiss Exchange on the "disclosure of supplemental financial figures in the listing prospectus". Our responsibility is to form an opinion as to proper preparation for the purpose stated in the preceding paragraph of this pro forma financial information based on our work.

The objective of the pro forma financial information is to illustrate the effects of the transactions, as described in the notes to the pro forma financial information, as if they had occurred on January 1, 2006. However, the pro forma financial information is not necessarily indicative of the result of operations or related effects on the financial position that would have been attained had the above-mentioned transactions actually occurred earlier.

We conducted our work in accordance with International Standard on Assurance Engagements 3000 promulgated by the International Auditing and Assurance Standards Board. The work that we performed for the purpose of making this report, which involved no audit or review on the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering

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COD. FISC. N. 01507630489 - PART. IVA 05902570158 - AUTORIZZATA AI SENSI DI LEGGE 23/11/1939 N.1966 - ISCRITTA NELL'ALBO SPECIALE DELLE SOCIETÀ DI REVISIONE CON DELIBERA CONSOB N° 10829
UFFICI IN ITALIA: BOLOGNA – FIRENZE - MILANO - NAPOLI - PADOVA - PALERMO - ROMA - TORINO

the evidence supporting the adjustments and discussing the pro forma financial information with the management of Cosmo Pharmaceuticals SpA.

We planned and performed our work in order to obtain the information and explanations deemed necessary in order to provide us with reasonable assurance that pro forma financial information has been properly prepared on the basis stated.

In accordance with our engagement we previously reported on the pro forma financial information of Cosmo Pharmaceutical Group (as defined below) as of December 31, 2006. On those financial information we issued a report dated February 16, 2007, which we report that the pro forma financial information which is consistent with the accounting principles of the Company, has been properly prepared on the basis stated. On March 8, 2007 the Company's management informed us that the management's assumptions which constitutes the basis of the pro forma adjustments have been changed on the basis of the market information received subsequent to the publication of preliminary offering prospectus. As a consequence of above, the management have asked us to re-issue our report. Therefore, we performed such procedures as we considered necessary in the circumstances. Following the additional procedures carried out on the subsequent changes, we re-issue our report on the pro forma financial information as of December 31, 2006.

In our opinion, the pro forma financial information which is consistent with the accounting principles of Cosmo Pharmaceuticals SpA, has been properly prepared on the basis stated. This conclusion has been formed on the basis of, and is subject to, the inherent limitations outlined elsewhere in this independent assurance report.

Milan, March 8, 2007

Mazars & Guérard S.p.A.

Giorgio Beretta
(Local Partner)

Carlo Consonni
(Partner)

Cosmo Pharmaceutical Group

Pro forma financial information as at and for the year ended December 31, 2006

Pro forma income statement for the year ended December 31, 2006

(Thousands of Euros)	Combined Financial Statement (historical)	Pro forma adjustments Holding structure	Real estate spin-off	Increase of share capital and IPO	PRO FORMA
Revenue	15,158	-	-	-	15,158
Other income	4,934	-	(3,419)	-	1,515
Changes in inventories of finished goods and work in progress	(110)	-	-	-	(110)
Raw material and consumables used	(5,387)	-	-	-	(5,387)
Personnel expenses	(4,824)	(246)	-	-	(5,070)
Depreciation and amortization	(1,492)	-	343	-	(1,149)
Other operating expenses	(6,624)	(975)	(1,280)	(1,277)	(10,156)
OPERATING RESULT	***1,655***	***(1,221)***	***(4,356)***	***(1,277)***	***(5,199)***
Financial income	111	1	-	-	112
Financial expenses	(963)	(20)	357	-	(626)
PROFIT (LOSS) BEFORE TAXES	***803***	***(1,240)***	***(3,999)***	***(1,277)***	***(5,713)***
Income tax expenses	(940)	441	2,163	476	2,140
PROFIT (LOSS) FOR THE YEAR	***(137)***	***(799)***	***(1,836)***	***(801)***	***(3,573)***

Pro forma balance sheet as at December 31, 2006

(Thousands of Euros)	Combined Financial Statement (historical)	Pro forma adjustments: Holding structure	Real estate spin-off	Increase of share capital and IPO	PRO FORMA
ASSETS					
Non-current assets					
Property, plant and equipment	7,096	-	-	-	7,096
Goodwill	109	-	-	-	109
Other intangible assets	3,384	-	-	-	3,384
Deferred tax assets	1,131	441	498	1,455	3,525
Other non-current receivables	1,906	-	-	-	1,906
Total non-current assets	**13,626**	**441**	**498**	**1,455**	**16,020**
Current assets					
Inventories	966	-	-	-	966
Trade receivables	3,168	-	-	-	3,168
Current tax assets	126	-	-	-	126
Other receivables	4,605	370	-	(321)	4,654
Cash and cash equivalents	1,119	279	-	28,985	30,383
Total current assets	**9,984**	**649**	**-**	**28,664**	**39,297**
TOTAL ASSETS	***23,610***	***1,090***	***498***	***30,119***	***55,317***
EQUITY					
Share capital	2,550	(365)	-	1,284	3,469
Share premium	-	-	-	32,117	32,117
Other reserves	7,367	(55)	-	(370)	6,942
Biotech activity cumulated losses	(8,054)	-	-	-	(8,054)
Retained earnings	3,618	-	997	-	4,615
Profit/(Loss) for the year	(137)	(799)	(1,836)	(801)	(3,573)
Total shareholder's equity	**5,344**	**(1,219)**	**(839)**	**32,230**	**35,516**
TOTAL EQUITY	***5,344***	***(1,219)***	***(839)***	***32,230***	***35,516***
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	4,783	-	-	-	4,783
Employee benefits	755	-	-	-	755
Deferred tax liabilities	1,160	-	-	-	1,160
Other non-current liabilities	10	-	-	-	10
Total non current liabilities	**6,708**	**-**	**-**	**-**	**6,708**
Current liabilities					
Interest-bearing loans, borrowings and bank overdraft	3,912	2,019	-	(2,019)	3,912
Trade payables	4,666	290	1,337	(92)	6,201
Current tax liabilities	190	-	-	-	190
Other current liabilities	2,790	-	-	-	2,790
Total current liabilities	**11,558**	**2,309**	**1,337**	**(2,111)**	**13,093**
TOTAL LIABILITIES	***18,266***	***2,309***	***1,337***	***(2,111)***	***19,801***
TOTAL EQUITY AND LIABILITIES	***23,610***	***1,090***	***498***	***30,119***	***55,317***

Notes to the pro forma financial information as at and for the year ended December 31, 2006

Overview

Cosmo Pharmaceuticals S.p.A. (the "Company", formerly Cosmo Pharmaceuticals S.r.l.) was incorporated on June 29, 2006 for the purpose of concentrating the pharmaceutical business of the Cosmo Group (also involved in the biotech business) in a new holding structure.

For this purpose, on August 2, 2006 the Company received from Cosmo Holding S.p.A. (its parent) the contribution of 100% shareholdings in Cosmo S.p.A. and Cosmo Technologies Ltd, both operating in the pharmaceutical business.

The pro forma financial information as at and for the year ended December 31, 2006 for the Cosmo Pharmaceutical Group (the Pro Forma Financial Information) is based on the Combined Financial Statements as at and for the year ended December 31, 2006 of Cosmo Pharmaceutical Business, which comprise the pharmaceutical business of Cosmo S.p.A. and Cosmo Technologies Ltd..

Basis of preparation

The Pro Forma Financial Information has been prepared based upon the Combined Financial Statements as at and for the year ended December 31, 2006 adjusted for the following events:

- holding structure: to present the effect of the new holding structure resulting from the incorporation of the Company on June 29, 2006, with the respective costs, and the contribution in kind of Cosmo S.p.A. and Cosmo Technologies Ltd;
- real estate spin-off: to present the effect of the spin-off of certain property, plant and equipment, and related financial debt, and the subsequent rental of certain assets spun-off;
- increase of share capital and IPO: to present the effect on historical financial information as if the share capital increase and the effect of to IPO, and the concomitant listing on the SWX Swiss Exchange, had occurred on January 1, 2006.

The Pro Forma Financial Information as at and for the year ended December 31, 2006 has been prepared for the purpose of illustrating the effects of the above transactions as if they had occurred on January 1, 2006.

The Pro Forma Financial Information have been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of Company's financial position or results of operations as at and for the year ended December 31, 2006.

The Pro Forma Financial Information and pro forma adjustments are based on available information and certain assumptions that the management of the Company believes are reasonable. The underlying financial information of the Pro Forma Financial Information has been prepared using consistent accounting policies with those applied in the preparation of the Combined Financial Statements of the Cosmo Pharmaceutical Business as at and for the years ended December 31, 2006, 2005 and 2004. The Pro Forma Financial Information does not purport to be indicative of Company's future performance or the financial condition and results of operations of the Company as if the transactions reflected in the notes to the Pro Forma Financial Information had actually occurred or been in effect on those dates.

The Pro Forma Financial Information is based upon, and should be read in conjunction with, the Combined Financial Statements of the Cosmo Pharmaceutical Business as at and for the years ended December 31, 2006, 2005 and 2004.

Pro Forma adjustments

Holding structure

As indicated above, the Company was incorporated on June 29, 2006; on August 2, 2006 the Company received the contribution of 100% shareholdings in Cosmo S.p.A. and Cosmo Technologies Ltd from Cosmo Holding S.p.A. (parent company of Cosmo Pharmaceuticals S.p.A.).

The purpose of the "Holding structure" pro forma adjustments is to reflect the new holding structure as if it had been effective and in operation from January 1, 2006.

In particular, the pro forma adjustments reflect twelve months of Company operation: mainly board of directors and other operating costs and related tax effect.

The Company balance sheet as at December 31, 2006 includes certain costs incurred before year end relating to the IPO and the listing of the Company's shares on the SWX Swiss Exchange (mainly legal and consultancy fees) which have been recognized as prepayment. The costs recognized as prepayments amounts to €321 thousand. These prepayments are to be transferred to equity when the capital increase following the IPO will be recognized, as described below in the paragraph "Increase of share capital (IPO)".

"Holding structure" pro forma adjustments also reflect the consolidation entries of the two subsidiaries Cosmo S.p.A. and Cosmo Technologies Ltd. The contribution of the two shareholdings took place at their book value and the equity of the Company increased of €2,532 thousand.

The contribution of the two shareholdings, Cosmo S.p.A. and Cosmo Technologies Ltd, is defined as a transaction "under common control" under IFRS 3 "Business Combination". IFRS 3 states that a business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. IFRS 3 does not offer interpretive guidance for the accounting treatment of such a transaction, therefore reference has been made to "equivalent" accounting principles. In this circumstance, reference is made to the U.S. GAAP and in particular to FAS 141 "Business Combinations", and the related literature issued by Emerging Issues Task Force ("EITF"), which states that such a transaction is to be accounted for using the values that result from the financial statements of the parent company.

As a consequence, the Pro Forma Financial Information reflects the same book value that was recorded in the financial statements of Cosmo Holding S.p.A. (the parent company) in respect of Cosmo S.p.A. and Cosmo Technologies Ltd. As specified above, due to the fact that the contribution of the two shareholdings took place at their book value and that IFRS 3 is not applicable in the circumstances, and hence no fair value measurement of the acquired assets and liabilities is required, no further adjustments have been made to the book value of the two consolidated companies.

Real estate spin-off

During the year ended December 31, 2006, Cosmo S.p.A. spun-off certain industrial plant, offices and equipment and related finance lease agreements entered in to for their purchase (the "complex A") and an office building and the land surrounding it (which were rented to a third party) and the related two mortgage loans (the "complex B"). The real estate spin-off of complex A and complex B occurred on December 1, 2006 and on October 27, 2006, respectively.

Complex A was sold to Cristoforo Colombo Real Estate S.r.l. (a related party), complex B was sold to Intesa Leasing S.p.A.. Both sales took place on the basis of an appraisal that estimated the market value of the assets included in complex A and complex B in about €19 million in aggregate: €11,848 thousand for the assets included in complex A and €7,255 thousand for the assets included in complex B.

Cosmo S.p.A. recognized a gain of €3,249 thousand from the real estate spin-off.

On December 1, 2006 Cosmo S.p.A. rented from Cristoforo Colombo Real Estate S.r.l. the industrial plant, offices and equipment included in complex A.

On a pro forma basis the real estate spin-off has been treated as it had occurred on January 1, 2006; as a consequence, the gain from the spin-off has been removed from the pro forma income statement for the year ended December 31, 2006 together with the other revenue and cost associated with complex A and complex B for the period from January 1, 2006 to October 27, 2006: income from the rental of complex B of €170 thousand, depreciation charge of €343 thousand, interest expenses on the finance lease agreements and on the two mortgage loans of €357 thousand and property taxes of €57 thousand.

Other operating expenses and trade payables have been increased of €1,337 thousand to reflect rental charges of the plant, offices and equipment included in complex A as if they had been rented from January 1, 2006.

The net tax effect of the real estate spin-off adjustment described above is a tax benefit of €2,163 thousand.

Increase of share capital and IPO

On December 14, 2006 the share capital of the Company was increased of €615 thousand to nominal €2,800 thousand with the issue of 2,460,000 new common shares with a nominal value of €0.25 each. The capital increase became effective January 23, 2007. The assumed net proceed from the capital increase has been entirely allocated to increase cash and cash equivalents.

The Company gross proceeds resulting from the capital increase following the IPO are assumed to be an aggregate amount of €34,436 thousand (primary offering and over-allotment option) through the issuance of no. 2,675,000 new ordinary shares, nominal value €0,25 each, at an offer price of CHF20.00 each equal to €12.34 each (applying the exchange rate ruling at January 2, 2006 €1 equal CHF1.5536).

The expenses associated with the completion of the IPO are estimated in €3,906 thousand including estimated offering commissions and other expenses payable by the Company (i.e. legal, public relation and press conference, preparation and printing of the offering document, auditing).

On the basis of IFRS 32 "Financial Instruments: Disclosure and Presentation", costs attributable to an equity transaction are debited directly to equity, net of any tax effect.

The Company's IPO involves both listing of existing shares and the issuance of new shares: costs directly attributable to issuing new shares have been recognized directly in equity, net of tax benefit, while any costs attributable to existing shares have been expensed through the income statement. Costs that relate both to existing and new shares have been allocated proportionally on the basis of the number of shares.

The assumed net proceed of the IPO of €30,530 thousand (determined deducting from the gross proceeds the amount of estimated IPO expenses) has been allocated to increase cash and cash equivalents, after repayment of the loan granted to the Company by Cosmo Bioscence S.p.A. of €2,019 thousand.

Increase in equity (share capital and share premium) amounts to €32,786 thousand, net of IPO expenses attributable to newly issued shares of €1,650 thousand, net of tax benefit. IPO expenses attributable to new shares also include costs incurred by the Company before December 31, 2006 that the Company recognized as prepayment in the balance sheet as at December 31, 2006 and that have been transferred to equity upon recognition of the capital increase following the IPO.

Other operating expenses have been increased of €1,277 thousand in respect of the proportion of the estimated IPO expenses attributable to existing shares and expensed through income statement.

Re-issuance of Report on the pro forma balance sheet as of offering date

To the Board of Directors of
Cosmo Pharmaceuticals SpA

We report on the pro forma balance sheet of Cosmo Pharmaceuticals SpA ("the Company") as of offering date, ("pro forma balance sheet") as set out on page F-63 in this Offering Memorandum of the Company. The pro forma balance sheet has been prepared in accordance with the basis of preparation set out on page F-64 in this Offering Memorandum. The pro forma balance sheet has been prepared for illustrative purposes only to provide information about how certain adjustments could have affected the balance sheet prepared at the time of the registration of the Company on January 31, 2007.

Such pro forma adjustments are based upon the management's assumptions as described in the notes to the pro forma balance sheet. Because of its nature, the pro forma balance sheet addresses a hypothetical situation and, therefore, does not necessarily represent the actual financial position at the offering date of the Company. It is the responsibility of the Board of Directors to prepare the pro forma balance sheet in accordance with the Directive of SWX Swiss Exchange on the "disclosure of supplemental financial figures in the listing prospectus". Our responsibility is to form an opinion as to proper preparation, for the purpose stated in the preceding paragraph, of this pro forma balance sheet based on our work. We are not responsible for expressing any other conclusion on the pro forma balance sheet or on any of its constituent elements.

We conducted our work in accordance with International Standard on Assurance Engagements 3000 promulgated by the International Auditing and Assurance Standards Board. The work that we performed for the purpose of making this report, which involved no audit or review on the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma balance sheet with the management of the Company.

We planned and performed our work in order to obtain the information and explanations deemed necessary in order to provide us with reasonable assurance that the pro forma balance sheet has been properly prepared on the basis stated.

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In accordance with our engagement we previously reported on the pro forma balance sheet of Cosmo Pharmaceuticals SpA as of offering date. On that balance sheet we issued a report dated February 16, 2007, which we report that the pro forma balance sheet which is consistent with the accounting principles of the Company, has been properly prepared on the basis stated. On March 8, 2007 the Company's management informed us that the management's assumptions which constitutes the basis of the pro forma adjustments have been changed on the basis of the market information received subsequent to the publication of preliminary offering prospectus. As a consequence of above, the management have asked us to re-issue our report. Therefore, we performed such procedures as we considered necessary in the circumstances. Following the additional procedures carried out on the subsequent changes, we re-issue our report on the pro forma balance sheet as of offering date.

In our opinion, the pro forma balance sheet which is consistent with the accounting principles of the Company, has been properly prepared on the basis stated. This conclusion has been formed on the basis of, and is subject to, the inherent limitations outlined elsewhere in this independent assurance report.

Milan, March 8, 2007

Mazars & Guérard S.p.A.

Giorgio Beretta
(Local Partner)

Carlo Consonni
(Partner)

Cosmo Pharmaceuticals S.p.A.

Pro forma balance sheet as of Offering date

Pro forma balance sheet as of Offering date

(Thousands of Euros)	Cosmo Pharma-ceuticals Spa as of 31 January 2007	Pro forma adjustment for IPO	PRO FORMA AS OF OFFERING DATE
ASSETS			
Non-current assets			
Investment in subsidiaries (stated at cost)	5,182	-	5,182
Other investments	-	-	-
Deferred tax assets	119	1,424	1,543
Total non-current assets	**5,301**	**1,424**	**6,725**
Current assets			
Other receivables	387	(336)	51
Cash and cash equivalents	1,442	27,378	28,820
Total current assets	**1,829**	**27,042**	**28,871**
TOTAL ASSETS	***7,130***	***28,466***	***35,596***
EQUITY			
Share capital	2,800	669	3,469
Share premium	-	30,729	30,729
Other reserves	1,998	-	1,998
Profit/(Loss) for the period	(76)	(801)	(877)
Total shareholder's equity	**4,722**	**30,597**	**35,319**
TOTAL EQUITY	***4,722***	***30,597***	***35,319***
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	-	-	-
Total non current liabilities	**-**	**-**	**-**
Current liabilities			
Interest-bearing loans, borrowings and bank overdraft	2,030	(2,030)	-
Trade payables	378	(101)	277
Total current liabilities	**2,408**	**(2,131)**	**277**
TOTAL LIABILITIES	***2,408***	***(2,131)***	***277***
TOTAL EQUITY AND LIABILITIES	***7,130***	***28,466***	***35,596***

Notes to the pro forma balance sheet as of Offering date of Cosmo Pharmaceuticals S.p.A.

Basis of preparation

The pro forma balance sheet as of Offering date of Cosmo Pharmaceuticals S.p.A. (the Pro Forma Balance Sheet) has been prepared for the purpose of illustrating the effect of the Initial Public Offering (IPO) as if the share capital increase and the concomitant listing on the SWX Swiss Exchange had occurred.

The Pro Forma Balance Sheet is based on the balance sheet of Cosmo Pharmaceuticals S.p.A. as of 31 January 2007 and includes the expected proceeds of the IPO.

The Management is not expecting any significant changes in the balance sheet for the period from 1 February 2007 to the Offering date.

The Pro Forma Balance Sheet has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of Company's financial position as of Offering date.

The Pro Forma Balance Sheet and pro forma adjustments are based on available information and certain assumptions that the management of the Company believes are reasonable. The underlying financial information of the Pro Forma Balance Sheet has been prepared applying IFRS and using consistent accounting policies with those applied in the preparation of the Combined Financial Statements of the Cosmo Pharmaceutical Business as at and for the years ended December 31, 2006, 2005 and 2004. The Pro Forma Balance Sheet does not purport to be indicative of the future financial condition of the Company as if the transaction reflected in the notes to the Pro Forma Balance Sheet had actually occurred or been in effect at that date.

The Pro Forma Balance Sheet should be read in conjunction with, the Combined Financial Statements of the Cosmo Pharmaceutical Business as at and for the years ended December 31, 2006, 2005 and 2004.

Pro Forma adjustments for the IPO

The Company gross proceeds resulting from the capital increase following the IPO are assumed to be an aggregate amount of €32,996 thousand (primary offering and over-allotment option) through the issuance of no. 2,675,000 new ordinary shares, nominal value €0,25 each, at an offer price of CHF 20.00 each equal to €12.34 each (applying the exchange rate ruling at January 31, 2007 €1 equal CHF1.6214).

The expenses associated with the completion of the IPO are estimated in €3,823 thousand including estimated offering commissions and other expenses payable by the Company (i.e. legal, public relation and press conference, preparation and printing of the offering document, auditing).

On the basis of IAS 32 "Financial Instruments: Disclosure and Presentation", costs attributable to an equity transaction are debited directly to equity, net of any tax effect.

The Company's IPO involves both listing of existing shares and the issuance of new shares: costs directly attributable to issuing new shares have been recognized directly in equity, net of tax benefit, while any costs attributable to existing shares have been expensed through the income statement. Costs that relate both to existing and new shares have been allocated proportionally on the basis of the number of shares.

The assumed net proceed of the IPO of € 29,173 thousand (determined deducting from the gross proceeds the amount of estimated IPO expenses) has been allocated to increase cash and cash equivalents, after repayment of the loan granted to the Company by Cosmo Bioscience S.p.A. of €2,030 thousand.

Increase in equity (share capital and share premium) amounts to €31,398 thousand, net of IPO expenses attributable to newly issued shares of €1,598 thousand, net of tax benefit. IPO expenses attributable to new shares also include costs incurred by the Company before January 31, 2007 that the Company recognized as prepayment in the balance sheet as of January 31, 2007 and that have been transferred to equity upon recognition of the capital increase following the IPO.

(Translation from the Italian original which remains the definitive version)

Annual report as at 31 December 2006

COSMO PHARMACEUTICALS S.p.A.

Registered office: 20020 Lainate (MI) via C. Colombo, 1
Share capital € 2,800,000
Milan Company Registration
Tax and VAT no. 05369700967
Milan R.E.A. no. 1816145

❑ *Board of Directors, Board of Statutory Auditors*
❑ *and Independent Auditors*

Directors (1)

Chairman	Rolf Stahel
Managing Director	Mauro Severino Ajani
Director	Gianluigi Bertolli
Director	Alessandro Della Chà
Director	Dieter Armin Enkelmann
Director	Hans Christoph Tanner
Director	Friedrich Von Bohlen und Halbach

Statutory Auditors ***(2)***

Chairman	Fabrizio Gardi
Standing Statutory Auditors	Maria Cristina Chioda
	Andrea Righetti

Independent Auditors ***(3)***

	Mazars & Guérard S.p.A.

(1) The Board of Directors was appointed on 14 December 2006 and will remain in office until the approval of the financial statements as at and for the year ending 31 December 2008.

(2) The Board of Statutory Auditors was appointed on 2 August 2006 and will remain in office until the approval of the financial statements as at and for the year ending 31 December 2008.

(3) On 14 December 2006, the independent auditors were engaged for the legally-required audit of the financial statements and accounts for the three years from 2006 and 2008.

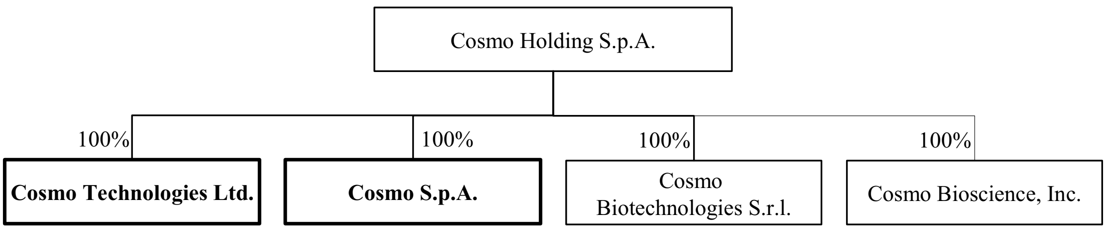
Contents

Directors' report

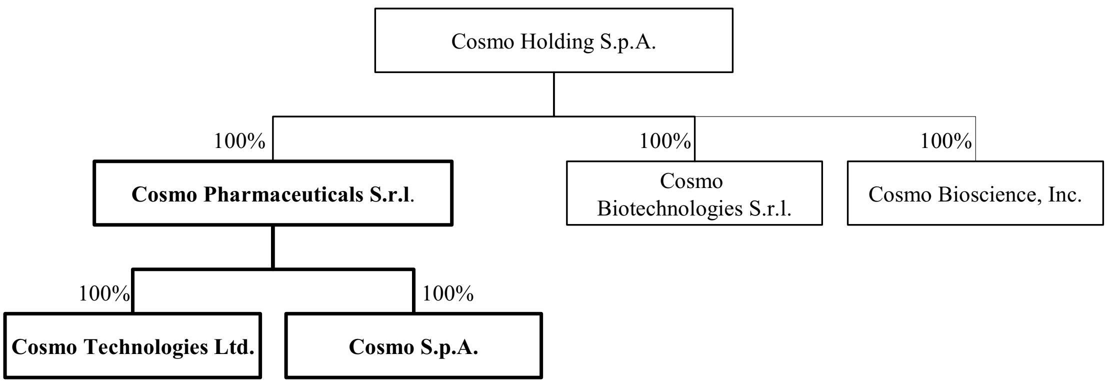
HIGHLIGHTS AND SIGNIFICANT EVENTS

The company was set up on 29 June 2006 as an S.r.l. (private limited company) by the sole quotaholder Cosmo Holding S.p.A.. On 2 August 2006, Cosmo Holding S.p.A. contributed its 100% investments in Cosmo S.p.A. and Cosmo Technologies Ltd., both operating in the pharmaceutical sector, to the company. The Board of Directors of Cosmo Holding S.p.A. decided to reorganise the group in order to create a clear distinction between its pharmaceutical and biotechnological activities, which were growing increasingly divergent and were no longer suited for management by the same structure. The Board of Directors of Cosmo Holding S.p.A. believed that the development of biotech activities required different managerial and scientific expertise, in addition financial support for a longer period of time than the pharmaceutical business.

At 31 December 2005, the group was as follows:



Following the set-up of Cosmo Pharmaceuticals S.r.l. on 29 June 2006 and the contribution of the investments in Cosmo S.p.A. and Cosmo Technologies Ltd on 2 August 2006, the group was as follows:



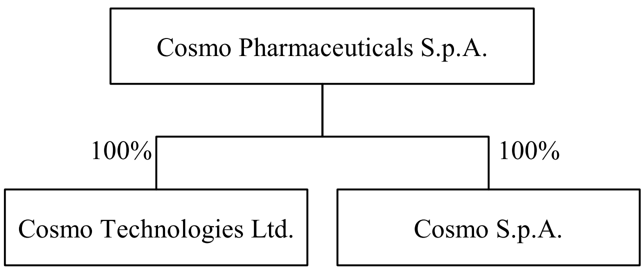
On 22 August 2006, Cosmo Holding S.p.A. resolved to demerge Cosmo Holding S.p.A. on a pro quota basis into two separate entities, Cosmo Holding S.p.A. and Cosmo Bioscience S.p.A., thus dividing the pharmaceutical business from the biotech business, headed by Cosmo S.p.A. and Cosmo Technologies Ltd. on one side and Cosmo Bio-Technologies S.r.l. and Cosmo Bioscience, Inc. on the other. The demerger plan was filed with the Milan Company Register on 25 August 2006. The

demerger resolution was published in the Milan Company Register on 4 October 2006 and on 23 October 2006, the demerger took effect.

On 14 December 2006, during an extraordinary meeting, the quotaholders of Cosmo Pharmaceuticals S.r.l resolved to:

- transform the company into a public limited company ("S.p.A."), changing the company purpose at the same time;
- increase the share capital by a nominal € 615,000.00 through the issue of new shares with a nominal value of € 0.25 each, for subscription by waiving the right to options, giving the Board of Directors the necessary powers to carry out this share capital increase;
- accept the proposed listing of the ordinary shares;
- increase the share capital up to a maximum nominal amount of € 983,000.00 against consideration with the issue of 3,932,000 new shares with a nominal value of € 0.25 each, for the public offering of the company's shares;
- give the Board of Directors the power to increase the share capital, pursuant to article 2443 of the Italian Civil Code, for the stock option plan for company employees, consultants and directors;
- adopt new articles of association;
- approve the rules of shareholders' meetings;
- appoint the Board of Directors;
- confirm the Board of Statutory Auditors;
- confer the engagement on the independent auditors.

Accordingly, at year end, the group is as follows:



Cosmo Pharmaceuticals S.p.A. recorded a net loss of € 202,602 for 2006, due to operating costs incurred for activities carried out as the holding company.

Since this is the company's first year of operation, no prior years figures are available for comparison.

The table below summarises highlights for the year:

COSMO PHARMACEUTICALS S.p.A. Highlights	31/12/2006
(thousands of Euros)	
Turnover - goods and services	-
Other revenues and income	-
Total revenue	**-**
EBITDA	**(269)**
Net loss for the year	**(203)**
Net invested capital	**3,340**
covered by:	
Shareholders' equity	**4,559**
Net financial indebtedness	**(1,219)**
Employees (number at year end)	**-**

Significant activities and events of the year

The group comprising Cosmo Pharmaceuticals S.p.A. and its subsidiaries operates in the pharmaceutical sector and, through rapid growth, is on its way to becoming a global leader in the field of treatments for specific pathologies of the gastrointestinal tract.
The subsidiaries carry out the following activities:

- production of medicinal products on its own behalf and for third parties and related services;
- development and sale of pharmaceutical products, mainly for the treatment of pathologies of the gastrointestinal tract and infections of the colon.

The group's pipeline of own products in clinical development specifically focuses on innovative treatments for inflammatory bowel disease (IBD), such as ulcerative colitis, Crohn's disease and colon infections. The Cosmo product nearest commercialisation is LIALDA™ / MEZAVANT™ , an IBD treatment that has been licensed internationally to Giuliani and Lehner (which have sub-licensed it to Shire Pharmaceuticals). Cosmo's product pipeline centres on its MMX™ technology, which it has developed in GMP (Good Manufacturing Practice) at its Lainate sites, through the significant experience it has gained after years of collaboration with the most important pharmaceutical companies in the world, formulating and producing pharmaceuticals for gastrointestinal pathologies.

The company was set up on 29 June 2006 and from inception to year end, has carried out holding company activities. On 31 October 2006 and 24 November 2006, it received a loan totalling € 2,000,000 to meet temporary cash requirements. The loan was granted at market conditions by Cosmo Bioscience S.p.A., a related company with the same parent.

SCENARIO

World economic trends[1]

In 2006, the world economy continued to expand rapidly, with growth in industrial production in the OECD (excluding the Euro zone) continuing at a fast pace. The service sector expanded further, while industrial production saw a slight downturn. Pending definitive figures on all of 2006, preliminary estimates show that in the US, real GDP growth slowed slightly, and fell to 0.5% in the third quarter compared to the second. This was mainly due to the drop in investments in residential building. Consumer goods inflation decreased in September and October 2006 following the reduction in energy product price lists and the moderate increase in prices of non-energy products. Consumer goods inflation reached 2% in the third quarter of 2006 on a twelve-month basis. US economic growth is expected to remain to underperform the trend in the near future. The impact of a slowdown in the housing market, along with bearish trends in residential property growth rates, should push down consumer spending and investments in residential building. At the same time, the persistent growth in earned income, lower energy prices and rises in equity wealth should continue to sustain consumption. Corporate spending is expected to grow steadily, given the sound financial position and high profitability levels of businesses. The recovery Japan's economy continues with a steady trend, while inflation has decreased slightly. Growth is boosted by strong exports and stable domestic demand, which has particularly benefited from the dynamic trend in investments in businesses in the last few quarters.

The Euro zone economy has grown substantially, although the growth slowed in the second half of 2006 to rates lower than in the first half of the year. During 2006, inflation increased until June, showing growth of 2.5% on the previous twelve months, then dropping progressively to 1.6% in October. This was due to an inversion in the previous boosts that came directly from oil prices, proof that fluctuations in energy product prices can have a significant impact on short-term inflation rates. In early 2007, harmonised inflation is expected to grow following the increase in VAT in Germany, while sharp fluctuations in energy product prices could contribute to an inflationary seesaw effect.

The pharmaceutical sector [2]

Again in 2006, more patents on important pharmaceutical products lapsed, leading to increased erosion by generic pharmaceuticals, an increasingly aggressive market force.

Another interesting aspect relates to the constant expansion of the pharmaceutical market in emerging countries (i.e., countries with per capita income of US$ 20,000 or less), with a resulting rise in sales. These countries are beginning to grow increasingly aware of healthcare possibilities and the treatment of chronic illnesses. In 2006, they accounted for a total of 17% of the worldwide market, but are expected to contribute 30% of growth in the pharmaceutical market in 2007, which is especially significant considering the same forecasts show the US contributing 34%, far below the 55% five years ago.

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[1] Sources: BCE/Bankitalia/

[2] Sources: IMS Health/ Frost&Sullivan

In the twelve months to September 2006, pharmaceutical sales grew 5% worldwide (6% in the US and 4% in the five largest European countries). The Alimentary/Metabolism sector, which is most interesting pharmaceutical sector for the group, slightly outpaced the market, with growth of 6% (at constant rates).
According to the most recent estimates, growth in the pharmaceutical market in 2007 should be in line with the previous year, rising by no more than 5-6%. Total pharmaceutical sales are estimated at US$ 665 – 685 billion for 2007 (US$ 55 billion in the Alimentary/ Metabolism sector).
The number of new products that will be approved in 2007 should range from 25 to 35, in line with 2006, when 30 new products were approved around the world. However, the products whose patents will lapse in 2007 account for current turnover of approximately US$ 16 billion. This is a considerable decrease on the record figure of 2006 (US$ 23 billion). Lapsed patents should only be partially offset in 2007 by the entry of no more than three new potential blockbusters: Paliperidone to treat schizophrenia, Desvenlafaxine to treat depression and Vildagliptin for diabetes.
Accordingly, pharmaceutical companies will have to continuously take rapid notice of signs of change, using the quality of their products as leverage, and these products will have to be increasingly specific, even though this strategy will mean that pharmaceutical giants will end up turning away from the blockbuster business model.

PERFORMANCE

This is the company's first year of operation. Accordingly, no previous year figures are available for comparison.

Reclassified profit and loss account

COSMO PHARMACEUTICALS S.p.A. RECLASSIFIED PROFIT AND LOSS ACCOUNT	2006
(thousands of Euros)	
Production revenues	
Turnover - goods and services	-
Other revenues and income	-
Total production revenues	**-**
Production cost	
Services	(258)
Other operating costs	(11)
Total production cost	**(269)**
EBITDA	**(269)**
Amortisation, depreciation and write-downs	(2)
EBIT	**(271)**
Net financial charges	(19)
Loss before taxation	**(290)**
Taxation	87
Net loss for the year	**(203)**

Notes to the profit and loss account

The company did not generate revenues during the year.

Production cost amounted to € 269 thousand and includes services and professional consultancy of € 148 thousand and legal and notary expenses of € 77 thousand. The residual € 44 thousand relates to statutory auditors' fees, independent auditors' fees and sundry expenses.

EBITDA amount to a negative € 269 thousand.

Amortisation of intangible fixed assets amounts to € 2 thousand and relates to start-up and capital costs.

EBIT amount to a negative € 271 thousand.

Net financial charges amount to € 19 thousand and relate to interest of € 2,000 thousand on the loan granted by the related company Cosmo Bioscience S.p.A..

The **loss before taxes** totals € 290 thousand.

Taxation includes deferred tax assets of € 86 thousand, calculated on the tax loss of the year of € 261 thousand. These deferred tax assets have been recognised because the company has reason to expect they will be recovered, as demonstrated in its five-year business plan.

The **net loss for the year** amounts to € 203 thousand.

Reclassified balance sheet and net financial indebtedness

The reclassified balance sheet and net financial indebtedness as at 31 December 2006 are presented below:

COSMO PHARMACEUTICALS S.p.A. RECLASSIFIED BALANCE SHEET	31/12/2006
(thousands of Euros)	
Intangible fixed assets	9
Investments in group companies	5,182
Fixed assets	**5,191**
Other receivables	371
Deferred tax assets	87
Current assets	**458**
Trade payables	282
Other sums payable	8
Accrued expenses and deferred income	19
Current liabilities	**309**
Net working capital	**149**
Gross invested capital	**5,340**
Medium/long-term payables	-
Net invested capital	**5,340**
covered by:	
Shareholders' equity	**4,559**
Net financial indebtedness	**781**
Memorandum and contingency accounts	**32**

COSMO PHARMACEUTICALS S.P.A. NET FINANCIAL INDEBTEDNESS	31/12/2006
(thousands of Euros)	
Bank accounts and liquid funds	**1,219**
Due to banks - short term	-
Amounts payable to related companies	(2,000)
Short-term net financial indebtedness	**(781)**
Due to banks - medium/long term	-
Due to banks - medium/long term	**-**
Net financial indebtedness	**(781)**

Notes to the balance sheet and net financial indebtedness

Fixed assets as at 31 December 2006 amount to € 5,191 thousand and include the investments in the parent's two subsidiaries Cosmo S.p.A. and Cosmo Technologies Ltd..

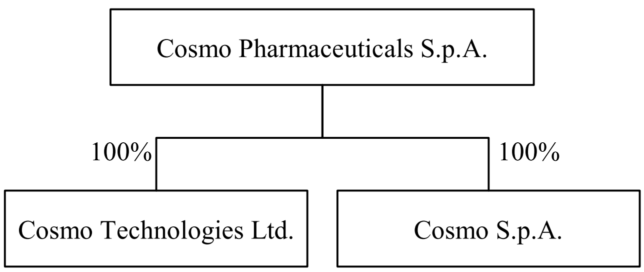
Net working capital, which is the net balance of current assets and liabilities, amounts to € 149 thousand. It mainly includes advances to suppliers and amounts due to service providers.

Shareholders' equity totals € 4,559 thousand as at 31 December 2006 and includes share capital of € 2,185 thousand, contribution reserves of € 357 thousand, shareholders' injections of € 1,850 thousand to cover future losses, injections of € 370 thousand for the share capital increase and the net loss for the year of € 203 thousand.

Net financial indebtedness amounts to € 781 thousand and relates to shareholders' injections, as mentioned above, and the loan granted by the related company Cosmo Bioscience S.p.A..

SUBSIDIARIES

At 31 December 2006, Cosmo Pharmaceuticals S.p.A. has whole and direct control over two companies in the pharmaceutical sector:



Cosmo S.p.A.

Share capital: € 2,300,000, fully paid up
Investment held: 100%

COSMO S.p.A. Highlights	2006
(thousands of Euros)	
Turnover - goods and services	14,081
Other revenues and income	1,948
Total production revenues	**16,029**
EBITDA	**(881)**
Net profit for the year	**1,700**
Net invested capital	**9,299**
covered by:	
Shareholders' equity	**4,083**
Net financial indebtedness	**5,216**
Employees (number at year end)	96

Cosmo S.p.A. operates in Lainate in the production of pharmaceutical products for third parties and related services, with research and development activities for a new chemical entity project currently in the pre-clinical stage located in Catania.
The following table presents an analysis of turnover - goods and services and a comparison with the previous year:

COSMO S.p.A. Turnover - goods and services	2006	2005
(thousands of Euros)		
Revenues from production on behalf of third parties	12,568	12,265
Revenues from services related to production on behalf of third parties	1,227	1,049
Royalties	22	14
Revenues from other goods and services	264	487
Total turnover - goods and services	**14,081**	**13,815**

Revenues from the production of products on its own behalf and on behalf of third parties grew 2.5% from € 12,265 thousand to € 12,568 thousand, mainly due to the start-up of production on Lialda™ / Mezavant™, Cosmo's first MMX™ product, which generated revenues of € 1,260 thousand. This increase was partially offset by the drop in revenues from the production of certain generic pharmaceuticals and pharmaceutical products on behalf of third parties.

"Other revenues and income" mainly relate to grants pertaining to the year, which accrued on the two applied research projects funded by the Ministry of Production

Activities and the Ministry of Education, Universities and Research, respectively, for a total of € 1,087 thousand.

EBITDA amount to a negative € 881 thousand, with a profit before taxation of € 3,308 thousand and net profit for the year of € 1,700 thousand. The most significant event of the year in terms of its impact on results was the sale of the entire real estate complex in Lainate, leading to net extraordinary income of € 5,482 thousand.

Cosmo Technologies Ltd.

Share capital: € 250,000, fully paid up
Investment held: 100%

COSMO TECHNOLOGIES LTD. **Highlights**	**2006**
(thousands of Euros)	
Turnover - goods and services	1,077
Other revenues and income	-
Total production revenues	**1,077**
EBITDA	**(914)**
Net loss for the year	**(1,304)**
Net invested capital	**4,437**
covered by:	
Shareholders' equity	**4,681**
Net financial indebtedness	**(244)**
Employees (number at year end)	2

Cosmo Technologies Ltd., with registered office in Dublin, Ireland, operates in the field of pharmaceutical research and, in particular, research and development of oral applications for pathologies of the gastrointestinal tract, specifically inflammatory bowel diseases (IBD).
During the year, the company realised revenues of € 1,077 thousand, given the milestones achieved on certain licensing contracts for products based on MMX™ technologies. It incurred research and development costs mainly in relation to clinical studies on its products/technologies, which led to negative EBITDA of € 914 thousand.

RESEARCH AND DEVELOPMENT

Mesalamine MMX™ (Lialda™, Mezavant™ and Mesavancol™)

The exclusive worldwide rights to this product were licensed to Giuliani S.p.A. in 2001. In turn, Giuliani S.p.A. sub-licensed them to Shire Pharmaceuticals Plc (Shire) in certain countries. On 19 December 2006, the Regulatory Agencies of 15 European countries agreed on the prescription recommendations for the product with Shire, which holds exclusive rights for the US, Canada and Europe – except for Italy – and the Pacific Rim. On 16 January 2007, the Food & Drug Administration (FDA) approved the sale of the product in the US. Shire announced that it plans to launch the drug under the brand name Lialda™ in the US and Canada in the first quarter of 2007, and immediately afterwards in Europe, under the brand name Mezavant™. In Italy, the product will be sold by Giuliani S.p.A. under the brand name Mesavancol™. Production of the first industrial product lots for the US market began in July 2006 at Cosmo's Lainate sites.

Budesonide MMX™ - CB-01-02

The exclusive worldwide rights to this product were licensed in 2002 and taken back in early 2006. Immediately afterwards, preliminary activities began for stage III clinical testing. On 8 June 2006, the FDA held a Pre-IND meeting to identify the details of the clinical testing in the US. FDA officials gave instructions for certain changes to the clinical development plan and suggested conducting an additional pre-clinical test to complete the registration file. This test, which entailed a four-week pre-clinical test on monkeys with Budesonide-MMX™ in comparison with EntocortEC, was completed in the second half of 2006 and the results are expected in the first quarter of 2007.
Stage III of the clinical testing will begin in 2007 in the US and Europe under the supervision of an international clinical research organization (CRO) and will be conducted on patients with ulcerative colitis, with treatment expected to run for four weeks.

LMW Heparin MMX™ - CB-01-05

In 2006, activities began on stage IIb of clinical testing on this product, with the identification of 23 clinical centres in five European countries. A total of 120 patients with ulcerative colitis will be treated for an eight-week period, up to the end of the third quarter of 2007.

Rifamycin CB 01-11

In 2006, activities continued in South Africa on stage II of the clinical testing, with the treatment of patients suffering from travellers' diarrhoea, under the supervision of an international CRO.

Zacol NMX™ - CB-16-01

This product has piqued the interest of international companies. In 2006, two separate exclusive licensing and production agreements were signed with Merckle-Recordati for the sale of this product on the German market. However, the German regulatory authorities are still testing components to classify it as a alimentary product.

Oral anti-TNFα CB-01-12
This product relates to the initial feasibility study of the application of MMX™ technology to an anti-TNF α molecule. Preliminary testing has produced strong results and, accordingly, the company is evaluating partnerships with companies already in the market with this molecule.

Anti-androgen CB-01-03
The subsidiary Cosmo S.p.A. is currently carrying out pre-clinical testing in collaboration with the University of Catania and other specialised research centres. Research is focused on determining the functional profile, action mechanism and specific receptorial binding of two possible molecules for subsequent testing. Accordingly, a GLP synthesis was carried out on the first molecule chosen, which was tested for acute and sub-acute toxicity in 2006.

OTHER INFORMATION

Corporate governance

On 23 January 2007, the Board of Directors of Cosmo Pharmaceuticals S.p.A. resolved to adopt the "Swiss code of best practice for corporate governance", in line with best practices for companies listed on the Zurich Stock Exchange.
The general principles of this document were set down by Economiesuisse, the Swiss federation of businesses in all economic sectors, in collaboration with the SWX Swiss Exchange and on the basis of corporate governance codes adopted in English-speaking countries ("*Cadbury Report*" of 1992, "*Hampel Report*" of 1998 and the "*Combined Code*" , generally adopted by companies listed on the London Stock Exchange).
The guidelines of the Swiss corporate governance code emphasise protecting shareholders' interests, by creating a constant balance between management and control and transparency at the highest levels, without hindering the decision-making process or management efficiency.

The matters governed by this code include, but are not limited to, the following:
- clarity and timeliness in the disclosure of information to shareholders, through the shareholders' meetings;
- the role and composition of the Board of Directors, with a specific distinction between executive, non-executive and independent directors;
- the definition of disclosures to be made to the Board and how such information is to be provided;
- remuneration of directors and executive managers;
- guidelines for internal control activities and the management of Board resolutions relating to transactions with related parties;
- definition of the role of the independent auditors.

The Board of Directors has appointed members of the following committees:
- *Audit, Nomination and Compensation Committees*

Each committee has three members, who are non-executive directors.

Transactions with group companies

During the year ended 31 December 2006, Cosmo Pharmaceuticals injected € 2,650 thousand into the subsidiary Cosmo Technologies Ltd..

Transactions with related parties

On 31 October 2006 and 24 November 2006, Cosmo Bioscience S.p.A., a related company as it shares the same parent, granted the company a loan totalling € 2,000,000, at market conditions, to meet temporary cash requirements. The credit agreement provides that the loan will be repaid by 31 May 2007, with the possibility of early repayment. Interest accrues at an annual rate of 6.5%.

Information on management and coordination

In accordance with article 2497 of the Italian Civil Code, it is specified that the company is not managed or coordinated by any other company.

Own shares

Cosmo Pharmaceuticals S.p.A. does not hold any own shares directly or through trustees or nominees.

Protection of Personal Data Document pursuant to Legislative decree no. 196/03

The protection of personal data document is required by the technical specifications appended to Legislative decree no. 196 of 30 June 2003 (Protection of Personal Data Code), as the minimum required security measures to be taken in the event of the use of information that can be considered, based on the same decree, “sensitive” or “legal”. The company uses sensitive information. Accordingly, in accordance with the requirement of point 19 of the above technical specifications, the protection of personal data document is updated to 31 March 2006.

SIGNIFICANT SUBSEQUENT EVENTS

On 16 January 2007, the US Food & Drug Administration (FDA) approved the sale of Lialda™ (Mesalamine MMX™) in the US. Lialda™ is the first product developed by the group and licensed exclusively around the world to Giuliani S.p.A. in 2001 (Giuliani S.p.A. then sub-licenses it to Shire Pharmaceuticals Plc).

On 23 January 2007, the Board of Directors of Cosmo Pharmaceuticals S.p.A. resolved, among other things, to approve the formal filing of the company’s information circular with the Zurich Stock Exchange in Switzerland, as a preliminary step in listing its shares on the SWX – Swiss Stock Exchange. On the same date, the Board also approved the adoption of the “Swiss code of best practice for corporate governance” and appointed the members of the Audit, Compensation and Nomination Committees.

OUTLOOK

Cosmo Pharmaceuticals S.p.A.'s mission is to become a fully integrated pharmaceutical company, recognised for its excellence in the development of products for the treatment of certain pathologies of the gastrointestinal tract. The company will pursue this goal though the following key strategic elements:

- **use of the MMX™ platform to continue the development of a low-risk product pipeline**. Based on the approval for the sale of Lialda™ , which demonstrates the validity of MMX™ as a technology, the company believes that MMX™ will improve the efficiency and safety profile of existing pharmaceutical products used to treat pathologies of the gastrointestinal tract;

- **control over the value chain**. The company plans to pursue complete control over the entire value chain, from pre-clinical development activities and clinical testing, to production and, lastly, the sale of its products in certain selected markets, either directly or through partnerships with third parties;

- **maintaining its industrial identity**. The company has created a pharmaceutical production business of a certain size and now has a second, highly-automated production site approved by the FDA for the production of products to be sold on the US market. This site has more than doubled the company's production capacity, creating a solid foundation for industrial growth, through the production of both own products and those of third parties, particularly in relation to generic drugs.

PROPOSALS OF THE BOARD OF DIRECTORS

Dear Shareholders,

We propose you approve the financial statements as a whole and in their individual captions and cover the net loss for the year of € 202,602.46, as shown in the balance sheet and profit and loss account, through the use of the shareholders' injections to cover future losses of the same amount.

Lainate, 23 January 2007

On behalf of the Board of Directors
The Managing Director

Mauro Severino Ajani

Financial statements as at and for the year ended 31 December 2006

Financial statements content and structure

The company was set up on 29 June 2006 as an S.r.l. (private limited company) by the sole quotaholder Cosmo Holding S.p.A.. On 2 August 2006, Cosmo Holding S.p.A. contributed its 100% investments in Cosmo S.p.A. and Cosmo Technologies Ltd., both operating in the pharmaceutical sector, to the company.
The year ended 31 December 2006 was the company's first year of operation. Accordingly, this is the first set of financial statements to be prepared and there are not comparative figures.

The financial statements, which we submit for your approval, have been prepared using the structure provided for by articles 2424, 2424 bis, 2425 and 2425 bis of the Italian Civil Code (structure and content of the balance sheet and profit and loss account - omitted captions have a nil balance for both the current and previous years) and the notes have been prepared in accordance with article 2427 of the Italian Civil Code. All transactions carried out are reflected in the accounting entries for the period from 29 June 2006 to 31 December 2006.

The financial statements comply with new provisions regarding company law, introduced by Legislative decree no. 6 of 17 January 2003 and subsequent modifications.

The purpose of the notes is to illustrate, analyse and, in certain cases, integrate the financial statements figures. The notes include the information required by article 2427 of the Italian Civil Code, other provisions of Legislative decree no. 127/1991 and other laws. Furthermore, they provide all complementary information, including information not required by specific provisions of the law, considered necessary in giving a true and fair view of the company's financial position and results for the year.

The reporting currency is the Euro. The balance sheet, profit and loss account and notes thereto have been prepared in Euros, without decimal points, as provided for by paragraph 8, article 16 of Legislative decree no. 213/98 and paragraph 5, article 2423 of the Italian Civil Code.

The financial statements as at and for the year ended 31 December 2006 have been audited by Mazars & Guérard S.p.A., pursuant to paragraph 1 of article 2409 bis of the Italian Civil Code.

COSMO PHARMACEUTICALS S.p.A.

Balance sheet as at 31 December 2006

ASSETS (in Euros)			31.12.2006
A) Share capital proceeds to be received			-
B) Fixed assets, with separate mention of those under finance lease			
I. Intangible fixed assets:			
1) start-up and capital costs			9,457
Total			9,457
III. Financial fixed assets:			
1) investments in:			
a) subsidiaries			5,181,951
Total			5,181,951
Total fixed assets (B)			**5,191,408**
C) Assets forming part of working capital			
	amounts due after one year		
II. Receivables:	31.12.2006	31.12.2005	
4-bis) tax receivables	-	-	48,421
4-ter) deferred tax assets	-	-	87,270
5) other			
b) others	-	-	322,215
Total receivables	-	-	457,906
IV. Liquid funds:			
1) bank and postal accounts			1,218,604
3) cash-in-hand and cash equivalents			616
Total liquid funds			1,219,220
Total assets forming part of working capital (C)			**1,677,126**
Total prepayments and accrued income (D)			**-**
Total assets			**6,868,534**

COSMO PHARMACEUTICALS S.p.A.

Balance sheet as at 31 December 2006

LIABILITIES (in Euros)			31.12.2006
A) Shareholders' equity			
I. Share capital			2,185,000
VII. Other reserves:			
- capital injections			370,320
- shareholder injections to cover future losses			1,850,000
- contribution reserve			356,951
IX. Net loss for the year			(202,602)
Total shareholders' equity (A)			**4,559,669**
B) Provisions for contingencies and charges			
Total provisions for contingencies and charges (B)			**-**
C) Employees' leaving entitlement			**-**
	amounts due after one year		
D) Payables	31.12.2006	31.12.2005	
5) due to other financial backers			
a) related companies			2,000,000
7) trade payables			281,500
10) amounts payable to associated companies			-
14) other sums payable			8,489
Total payables (D)	**-**	**-**	**2,289,989**
E) Accrued expenses and deferred income			
- Accrued expenses and deferred income			18,876
Total accrued expenses and deferred income (E)			**18,876**
Total liabilities			**2,308,865**
Total shareholders' equity and liabilities			**6,868,534**

MEMORANDUM AND CONTINGENCY ACCOUNTS (in Euros)	31.12.2006
3) COMMITMENTS, CONTINGENCIES AND OTHER MEMORANDUM AND CONTINGENCY ACCOUNTS	
Sureties issued on behalf of subsidiaries	32,071
Total	**32,071**
Total memorandum and contingency accounts	**32,071**

COSMO PHARMACEUTICALS S.p.A.
Profit and loss account for the year ended 31 December 2006

(in Euros)	**2006**
A) Production revenues	
Total production revenues (A)	**-**
B) Production cost	
7) services	258,102
10) amortisation, depreciation and write-downs:	
a) amortisation of intangible fixed assets	2,364
Total amortisation, depreciation and write-downs	2,364
14) other operating costs	10,637
Total production cost (B)	**271,103**
Difference between production revenues and cost (A-B)	**(271,103)**
C) Financial income and charges	
16) Other financial income:	
d) other income:	
- other	1,221
Total	1,221
17) interest and other financial charges:	
d) - other	19,591
Total	19,591
17-bis) Exchange rate gains and losses	(399)
Total	(399)
Total financial income and charges (15+16-17+-17bis) (C)	**(18,769)**
D) Adjustments to financial asset values	
Total adjustments to financial asset values (18-19) (D)	-
E) Extraordinary income and expense	
Total extraordinary items (20-21) (E)	**-**
Loss before taxation (A-B+-C+-D+-E)	**(289,872)**
22) Taxation:	
- Deferred tax income	(87,270)
Total	**(87,270)**
Net loss for the year	**(202,602)**

Notes to the financial statements at 31 December 2006

(in Euros)

Accounting policies

The financial statements have been prepared in accordance with current legislation, and the approval of the Board of Statutory Auditors has been requested where required by law. The accounting policies applied are consistent over time.
The accounting principles applied are those established by the Italian Accounting Profession (*Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri*), revised by the Italian Accounting Standard Setter (*OIC – Organismo Italiano di Contabilità*) to update them to the new legislative provision following Legislative decree no. 6 of 17 January 2003, and, where these are silent, the International Financial Reporting Standards issued by the I.F.R.I.C. (International Financial Reporting Interpretation Committee).
The financial statements captions have been measured in accordance with general principle of prudence, on an accruals basis, and assuming the company's ability to continue as a going concern. The economic function of all assets and liabilities has also been considered.
Profits are recognised only if they have been realised by year end. Potential contingencies and losses, as well as those that become known only after year end, are considered.
The accounting policies adopted in the preparation of the balance sheet and profit and loss account enable the company to give a true and fair view of its financial position and results for the year.
As the company has not exceeded the limits of Legislative decree no. 203 of 27 April 2001, it has not prepared the consolidated financial statements.
The most significant accounting policies applied in the preparation of the 2006 financial statements are the following:

A) INTANGIBLE FIXED ASSETS

This caption reflects amounts that, by their nature, are of long-term use. They are recognised at acquisition cost, including directly related charges. Intangible fixed assets are amortised systematically on a straight-line basis over their estimated useful lives. Should, regardless of accumulated amortisation, an asset be impaired, it is written down accordingly. If the reasons for the write-down no longer exist in subsequent years, the asset is restated to its original value.
Where required, intangible fixed assets are capitalised with the approval of the Board of Statutory Auditors.

Start-up and capital costs include corporate expenses incurred to set up the company and increase the share capital. Amortisation is charged at 20.00% per year.

B) FINANCIAL FIXED ASSETS

Investments and securities are recognised at acquisition cost, adjusted for impairment, where necessary.
The adjusted value is not maintained if, in subsequent years, the reasons for the write-down no longer exist.

C) RECEIVABLES

Receivables are recognised at their estimated realisable value, which is equal to nominal value less losses arising from certain and exact information. Adjustments are made through the provision for bad debts to take account of the risks of non-collection.

D) LIQUID FUNDS

These are stated at their nominal value.

E) PREPAYMENTS AND ACCRUED INCOME, ACCRUED EXPENSES AND DEFERRED INCOME

These are portions of costs and income pertaining to two or more years, the amount of which varies over time.
Prepayments and accrued income include costs incurred before the balance sheet date but which pertain to subsequent years and income of the year to be collected in subsequent years. Accrued expenses and deferred income relate to income received before the balance sheet date but pertaining to subsequent years and costs of the year due in subsequent years.

F) PAYABLES

These are stated at their nominal value.

G) TAXATION

Taxation of the year is calculated on the basis of a realistic forecast of tax charges pertaining to the year, under current tax regulations. It is shown net of advances paid and withholdings, in the caption “Sums due to taxation authorities”.

Since 1999, in application of accounting principle 25, deferred tax liabilities and deferred tax assets have been calculated on the temporary differences that arise between the carrying amount of assets and liabilities in the financial statements and their tax values, at the tax rates expected to be in place when the differences reverse.
Deferred tax assets are recognised on a prudent basis and only if the company is reasonably certain that it will have taxable profit not less than the amount of

temporary differences leading to the recognition of deferred tax assets in year that they reverse.

Deferred tax assets and liabilities are recognised under “Deferred tax assets” and “Deferred tax liabilities”, respectively.
Deferred tax income and charges are stated in the profit and loss account in the specific sub-caption under taxation.

H) FOREIGN CURRENCY TRANSLATION

Receivables and payables in the currency of countries that are not members of the European Monetary Union are recognised at the exchange rate ruling at year end.
In accordance with accounting principle 26, exchange rate differences arising from translation are taken to profit or loss in full during the year. Any net exchange rate gains are taken to a specific reserve that cannot be distributed until the gains are realised.

I) MEMORANDUM AND CONTINGENCY ACCOUNTS

These show the amount of guarantees and commitments, at nominal value or the value of obligations in place at year end.

L) RECOGNITION OF REVENUES, COSTS, INCOME AND CHARGES IN THE PROFIT AND LOSS ACCOUNT

Costs, charges, revenues and income are recognised on an accruals basis.
Revenues and income are stated net of returns, discounts and allowances.
In particular:

- revenues from the sale of products are recognised upon transfer of ownership, which generally coincides with the delivery or shipment of the goods;
- revenues from services are recognised when the service is provided and in accordance with the related service agreements. Revenues for contract work in progress are recognised the basis of the stage of completion;
- financial income and charges are recognised on an accruals basis.

M) GROUPING OF FINANCIAL STATEMENTS CAPTIONS

No captions have been grouped together in the financial statements as at and for the year ended 31 December 2006.

N) WAIVERS PURSUANT TO PARAGRAPH 4, ARTICLE 2423 OF THE ITALIAN CIVIL CODE

The company has not applied any of the waivers provided for by paragraph 4, article 2423 of the Italian Civil Code in the financial statements as at and for the year ended 31 December 2006.

Notes to the balance sheet

Balance sheet - Assets

B) FIXED ASSETS, with separate mention of those under finance lease

Fixed assets amount to € 5,191,408 and may be analysed as follows:

FIXED ASSETS	31.12.2006
B.I.) INTANGIBLE FIXED ASSETS	9,457
B.III.) FINANCIAL FIXED ASSETS	5,181,951
	5,191,408

The composition of this caption is discussed below.

B.I.) INTANGIBLE FIXED ASSETS

These amount to € 9,457 and are mainly composed of the following:

- costs incurred to set up the company and increase the share capital;

Start-up and capital costs are amortised on a straight-line basis over five years.

The net opening balance and amortisation charges of this caption are as follows:

	Start-up and capital costs	Total
Net balance at 31.12.2006	**9,457**	**9,457**
including:		
- historic cost	11,821	11,821
- amortisation	2,364	2,364

B.III.) FINANCIAL FIXED ASSETS

These amount to € 5,181,951 and are composed as follows:

	31.12.2006
B.III.1 a) Investments in subsidiaries	5,181,951
	5,181,951

B.III.1 A) INVESTMENTS IN SUBSIDIARIES

These may be analysed as follows:

	31.12.2006
Cosmo S.p.A.	2,278,676
Cosmo Technologies Ltd.	2,903,275
	5,181,951

Variations in the year are illustrated below:

	Carrying amount when initially acquired	Increases	Decreases	Write-downs	Carrying amount at 31.12.2006
Cosmo S.p.A.	2,278,676	-	-	-	2,278,676
Cosmo Technologies Ltd.	253,275	2,650,000	-	-	2,903,275
	2,531,951	**2,650,000**	**-**	**-**	**5,181,951**

The investment in Cosmo S.p.A. relates to the company's entire share capital. With registered office in Lainate, Cosmo S.p.A. is active in the production of pharmaceuticals and the provision of related services on behalf of third parties.
The investment was contributed on 2 August 2006 and its contribution value is supported by an appraisal report prepared and sworn in accordance with article 2465 of the Italian Civil Code, giving Cosmo S.p.A. an estimated value at 30 June 2006 of at least € 2,278,676.
The subsidiary's balance sheet and profit and loss account highlights as at and for the year ended 31 December 2006 are provided below:

COSMO S.P.A.	Share capital €	Profit for the year €	Shareholders' equity €	Pro-quota shareholders' equity €
Balance at 31 December 2006	2,300,000	1,699,534	4,082,712	4,082,712

The investment in Cosmo Technologies Ltd. relates to 100% of the company's share capital. Based in Ireland, Cosmo Technologies Ltd. is active in pharmaceutical research and development.
The investment was contributed on 2 August 2006 and its contribution value is supported by an appraisal report prepared and sworn in accordance with article 2465 of the Italian Civil Code, giving Cosmo Technologies Ltd. an estimated value at 30 June 2006 of at least € 253,275.

The € 2,650,000 increase relates to capital injections during the year.

The subsidiary's balance sheet and profit and loss account highlights as at and for the year ended 31 December 2006 are provided below:

COSMO TECHNOLOGIES LTD.	Share capital €	Loss for the year €	Shareholders' equity €	Pro-quota shareholders' equity €
Balance at 31 December 2006	250,000	(1,304,088)	4,680,792	4,680,792

C) ASSETS FORMING PART OF WORKING CAPITAL

This caption amounts to € 1,677,126 and is composed as follows:

ASSETS FORMING PART OF WORKING CAPITAL	**31.12.2006**
C.II.) RECEIVABLES	457,906
C.IV.) LIQUID FUNDS	1,219,220
	1,677,126

C.II.) RECEIVABLES

These amount to € 457,906 and are composed as follows:

	31.12.2006
C.II.4-bis) tax receivables	48,421
C.II.4-ter) deferred tax assets	87,270
C.II.5) other	
b) others	322,215
	457,906

There are receivables due after five years. All receivables recognised in the financial statements are due within one year.
The composition of this caption is discussed below.

C.II.4 BIS) TAX RECEIVABLES

This caption amounts to € 48,421 and is composed as follows:

	31.12.2006
VAT receivable carried forward	48,092
Tax receivables carried forward	329
	48,421

Tax receivables carried forward relate to withholdings on interest income accrued on current account deposits.

C.II.4 TER) DEFERRED TAX ASSETS

These amount to € 87,270. The table below shows variations in the year and provides an analysis of the temporary differences that gave rise to deferred tax assets:

	29.06.2006	increase	decrease	31.12.2006
Entertainment expenses	-	1,024	-	1,024
Tax losses	-	86,246	-	86,246
	-	**87,270**	**-**	**87,270**

	Temporary differences at 31.12.2006	%	Tax effect at 31.12.2006
Entertainment expenses	*2,750*	37.25	1,024
Tax losses	*261,352*	33.00	86,246
	264,102		**87,270**

This caption includes deferred tax assets. As specified in point G) of the Accounting Policies, deferred tax assets are recognised on a prudent basis and only if the company is reasonably certain that they will be recovered in subsequent years.

Deferred tax assets on entertainment expenses relate to expenses that are tax deductible in years following that in which they are expensed.
Deferred tax assets of € 86,246 on tax losses relate to the tax loss for 2006. These are recognised in that the company has justified reasons to believe they will be recovered, as demonstrated in its five-year business plan.

No amounts have been credited or charged to shareholders' equity. Moreover, no captions have been excluded from the calculation of deferred tax assets and liabilities.

C.II.5 B) OTHERS

This caption amounts to € 322,215 and is composed as follows:

	31.12.2006
Advances to suppliers	321,055
Other receivables due within one year	1,160
	322,215

Advances to suppliers relate to amounts paid to professionals in advance for the project to list the company's shares on the SWX – Swiss Stock Exchange.

Others amount to € 1,160 and relate to sundry receivables due to the company.

C.IV.) LIQUID FUNDS

This caption amounts to € 1,219,220 and is composed as follows:

	31.12.2006
C.IV.1) Bank and postal accounts	1,218,604
C.IV.3) Cash-in-hand and cash equivalents	616
	1,219,220

These relate to year-end current account balances with leading banks and cash-in-hand.

Balance sheet - Liabilities

A) SHAREHOLDERS' EQUITY

Shareholders' equity amounts to € 4,559,669. Variations in the year are summarised below:

	Share capital	*Contribution reserve*	*Shareholder injections to cover future losses*	*Capital injections*	*Net loss for the year*	**Total**
Shareholders' equity at 29 June 2006 (inception)	**10,000**	**-**	**-**	**-**	**-**	**10,000**
Share capital increase approved on 22 August 2006, effective 5 September 2006	2,175,000	356,951				2,531,951
Shareholder injections to cover future losses			1,850,000			1,850,000
Share capital increase				370,320		370,320
Loss for the year					(202,602)	(202,602)
Shareholders' equity at 31 December 2006	**2,185,000**	**356,951**	**1,850,000**	**370,320**	**(202,602)**	**4,559,669**

Shareholders' equity captions at 31 December 2006 are discussed below:

- The share capital of € 2,185,000 is fully subscribed and paid up by the sole shareholder Cosmo Holding S.p.A.. It is divided into 8,740,000 ordinary shares with a nominal value of € 0.25 each.

- Other reserves entirely relate to the contribution reserve of € 356,951, arising on the share capital increase through the contribution of the investments in Cosmo S.p.A. and Cosmo Technologies Ltd. on 2 August 2006;

- The shareholder injection to cover future losses totals € 1,850,000 and relates to injections made by the parent Cosmo Holding S.p.A..

- Capital injections of € 370,320 relate to the initial injections made on 29 December 2006 to subscribe the € 615,000 increase in the share capital, as approved by the shareholders during the extraordinary meeting of 14 December 2006. Subscription was restricted to a selected group of investors, with the sole shareholders' explicit waiver of options. The transaction was completed in January 2007 with the subscription of the entire amount of the increase (€ 615,000) and the registration with the Milan Company Register on 23 January 2007. Accordingly, the company's share capital has been € 2,800,000 since that date.

D) PAYABLES

Payables amount to € 2,289,989 and are composed as follows:

PAYABLES	31.12.2006
D. 5) Due to other financial backers	
a) related companies	2,000,000
D. 7) Trade payables	281,500
D. 14) Other sums payable	8,489
	2,289,989

Payables are due within one year.

These captions are discussed below:

D.5) A) AMOUNTS PAYABLE TO RELATED COMPANIES

These amount to € 2,000,000 and are composed as follows:

	31.12.2006
Cosmo Bioscience S.p.A.	2,000,000
	2,000,000

This amount relates to the loan received from Cosmo Bioscience S.p.A. to cover temporary cash requirements. The loan was disbursed in two instalments, with € 1,250,000 disbursed on 31 October 2006 and € 750,000 on 24 November 2006. The maturity date is set for 31 May 2007 and the loan accrues interest at a fixed annual rate of 6.5%.

D.7) TRADE PAYABLES

This caption amounts to € 281,500 and relates to the payable to service providers.

It is composed as follows:

	31.12.2006
Italian suppliers	111,646
Other E.U. suppliers	2,187
Non-E.U. suppliers	3,174
Invoices to be received from Italian suppliers	157,330
Invoices to be received from non-E.U. suppliers	7,163
	281,500

D.14) OTHER SUMS PAYABLE

These amount to € 8,489 and relate to the fees due to the members of the Board of Statutory Auditors for the period from 2 August to 31 December 2006.

E) ACCRUED EXPENSES AND DEFERRED INCOME

This caption amounts to € 18,876 and is composed as follows:

ACCRUED EXPENSES AND DEFERRED INCOME	**31.12.2006**
Accrued expenses	18,876
	18,876

Accrued expenses relate to the portion of interest pertaining to the year on the loan from Cosmo Bioscience S.p.A.. The interest accrues at a fixed rate of 6.50% (see D.10).

MEMORANDUM AND CONTINGENCY ACCOUNTS

The memorandum and contingency accounts, which amount to € 32,071, are illustrated below:

MEMORANDUM AND CONTINGENCY ACCOUNTS	**31.12.2006**
3) COMMITMENTS, CONTINGENCIES AND OTHER	
Sureties issued by third parties on behalf of subsidiaries	32,071
	32,071

This relates to the surety given by Credito Artigiano on behalf of the subsidiary Cosmo Technologies Ltd. in relation to the lease for the Dublin offices.

Notes to the profit and loss account

B) PRODUCTION COST

Production cost amounts to € 271,103 and relates to the following captions:

PRODUCTION COST	**31.12.2006**
B.7) SERVICES	258,102
B.10) AMORTISATION, DEPRECIATION AND WRITE-DOWNS	2,364
B.14) OTHER OPERATING COSTS	10,637
	271,103

The most significant captions are described below.

B.7) SERVICES

These amount to € 258,102 and are composed as follows:

	31.12.2006
Services and professional consultancy	148,045
Legal and notary expenses	76,500
Independent auditors' fees	21,000
Statutory auditors' fees	8,489
Sundry services	2,700
Travel in Italy	441
Travel abroad	927
	258,102

The caption "Services and professional consultancy", totalling € 148,045, mainly relates to consultancy agreements for the creation of group corporate and financial strategies.

The independent auditors' fees relate to the legally-required audit of the financial statements.

B.10) AMORTISATION, DEPRECIATION AND WRITE-DOWNS

This caption amounts to € 2,364 and is composed as follows:

	31.12.2006
AMORTISATION OF INTANGIBLE FIXED ASSETS	2,364
	2,364

Reference should be made to the notes to the balance sheet captions for detailed information on the amortisation of intangible fixed assets.

B.14) OTHER OPERATING COSTS

This caption amounts to € 10,637 and is composed as follows:

	31.12.2006
Entertainment expenses	10,332
Company legal requirements and authentications	186
Membership fees	104
Stamp duties	12
Sundry deductible expenses	2
Postal fees and postage	1
	10,637

C) FINANCIAL INCOME AND CHARGES

Net financial charges amount to € 18,769 and may be analysed as follows:

FINANCIAL INCOME AND CHARGES	31.12.2006
C. 16) OTHER FINANCIAL INCOME	1,221
C. 17) INTEREST AND OTHER FINANCIAL CHARGES	(19,591)
C. 17-BIS) EXCHANGE RATE GAINS AND LOSSES	(399)
	(18,769)

C.16) OTHER FINANCIAL INCOME

This caption amounts to € 1,221 and is detailed below:

	31.12.2006
C.16)D OTHER INCOME	
- Other	1,221
	1,221

Other income relates to interest accrued during the year on the company's bank current account.

C.17) INTEREST AND OTHER FINANCIAL CHARGES

This caption amounts to € 19,591 and is detailed below:

	31.12.2006
C.17)d Other	
Bank charges and commissions	714
Other interest expense	18,877
	19,591

The caption "Other interest expense" relates to accrued interest at 31 December 2006 on the loan from the related company Cosmo Bioscience S.p.A. to meet temporary cash requirements (see D.10).

C.17-BIS) EXCHANGE RATE GAINS AND LOSSES

Net exchange rate losses total € 399, and are composed as follows:

	31.12.2006
Exchange rate gains	114
Exchange rate losses	(513)
	(399)

All exchange rate gains and losses were realised during the year.

22) TAXATION

Taxation amounts to € 87,270 and is composed as follows:

TAXATION	**31.12.2006**
. IRES	0
. IRAP	0
TOTAL CURRENT TAXATION	
DEFERRED TAX CHARGE	0
DEFERRED TAX INCOME	(87,270)
TOTAL TAXATION	**(87,270)**

Deferred tax income includes € 86,246 in relation to the tax loss for the year. It has been recognised in that the company has justified reasons to believe that it will be recovered, as demonstrated in the five-year business plan. The residual amount of € 1,024 relates to entertainment expenses, which are tax deductible in the years following that in which the amounts were expensed.

NET LOSS FOR THE YEAR

The net loss for the year amounts to € 202,602.

Other information

CAPITALISED FINANCIAL CHARGES

No financial charges were capitalised under balance sheet assets during the year.

DIRECTORS' AND STATUTORY AUDITORS' FEES

The fees of the Directors and Statutory Auditors of Cosmo Pharmaceuticals S.p.A. for 2006 are detailed as follows:

- Board of Directors	€	0
- Board of Statutory Auditors	€	8,489

Lainate, 23 January 2007

On behalf of the Board of Directors
The Managing Director

Mauro Severino Ajani

Attachments to the financial statements of Cosmo Pharmaceuticals S.p.A.

ATTACHMENT 1) LIST OF INVESTMENTS IN SUBSIDIARIES IN THE YEAR ENDED 31 DECEMBER 2006:

Company name and registered office	Share capital	% of owner-ship	Net profit (loss) for the year	Shareholders' equity	Pro quota Share-holders' equity	Carrying amount
			01.01.2006	at		
			31.12.2006	31.12.2006		
Cosmo S.p.A. Via C.Colombo, 1 20020 Lainate, Milan, Italy	€ 2,300,000	100%	€ 1,699,534	€ 4,082,712	€ 4,082,712	€ 2,278,676
Cosmo Technologies Ltd. 1st Floor, Connolly Building 42-43 Amines Street Dublin 1 – Ireland	€ 250,000	100%	€ (1,304,088)	€ 4,680,792	€ 4,680,792	€ 2,903,275

ATTACHMENT 2) HIGHLIGHTS OF THE MOST RECENT FINANCIAL STATEMENTS OF SUBSIDIARIES

Cosmo S.p.A. (thousands of Euros)	**31.12.2006**
Turnover - goods and services	14,081
Net profit for the year	1,700
Shareholders' equity	4,083
Net financial position (liquid funds)	5,216

Cosmo Technologies Ltd. (thousands of Euros)	**31.12.2006**
Turnover - goods and services	1,077
Net loss for the year	(1,304)
Shareholders' equity	4,681
Net financial position (liquid funds)	(244)

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors

on the financial statements as at and for the year ended 31 December 2006

of Cosmo Pharmaceuticals S.p.A.

Dear Shareholders,

You have been called to approve the financial statements of Cosmo Pharmaceuticals S.p.A. as at and for the year ended 31 December 2006.

Receipt of financial statements

On 23 January 2007, following the approval of the Board of Directors', we approved the financial statements, comprised of the balance sheet, profit and loss account and notes thereto, and accompanied by the directors' report.

Since the shareholders' meeting has been scheduled for 2 February 2007, the communication provided for by paragraph 1, article 2429 of the Italian Civil Code has not been made within the required term. However, given the need to submit the financial statements to you immediately, we have carried out our checks regardless, ascertaining that the financial statements are consistent with the accounting records and the results of previous periodic checks.

Report of checks

We confirm that during the year, we based on our conduct on the relevant principles recommended by the Italian Accounting Profession (*Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri*).

In particular, we monitored the company's compliance with the law and memorandum of association, as well as the principles of correct administration, with specific regard to the adequacy of the company's organisational, administrative and accounting structure and its correct functioning.

We participated in the meetings of the shareholders and Board of Directors, which were held in compliance with the by-laws, legislation and regulations that govern their functioning. We gathered information from the Directors on the general performance of operations and outlook, as well as on significant transactions.

Accordingly, we can, to a reasonable degree, state that the measures approved and taken are in accordance with the law and by-laws. Moreover, they are not clearly imprudent, risky or such that could give rise to a potential conflict of interests or jeopardise the integrity of the company's assets.

For as far as we are concerned, we examined and monitored the company's organisational structure and its compliance with the principles of correct administration, through direct observation and the gathering of information from organisational function managers with the aim of mutually sharing pertinent information and data.

We assessed and monitored the adequacy of the internal control system and the administrative/accounting system, as well as the latter's reliability in correctly reflecting operations. We carried out these duties by obtaining information from the managers of the respective functions and examining company documents and the findings of the work performed by the independent auditors.

In particular, we examined the documentation relating to the share capital increase approved during the extraordinary shareholders' meeting on 2 August 2006, which took effect when it was registered with the Company Register on 5 September 2006, up to € 2,185,000 through the contribution of Cosmo S.p.A. and Cosmo Technologies Ltd. shares.

We have nothing to report in this respect.

Reports made to the Board of Statutory Auditors

We did not receive any reports of alleged irregularities pursuant to article 2408 of the Italian Civil Code.

Financial statements presentation

The main captions of the financial statements as at and for the year ended 31 December 2006, which are submitted for your approval, may be summarised as follows (figures in Euros):

Balance sheet

Share capital proceeds to be received	0
Fixed assets	5,191,408
Assets forming part of working capital	1,677,126
Prepayments and accrued income	0
Total assets	6,868,534
Shareholders' equity	4,559,669
Provisions for contingencies and charges	0
Employees' leaving entitlement	0
Payables	2,289,989
Accrued expenses and deferred income	18,876
Total liabilities and shareholders' equity	6,868,534
Memorandum and contingency accounts	32,071

Profit and loss account

Production revenues	0
Production cost	(271,103)
Financial income and charges	(18,769)
Adjustments to financial asset values	0
Extraordinary income and expense	0
Loss before taxation	(289,872)
Taxation	87,270
Net loss for the year	(202,602)

As we are not required to carry out an analytical check on the content of the financial statements, we monitored its general format, overall compliance with the law, in terms of lay-out and structure, and verified that the directors' report was prepared in accordance with the law.

We have nothing in particular to report in this respect.

Measurement waivers

Lastly, we note that no waivers permitted under paragraph 4, article 2423 of the Italian Civil Code were necessary in the preparation of the financial statements.

Capitalised deferred charges

Intangible fixed assets include start-up and capital costs of € 9,457. In accordance with point 5, article 2426 of the Italian Civil Code, we specify that this caption was capitalised with our approval.

Revaluation of company assets in accordance with Law no. 342/2000

We certify that no assets have been revalued under Law no. 342/2000.

Distribution of interim dividends

The company did not distribute any interim dividends during the year.

Remarks

No significant events worthy of mention arose during our supervisory and control activities.

The financial statements that are submitted for your approval, as indicated in the overall figures, show a net loss for the year of € 202,602.46.

The Board of Directors has proposed covering the net loss for the year through the use of the contribution reserve.

Conclusions and proposals

Having acknowledged:

- the results of our checks;

- the criteria applied by the directors in the preparation of the financial statements;

- the consistency of the financial statements with the accounting records;

- the independent auditors' unqualified opinion;

we believe that the financial statements as at and for the year ended 31 December 2006 comply with the provisions of the Italian Civil Code and ask the shareholders to approve them as they stand.

Lainate, 1 February 2007

The Chairman of the Board of Statutory Auditors

Fabrizio Gardi

This is an English translation of the original Italian document

Auditor's report in accordance with Article 2409ter of the Civil Code

To the shareholders of
Cosmo Pharmaceuticals SpA

We have audited the financial statements of Cosmo Pharmaceuticals SpA ("the Company") as of December 31, 2006. These financial statements are the responsibility of the Cosmo Pharmaceuticals SpA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the generally accepted Auditing Standards in Italy. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The balance sheet and profit and loss account do not present any comparative information since the financial statements of this period represent the result of the first year of activity of the Company.

In our opinion, the financial statements of Cosmo Pharmaceuticals SpA as of December 31, 2006 give a true and fair view of the financial position of the Company and of the results of its operations for the year then ended in accordance with the Italian regulations and accounting principles governing financial statements.

Milan, February 2, 2007

Mazars & Guérard S.p.A.

Giorgio Beretta
(Local Partner)

Carlo Consonni
(Partner)

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MAZARS & GUERARD SPA - CAPITALE SOCIALE € 2.005.000 INT. VERS. - SEDE LEGALE: C.SO DI PORTA VIGENTINA, 35 - 20122 MILANO – REG. IMPRESE DI MILANO N. 196093 - REA N. 1059307

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COSMO
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