

Interim Report

FIRST NINE MONTHS 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 NINE MONTHS 2006

- › REVENUE € 439.6 MILLION, UP 3.6%
- › FURTHER INCREASE IN PROFITABILITY, GROSS MARGIN 67.1%, EBIT MARGIN 20.9%
- › LERCANIDIPINE SALES UP 26.4%
- › RIGHTS TO CORIFEO® (LERCANIDIPINE) IN GERMANY REPURCHASED FROM LICENSEE UCB
- › ZANITEK®/ZANIPRESS® (LERCANIDIPINE + ENALAPRIL) APPROVED IN GERMANY (RMS)
- › ACQUISITION OF JABA IN PORTUGAL

KEY CONSOLIDATED DATA

€ (thousands)	First Nine Months 2006	% of Revenue	First Nine Months 2005*	% of Revenue	Change	Change %
Revenue	439,566	100.0	424,400	100.0	15,166	3.6
EBITDA	109,693	25.0	99,257	23.4	10,436	10.5
Operating Income	91,985	20.9	83,528	19.7	8,457	10.1
Net Income	55,922	12.7	50,990	12.0	4,932	9.7
Shareholders' Equity	349,123		300,754		48,369	16.1

*Restated for comparison purposes

REVENUES GROW DESPITE PRICING PRESSURE

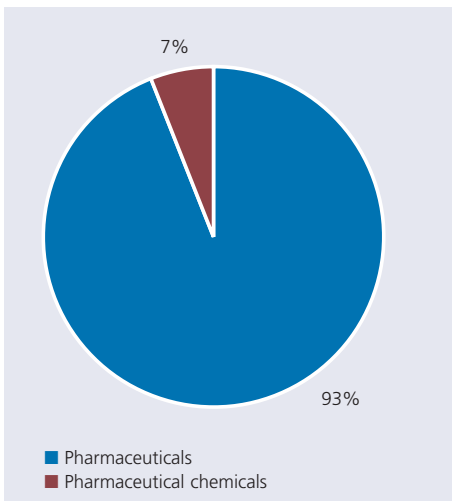
In the first nine months 2006 consolidated revenue is € 439.6 million, an increase of 3.6% over the restated revenue of the same period of the preceding year which excludes the pharmaceutical chemicals operations discontinued in 2005. Consolidated revenue in the third quarter is € 128.5 million, down 2.7%.

Pharmaceutical sales are € 410.0 million, an increase of 3.4% over the first nine months of last year due to the good performance of the international pharmaceutical business (+7.8%) and especially of lercanidipine which grew by over 26%. Volumes (+5.8%) continued to drive sales as pressure on prices remains in the main pharmaceutical markets. In Italy, in addition to the price reduction of the liquid form of Elopam® to maintain sales in the face of generic competition, new price containment measures became effective in July which include selective price reductions for prescription drugs with above average performance in the first quarter. In France the price of generics was reduced by 15% and in Spain a mandatory 2% price cut was imposed in February. In Germany reference pricing is now also applied to the calcium channel blocker class of drugs and an extra discount must be recognized to the Krankenkassen on some products as from April. Pharmaceutical chemicals sales increased by 5.8% over the same period of the preceding year driven by an 8.3% increase in volumes.

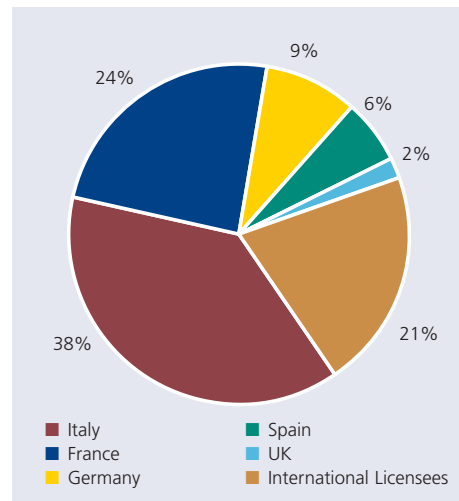
In the third quarter 2006 revenue from pharmaceuticals is € 120.7 million, down 2.8% as compared to the third quarter 2005 mainly due to slower sales in Italy (-17.6%) following pricing pressure and the reorganization of sales and marketing activities. Sales of pharmaceutical chemicals, at € 7.8 million, were down 1.6% in the third quarter.

International sales went from € 258.5 million to € 280.0 million, an increase of 8.3%, in the first nine months 2006.

SALES BY BUSINESS:



PHARMACEUTICAL SALES:



SOURCES OF GROWTH

<i>(Change as % of revenue, first nine months 2006 over first nine months 2005)</i>	Volume Effect	Price Effect	Currency Effect	Total Change
Pharmaceuticals	5.8	(2.5)	0.1	3.4
Pharmaceutical chemicals	8.3	(4.0)	1.5	5.8
Total change	6.0	(2.6)	0.2	3.6

COMPOSITION OF SALES

€ (thousands)	First Nine Months 2006	First Nine Months 2005	Change	Change %
Pharmaceuticals Italy	157,244	162,084	(4,840)	(3.0)
Pharmaceuticals France	98,900	88,992	9,908	11.1
Pharmaceuticals Germany	36,537	39,988	(3,451)	(8.6)
Pharmaceuticals Spain	24,042	26,670	(2,628)	(9.9)
Pharmaceuticals United Kingdom	7,693	2,933	4,760	n.s.
International Licensees	85,575	75,776	9,799	12.9
Total Pharmaceuticals	409,991	396,443	13,548	3.4
Pharmaceutical Chemicals	29,575	27,957*	1,618	5.8
TOTAL SALES	439,566	424,400	15,166	3.6
<i>Includes other income related to license agreements</i>				
<i>*Restated for comparison purposes</i>				

Zanidip® (lercanidipine), Recordati's proprietary calcium channel blocker, continued to perform well during the first nine months 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 Nine Months 2006	First Nine Months 2005	Change	Change %
Italy	32,959	32,291	668	2.1
France	28,783	21,755	7,028	32.3
Germany	2,275	-	2,275	n.s.
United Kingdom	7,693	2,933	4,760	n.s.
Spain	6,218	4,582	1,636	35.7
Direct Sales	77,928	61,561	16,367	26.6
Sales to Licensees	55,582	43,961	11,621	26.4
Total Sales	133,510	105,522	27,988	26.5

Direct sales in Italy of Zanedip® and Lercadip® are up 2.1% over last year's first nine months despite the price reduction imposed as from July. Zanidip® in France is a very

successful product with sales increasing by 32.3%. In Germany lercanidipine is also 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 Zanicip®, which is sold directly to the market as from July 2005 by Recordati Pharmaceuticals on an exclusive basis, are € 7.7 million. On the Spanish market Zanicip® shows strong sales growth compared to the first nine months of 2005 (+35.7%) as a result of the good performance of the 20mg dosage form.

Sales of lercanidipine to licensees increase by 26.4% 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 21 of these.

Sales of pharmaceuticals in Italy are down by 3.0% as compared to the first nine months of 2005, mainly due to the negative price effect. In addition to the new price containment measures applied as from July 15 2006, a further across-the-board 5% price cut was decided at the end of September effective October 1. Furthermore, our Italian pharmaceutical business, and in particular the detailing force, is currently being reorganized. All these events resulted in a slow down of sales in Italy during the third quarter. Of our main Italian products Tora-Dol® (ketorolac), an analgesic, market leader of its class, for which the trademark and marketing authorization were acquired from the licensee Roche at the end of 2005, is performing very well and Entact® (escitalopram), an antidepressant under license from Lundbeck, continues to grow. On the other hand, sales of anti-infectives suffered as a consequence of the relatively weak flu season. Sales of the OTC line of products are also growing.

Pharmaceutical sales in France are up by 11.1% mainly due to the continuous success of Zanicip® 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 nine months 2006 sales in Germany by Merckle Recordati are € 36.5 million, down as compared to the same period of the preceding year mainly due to the decision to stop selling some unprofitable products. 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 are down by 9.9% because Ulcotenal® (pantoprazole) is no longer sold as from April following the termination of the Altana license. All the other main products are growing. For the whole of 2006 the percent decrease in sales of our Spanish subsidiary is expected to be in line with that recorded in the first nine months as some new product launches have been postponed until 2007.

The € 7.7 million sales in the United Kingdom are exclusively those related to Zanicip®. During the first half the marketing organization of Recordati Pharmaceuticals was built up. The new field force of 65 medical representatives has been successfully promoting Zanicip® since April, and in particular launching the 20 mg dosage form.

Sales to international licensees grow by 12.9% 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 group's 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). 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. Infasurf®, together with stannosporfin (a drug licensed for Europe from Infacare, USA), shall form the basis for Recordati's new European franchise in the highly specialized area of neonatology.

At the end of July we received the approval for our new product Zanitek®, a fixed combination of lercanidipine and enalapril, from the BfArM, the German medicines agency. Germany will act as Reference Member State in the mutual recognition approval process for the rest of Europe which is expected to be completed during 2007. Most hypertensive patients, especially those with other associated risk factors, now require multiple therapies using more than one drug to keep their blood pressure at desired levels. Fixed combinations of more than one antihypertensive agent will

therefore play a significant and increasing role in the future hypertension market. The advantages of fixed combinations as opposed to the administration of separate treatments are significant. The combined dosages of the drugs are those used in best clinical practice and their efficacy and tolerability have been proven in clinical trials. The reduction of the number of pills a patient must take, especially in the elderly, increases patient compliance – which is extremely important in chronic treatments aimed at reducing and preventing cardiovascular risk.

On 28 July Recordati agreed to acquire Jaba Farmacêutica and the other pharmaceutical businesses belonging to the Grupo Jaba in Portugal. The purchase price is € 45 million approximately but may be adjusted contingent upon the full year 2006 operating results. The closing is expected to take place during 2006. Founded in 1927, Jaba, the third largest Portuguese pharmaceutical group, has a significant market share and an extensive product portfolio covering a wide range of therapeutic areas. It includes prescription drugs sold under license as well as proprietary brands, plain generics, and a well-known line of OTC products. The business also includes modern production facilities which offer manufacturing services for third parties. The acquired business, which is headquartered near Sintra, comprises an organization of around 330 employees, including more than 100 medical representatives, and generated revenues in 2005 of approximately € 39 million with positive margins. The agreement concluded with Jaba allows us to enter the Portuguese market directly and represents a further step in our strategy to expand our direct presence in the European pharmaceutical market. We intend to strengthen the product portfolio of our new subsidiary first of all by launching lercanidipine, our leading product, and over the medium term through the launch of our new pipeline products such as Zanitek®, a fixed combination of lercanidipine and enalapril for the treatment of hypertension, silodosin (a treatment for the symptoms of benign prostatic hyperplasia), Stanate® (stannosporfin, indicated for the treatment of neonatal hyperbilirubinemia), Infasurf® (for the prevention and treatment of neonatal Respiratory Distress Syndrome) and others.

In connection with our original research the first proof of concept trials conducted to evaluate the therapeutical efficacy of REC 2615 and REC 0545 were completed. REC 2615, a topical new drug with potential use for female sexual dysfunction, tested in a pharmacodynamic clinical proof of concept trial, did not reach statistical significance on the main pharmacological end point. It is believed that this may be due to the too slow build up of tissue levels and therefore reformulation work is ongoing. REC 0545 was administered to 18 patients with hyperactive bladder in a proof of concept, crossover clinical trial conducted to test the efficacy of the molecule in the treatment of overactive bladder. No statistically significant difference between active treatment and placebo was evidenced. An in depth evaluation is ongoing, including the possibility of pursuing the development of another compound with a mixed mechanism of action, including 5HT1A antagonism.

CONTINUED MARGIN IMPROVEMENT

The income statement for the first nine months 2006 is included below. For comparison purposes the first nine months 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)	Third Quarter 2006	% of Revenue	First Nine Months 2006	% of Revenue	First Nine Months 2005*	% of Revenue	Change	Change %
Revenue	128,485	100.0	439,566	100.0	424,400	100.0	15,166	3.6
Cost of sales	(42,623)	(33.2)	(144,823)	(32.9)	(147,733)	(34.8)	2,910	(2.0)
Gross profit	85,862	66.8	294,743	67.1	276,667	65.2	18,076	6.5
Selling expenses	(40,225)	(31.3)	(147,463)	(33.5)	(144,011)	(33.9)	(3,452)	2.4
R&D expenses	(10,772)	(8.4)	(34,140)	(7.8)	(31,582)	(7.4)	(2,558)	8.1
G&A expenses	(6,260)	(4.8)	(20,256)	(4.6)	(17,994)	(4.2)	(2,262)	12.6
Other income (expense), net	(208)	(0.2)	(899)	(0.2)	448	0.1	(1,347)	n.s.
Operating income	28,397	22.1	91,985	20.9	83,528	19.7	8,457	10.1
Financial income (expense), net	(472)	(0.4)	(1,805)	(0.4)	(3,035)	(0.7)	1,230	(40.5)
Pretax income	27,925	21.7	90,180	20.5	80,493	19.0	9,687	12.0
Provision for income taxes	(9,427)	(7.3)	(34,258)	(7.8)	(29,230)	(6.9)	(5,028)	17.2
Net income from continuing operations	18,498	14.4	55,922	12.7	51,263	12.1	4,659	9.1
Discontinued operations	0	0.0	0	0.0	(273)	0.0	273	(100.0)
Net Income	18,498	14.4	55,922	12.7	50,990	12.0	4,932	9.7

* Restated for comparison purposes

Gross profit is € 294.7 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 2.4% mainly due to the completion of the new sales organization in the United Kingdom. R&D expenses at € 34.1 million increase by 8.1% as a consequence of the new development activities. G&A expenses are € 20.3 million and at 4.6% 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 € 0.9 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 20.9% of sales, is € 92.0 million, an increase of 10.1% over the first nine months of the preceding year. The operating margin improvement is mainly due to gross margin increase as described above.

Net financial charges during the first nine months are € 1.8 million, below those of the same period of the preceding year. The effective tax rate during the period was 38.0%, 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 12.7% of sales goes from € 51.0 million in the first nine months of 2005 to € 55.9 million, an increase of 9.7%.

GOOD CASH GENERATION CONTINUES

NET FINANCIAL POSITION

€ (thousands)	30 September 2006	31 December 2005	Change	Change %
Cash and short-term financial investments	180,681	162,756	17,925	11.0
Bank overdrafts	(7,581)	(5,991)	(1,590)	26.5
Loans – due within one year	(20,689)	(22,718)	2,029	(8.9)
Net liquid assets	152,411	134,047	18,364	13.7
Loans – due after one year	(88,293)	(107,883)	19,590	(18.2)
Net financial position	64,118	26,164	37,954	145.1

The € 38.0 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. € 5.1 million were invested during the period in new property, plant and equipment and € 12.2 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 € 11.0 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 SEPTEMBER 2006

INCOME STATEMENT

€ (thousands)	First Nine Months 2006	First Nine Months 2005*
Revenue	439,566	424,400
Cost of sales	(144,823)	(147,733)
Gross profit	294,743	276,667
Selling expenses	(147,463)	(144,011)
R&D expenses	(34,140)	(31,582)
G&A expenses	(20,256)	(17,994)
Other income (expense), net	(899)	448
Operating income	91,985	83,528
Financial income (expense), net	(1,805)	(3,035)
Pretax income	90,180	80,493
Provision for income taxes	(34,258)	(29,230)
Net income from continuing operations	55,922	51,263
Discontinued operations	0	(273)
Minority interest	0	0
Net income	55,922	50,990
Earnings per share from continuing operations		
Basic	€ 0.279	€ 0.259
Diluted ⁽¹⁾	€ 0.271	€ 0.249
Earnings per share from continuing and discontinued operations		
Basic	€ 0.279	€ 0.258
Diluted ⁽¹⁾	€ 0.271	€ 0.248
* 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, 200,195,116 in 2006 and 197,693,492 in 2005, net of average treasury stock which amounted to 5,405,059 in 2006 and 4,798,664 in 2005.

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

ASSETS

€ (thousands)	30 September 2006	31 December 2005
Non-current assets		
Property, plant and equipment	58,722	62,747
Intangible assets	92,040	88,650
Goodwill	94,568	94,568
Other investments	911	911
Other non-current assets	1,182	1,253
Deferred tax assets	19,448	15,062
Total non-current assets	266,871	263,191
Current assets		
Inventories	70,268	68,621
Trade receivables	111,124	111,924
Other receivables	7,532	24,030
Other current assets	2,070	2,069
Fair value of hedging derivatives (<i>fair value hedge</i>)	0	2,174
Short-term financial investments	0	34,999
Cash and cash equivalents	180,681	127,757
Total current assets	371,675	371,574
Non current assets held for sale	0	12,634
Total assets	638,546	647,399

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

EQUITY AND LIABILITIES

€ (thousands)	30 September 2006	31 December 2005
Shareholders' equity		
Share capital	25,777	25,631
Additional paid-in capital	72,356	67,664
Treasury stock	(30,653)	(20,410)
Hedging reserve (<i>cash flow hedge</i>)	(1,655)	(3,158)
Translation reserve	777	1,824
Other reserves	24,058	23,485
Retained earnings	202,541	165,118
Net income for the year	55,922	64,543
Group shareholders' equity	349,123	324,697
Minority interest	0	0
Shareholders' equity	349,123	324,697
Non-current liabilities		
Loans – due after one year	86,306	110,057
Staff leaving indemnities	23,261	22,821
Deferred tax liabilities	6,527	6,273
Other non-current liabilities	5,605	11,240
Total non-current liabilities	121,699	150,391
Current liabilities		
Trade payables	62,622	90,095
Other payables	31,400	33,151
Tax liabilities	28,700	9,780
Other current liabilities	595	481
Provisions	12,495	6,937
Fair value of hedging derivatives (<i>cash flow hedge</i>)	1,655	3,158
Fair value of hedging derivatives (<i>fair value hedge</i>)	1,987	0
Loans – due within one year	20,689	22,718
Bank overdrafts	7,581	5,991
Total current liabilities	167,724	172,311
Total equity and liabilities	638,546	647,399

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

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Total
Balance at 31 December 2004	25,219	52,882	(20,410)	(3,185)	(421)	23,023*	132,931*	53,130*	263,169
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								50,990*	50,990
Changes in fair value of hedging derivatives				(632)					(632)
Effect of application of new IAS/IFRS						391	414		805
Translation Adjustment					1,509				1,509
Balance at 30 September 2005	25,413	59,266	(20,410)	(3,817)	1,088	23,414*	164,810*	50,990*	300,754
Balance at 31 December 2005	25,631	67,664	(20,410)	(3,158)	1,824	23,485	165,118	64,543	324,697
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								55,922	55,922
Share buy-back			(10,243)						(10,243)
Changes in fair value of hedging derivatives				1,503					1,503
Effect of application of new IAS/IFRS						573	414		987
Translation Adjustment					(1,047)				(1,047)
Balance at 30 September 2006	25,777	72,356	(30,653)	(1,655)	777	24,058	202,541	55,922	349,123

* Restated following the introduction of new IAS/IFRS

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

€ (thousands)	30 September 2006	30 September 2005
Operating activities		
Cash flow		
Net Income	55,922	50,990 *
Depreciation of property, plant and equipment	9,085	9,664
Amortization of intangible assets	8,623	6,790
Total cash flow	73,630	67,444
(Increase)/decrease in deferred tax assets	(4,386)	8,292 *
Staff leaving indemnities:		
Provision	2,261	3,470 *
Payment	(1,821)	(3,142)
Increase/(decrease) in other non-current liabilities	(5,381)	11,433
	64,303	87,497
Changes in working capital		
Trade and other receivables	17,298	(8,303)
Inventories	(1,647)	(5,364)
Other current assets	(1)	256
Trade and other payables	(29,224)	(3,088)
Tax liabilities	18,920	(9,119)
Other current liabilities	114	(908)
Provisions	5,558	291
Changes in working capital	11,018	(26,235)
Net cash from operating activities	75,321	61,262
Investing activities		
Net (investments)/disposals in property, plant and equipment	(5,060)	(8,001)
Net (investments)/disposals in intangible assets	(12,013)	(28,117)
Net (increase)/decrease in equity investments	0	(63,329) ***
Net (increase)/decrease in other non-current receivables	71	(23)
Net cash used in investing activities	(17,002)	(99,470)
Financing activities		
Issue of share capital	146	194
Additional paid-in capital	4,692	6,384
Share buy-back	(10,243)	0
Effect of application of new IAS/IFRS	987	805
Transfer of current portion of medium and long-term debt to current liabilities	(19,590)	(21,870)
Changes in current portion of medium and long-term debt	(2,029)	(2,741)
Dividends paid	(27,534)	(21,665)
Proceeds on sale of pharmaceutical chemicals plant	12,634	0
Change in translation reserve	(1,047)	1,509
Net cash from/(used in) financing activities	(41,984)	(37,384)
Changes in short-term financial position	16,335	(75,592)
Short-term financial position at beginning of year **	156,765	228,751
Short-term financial position at end of period **	173,100	153,159

* 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 SEPTEMBER 2006

1. GENERAL

The consolidated financial statements at 30 September 2006 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in attachment 1. The consolidation perimeter has not changed as compared to that at 31 December 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 September 2005 and at 31 December 2005 were used in the preparation of the financial statements for the period ended 30 September 2006. The results for the period ended 30 September 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 nine months 2006 is € 439.6 million (€ 424.4 million in the same period of the preceding year) and can be broken down as follows:

€ (thousands)	First Nine Months 2006	First Nine Months 2005*	Change 2006/2005
Net sales	435,325	417,661	17,664
Royalties	1,111	2,082	(971)
Up-front payments	872	798	74
Other revenue	2,258	3,859	(1,601)
Total revenue	439,566	424,400	15,166

* Restated for comparison purposes

The first nine months 2005 revenue relative to discontinued operations in the amount of € 5.4 million is stated, net of expenses, under "Discontinued operations".

4. OPERATING EXPENSES

Overall operating expenses in the first nine months 2006 are € 347.6 million, compared to € 340.9 million in the same period of the preceding year and are analyzed by function. Staff costs in the first nine months 2006 are € 111.8 million and include a cost for stock options of € 1.0 million. Total depreciation and amortization charges are € 17.7 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 nine months 2005 results have been restated as follows:

- In application of IFRS 5 the expenses related to discontinued operations of € 5.8 million were reclassified and are stated under "Discontinued operations".
- The application of IAS 19 resulted in a reduction of operating costs of € 0.3 million related to employee benefit plans and an increase of financial expenses of € 0.6 million.

5. FINANCIAL INCOME AND EXPENSE

In the first nine months 2006 and in the same period of 2005 financial items record a net expense of € 1.8 million and € 3.1 million respectively which are comprised as follows:

€ (thousands)	First Nine Months 2006	First Nine Months 2005*	Change 2006/2005
Exchange gains/(losses)	(249)	385	(634)
Interest expense on loans	(4,097)	(4,427)	330
Net interest on short-term financial position	3,879	1,582	2,297
Interest cost in respect of defined benefit plans	(618)	(575)	(43)
Change in fair value of hedging derivatives	(4,161)	6,112	(10,273)
Change in fair value of hedged item	4,161	(6,112)	10,273
Total financial income (expense), net	(1,085)	(3,035)	1,950
<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 is 38.0%, higher than that for the full year 2005. The increase is 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 are 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 set up for an amount of € 3.2 million which includes the extension of the tax inspector's opinion 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 return to profitability of this subsidiary which is expected to continue in the future.

7. POST-TAX PROFIT AND LOSS FROM DISCONTINUED OPERATIONS

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

€ (thousands)	Opera	Murcia	Total
Revenue	0	5,397	5,397
Expenses	(186)	(5,638)	(5,824)
Pretax income	(186)	(241)	(427)
Provision for income taxes	71	83	154
Discontinued operations	(115)	(158)	(273)

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
Cost					
Balance at 31.12.05	38,704	136,762	30,014	1,207	206,687
Additions	155	682	1,285	2,931	5,053
Disposals	0	(72)	(399)	0	(471)
Changes in reporting entities	0	0	0	0	0
Other changes	152	340	297	(736)	53
Balance at 30.09.06	39,011	137,712	31,197	3,402	211,322
Accumulated depreciation					
Balance at 31.12.05	19,575	98,711	25,654	0	143,940
Additions	1,289	6,143	1,653	0	9,085
Disposals	0	(71)	(354)	0	(425)
Changes in reporting entities	0	0	0	0	0
Other changes	0	0	0	0	0
Balance at 30.09.06	20,864	104,783	26,953	0	152,600
Carrying amount at					
30 September 2006	18,147	32,929	4,244	3,402	58,722
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
Cost					
Balance at 31.12.05	57,675	47,197	15,223	28,198	148,293
Additions	226	10,801	16	1,111	12,154
Disposals	(1,075)	(10)	0	(54)	(1,139)
Changes in reporting entities	0	0	0	0	0
Other changes	10,684	12,666	(64)	(23,332)	(46)
Balance at 30.09.06	67,510	70,654	15,175	5,923	159,262
Accumulated amortization					
Balance at 31.12.05	25,809	21,477	12,357	0	59,643
Additions	3,587	4,023	1,013	0	8,623
Disposals	(966)	(10)	0	0	(976)
Changes in reporting entities	0	0	0	0	0
Other changes	0	(4)	(64)	0	(68)
Balance at 30.09.06	28,430	25,486	13,306	0	67,222
Carrying amount at					
30 September 2006	39,080	45,168	1,869	5,923	92,040
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 September 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 September 2006 no loss in the value of goodwill on the balance sheet was identified.

€ (thousands)	Goodwill
Cost	
Balance at 31.12.05	132,232
Changes in reporting entities	0
Balance at 30.09.06	132,232
Accumulated amortization	
Balance at 31.12.05	37,664
Changes	0
Balance at 30.09.06	37,664
Carrying amount at	
30 September 2006	94,568
31 December 2005	94,568

11. DEFERRED TAX ASSETS AND LIABILITIES

At 30 September 2006 deferred tax assets increase by € 4.4 million as compared to those at 31 December 2005. Following the sale of the Murcia pharmaceutical chemicals plant by Recordati España and the resulting return to 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 increase by € 0.3 million.

12. SHAREHOLDERS' EQUITY

Shareholders' Equity at 30 September 2006 is € 349.1 million, an increase of € 24.4 million compared that at 31 December 2005 for the following reasons:

- net income for the first nine months 2006 (increase of € 55.9 million)
- cost of stock option plans recognized directly in equity (increase of € 1.0 million)
- change in the fair value of hedging derivatives (increase of € 1.5 million)
- translation adjustments (decrease of € 1.1 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 1,856,227 own shares (decrease of € 10.2 million).

At 30 September 2006, a total of 6,654,891 shares are held as treasury stock for a total cost of € 30.7 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 September 2006 are analyzed in the following table.

Date of grant:	Strike price (€)	Options outstanding at 1.1.2006	Options granted during 2006	Options exercised during 2006	Options cancelled or expired	Options outstanding at 30.09.2006
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
Total		4,770,400	2,650,000	(1,165,900)	(15,000)	6,239,500

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

13. LOANS

Overall, medium and long-term loans decrease by € 25.8 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. € 21.6 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 September 2006 the measurement at fair value of the cross-currency interest rate swap generated a liability of € 2.0 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 September 2006 is of € 23.3 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 September 2006 the present value adjustment is € 0.2 million.

16. CURRENT ASSETS

Inventories increase by € 1.6 million over those stated at 31 December 2005 while trade receivables are substantially unchanged. Other receivables decrease by € 16.5 million mainly due to the reduction in amounts due from employees of € 5.7 million and the reduction of tax receivable of € 8.0 million.

17. CURRENT LIABILITIES

Trade payables, which include invoices to be received, decrease by € 27.5 million due to a seasonality effect and the reduction of certain promotional expenses. Other payables decrease by € 1.8 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 (€ 5.9 million) due early in 2007. Tax liabilities increased by € 18.9 million due to the provision for income tax for the period.

Tax and other provisions increase 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 set up 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 € 1.7 million liability at 30 September 2006. This amount represents the unrealized benefit of paying the current expected future rates instead of the rates agreed. Of this liability € 0.1 million relate to the interest rate swaps covering the medium and long-term loans at variable interest rates in Recordati S.p.A., Bouchara Recordati S.a.s. and Recordati España S.L.. The remaining € 1.6 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 Nine Months 2006	First Nine Months 2005*	Change 2006/2005
Europe	387,158	373,218	13,940
<i>of which Italy</i>	159,532	165,860	(6,328)
Far East	20,452	18,669	1,783
North America	11,225	8,100	3,125
Latin America	5,892	7,006	(1,114)
Other areas	14,839	17,407	(2,568)
Total revenue	439,566	424,400	15,166
<i>* Restated for comparison purposes</i>			

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

20. INTERCOMPANY TRANSACTIONS AND RELATED ISSUES

Intragroup sales and services recorded during the first nine months 2006 are € 102.5 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 September 2006, intercompany accounts amount to € 203.6 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 € 19.1 million;
- loans from the parent Recordati S.p.A. to the subsidiary Recordati España S.L. of € 64.8 million;
- receivables by Recordati S.A. Chemical and Pharmaceutical Company from Recordati Ireland Ltd. in respect of dividends declared of € 5.0 million;
- loans from the parent Recordati S.p.A. to Bouchara Recordati S.a.s. of € 9.0 million;
- loans from Recordati S.A. Chemical & Pharmaceutical Company to Merckle Recordati GmbH of € 6.0 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 € 14.3 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 SEPTEMBER 2006

ATTACHMENT I.

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.P.A. <i>Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals</i>	Italy	25,776,894.50	Euro	Line-by-line
RECOFARMA S.R.L. <i>Sales of pharmaceutical chemicals</i>	Italy	1,258,400.00	Euro	Line-by-line
INNOVA PHARMA S.P.A. <i>Marketing and sales of pharmaceuticals</i>	Italy	1,920,000.00	Euro	Line-by-line
RECORDATI ESPAÑA S.L. <i>Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals</i>	Spain	42,000,000.00	Euro	Line-by-line
VECTORPHARMA INTERNATIONAL CORPORATION*** <i>Dormant</i>	U.S.A.	1,638,000.00	USD	Line-by-line
RECORDATI S.A. <i>Chemical and Pharmaceutical Company Holding company</i>	Luxembourg	9,962,619.00	Euro	Line-by-line
BOUCHARA RECORDATI S.A.S. <i>Development, production, marketing and sales of pharmaceuticals</i>	France	4,600,000.00	Euro	Line-by-line
RECORDATI PORTUGUESA LDA <i>Marketing and sales of pharmaceuticals</i>	Portugal	24,940.00	Euro	Line-by-line
FARMARECORD LTDA <i>Dormant, holds pharmaceutical marketing rights in Brazil</i>	Brazil	166.00	BRL	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI CORPORATION <i>Sales Agent for pharmaceutical chemicals</i>	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD <i>Development, production, marketing and sales of pharmaceuticals</i>	Ireland	200,000.00	Euro	Line-by-line
RECORDATI S.A. <i>Marketing and sales of pharmaceuticals and pharmaceutical chemicals</i>	Switzerland	6,000,000.00	CHF	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. <i>Development, production, marketing and sales of pharmaceuticals</i>	France	14,000,000.00	Euro	Line-by-line
MERCKLE RECORDATI GmbH* <i>Marketing and sales of pharmaceuticals</i>	Germany	268,939.53	Euro	Line-by-line
RECORDATI PHARMACEUTICALS LTD** <i>Marketing and sales of pharmaceuticals</i>	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A.** <i>Marketing and sales of pharmaceuticals</i>	Greece	1,000,000.00	Euro	Line-by-line
* Acquired during 2005				
** Established during 2005				
*** Liquidated during 2005				

	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.	
RECOFARMA S.R.L.	100.00%					100.00%
INNOVA PHARMA S.P.A.	100.00%					100.00%
RECORDATI ESPAÑA S.L.	90.70%		9.30%			100.00%
VECTORPHARMA INTERNATIONAL CORPORATION***		100.00%				100.00%
RECORDATI S.A. Chemical and Pharmaceutical Company	100.00%					100.00%
BOUCHARA RECORDATI S.A.S.	99.94%		0.06%			100.00%
RECORDATI PORTUGUESA LDA	98.00%		2.00%			100.00%
FARMARECORD LTDA			100.00%			100.00%
RECORDATI CORPORATION			100.00%			100.00%
RECORDATI IRELAND LTD			100.00%			100.00%
RECORDATI S.A.			100.00%			100.00%
LABORATOIRES BOUCHARA RECORDATI S.A.S.				100.00%		100.00%
MERCKLE RECORDATI GmbH*					100.00%	100.00%
RECORDATI PHARMACEUTICALS LTD**	3.33%		96.67%			100.00%
RECORDATI HELLAS PHARMACEUTICALS S.A.**	9.50%		90.50%			100.00%
<p>* Acquired during 2005</p> <p>** Established during 2005</p> <p>*** 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.

RECORDATI

HEADQUARTERS

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

www.recordati.com

For further information
please contact:

Investor Relations
Phone +39 02 48787.393
Fax +39 02 40090173
e-mail: inver@recordati.it