

# Interim Report

FIRST HALF 2006



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

# HIGHLIGHTS

## FIRST HALF 2006

- › REVENUE € 311.1 MILLION, UP 6.4%
- › INTERNATIONAL PHARMACEUTICAL SALES UP 8.3%
- › LERCANIDIPINE SALES UP 25.3%
- › OPERATING INCOME € 63.6 MILLION, UP 15.1%
- › NET INCOME € 37.4 MILLION, UP 11.3%

### KEY CONSOLIDATED DATA

€ (thousands)	First Half 2006	% of Revenue	First Half 2005*	% of Revenue	Change	Change %
Revenue	311,081	100.0	292,362	100.0	18,719	6.4
EBITDA	75,346	24.2	65,345	22.4	10,001	15.3
Operating Income	63,588	20.4	55,227	18.9	8,361	15.1
Net Income	37,424	12.0	33,614	11.5	3,810	11.3
Shareholders' Equity	334,759		283,026		51,733	18.3

\*Restated for comparison purposes

## REVENUE GROWTH TREND

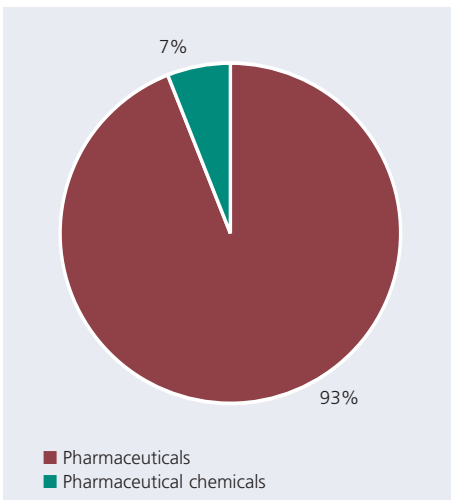
In the first half 2006 consolidated revenue is € 311.1 million, an increase of 6.4% over the restated revenue of the same period of the preceding year which excludes the pharmaceutical chemicals operations discontinued in 2005. Consolidated revenue in the second quarter is € 149.4 million, an increase of 3.6%.

Pharmaceutical sales are € 289.3 million, an increase of 6.2% over the first half of last year due to the increase in sales volumes (+7.2%) driven by the good performance of the main products and especially of Iercanidipine which grew by over 25% over 2005. A negative price effect results from the price reduction of the liquid form of Elopam®, the mandatory 2% price cut in Spain starting from February, the reduction of the price of generics in France and the application of reference pricing to the calcium channel blocker class of drugs in Germany. On the other hand, the reversal of certain price cuts in Italy generated a positive effect which offset part of the abovementioned price decreases. Pharmaceutical chemicals sales, which represent 7.0% of total revenue, went from € 20.0 million to € 21.7 million, an increase of 8.7% which includes 10.2% of higher volumes thanks to a positive competitive environment in the second quarter.

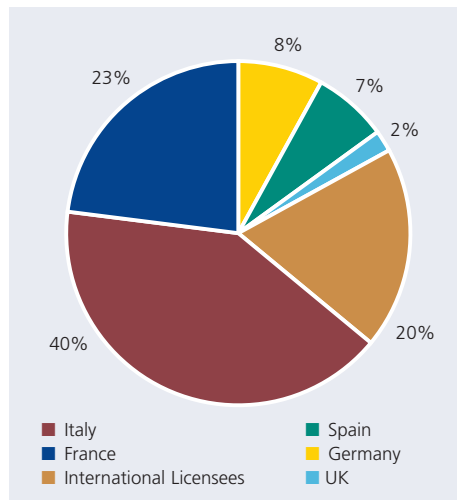
In the second quarter 2006 revenue from pharmaceuticals is € 136.8 million, an increase of 1.2% as compared to the second quarter 2005. Sales of pharmaceutical chemicals, at € 12.6 million, grow by 39.6% in the second quarter thanks to improved competitive conditions.

International sales went from € 176.7 million to € 192.4 million, an increase of 8.8%, in the first half 2006.

### SALES BY BUSINESS:



### PHARMACEUTICAL SALES:



## SOURCES OF GROWTH

<i>(Change as % of revenue, first half 2006 over first half 2005)</i>	Volume Effect	Price Effect	Currency Effect	Total Change
Pharmaceuticals	7.2	(1.2)	0.2	6.2
Pharmaceutical chemicals	10.2	(4.4)	2.9	8.7
<b>Total change</b>	<b>7.4</b>	<b>(1.4)</b>	<b>0.4</b>	<b>6.4</b>

## COMPOSITION OF SALES

€ (thousands)	First Half 2006	First Half 2005	Change	Change %
Pharmaceuticals Italy	117,238	113,509	3,729	3.3
Pharmaceuticals France	66,196	60,826	5,370	8.8
Pharmaceuticals Germany	24,447	26,519	(2,072)	(7.8)
Pharmaceuticals Spain	18,951	18,666	285	1.5
Pharmaceuticals United Kingdom	4,619	-	4,619	n.a.
International Licensees	57,888	52,843	5,045	9.5
<b>Total Pharmaceuticals</b>	<b>289,339</b>	<b>272,363</b>	<b>16,976</b>	<b>6.2</b>
Pharmaceutical Chemicals	21,742	19,999	1,743	8.7
<b>TOTAL SALES</b>	<b>311,081</b>	<b>292,362</b>	<b>18,719</b>	<b>6.4</b>

*Includes other income related to license agreements*

Zanidip® (lercanidipine), Recordati's proprietary calcium channel blocker, continued to perform well during the first half of 2006 in those countries where it is sold directly through our own marketing organizations as well as in the other markets where it is marketed by licensees.

## LERCANIDIPINE SALES

€ (thousands)	First Half 2006	First Half 2005	Change	Change %
Italy	24,107	22,625	1,482	6.6
France	17,994	14,187	3,807	26.8
Germany	949	-	949	n.a.
United Kingdom	4,619	-	4,619	n.a.
Spain	4,319	3,137	1,182	37.7
Direct Sales	51,988	39,949	12,039	30.1
Sales to Licensees	37,951	31,850	6,101	19.2
<b>Total Sales</b>	<b>89,939</b>	<b>71,799</b>	<b>18,140</b>	<b>25.3</b>

Direct sales in Italy of Zanedip® and Lercadip® are up 6.6% over last year's first half.

Zanidip® in France is a very successful product with sales increasing by 26.8%. In Germany lercanidipine is sold directly by Merckle Recordati as from May 2006 following the repurchase of the Corifeo® marketing rights from licensee UCB. In the United Kingdom sales of Zanidip®, which is sold directly to the market as from July 2005 by Recordati Pharmaceuticals, are € 4.6 million. On the Spanish market Zanidip® shows strong sales growth compared to the first half of 2005 as a result of the good performance of the 20mg dosage form.

Sales of lercanidipine to licensees increase by 19.2% with growth trends continuing in the major markets. Lercanidipine is now being sold on 82 markets and to date the new 20mg formulation has been launched in 18 of these.

Sales of pharmaceuticals in Italy (including lercanidipine) increased by 3.3% over the first half of 2005. Peptazol® (pantoprazole), a proton pump inhibitor for the treatment of ulcers under license from Altana, continues to grow and Entact® (escitalopram), an antidepressant under license from Lundbeck, is performing very well. On the other hand, sales of anti-infectives suffered as a consequence of the relatively weak flu season. New price containment measures in Italy became effective on July 15 2006 which include selective price reductions for products with above average performance in the first quarter. In anticipation of these cuts the distribution channel started reducing their stocks in June.

Pharmaceutical sales in France are up by 8.8% mainly due to the continuous success of Zanidip® and the performance of Tenstaten® (cicletanine), a diuretic indicated for the treatment of hypertension under license from Ipsen, which was relaunched in January 2006. Sales of Exomuc and the Hexa line of products are decreasing as a result of the relatively weak flu season and their exclusion, as from March 2006, from the list of reimbursed products.

First half 2006 sales in Germany by Merckle Recordati are € 24.4 million, a slight decrease as compared to the same period of the preceding year. Claversal® (mesalazine), indicated for the treatment of ulcerative colitis is the subsidiary's main product. As from May, Corifeo® (lercanidipine) becomes part of the product portfolio following the repurchase of marketing rights from UCB.

Sales in Spain increase by 1.5%. As from April Ulcotenal® (pantoprazole) is no longer sold following the termination of the Altana license. Therefore, for the whole of 2006 sales of our Spanish subsidiary are expected to be in line with those realized in 2005.

The € 4.6 million sales in the United Kingdom are exclusively those related to Zanidip®. During the first half the marketing organization of Recordati Pharmaceuticals was built up. The new field force of 65 medical representatives started promoting Zanidip® in April, and in particular the 20 mg dosage form.

Sales to international licensees grow by 9.5% due to the continuing success of lercanidipine in markets abroad.

## COMPANY DEVELOPMENT NEWS

In January the pharmaceutical chemicals plant in Beniel (Murcia, Spain) was sold to Apotecnia S.A., an affiliate of the Spanish pharmaceutical company Asturpharma S.A., for a price of € 13 million. The assets sold comprise the property, plant and equipment, patents and know-how, and the inventories of certain products. Personnel employed in the plant of around 50 people was transferred to the acquiring company. Third party revenue booked by the Beniel plant in 2005 was of € 7 million. The sale of the plant in Murcia represents a further step in the reorganization of the pharmaceutical chemicals business which will be focused on a selection of products that will be produced only in our plant at Campoverde di Aprilia in Italy. This plant is increasingly dedicated to the production of Recordati's original active ingredients, an activity considered to be strategic for the group.

At the beginning of April the 20mg dosage form of Zanidip® (lercanidipine) was launched on the British market by Recordati Pharmaceuticals. With a sales organization of 65 medical representatives our subsidiary is relaunching our main drug in this important market and is ready to effectively launch in the future the new products currently in our pipeline.

During April an agreement was reached with the licensee UCB to buy back the sales and marketing rights in Germany of Corifeo®, one of the two brands under which lercanidipine is sold on the German market, for a price of € 10 million. Merckle Recordati started selling Corifeo® (lercanidipine) in May 2006.

In June Recordati entered into an exclusive license agreement with Ony Inc., a U.S. drug development company, for the marketing and sale in Europe of Infasurf®, a calf derived surfactant for the prevention and treatment of neonatal Respiratory Distress Syndrome (RDS). Neonatal RDS is a life-threatening disease which affects mainly premature babies and surfactants are well established in the treatment of this condition. The market is growing at a rate of 4% to 7% annually, mainly due to premature births from immigrant mothers not well monitored by health services. Under this agreement Recordati obtains exclusive rights to Infasurf® in the European Union (less Cyprus, Greece and at this time the United Kingdom) and Bulgaria, Croatia, Norway, Romania, Switzerland and those countries due to enter the Union. The product is already successfully marketed in the USA and in Israel. Infasurf®, together with stannosoporphin (a drug licensed for Europe from Infacare, USA), shall form the basis for Recordati's new European franchise in the highly specialist area of neonatology.

## CONTINUED MARGIN IMPROVEMENT

The income statement for the first half 2006 is included below. For comparison purposes the first half 2005 income statement was restated to reflect the impact of the operations discontinued following the sale of the Murcia and Opera pharmaceutical chemicals plants in 2005. The revenues and costs related to these plants have been netted off and are stated on a single line as "discontinued operations".

### P&L

€ (thousands)	Second Quarter 2006	% of Revenue	First Half 2006	% of Revenue	First Half 2005*	% of Revenue	Change	Change %
<b>Revenue</b>	<b>149,360</b>	<b>100.0</b>	<b>311,081</b>	<b>100.0</b>	<b>292,362</b>	<b>100.0</b>	<b>18,719</b>	<b>6.4</b>
Cost of sales	(48,838)	(32.7)	(102,200)	(32.9)	(101,676)	(34.8)	(524)	0.5
<b>Gross profit</b>	<b>100,522</b>	<b>67.3</b>	<b>208,881</b>	<b>67.1</b>	<b>190,686</b>	<b>65.2</b>	<b>18,195</b>	<b>9.5</b>
Selling expenses	(51,812)	(34.7)	(107,238)	(34.5)	(101,539)	(34.7)	(5,699)	5.6
R&D expenses	(11,634)	(7.8)	(23,368)	(7.5)	(22,061)	(7.5)	(1,307)	5.9
G&A expenses	(6,933)	(4.6)	(13,996)	(4.5)	(12,182)	(4.2)	(1,814)	14.9
Other income (expense), net	(1,031)	(0.7)	(691)	(0.2)	323	0.1	(1,014)	n.s.
<b>Operating income</b>	<b>29,112</b>	<b>19.5</b>	<b>63,588</b>	<b>20.4</b>	<b>55,227</b>	<b>18.9</b>	<b>8,361</b>	<b>15.1</b>
Financial income (expense), net	(836)	(0.6)	(1,333)	(0.4)	(2,079)	(0.7)	746	(35.9)
<b>Pretax income</b>	<b>28,276</b>	<b>18.9</b>	<b>62,255</b>	<b>20.0</b>	<b>53,148</b>	<b>18.2</b>	<b>9,107</b>	<b>17.1</b>
Provision for income taxes	(12,162)	(8.1)	(24,831)	(8.0)	(19,460)	(6.7)	(5,371)	27.6
<b>Net income from continuing operations</b>	<b>16,114</b>	<b>10.8</b>	<b>37,424</b>	<b>12.0</b>	<b>33,688</b>	<b>11.5</b>	<b>3,736</b>	<b>11.1</b>
Discontinued operations	0	0	0	0.0	(74)	0.0	74	(100.0)
<b>Net Income</b>	<b>16,114</b>	<b>10.8</b>	<b>37,424</b>	<b>12.0</b>	<b>33,614</b>	<b>11.5</b>	<b>3,810</b>	<b>11.3</b>

\* Restated for comparison purposes

Gross profit is € 208.9 million with a margin on sales of 67.1%, significantly better than that of the same period of last year thanks to an increasingly favorable product mix.

Selling expenses increased by 5.6% mainly due to the completion of the new sales organization in the United Kingdom. R&D expenses at € 23.4 million show an increase of 5.9% as a consequence of the new development activities. G&A expenses are € 14.0 million and at 4.5% of sales are slightly above those of the same period of the preceding year due to the development of our international organization.



Other expenses, net of other income, are € 0.7 million and include a € 2.8 million provision to cover both the potential risks related to the presumed liability of Recordati pursuant to decree-law 231/2001 and charges arising from a tax inspection at the parent company.

Operating income, at 20.4% of sales, is € 63.6 million, an increase of 15.1% over the first half of the preceding year. The operating margin improvement is mainly due to gross margin increase as described above.

Net financial charges during the first half are € 1.3 million, below those of the same period of the preceding year.

The effective tax rate during the period was 39.9%, higher than that for the full year 2005 due to the abovementioned provisions which are not tax deductible as well as to a tax provision of around € 3 million to cover potential additional taxes to be paid as a result of the tax inspection. Further details are provided in the Notes to the Financial Statements.

Net income at 12.0% of sales goes from € 33.6 million in the first half of 2005 to € 37.4 million, an increase of 11.3%.

# GOOD CASH GENERATION

## NET FINANCIAL POSITION

€ (thousands)	30 June 2006	31 December 2005	Change	Change %
Cash and short-term financial investments	168,405	162,756	5,649	3.5
Bank overdrafts	(3,117)	(5,991)	2,874	(48.0)
Loans – due within one year	(20,951)	(22,718)	1,767	(7.8)
Net liquid assets	144,337	134,047	10,290	7.7
Loans – due after one year	(97,803)	(107,883)	10,080	(9.3)
<b>Net financial position</b>	<b>46,534</b>	<b>26,164</b>	<b>20,370</b>	<b>77.9</b>

The € 20.4 million increase is to be attributed to cash flow generated by operations and to the proceeds from the sale of the Murcia pharmaceutical chemicals plant for an amount of € 13 million. € 3.2 million were invested during the period in new property, plant and equipment and € 11.8 million in intangible assets of which € 10.0 million were paid to UCB for the repurchase of the marketing rights to one of the brands of lercanidipine in Germany. Net working capital for operations decreased by € 11.8 million due to the increased tax liabilities and short term risk provisions.

Further details are provided in the Consolidated Financial Statements and in the Notes to the Financial Statements.

# CONSOLIDATED FINANCIAL STATEMENTS

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENT FOR THE PERIOD  
ENDED 30 JUNE 2006

## INCOME STATEMENT

€ (thousands)	First Half 2006	First Half 2005*
<b>Revenue</b>	<b>311,081</b>	<b>292,362</b>
Cost of sales	(102,200)	(101,676)
<b>Gross profit</b>	<b>208,881</b>	<b>190,686</b>
Selling expenses	(107,238)	(101,539)
R&D expenses	(23,368)	(22,061)
G&A expenses	(13,996)	(12,182)
Other income (expense), net	(691)	323
<b>Operating income</b>	<b>63,588</b>	<b>55,227</b>
Financial income (expense), net	(1,333)	(2,079)
<b>Pretax income</b>	<b>62,255</b>	<b>53,148</b>
Provision for income taxes	(24,831)	(19,460)
<b>Net income from continuing operations</b>	<b>37,424</b>	<b>33,688</b>
Discontinued operations	0	(74)
Minority interest	0	0
<b>Net income</b>	<b>37,424</b>	<b>33,614</b>
<b>Earnings per share from continuing operations</b>		
Basic	€ 0.187	€ 0.171
Diluted <sup>(1)</sup>	€ 0.181	€ 0.163
<b>Earnings per share from continuing and discontinued operations</b>		
Basic	€ 0.187	€ 0.170
Diluted <sup>(1)</sup>	€ 0.181	€ 0.163
* Restated for comparison purposes.		
(1) Diluted earnings per share is calculated taking into account new shares authorized but not yet issued.		

Earnings per share (EPS) are based on average shares outstanding during each year, 200,435,645 in 2006 and 197,281,423 in 2005, net of average treasury stock which amounted to 4,851,944 in 2006 and 4,798,664 in 2005.

RECORDATI S.P.A. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET AT 30 JUNE 2006

## ASSETS

€ (thousands)	30 June 2006	31 December 2005
<b>Non-current assets</b>		
Property, plant and equipment	59,785	62,747
Intangible assets	94,563	88,650
Goodwill	94,568	94,568
Other investments	911	911
Other non-current assets	1,148	1,253
Deferred tax assets	18,826	15,062
<b>Total non-current assets</b>	<b>269,801</b>	<b>263,191</b>
<b>Current assets</b>		
Inventories	67,902	68,621
Trade receivables	118,769	111,924
Other receivables	9,241	24,030
Other current assets	2,274	2,069
Fair value of hedging derivatives ( <i>fair value hedge</i> )	0	2,174
Short-term financial investments	10,000	34,999
Cash and cash equivalents	158,405	127,757
<b>Total current assets</b>	<b>366,591</b>	<b>371,574</b>
<b>Non current assets held for sale</b>	<b>0</b>	<b>12,634</b>
<b>Total assets</b>	<b>636,392</b>	<b>647,399</b>

RECORDATI S.P.A. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET AT 30 JUNE 2006

EQUITY AND LIABILITIES

€ (thousands)	30 June 2006	31 December 2005
<b>Shareholders' equity</b>		
Share capital	25,777	25,631
Additional paid-in capital	72,356	67,664
Treasury stock	(26,412)	(20,410)
Hedging reserve ( <i>cash flow hedge</i> )	(941)	(3,158)
Translation reserve	352	1,824
Other reserves	23,662	23,485
Retained earnings	202,541	165,118
Net income for the year	37,424	64,543
<b>Group shareholders' equity</b>	<b>334,759</b>	<b>324,697</b>
Minority interest	0	0
<b>Shareholders' equity</b>	<b>334,759</b>	<b>324,697</b>
<b>Non-current liabilities</b>		
Loans – due after one year	93,083	110,057
Staff leaving indemnities	22,802	22,821
Deferred tax liabilities	6,641	6,273
Other non-current liabilities	5,566	11,240
<b>Total non-current liabilities</b>	<b>128,092</b>	<b>150,391</b>
<b>Current liabilities</b>		
Trade payables	76,177	90,095
Other payables	31,046	33,151
Tax liabilities	23,653	9,780
Other current liabilities	443	481
Provisions	12,493	6,937
Fair value of hedging derivatives ( <i>cash flow hedge</i> )	941	3,158
Fair value of hedging derivatives ( <i>fair value hedge</i> )	4,720	0
Loans – due within one year	20,951	22,718
Bank overdrafts	3,117	5,991
<b>Total current liabilities</b>	<b>173,541</b>	<b>172,311</b>
<b>Total equity and liabilities</b>	<b>636,392</b>	<b>647,399</b>

RECORDATI S.P.A. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD  
ENDED 30 JUNE 2005 AND 30 JUNE 2006

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Total
<b>Balance at 31 December 2004</b>	<b>25,219</b>	<b>52,882</b>	<b>(20,410)</b>	<b>(3,185)</b>	<b>(421)</b>	<b>23,023*</b>	<b>132,931*</b>	<b>53,130*</b>	<b>263,169</b>
Allocation of 2004 net income:									
- Dividends								(21,665)	(21,665)
- Retained earnings							31,465	(31,465)	
Issue of share capital	194	6,384							6,578
Net income for the period								33,614*	33,614
Changes in fair value of hedging derivatives			(886)					(886)	
Effect of application of new IAS/IFRS						111	414		525
Translation Adjustment					1,691				1,691
<b>Balance at 30 June 2005</b>	<b>25,413</b>	<b>59,266</b>	<b>(20,410)</b>	<b>(4,071)</b>	<b>1,270</b>	<b>23,134*</b>	<b>164,810*</b>	<b>33,614*</b>	<b>283,026</b>
<b>Balance at 31 December 2005</b>	<b>25,631</b>	<b>67,664</b>	<b>(20,410)</b>	<b>(3,158)</b>	<b>1,824</b>	<b>23,485</b>	<b>165,118</b>	<b>64,543</b>	<b>324,697</b>
Allocation of 2005 net income:									
- Dividends								(27,534)	(27,534)
- Retained earnings							37,009	(37,009)	
Issue of share capital	146	4,692							4,838
Net income for the period								37,424	37,424
Share buy-back			(6,002)						(6,002)
Changes in fair value of hedging derivatives				2,217					2,217
Effect of application of new IAS/IFRS						177	414		591
Translation Adjustment					(1,472)				(1,472)
<b>Balance at 30 June 2006</b>	<b>25,777</b>	<b>72,356</b>	<b>(26,412)</b>	<b>(941)</b>	<b>352</b>	<b>23,662</b>	<b>202,541</b>	<b>37,424</b>	<b>334,759</b>
<i>* Restated following the introduction of new IAS/IFRS</i>									

RECORDATI S.P.A. AND SUBSIDIARIES  
 CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD  
 ENDED 30 JUNE 2006

€ (thousands)	30 June 2006	30 June 2005
<b>Operating activities</b>		
<b>Cash flow</b>		
Net Income	37,424	33,614 *
Depreciation of property, plant and equipment	6,121	6,058
Amortization of intangible assets	5,637	4,587
<b>Total cash flow</b>	<b>49,182</b>	<b>44,259</b>
(Increase)/decrease in deferred tax assets	(3,764)	5,335 *
Staff leaving indemnities:		
Provision	1,508	2,357 *
Payment	(1,527)	(2,513)
Increase/(decrease) in other non-current liabilities	(5,306)	11,440
	<b>40,093</b>	<b>60,878</b>
<b>Changes in working capital</b>		
Trade and other receivables	7,944	(21,984)
Inventories	719	(6,620)
Other current assets	(205)	(290)
Trade and other payables	(16,023)	17,144
Tax liabilities	13,873	177
Other current liabilities	(38)	(628)
Provisions	5,556	293
<b>Changes in working capital</b>	<b>11,826</b>	<b>(11,908)</b>
<b>Net cash from operating activities</b>	<b>51,919</b>	<b>48,970</b>
<b>Investing activities</b>		
Net (investments)/disposals in property, plant and equipment	(3,159)	(6,229)
Net (investments)/disposals in intangible assets	(11,550)	(5,092)
Net (increase)/decrease in equity investments	0	(63,329) ***
Net (increase)/decrease in other non-current receivables	105	5
<b>Net cash used in investing activities</b>	<b>(14,604)</b>	<b>(74,645)</b>
<b>Financing activities</b>		
Issue of share capital	146	194
Additional paid-in capital	4,692	6,384
Share buy-back	(6,002)	0
Effect of application of new IAS/IFRS	591	525
Transfer of current portion of medium and long-term debt to current liabilities	(10,080)	(12,142)
Changes in current portion of medium and long-term debt	(1,767)	(580)
Dividends paid	(27,534)	(21,665)
Proceeds on sale of pharmaceutical chemicals plant	12,634	0
Change in translation reserve	(1,472)	1,691
<b>Net cash from/(used in) financing activities</b>	<b>(28,792)</b>	<b>(25,593)</b>
<b>Changes in short-term financial position</b>	<b>8,523</b>	<b>(51,268)</b>
Short-term financial position at beginning of year **	156,765	228,751
Short-term financial position at end of period **	165,288	177,483

\* Reclassified following the introduction of new IAS/IFRS

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

\*\*\* Acquisition of Merckle Recordati: Working capital (1,331),  
 Property, plant, equipment and intangible assets (18,417),  
 Goodwill (48,731),  
 Deferred tax assets (1,052),  
 Deferred tax liabilities 5,695 and Provisions & other liabilities 507

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

## 1. GENERAL

The consolidated financial statements at 30 June 2006 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, their percentage of ownership and a description of their activity are set out in attachment 1. The consolidation perimeter has not changed as compared to that at 31 December 2005.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and in particular as per IAS 34 requirements for interim reporting. The same accounting policies applied in the preparation of the consolidated financial statements at 30 June 2005 and at 31 December 2005 were used in the preparation of the financial statements for the quarter ended 30 June 2006. The results for the period ended 30 June 2005 were restated, for comparison purposes, to adequately represent the results related to the Opera (Milan, Italy), and Beniel (Murcia, Spain) plants sold in April 2005 and January 2006 respectively, as per the requirements of IFRS 5 "Non-current assets held for sale and discontinued operations", as well as to record the impact of the application of IAS 19 "Employee benefit plans" in the accounts of the Italian companies as from the accounts closed at 31 December 2005.



### 3. REVENUE

Net revenue for the first half 2006 is € 311.1 million (€ 292.4 million in the same period of the preceding year) and can be broken down as follows:

€ (thousands)	First Half 2006	First Half 2005*	Change 2006/2005
Net sales	307,627	288,095	19,532
Royalties	815	682	133
Up-front payments	843	669	174
Other revenue	1,796	2,916	(1,120)
<b>Total revenue</b>	<b>311,081</b>	<b>292,362</b>	<b>18,719</b>

\* Restated for comparison purposes

The first half 2005 revenue relative to discontinued operations in the amount of € 4.0 million is stated, net of expenses, under "Discontinued operations".

### 4. OPERATING EXPENSES

Overall operating expenses in the first half 2006 are € 247.5 million, compared to € 237.1 million in the same period of the preceding year and are analyzed by function. Staff costs in the first half 2006 are € 80.3 million and include a cost for stock options of € 0.6 million. Total depreciation and amortization charges are € 11.8 million.

Other operating expense, stated net of other income, includes a € 2.8 million provision to cover both the potential risks related to the presumed liability of Recordati pursuant to decree-law 231/2001 and charges arising from a tax inspection at the parent company.

In accordance with the new IAS/IFRS standards the first half 2005 results have been restated as follows:

- In application of IFRS 5 the expenses related to discontinued operations of € 4.2 million were reclassified and are stated under "Discontinued operations".
- The application of IAS 19 resulted in a reduction of operating costs of € 0.2 million related to employee benefit plans and an increase of financial expenses of € 0.4 million.

### 5. FINANCIAL INCOME AND EXPENSE

In the first half 2006 and in the same period of 2005 financial items recorded a net expense of € 1.3 million and € 2.1 million respectively which are comprised as follows:

€ (thousands)	First Half 2006	First Half 2005*	Change 2006/2005
Exchange gains/(losses)	(283)	306	(589)
Interest expense on loans	(2,794)	(3,046)	252
Net interest on short-term financial position	2,155	1,045	1,110
Interest cost in respect of defined benefit plans	(411)	(384)	(27)
Change in fair value of hedging derivatives	(6,894)	6,872	(13,766)
Change in fair value of hedged item	6,894	(6,872)	13,766
<b>Total financial income (expense), net</b>	<b>(1,333)</b>	<b>(2,079)</b>	<b>746</b>
<i>* Restated for comparison purposes</i>			

The change in fair value of hedging derivatives refers to the measurement of the cross-currency interest rate swap covering the series of long term senior unsecured notes privately placed in 2004. This amount is equivalent to the reduction in the fair value of the underlying debt as compared to its nominal value with a combined zero effect on the income statement as the transaction is perfectly hedged.

## 6. PROVISION FOR INCOME TAXES

The effective tax rate during the period was 39.9%, higher than that for the full year 2005. The increase was caused mainly by the negative tax effect arising from the provision to cover both the potential risks related to the presumed liability of Recordati pursuant to decree-law 231/2001 and charges related to a tax inspection at the parent company which is not tax deductible.

The tax inspection is relative to the fiscal year 2003 and involves mainly the valuation for tax purposes of certain equity investments. The company promptly filed its counter deductions maintaining its position to be valid and correct. However, a tax provision was prudently constituted for an amount of € 3.2 million which includes the extension of the tax inspector's deduction to the subsequent fiscal years.

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

## 7. POST-TAX PROFIT AND LOSS FROM DISCONTINUED OPERATIONS

As required by IFRS 5 the results produced by discontinued operations are presented as a single amount in the income statement. In the following table the components included in the first half 2005 results, following their reclassification, are disclosed.

€ (thousands)	Opera	Murcia	Total
Revenue	0	4,004	4,004
Expenses	(186)	(4,002)	(4,188)
<b>Pretax income</b>	<b>(186)</b>	<b>2</b>	<b>(184)</b>
Provision for income taxes	71	39	110
<b>Discontinued operations</b>	<b>(115)</b>	<b>41</b>	<b>(74)</b>

## 8. PROPERTY, PLANT AND EQUIPMENT

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

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
<b>Cost</b>					
Balance at 31.12.05	38,704	136,762	30,014	1,207	206,687
Additions	103	493	910	1,649	3,155
Disposals	0	(71)	(338)	0	(409)
Changes in reporting entities	0	0	0	0	0
Other changes	132	329	211	(624)	48
<b>Balance at 30.06.06</b>	<b>38,939</b>	<b>137,513</b>	<b>30,797</b>	<b>2,232</b>	<b>209,481</b>
<b>Accumulated depreciation</b>					
Balance at 31.12.05	19,575	98,711	25,654	0	143,940
Additions	859	4,127	1,135	0	6,121
Disposals	0	(70)	(294)	0	(364)
Changes in reporting entities	0	0	0	0	0
Other changes	0	0	(1)	0	(1)
<b>Balance at 30.06.06</b>	<b>20,434</b>	<b>102,768</b>	<b>26,494</b>	<b>0</b>	<b>149,696</b>
<b>Carrying amount at</b>					
<b>30 June 2006</b>	<b>18,505</b>	<b>34,745</b>	<b>4,303</b>	<b>2,232</b>	<b>59,785</b>
31 December 2005	19,129	38,051	4,360	1,207	62,747

## 9. INTANGIBLE ASSETS

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

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
<b>Cost</b>					
Balance at 31.12.05	57,675	47,197	15,223	28,198	148,293
Additions	10,226	360	3	1,187	11,776
Disposals	(1,075)	(10)	0	0	(1,085)
Changes in reporting entities	0	0	0	0	0
Other changes	10,684	11,993	(67)	(22,799)	(189)
<b>Balance at 30.06.06</b>	<b>77,510</b>	<b>59,540</b>	<b>15,159</b>	<b>6,586</b>	<b>158,795</b>
<b>Accumulated amortization</b>					
Balance at 31.12.05	25,809	21,477	12,357	0	59,643
Additions	2,512	2,438	687	0	5,637
Disposals	(967)	(10)	0	0	(977)
Changes in reporting entities	0	0	0	0	0
Other changes	0	(4)	(67)	0	(71)
<b>Balance at 30.06.06</b>	<b>27,354</b>	<b>23,901</b>	<b>12,977</b>	<b>0</b>	<b>64,232</b>
<b>Carrying amount at</b>					
<b>30 June 2006</b>	<b>50,156</b>	<b>35,639</b>	<b>2,182</b>	<b>6,586</b>	<b>94,563</b>
31 December 2005	31,866	25,720	2,866	28,198	88,650

The increase during the period is due to the repurchase from the licensee UCB of the sales and marketing rights to Corifeo®, one of the brands under which lercanidipine is sold in Germany, for an amount of € 10.0 million.

## 10. GOODWILL

Goodwill at 30 June 2006 is € 94.5 million, unchanged as compared to the end of 2005. In compliance with IFRS 3, as from 2005 goodwill is no longer amortized. Instead, it shall be tested, at least annually, for impairment. At 30 June 2006 no loss in the value of goodwill on the balance sheet was identified.

€ (thousands)	Goodwill
<b>Cost</b>	
Balance at 31.12.05	132,232
Changes in reporting entities	0
<b>Balance at 30.06.06</b>	<b>132,232</b>
<b>Accumulated amortization</b>	
Balance at 31.12.05	37,664
Changes	0
<b>Balance at 30.06.06</b>	<b>37,664</b>
<b>Carrying amount at</b>	
<b>30 June 2006</b>	<b>94,568</b>
31 December 2005	94,568

## 11. DEFERRED TAX ASSETS AND LIABILITIES

At 30 June 2006 deferred tax assets increased by € 3.8 million as compared to those at 31 December 2005. Following the sale of the Murcia pharmaceutical chemicals plant by Recordati España and the resulting profitability of this subsidiary, which is expected to continue in the future, deferred tax assets for an amount of € 2.9 million were recognized on a portion of its losses carried forward. The remaining increase arises mainly from the recognition of deferred tax assets in connection with the operating loss generated during the period by Recordati Pharmaceuticals Ltd.

Deferred tax liabilities increased by € 0.4 million.

## 12. SHAREHOLDERS' EQUITY

Shareholders' Equity at 30 June 2006 is € 334.8 million, a decrease of € 10.1 million compared that at 31 December 2005 for the following reasons:

- net income for the first quarter 2006 (increase of € 37.4 million)
- cost of stock option plans recognized directly in equity (increase of € 0.6 million)
- change in the fair value of hedging derivatives (increase of € 2.2 million)
- translation adjustments (decrease of € 1.4 million)
- issue of 1,165,900 new ordinary shares following the exercise of stock options by staff members (increase of € 4.8 million)
- payment of 2005 dividends (decrease of € 27.5 million)
- buy-back of 1,081,844 own shares (decrease of € 6.0 million).

At 30 June 2006, a total of 5,880,508 shares are held as treasury stock for a total cost of € 26.4 million.

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

Stock options outstanding at 30 June 2006 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2006	Options granted during 2006	Options exercised during 2006	Options cancelled or expired	Options outstanding at 30.06.2006
<b>Date of grant:</b>						
13 November 2001	5.2700	487,400	-	(196,400)	0	291,000
30 October 2002	5.1800	627,000	-	(182,000)	0	445,000
14 May 2003	3.6775	860,000	-	(373,500)	0	486,500
7 April 2004	3.5750	1,343,500	-	(400,500)	0	943,000
27 October 2004	4.0550	1,452,500	-	(13,500)	(15,000)	1,424,000
6 April 2006	6.4975	0	2,650,000	0	0	2,650,000
<b>Total</b>		<b>4,770,400</b>	<b>2,650,000</b>	<b>(1,165,900)</b>	<b>0</b>	<b>6,239,500</b>

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

### 13. LOANS

Overall, medium and long-term loans decreased by € 18.7 million compared to those at 31 December 2005, including the measurement at fair value of the guaranteed senior notes issued and privately placed in 2004. € 11.8 million were reimbursed during the period and no new loans were taken on.

The series of guaranteed senior notes issued in various currencies at fixed interest rates have been covered with a cross-currency interest rate swap effectively converting the whole debt into Euro at a variable interest rate equivalent to the Euribor 6 months rate plus a spread. At 30 June 2006 the measurement at fair value of the cross-currency interest rate swap generated a liability of € 4.7 million, an amount equivalent to the decrease in the fair value of the underlying debt. This amount is recognized in the balance sheet as a decrease of debt and under current liabilities as 'Fair value of hedging derivatives (*fair value hedge*)'. The derivative instrument and the hedged item are linked and the Group does not intend to terminate or modify one independently from the other.

### 14. STAFF LEAVING INDEMNITIES

The staff leaving indemnity fund at 30 June 2006 is of € 22.8 million, substantially unchanged as compared to that at 31 December 2005.

### 15. OTHER LIABILITIES (INCLUDED IN NON-CURRENT LIABILITIES)

These refer to the installment due in 2008 for the acquisition of Merckle Recordati for an amount of € 5.6 million and are stated at their present value as required by IAS/IFRS. At 30 June 2006 the present value adjustment is € 0.2 million.

## 16. CURRENT ASSETS

Inventories are slightly below those stated at 31 December 2005. Trade receivables increased by € 6.9 million as a result of the increase in sales volumes. Average days of sales outstanding are 69, in line with those at 31 December 2005. Other receivables decreased by € 14.8 million mainly due to the reduction in amounts due from employees of € 4.6 million and the reduction of tax receivable of € 7.0 million.

## 17. CURRENT LIABILITIES

Trade payables, which include invoices to be received, decreased by € 13.9 million. Other payables decreased by € 2.1 million mainly due to lower personnel and social security payables and include the second installment of the residual liability related to the acquisition of Merckle Recordati (€ 5.8 million) due early in 2007. Tax liabilities increased by € 13.9 million due to the provision for income tax for the period.

Tax and other provisions increased by € 5.6 million. An amount of € 2.8 million was provided for to cover both the potential risks related to the presumed liability of Recordati pursuant to decree-law 231/2001 and charges arising from a tax inspection at the parent company. In addition, a tax provision was prudently constituted for an amount of € 3.2 million to cover potential additional taxes to be paid as a result of the aforementioned tax inspection.

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

The measurement at fair value of the interest rate swaps covering the cash flows related to medium and long-term loans gave rise to a € 0.9 million liability at 30 June 2006. This amount represents the unrealized benefit of paying the current expected future rates instead of the rates agreed. Of this liability € 0.2 million relate to the interest rate swaps covering the medium and long-term loans at variable interest rates in Recordati S.p.A., Bouchara Recordati S.a.s. and Recordati España S.L.. The remaining € 0.7 million refer to an interest rate swap defining a collar which limits the fluctuation of the interest rates payable on the guaranteed senior notes issued by Recordati S.A. Chemical & Pharmaceutical Company.

## 19. SEGMENT REPORTING

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

€ (thousands)	First Half 2006	First Half 2005*	Change 2006/2005
Europe	273,606	259,000	14,606
<i>of which Italy</i>	<i>118,700</i>	<i>115,614</i>	<i>3,086</i>
Far East	14,762	12,348	2,414
North America	8,577	5,961	2,616
Latin America	4,219	3,669	550
Other areas	9,917	11,384	(1,467)
<b>Total revenue</b>	<b>311,081</b>	<b>292,362</b>	<b>18,719</b>
* Restated for comparison purposes			

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

## 20. INTERCOMPANY TRANSACTIONS AND RELATED ISSUES

Intragroup sales and services recorded during the first half 2006 are € 70.6 million. During the period, Recordati Ireland Ltd. declared a dividend of € 20.0 million, Recordati S.A. Chemical and Pharmaceutical Company declared a dividend of € 17.0 million, Laboratoires Bouchara Recordati S.a.s. declared a dividend of € 5.0 million, Merckle Recordati GmbH declared a dividend of € 5.0 million and the Swiss company Recordati S.A declared a dividend of CHF 1.2 million.

At 30 June 2006, intercompany accounts amount to € 186.6 million, the most significant of which are:

- loans from Recordati S.A. Chemical & Pharmaceutical Company to Recordati S.p.A. of € 80.6 million;
- receivables by Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 36.4 million;
- loans from the parent Recordati S.p.A. to the subsidiary Recordati España S.L. of € 19.8 million;
- receivables by Recordati S.A. Chemical and Pharmaceutical Company from Recordati Ireland Ltd. in respect of dividends declared of € 10.0 million;
- loans from the parent Recordati S.p.A. to Bouchara Recordati S.a.s. of € 8.0 million;

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

Tax liabilities include an estimated net tax due amount of € 11.4 million payable to the controlling company Fimei S.p.A. as a consequence of participation in a tax consolidation grouping under tax laws in Italy.



RECORDATI S.P.A. AND SUBSIDIARIES  
 SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS  
 AT 30 JUNE 2006

ATTACHMENT I.

	PERCENTAGE OF OWNERSHIP					Total
	Recordati S.p.A. (parent)	Innova Pharma S.p.A.	Recordati S.A.	Bouchara Recordati S.a.s.	Recordati España S.L.	
<b>Recofarma S.r.l.</b> , Italy <i>Sales of pharmaceutical chemicals</i>	100.00%					100.00%
<b>Innova Pharma S.p.A.</b> , Italy <i>Marketing and sales of pharmaceuticals</i>	100.00%					100.00%
<b>Recordati España S.L.</b> , Spain <i>Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals</i>	90.70%		9.30%			100.00%
<b>Vectorpharma International Corporation***</b> , U.S.A. <i>Dormant</i>		100.00%				100.00%
<b>Recordati S.A. Chemical and Pharmaceutical Company</b> , Luxembourg <i>Holding company</i>	100.00%					100.00%
<b>Bouchara Recordati S.a.s.</b> , France <i>Development, production, marketing and sales of pharmaceuticals</i>	99.94%		0.06%			100.00%
<b>Recordati Portuguesa Lda</b> , Portugal <i>Marketing and sales of pharmaceuticals</i>	98.00%		2.00%			100.00%
<b>Farmarecord Ltda.</b> , Brazil <i>Dormant, holds pharmaceutical marketing rights in Brazil</i>			100.00%			100.00%
<b>Recordati Corporation</b> , U.S.A. <i>Sales Agent for pharmaceutical chemicals</i>			100.00%			100.00%
<b>Recordati Ireland Ltd</b> , Ireland <i>Development, production, marketing and sales of pharmaceuticals</i>			100.00%			100.00%

	PERCENTAGE OF OWNERSHIP					Total
	Recordati S.p.A. (parent)	Innova Pharma S.p.A.	Recordati S.A.	Bouchara Recordati S.a.s.	Recordati España S.L.	
<b>Recordati S.A.</b> , Switzerland <i>Marketing and sales of pharmaceuticals and pharmaceutical chemicals</i>			100.00%			100.00%
<b>Laboratoires Bouchara Recordati S.a.s.</b> , France <i>Development, production, marketing and sales of pharmaceuticals</i>				100.00%		100.00%
<b>Merckle Recordati G.m.b.H.*</b> , Germany <i>Marketing and sales of pharmaceuticals</i>					100.00%	100.00%
<b>Recordati Pharmaceuticals Ltd.**</b> , U.K. <i>Marketing and sales of pharmaceuticals</i>	3.33%		96.67%			100.00%
<b>Recordati Hellas Pharmaceuticals S.A.**</b> , Greece, <i>Marketing and sales of pharmaceuticals</i>	15.83%		84.17%			100.00%
<p>* Acquired during 2005  ** Established during 2005  *** Liquidated during 2005</p>						

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

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