

Interim Report

First Six Months 2002

HIGHLIGHTS

First half 2002

- First half Pharmaceutical sales up 25.3%,
International Pharmaceutical sales up 29.6%
- Lercanidipine sales grow by 46.3%
- Increase in profits continues

Key consolidated data

(thousands of €)	1 st Half 2002	% of Sales	1 st Half 2001	% of Sales	Change	Change %
Net Sales	253,990	100.0	213,680	100.0	40,310	18.9
EBITDA	56,046	22.1	47,064	22.0	8,982	19.1
Operating Income (EBIT)	37,411	14.7	31,000	14.5	6,411	20.7
Net Income	20,766	8.2	17,559	8.2	3,207	18.3
Shareholders' Equity	219,299		192,633		26,666	13.8

Excellent sales performance during the first half

Consolidated net sales at €254.0 million were up by 18.9% over the same period of last year (€ 213.7 million). The increase is to be attributed to both higher product sales (+12.9%) and the consolidation of Sophartex (+6.3%). Second quarter sales grew by 17.0% to €124.6 million and include a consolidation effect of 5.6%.

Sales growth was due entirely to the 25.3% increase in pharmaceutical sales which was achieved thanks to the good overall performance of the product portfolio in addition to new product launches and the continuing success of Zanidip[®] (lercanidipine) on international markets. Excluding Sophartex, which was consolidated as from 1 July 2001, pharmaceutical sales grew by 17.3%. The growth of pharmaceutical sales was due to increased volumes (+27.1%) while a slightly negative price effect (-1.8%) was recorded. Pharmaceutical sales during the second quarter increased by 25.0%, in line with the preceding quarter, and in particular international sales grew by 33.3% which include initial supplies to Forest Laboratories.

Pharmaceutical chemical sales at €42.8 million were down by 5.2%. Sales volume grew by 5.6% but was more than offset by the continuing pressure on prices (-9.4%) due to keen competition and an unfavorable currency effect (-1.4%). During the second quarter pharmaceutical chemical sales decreased by 11.0% due to lower prices of certain product lines.

Sales grew at equivalent rates both in Italy and abroad and international sales still account for 60% of total sales at €150.0 million (€126.9 million during the first half of the preceding year).

Zanidip[®] (lercanidipine), Recordati's proprietary calcium channel blocker, continued to perform well during the first half of 2002 in Italy, France and Spain 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	1 st Half 2002	% of Sales	1 st Half 2001	% of Sales	Change	Change %
(thousands of €)						
Direct Sales	22,502	53.7	15,759	55.0	6,743	42.8
Sales to Licensees	19,379	46.3	12,869	45.0	6,510	50.6
Total Sales	41,881	100.0	28,628	100.0	13,253	46.3

Direct sales in Italy of Zanedip[®] and Lercadip[®] were €16.5 million, an increase of 29.8% mostly due to the successful re-launch of Lercadip[®]. This brand, previously marketed by AstraZeneca, is being sold by Innova Pharma, a Recordati subsidiary, as from December 2001. Direct sales of Zanidip[®] in France, where it was launched in March 2001, continue to grow and were €3.7 million. The overall performance of lercanidipine on the French market, thanks also to our licensee Pierre Fabre, is very positive and in line with that of the Italian launch. This is very encouraging for the development prospects of the drug in the second largest European pharmaceutical market. On the Spanish market Zanidip[®], which was launched at the end of 1998, maintains its growth trend recording sales of €2.3 million, up 10.5%.

Sales of lercanidipine to licensees, which no longer include those to AstraZeneca in Italy, were €19.4 million, an increase of 50.6%. Sales to all the main foreign licensees increased, confirming the product's growth trend in the markets where it has been launched. The first sales of active ingredient to Forest Laboratories, our licensee for the U.S. market, took place during the second quarter, mainly for production trials and the manufacturing of sample packs. These sales were of €2.8 million but had a limited impact on operating margins.

Composition of pharmaceutical sales	1 st Half 2002		1 st Half 2001		Change	Change %
		% of Total		% of Total		
(thousands of €)						
Pharmaceuticals Italy	98,183	46.5	81,311	48.3	16,872	20.7
Pharmaceuticals France	43,693	20.7	44,479	26.4	(786)	(1.8)
Pharmaceuticals Spain	10,783	5.1	10,186	6.0	597	5.9
International Licensees	45,054	21.3	32,529	19.3	12,525	38.5
Sophartex	13,460	6.4	-	-	13,460	-
International Pharmaceuticals	112,990	53.5	87,194	51.7	25,796	29.6
TOTAL	211,173	100.0	168,505	100.0	42,668	25.3

Sales of pharmaceuticals in Italy (including lercanidipine) increased by 20.7% thanks to the good performance of the main products and to the success of new product launches. Among the main products, Elopram[®] (citalopram) showed the highest growth (+34.8%) generating sales of €16.3 million. Peptazol[®], pantoprazole under license from Altana, previously marketed in Italy by a different licensee with annual sales of approximately €5 million, is generating renewed medical interest and a significant increase in sales. Initial sales of Nitrocor[®], a nitroglycerine transdermal patch under license from Mylan Technologies, launched in January are interesting and extend our presence in the cardiovascular field. Sales increase was due to volume growth while prices of those products reimbursed by the public healthcare service suffered a 5% mandatory reduction from 18 April 2002.

Pharmaceutical sales in France were €43.7 million and were slightly down as compared to the same period of the preceding year (-1.8%) mainly due to the contraction of respiratory product sales as a consequence of relatively weak flu season. Zanicip[®], launched in March 2001, maintained its growth trend.

First half 2002 sales in Spain increased by 5.9% over last year to €10.8 million principally due to the growth of Ulcotenal[®] (pantoprazole).

Sales to international licensees were €45.1 million, up 38.5% over the same period of the preceding year mostly due to the performance of Zanicip[®] on international markets. Here included, apart from the sales of our other proprietary active ingredients, are Bouchara-Recordati's foreign sales, which recorded an increase over the preceding year, as well as revenue from Pharmacia Corporation of €1.7 million for research activities in urology.

Composition of pharmaceutical chemicals sales						
	1 st Half 2002	% of Total	1 st Half 2001	% of Total	Change	Change %
(thousands of €)						
Italy	5,822	13.6	5,495	12.2	327	6.0
International	36,995	86.4	39,680	87.8	(2,685)	(6.8)
TOTAL	42,817	100.0	45,175	100.0	(2,358)	(5.2)

Pharmaceutical chemicals sales in Italy increased by 6.0% thanks to the development of the local generics market. International sales fell by 6.8% due to keen price competition in certain product lines and a negative currency effect on sales in US\$. These conditions prevailed mostly in the second quarter and we expect that they will continue throughout the year. Sales volume in Europe (Italy excluded) increased due to the resumption of custom manufacturing activity, while volumes in North America decreased due to stocking-down by some major customers.

Lercanidipine news and other events

The FDA is actively reviewing the NDA for lercanidipine which was filed by our licensee Forest Laboratories on 1 October 2001.

Two important co-marketing agreements were finalized with Tsumura Co. and Dainippon Pharmaceutical Co. for the sale of lercanidipine in Japan, the second largest pharmaceutical market. These agreements complete that already in place between the two companies for the co-development and registration of the product.

Fournier, our licensee in Canada, filed for approval of lercanidipine for the Canadian market.

The results of various clinical trials, including the Cohort study, were presented at the annual meeting of the American Society of Hypertension arousing keen interest. The studies underline the excellent clinical profile of lercanidipine, mainly regarding tolerability, as compared to other well known calcium channel blockers.

A request for the approval of the new 20mg strength was filed in Great Britain which will then act as reference member state during the European mutual recognition procedure which is due to begin during the second half of 2002. This new dosage form is already included in the US and Canadian submissions.

As at 30 June 2002 lercanidipine is available in 34 countries, which account for around 30% of the worldwide pharmaceutical market, and is approved in a total of 54 countries.

A license agreement was signed for the marketing in France of a product, currently under development, for the treatment of ulcers belonging to the proton pump inhibitor (PPI) class. In Spain a license was obtained for the sale of a nitroglycerine patch which will be launched in the second half of the year, while development of a similar product in France was suspended.

In the first half of 2002 Recordati Ireland Ltd. was constituted and became operational. The company is involved in licensing activity and in particular the relationship with our international licensees of lercanidipine, some of which are located in Ireland. A project for the acquisition of a production plant in that country, which will enable the duplication of the capacity for this active ingredient, is in its final phase and will require an investment of €25 million over three years.

The Board of Directors approved a proposal of resolution to be submitted to the Shareholders' for approval, authorizing the company to buy-back up to 4,900,000 of its own shares, or 9.81% of the current share capital of €24,984,207 over a period of 18 months. The total outlay may not exceed €68 million, which amount lies within the available reserves as per the balance sheet at 31 December 2001.

Profit margins grow despite increased selling expenses and R&D investments

Gross profit was €147.5 million, a margin on sales of 58.1%, slightly below that of the preceding year due to the consolidation of Sophartex which manufactures finished dosage forms, an activity which has a higher cost of goods than the rest of the pharmaceutical business. Excluding the Sophartex effect, gross margin would have been 59.9%, an increase over last year.

Selling expenses increased by 14.8%, less than the increase in sales despite additions to the detail force in Italy and the promotional support of new product launches. R&D expenses at €18.4 million were up 22.2% over 2001 mainly due to phase III clinical trials involving the fixed combination of lercanidipine and an ACE inhibitor. G&A expenses at €10.8 million improved as a percentage of sales to 4.2%, lower than that of the preceding year.

EBITDA, at 22.1% of sales, increased by 19.1% to €56.0 million. The pharmaceutical segment's EBITDA again improved its margin on sales to 22.6% due to the significant sales increase which allowed fixed costs to be better absorbed. The international pharmaceutical business is developing very positively both in terms of sales and profits due to the performance of lercanidipine. EBITDA generated by pharmaceutical chemicals, at 17.0% of sales, was below that of the same period of last year.

During the second quarter EBITDA was €28.4 million and 22.8% of sales, an increase over the same period of last year and the preceding quarter. Pharmaceutical EBITDA, at €24.7 million, reached 23.8% of sales, an increase of 34.4% over the same period of the preceding year, while that recorded by the pharmaceutical chemicals segment at €3.7 million was 15.1% of sales.

Sales & EBITDA by business area

(thousands of €)

	Pharmaceuticals				Pharmaceutical Chemicals*			
	1st Half 2002		1st Half 2001		1st Half 2002		1st Half 2001	
Sales	211,173	100.0%	168,505	100.0%	42,817	100.0%	45,175	100.0%
EBITDA	47,678	22.6%	35,840	21.3%	8,368	17.0%	11,224	22.5%

*Pharmaceutical chemicals percent margins are calculated on a basis which includes inter-company sales

Goodwill amortization of € 7.5 million, 2.9% of sales, increased due to the inclusion of the portion related to Sophartex.

EBIT increased by 20.7% to € 37.4 million and improved as a percent of sales to 14.7%. EBIT for the second quarter was € 19.0 million, 15.3% of sales, an improvement over both last year and the preceding quarter.

Financial charges during the semester were € 3.3 million, an increase of € 0.8 million over 2001 due to the recording of significant exchange rate gains last year as opposed to minor exchange losses during this year. Non-operating expenses of € 0.6 million comprise the accrued portion of profits that the French companies share with their employees (*participation au résultat*). The effective tax rate during the first half was 38.0%, higher than that of the previous year due to a different taxable income mix. That for the quarter was 36.8%, in line with the rate expected for the whole of 2002.

Net income at 8.2% of sales increased by 18.3% to € 20.8 million. Net income for the second quarter increased by 18.4% to € 10.9 million and represented 8.7% of sales.

A very solid financial structure

The composition of capital employed and sources of financing are set out in the enclosed statement. The Group's financial structure improved due to cash flow generated during the period.

Net working capital decreased by € 4.6 million over year-end 2001 due mainly to the increase in taxes payable included under other current liabilities. Trade accounts receivable and inventories grew less than sales. Net non-current assets decreased by € 8.9 million essentially due to depreciation and amortization charges. Net fixed asset investments in plant were € 8.0 million while those in intangible assets were € 1.9 million.

Net financial indebtedness decreased to € 29.5 million from € 48.8 million at 2001 year-end thanks to cash flow generated during the period and the reduction of net working capital which more than offset the € 12.5 million dividend pay-out. Interest on long-term debt of € 116.9 million is essentially fixed at an average rate of 5.23%. Net liquid funds of € 87.4 million are invested short term in euro, US dollars, and Swiss francs at current market rates which are below the cost of debt.

Shareholders' equity increased to € 219.3 million and the resulting debt to equity ratio further improved and now stands at 0.13.

Statement of Income

(thousands of €)	2 nd Quarter 2002	% of Sales	1 st Half 2002	% of Sales	1 st Half 2001	% of Sales	Change	Change %
Net Sales	124,641	100.0	253,990	100.0	213,680	100.0	40,310	18.9
Cost of Sales	(52,228)	(41.9)	(106,486)	(41.9)	(87,406)	(40.9)	(19,080)	(21.8)
Gross Profit	72,413	58.1	147,504	58.1	126,274	59.1	21,230	16.8
Selling Expenses	(35,800)	(28.7)	(73,405)	(28.9)	(63,958)	(29.9)	(9,447)	(14.8)
R&D Expenses	(8,476)	(6.8)	(18,439)	(7.3)	(15,091)	(7.1)	(3,348)	(22.2)
G&A Expenses	(5,368)	(4.3)	(10,774)	(4.2)	(9,565)	(4.5)	(1,209)	(12.6)
Amortization of Goodwill	(3,738)	(3.0)	(7,475)	(2.9)	(6,660)	(3.1)	(815)	(12.2)
Operating Income	19,031	15.3	37,411	14.7	31,000	14.5	6,411	20.7
Financial Income (Expense), Net	(1,639)	(1.3)	(3,283)	(1.3)	(2,486)	(1.2)	(797)	(32.1)
Other Non- Operating Income (Expense), Net	(138)	(0.1)	(613)	(0.2)	(861)	(0.4)	248	28.8
Pretax Income	17,254	13.8	33,515	13.2	27,653	12.9	5,862	21.2
Provision for Income Taxes	(6,351)	(5.1)	(12,749)	(5.0)	(10,094)	(4.7)	(2,655)	(26.3)
Net Income	10,903	8.7	20,766	8.2	17,559	8.2	3,207	18.3

Capital Employed

(thousands of €)	30 June 2002	%	31 Dec. 2001	%	Change	Change %
Trade Accounts Receivable	124,421	50.0	119,548	45.7	4,873	4.1
Inventories	72,180	29.0	66,153	25.3	6,027	9.1
Other Current Assets	25,326	10.2	23,524	9.0	1,802	7.7
Total Current Assets	221,927	89.2	209,225	80.0	12,702	6.1
Trade Accounts Payable	83,766	33.7	80,334	30.7	3,432	4.3
Accrued Liabilities, Deferred Income	4,550	1.8	4,554	1.8	(4)	(0.1)
Short-Term Provisions	9,100	3.7	9,154	3.5	(54)	(0.6)
Other Current Liabilities	52,719	21.2	38,767	14.8	13,952	36.0
Total Current Liabilities	150,135	60.4	132,809	50.8	17,326	13.1
Net Working Capital	71,792	28.9	76,416	29.2	(4,624)	(6.1)
Net Intangible and Financial Assets	93,904	37.7	102,944	39.4	(9,040)	(8.8)
Net Tangible Assets	111,643	44.9	111,460	42.6	183	0.2
Net Non-current Assets	205,547	82.6	214,404	82.0	(8,857)	(4.1)
Long-Term Provisions	(28,550)	(11.5)	(29,339)	(11.2)	789	2.7
CAPITAL EMPLOYED	248,789	100.0	261,481	100.0	(12,692)	(4.9)
Net Current Financial Position	(87,409)	(35.1)	(77,263)	(29.5)	(10,146)	(13.1)
Medium and Long-Term Loans	116,899	47.0	126,110	48.2	(9,211)	(7.3)
Net Financial Debt	29,490	11.9	48,847	18.7	(19,357)	(39.6)
Shareholders' Equity	219,299	88.1	212,634	81.3	6,665	3.1
FINANCING OF CAPITAL EMPLOYED	248,789	100.0	261,481	100.0	(12,692)	(4.9)